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OIL IN THE GULF: EXPANDING ASSETS, EXPANDING INFLUENCE

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Introduction and Moderator

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P R O C E E D I N G S

MR. POLLACK: Well, good afternoon, and welcome to the Saban Center for Middle East Policy at Brookings Institution. Today we're going to have a session, which I've actually been looking forward to for months. (Inaudible) and the extremely interesting topic and also two superb speakers to discuss it.

As all of you are well aware, the price of oil -- at least the price of oil denominated dollars -- has gone through the roof recently, and as a result there has been a tremendous of oil revenue pouring into the Persian Gulf, and I think for all of us here in D.C. one of the great unanswered questions that's lying out there is what are they doing with all of that money? Where is it going? What impact is it having? How is it affecting governments' royal families? How is it affecting the people of the region themselves?

We hear lots of different stories -- stories in the newspapers, stories from our friends and colleagues who've been over there and are hearing different anecdotes about what the money is and isn't being spent on, and clearly this is an issue that requires a great deal more information and analysis from the experts who know it best.

And I am delighted to have two of the experts who do know it best. First, on my immediate left is Fareed Mohamedi, who I think many of you know is a partner and head of Markets and Country Strategies at PFC Energy. In that role, Fareed provides expertise in country risk, and petroleum section policy is being produced in a number of subscription and (inaudible) services, all of which I'm sure are available for a nominal fee, and you're welcome to contact Fareed afterwards to talk more about that.

SPEAKER: -- special price.

(Laughter)

MR. POLLACK: That's wonderful, so just (inaudible) to the Saban Center and all of his friends get a special price.

And Fareed, I think, is well known to all of you as one of the people who has followed the energy sector in the Middle East for years and years, at least going back well over 15 years, because when I can remember having a first conversation with him about this sort of thing, and is one of the people I think is best positioned to comment on the oil sector of the oil industry and on the impact of the oil sector on wider economies of the region.

And then to Fareed's left is Jean-Francois Seznec, who again I think is well known to all of you. Jean-Francois is another one of the great experts in this field. He is currently a visiting associate professor at Georgetown University's Center for Contemporary Arab Studies where his research is centering on the influence of the Arab Persian Gulf political and social variance on the financial and oil markets in the region. Jean-Francois has more years of experience on this than I care to mention at this table, but I will add one note which does get to chronological issues. He right now is expecting or waiting for his second grandchild to be born, and so if he needs to dash out in the midst of all of this, you know, please understand that he has nothing to do with the quality of the food we serve here and it's entirely related to family issues.

Now, as for administrative issues, today's session is on the record, and so we encourage all of you to make use of it. We will have Fareed start off, and Fareed is going to discuss the specific economic circumstances of the oil boom; and then

Jean-Francois will add in larger social, political, and other variables as well; and then we'll open up to questions and answers. If you've got a question or comment you'd like to make, please just give an indication to me -- a hand, a finger, preferably the index finger. All are fine. I'll take note and I will call on people as they indicate to me that they have a question.

And with that, Fareed, if you will kick us off.

MR. MOHAMEDI: Can I just sit there?

MR. POLLACK: Yes, please.

MR. MOHAMEDI: Thank you very much for your kind words. And, yes, for you a special price.

I've been watching this -- the Gulf scene for quite a while having partly grown up in Bahrain and partly work for the government there as an economist and then as a consultant, a Beltway bandit.

I was very pessimistic about the Gulf back in the early '90s, and particularly Saudi Arabia, and felt that Saudi Arabia was really adrift financially, economically, politically and that by the mid-90s you could see that the Kingdom was having serious, serious problems. But I think one thing really important happened in the Kingdom in the middle '90s and that there was this prospect of a collapse financially and then prospect of turbulent political -- turbulent politics coming out of the poor finances of the economy, and all of that led to a much -- a rethink of the strategy that not only the Kingdom but some of the other Gulf countries would pursue. So, I want to say that the strategy of economic development that is going on right now in the Gulf actually preceded the rise of oil prices, and possibly the rise of oil prices could be one cause of the change in the strategy back in the mid-'90s.

Not totally, the oil markets have taken on a life of their own, especially after 2003, but I do believe that in the mid-'90s there was a complete change in plans. First thing is that the Saudis stopped being oil (inaudible) in OPEC back in the '90s -- back in '95, '96, and they would go to OPEC meetings and say look, I think we'd better start thinking about a higher top line in terms of revenues because we really need it and also then we need to start thinking of a different price of oil. That was one element, too, and then we started to notice that in the oil markets.

The second thing was they were flailing around for a economic strategy, and I think that the success of Asia -- the Asian way -- gave them a possible way forward, gave them a strategy. Why I think that it appealed to them, the Asian way, was that you could get market capitalism with authoritarianism. You could still have your job and have fun and grow the economy.

Who would be the main actors? They gradually started to say well, firstly you would have to have better governance, which is what the Asians are teaching us -- got to have more effective state. And, secondly, hey, maybe this international capital will come in and do what it did to Singapore, do what it did to Taiwan, and that international capital, unlike domestic capital, is apolitical, and that those guys -- you just give them a nice sandbox to play in, give them a way to make a profit, and the IBMs or the GEs or whatever will come in and do business.

Now, there was a little problem of the attractiveness of Saudi Arabia or the rest of the Gulf to the GEs and the big multinationals, but that was a problem they would worry about later, plus they

-- you know, they came to the idea that this is where we should go.

They were very pessimistic also about their own private sectors, let alone the politics of reinvesting money back in their own economies, that most of this money was just going straight out into Switzerland or other places. The Saudis, for example, started with the NGI -- the National Gas Initiative -- and said if we open up a big sector like that, maybe that will be the signal to the rest of the world that we're open for business. In the meantime, in the background there's Dubai creating all sorts of new economic policies, building a new sandbox, attracting new companies, and in a sense Dubai became the embodiment of that Asian model -- is that authoritarianism with market capitalism with multinationals driving it.

So, I think by 2000 the Saudis and the others are starting to say hey, we're succeeding, because we're starting to get -- we've got OPEC consensus now that Chavez is in power, now that the Mexicans are working with us, and we can start creating an oil price which is much better than $18, we can think about $25, etc. And revenues improve, and the other thing is that with better governance -- for example, in the case of Saudi Arabia, the very effective new oil minister that started in '95, the new finance minister that started in '95 very effectively started to restore macroeconomic stability. That macroeconomic stability for the first time that you -- they started to cut arms purchases from the United States, they started to, you know, started -- almost balanced budgets -- at least they looked like they were moving towards that -- a rational fiscal policy. That sent a very strong signal, in my opinion, to the private sector, the local private sector, and that private sector itself -- and there should be a lot of studies done on this -- had over the years gone through the hard times and actually matured on some levels. And also the example of Dubai showed that bringing back money and putting it into your own country have created some opportunities. There was actually -- if you flip the demographic problem, which was that you had too many people looking for jobs, into turning it around and saying that there are a lot of people looking for -- as consumers looking for goods -- diapers -- you know, I mean, there's a lot of money that was made, and, for example, child -- children's clothes, children -- because there was 4 percent growth in the population going on for so long. So, suddenly this market looked much better and a lot of the private sector said let's put money back in, and that set off, I think, after 2000 a boom.

And then that tied in with the public sector doing things that said ooh, let's nurture this, let's do public/private partnerships. So, the private sector would do something, then a new -- let's say insurance law -- would come in, and then the private sector would come up with a new regulatory environment, new laws that help and broaden the market, and then the private sector would say okay, we'll put more money into that, and slowly the domestic private sector became a force of change, and I think after -- it's only after 2003 that you start seeing the government starting to say okay, we've paid down a lot of the debt, we've sort of balanced our books from the bad problems from the past, and that now we can put in some new money -- and we'll need to put in new money for a new infrastructure, because our markets are becoming bigger and we need to support this. And so after 2003, you stop seeing government spending taking off in all of these countries. And then that, together with new regulation, I think you have what you have today, and then not all the money is spent and a huge amount of money is now going into the reserves, financial reserves, which is -- now they have problems of plenty -- what do you do with all this money, and we can discuss that. But I think this is where we're at today. This public/private partnership that has created this incredible boom. And now the Gulf economies are material. I mean, you can start seeing the Gulf economies being, in a few years, a trillion dollar economy.

And there's one other thing that I would like to mention -- is there has been, actually, interesting innovations in the Gulf economy. One of those innovations is Islamic banking. Now, a few years -- 10, 15 years ago I was skeptical about Islamic banking, and I said come on, it's just the same old thing. You call it merchant banking, you call it this. Well, all banking is the same old thing. You call it something else, because you have to find novel ways to sell money or collect deposits. Now, if you brand it and put a different sort of packaging on it and make it more acceptable for people and make it -- indigenize it, that's an innovation.

But more interesting for me were two-three things. One is that they got new regulatory systems in place, which were innovative, different ones from Western banking. They got new accounting principles, which was interesting. And, third, they got new rating principles, new rating regulations. That's now moving from banking or just industrial -- oh, a business to an industry. It's moving beyond that. That's, in a sense, development. It's creating a new class of business that's going out -- that can be then reproduced across the world. It can be -- and it was, in a way, adopted in Malaysia and other places, and Kazakhstan may pick up on that, and then London is now starting to pick up on that. So, you're starting to see this from the center of Bahrain going out.

The other thing is that they globalized not only in industry, which is petrochemicals in some of those other downstream areas, but they've globalized in services, and that's a huge industry. Tourist industry is one of the largest in the world, and in fact it could be the most labor-intensive and the largest industry in the world, and they've started to become at the center of that -- not only the Dubais of this world but pretty much the whole Gulf.

One final point, and that is that I am so optimistic, and maybe I'm on the right type of drugs and I'll be happy to share with you --

(Laughter)

MR. MOHAMEDI: -- that I think that this capital is looking for not only the Gulf and not only the West, which was the traditional pocket in the Swiss banks or whatever, or in the Treasury Bills, but is looking for -- putting investments into places like North Africa. I'll give you an example, and it blew me away. I'm a consultant and we got a contract from a large Islamic bank in the Gulf to do entry strategy for them in a North African country which you would never have thought five years that you would put one cent into, one that was -- went through a major civil war -- and these guys wanted consumer banking, mortgage banking, cement companies, all sorts of financial services -- hotels, city planning -- and -- because they were going to put money into this. And then when I said look, did you notice that

LaFarge, the largest cement company in the world, just bought Orascom's assets in Egypt for $10.2 billion. Shouldn't you be thinking of something like that in terms of cement companies, because the way cement works is you have to have a cement plant every 250 square miles. It's a network of -- because you can't transport it. So, it's an enormous opportunity for business, plus it's super energy intensive, which fits the -- so, shouldn't you do that? He said no, we're going to take our own -- we own a bunch in the Gulf and we're going to export those. So, I thought there was some really interesting stuff going on.

And then after that, if I really get the right dosage on these drugs, I think this capital is going to ultimately come and rebuild Iraq and rebuild Iran. And I think that we have from Morocco to Oman an enormous opportunity right now, similar to the one that we had in Singapore in 1972/'73, that when you sat there then and you said this is going to be the sexiest part of the world in 30 years, you would have thought I was on some serious drugs, given Cambodia, given what happened in Vietnam and Indonesia and all of that. And today what I'm saying about Singapore is pretty much received wisdom. So, I think that this is an extremely positive outcome and could actually be a region changer, and I'll discuss all the negatives later.

(Laughter)

MR. MOHAMEDI: Keep you on a nice high.

MR. POLLACK: We'll look forward to discussing the negatives after we've had a chance to digest lunch.

Jean-Francois, can you top that?

DR. SEZNEC: Well, I'm going to try -- if I can get my own little notes here.

Unfortunately, I don't disagree with Fareed. It would be more fun to do that. I'm also pretty optimistic. I have to -- and perhaps from a slightly different standpoint, I've been working a lot lately on the industrial policy of the Gulf, and I find that yes, indeed, this -- they have policies. They have a vision of their state, all the states of the Gulf, and it is making a huge difference.

I mean, one of the key implications of this amount of money that's coming into the Gulf -- you know, hundreds of billions of dollars right now -- is it allows the leaderships of all the Gulf states to really achieve their vision, and perhaps what I've discovered in the last few years working on this is that these people have a vision, and they're going step by step to implement their vision, and after Washington we have a tendency to sort of be a little bit patronizing and not see that these people are really extremely fine politicians. Okay, they may not be great democrats and they are very much autocratic, but they do have a vision and they are implementing it, and the money is helping them do that. And it's not the case of many other countries which have as much money or very -- a lot of money but no vision.

I think what's happening here in the Gulf right now is first they are opening the Gulf to the 21st century. I mean, globalization is omnipresent in the Gulf. In fact, when -- for all of you who have been traveling to the Gulf, you know that the Gulf today is more modern and the infrastructure works better than most and especially better than ours, which is a little bit humbling I might add. But they use cell phones, internet and everything is available all the time.

The vision of the Gulf really in my -- to summarize it is that I think that their leadership, especially in Saudi Arabia and in Abu Dhabi in particular, wants to move away from just being producers of oil and natural gas in Qatar. They want to save their oil in the long term. They want to move -- really to start cutting production, which will make the prices go up a little higher today perhaps, but they want to keep that energy for the value-added production which they are developing, and it's not going to take five million barrels away from the market, but little by little if you take a million barrels here, a million barrels there -- and it will have a big impact -- it will allow them to keep their oil instead of for the next 80 years but maybe for the next 200 years, and I think that's what they want to do. I'm not certainly convinced that Ali al-Naimi, for instance, in Saudi Arabia has that in mind. Yes, he wants to increase capacity a little bit, but mostly he wants to be able to use that extra oil that is -- that they will have to develop their own value-added productions away from just selling oil into productions there where they can make five to one instead of one to one on the price of a barrel of oil.

Whoops, I just lost my notes here (inaudible) gets back to it. Here we are.

They are taking advantage of this to modernize society. They are changing the educational system. They are changing the status and the role of women. Very difficult issues, because there's a lot of tied back from the more conservative elements, and it is not guaranteed that the more forward thinkers of -- in the governments will actually win these battles, especially in Saudi Arabia. There a lot of blow back on that. But one of the visions of -- and I think one of the visions of King Abdullah in particular in Saudi Arabia is that he wants to take advantage of this modernization of society to marginalize the saw-LA-kees. The idea is to really bring those countries into the 21st century and make the more extreme religious establishment become totally irrelevant, and I think he's working on it. Whether he exceeds or not we'll see. But in any event, today Saudi Arabia is one of the largest -- it's the fifth largest producer of petrochemicals in the world. By 2015 they will be the largest producer of chemicals -- and I'm not saying petrochemicals, I'm saying chemicals -- in the world. By 2015. Way above -- the SA-bek will be bigger than DASF, which is -- they are well on their way to achieving that already. They are bringing in the private sector as well. There are a lot of issues there. We can speak about that later perhaps. That's quite extensive. But they are going to be the largest -- the Gulf -- not only Saudi Arabia, but the Gulf is going to be the largest producer of aluminum in the world by 2020 probably. They'll be producing 25 percent of all the aluminum in the world.

So, there is a lot of development at this level, and of course all their related service industries that go with it. That creates some enormous challenges (inaudible) these societies. I mean, for instance, as you are well aware, the biggest worry today is inflation. Everybody is worried about inflation in the Gulf, and the official inflation figure for Saudi Arabia expected -- I mean, the government is expecting an inflation of 8 percent in 2008, which is not an enormous amount, but the Saudis for the last 20 years were used to very low inflation, in fact deflation (inaudible) of the time. That's pretty shocking. However, for the people who lived in Saudi Arabia in the '70s, like me, you know that inflation in the '70s was in the 30 percent, so the older guys, like I was talking to the -- my old boss, the governor of the Central Bank of Saudi Arabia. You know, he's not so worried about 8 percent. Thirty percent he remembers. That was bad times. So, he's really willing to keep the pressure on the inflation for the moment, but they're really stuck, because he does not want to cut the -- to revalue the currency at this point. They don't want to have their own reserves in Saudi Riyals, because -- so they are trying to keep it in dollars, which means their interest rates have to go down along with ours, which means it cures inflation further.

The other big challenge, of course -- and that's probably the biggest challenge in the region today, and there's no solution that as we know -- is the fact that this enormous boom in economy is really bringing more dependence on foreign workers, and they have not resolved that. You know, the Minister of Labor, who is one of the main advisors to the king, Al-Gosaibi, is trying very hard but he's not successful at all. The problem there is not the state. The state is very much pushing, pushing,

pushing to hire Saudi. The problem is the private sector. The private sector is totally married to its slavery system when it can get cheap Indian laborers basically for, you know, to do all the work. And it's bad enough in Saudi Arabia when 95 percent of the private sector work force is foreign, but of course it's much worse in Dubai and in the U.A.E. in general where 95 percent -- 92 percent of the population as a whole is foreign. And how do you solve that problem? This is a major issue. Some people have been saying -- I was at a conference in Abu Dhabi a month ago where one of the speakers was actually suggesting that instead of having so many -- three or four million Indians in the Gulf we should get rid of the Indians and bring in Yemenis and Egyptians and give them citizenship so they'd have a stake in the states. And I'm not sure -- and that you -- you're beginning to read that quite a bit in the Gulf, that we should have more Arabs come in and give them a path to citizenship. However, that is very unlikely to happen, because in the U.A.E immediately the Imeraquis would be out. You know, you'd have more Egyptians with an Imeraqui passport than Imeraquis. So that could create some real tension. So, there is a -- they haven't really resolved that, and that could really be a big problem.

So, the strategic implications are somewhat different that what I just mentioned. I think the fact that these economies are becoming so well developed in value-added productions, especially chemicals and metals and what not, is really creating a new link between the East and the Gulf. There is a new sell-CRUT taking place. There's a new exchange. We buy the -- the Gulf buys the machinery from Germany, uses the machinery locally to make chemicals, sells the chemical into China and India, and that creates a whole sell-CRUT. Now, this is quite interesting, because Dubai is the center of the sel-CRUT, and I think that's a vision of Muhammad in Dubai -- is to have Dubai be the center of that exchange. But the Gulf is really looking to develop their relationship with China in particular and more and more with India. It also means de facto that there's a very strong decline in the link between the United States and the Gulf. Sure, the U.S. products being so cheap these days because of the value of the dollar are increasing in numbers, but in terms of market share, China, of course, is going through the roof. Even Germany, with a price of the Euro going up 50 percent in three years, they have not -- their share of the market has not really declined. It's really the Chinese are taking -- and the Indians are taking this market share.

It's very important to see that our influence in the Gulf is really declining, and it's not only just a question of economy, I think it's a question of military. Our reputation has become so difficult that people don't want to have anything to do with us, and it is really creating some difficulties at this point I think. The present administration is viewed very negatively, and that's really pushing them in the arms of the Chinese at this point.

Another strategic implication in all this, of course, is Iran, and, you know, we can talk about Iran and I think David Ignatius was mentioning that the Saudis told him that they would be happy if we bombed Iran or something of this nature. I really don't believe that. I think that was -- is usually a (inaudible), but I think the Saudis told him something which either he did not understand or he wanted to hear. The Saudis are very good at telling you what you want to hear, and you have to sort of see what they do, not listen to what they say.

But what this is pointing out, and I might close on that perhaps, is that there is a switch in paradigm in the Gulf at this point -- is there's this switch from having reliance on military power where we are providing, you know, security. We give -- and they are giving us oil. I don't think they are so worried about the security issues anymore, quite honestly. I think they see that the future is in the economic side of things. And as the Saudis and the Gulf become more and more important in terms of economy to the rest of the world, that creates a very strong power to them, and that puts them in a situation where they can play a much bigger role with very limited military means but very, very strong -- very strong economic means. And maybe I'll just close on that.

MR. POLLACK: Thank you Jean-Francois, and both of you for very stimulating, thought-provoking presentations.

If you've got questions, comments, again just give me a high sign and I will add you to the list, and in the meantime why don't we start with Tamara

Wittes.

DR. WITTES: Thanks, Kenneth, and thanks, Fareed and Jean-Francois, for great presentations, and I have nothing to disagree with in all of your descriptions of the top-down decision making that has led to this incredible dynamism.

I do want to push a little bit further into the worries that you cited, Jean-Francois, because I wonder if even if you have leaders with great vision and the money to implement them whether social dynamics can sometimes overtake that decision making. And it seems to me, in that sense, that the dependence on foreign workers is only one part of the potential social underside of this dynamic region. You also have, increasingly, a relative underclass of young natives who don't have very good education, who are not well prepared to participate in this economic growth, who don't have the connections to buy in to the private sector growth that's taking place. They can't take credit. They can't even get their foot in the door. And so -- especially in Saudi Arabia where you have a much larger population and a much larger young population than you do in the smaller (inaudible). Dubai -- Qatar can still just buy people off and can educate its people pretty well, because it's a pretty small number of people, but Saudi Arabia -- it's -- the imbalance is really too large at this point.

So, I wonder if you could talk a little bit about those imbalances and about what 8 percent inflation does for that young group of people who don't have jobs, etc.

DR. SEZNEC: Well, I mean, absolutely you're right. There's a -- the foreign workers are big time. But the key here basically -- I mean, what one would have liked to see, and I think that's what Agu Saybi wanted to do is replace the foreign workers by these young Saudis. And unfortunately that has been fought tooth and nail by the private sector -- with some success I might add. The thing is that there is so much growth right now that there still is enough for these young people to find some kind of a job, though they're not good jobs at good wages definitely, and there is pressure. There is no doubt about that. That has not been resolved. I don't disagree with that. It's one of the big challenges which they have to solve.

MR. MOHAMEDI: I agree with the perceptions of growing income inequality will exacerbate some of the old problems (inaudible) and all of that. But the growth and the money has given them, to some extent, the government, a fighting chance, which they -- in '95 I don't think they had.

DR. WITTES: How long do they have?

MR. MOHAMEDI: I think they have 15, 20 years, and I think (inaudible) put down some educational system to improve quality of the labor.

The other thing that will happen -- the inflation and the goods and nontradables -- you know, like housing and all of that -- but over time there will be also inflation in the foreign labor, because Indian workers are going back to a booming India, and so you will have a problem there. So, there the private sector will be forced by external factors to change. And there they will need to look for a productivity revolution at home so that they can pay -- what they paid six Indian workers, pay one person. Now, whether they get that is a different story. But these are the sorts of pressures that they will -- but I think they have the time to do that, and I think there's a realization that they have to do that.

And it is really happening in the sense that they have -- as you travel around and you look at all the signs, you see there are hundreds and hundreds of vocational schools opening up all over, and they usually have names like New York University or something like that, and they're not New York University obviously, but they are sort of, you know -- and they'll teach you anything you want for a fee. And these people are going into this and hopefully get out of this with some sort of skills.

The government is under a great deal of pressure to pass money down to the people. I mean, the private -- the civil servants, that their salaries have just been increased by, what, 30 percent or something like this. They're trying to buy off and since they have so much money right now, they're trying to buy off time, and it will take 15 years. I don't know whether that is sufficient, but they are trying that. The truth is it's true in Dubai. You can already see that there is a problem with getting enough Indian workers. They're complaining about that, because the Indians -- you know, when they come they are badly paid and sometimes don't get paid at all, so they might as well stay home, you know.

DR. SEZNEC: And the (inaudible) can appreciate (inaudible) the dollar (inaudible) to the dollar.

MR. MOHAMEDI: Yes.

DR. SEZNEC: So, there seeing quite a reduction, and that's part of the reason they're revolting.

MR. MOHAMEDI: Right.

DR. SEZNEC: The labor problems throughout are a part of it compared to 10 years ago.

MR. MOHAMEDI: But it's still very much a challenge.

MR. POLLACK: Rafi Danziger

MR. DANZIGER: Rafi Danziger from AIPAC. My question is to Mr. Mohamedi.

You talked about the Gulf countries investing all over the Arab world and helping the prosperity of the Arab world. My question is what are the prospects that they will also do something for the Palestinians by, first of all, honoring the pledges that they made at the Paris conference and, number two, perhaps investing in (inaudible) authority to make it more viable economically?

MR. MOHAMEDI: I think that they are looking for an improvement in the investment climate in Palestine, and that comes from a more comprehensive piece, and so that would have to wait -- I mean, apart from state to state allocation -- you know, aid and all of that. But if you want the IMARs and the Islamic banks and all to come in and invest that, I think it will have to wait a comprehensive peace, and so they are looking -- I mean, these are businessmen looking for very good returns. So, I think that it behooves us and many of the people who are on the policy side or in the diplomatic field to maybe improve the investment climate through creating conditions for a comprehensive peace.

MR. DANZIGER: What about the pledges that were made at the Paris Conference?

MR. MOHAMEDI: I'm sure that, you know, that they are willing to pay and they have the means to pay it. I think it just depends on, again, high-level politics. I mean, I don't see a problem there.

DR. SEZNEC: I think they are not willing to spend the money at this time, because they just don't see that it's making any difference.

MR. POLLACK: Suzanne Maloney.

DR. MALONEY: I wanted to ask you I guess two interrelated questions about the price of oil, and one of these is something that Jean-Francois and I were talking about in the lead-up to this event, but, you know, what's remarkable to me is to look at the sort of policies that, Fareed, you described both in advance of the current oil boom but really they had been maintained fairly consistently throughout it, which has been a fairly sound judgment in both economic reform but particularly in savings and investment. The Saudis, in particular, budgeted it at a kind of price ban of $22 to $28 dollars a barrel. Even after that, it was very clearly obsolete. But more recently we're hearing talk from the Saudis, in particular, about a new price war of $60 a barrel, unwillingness, particular in response from -- to queries from the U.S. leadership to do more to lower the price, to produce more. Is there a danger now that these economies have become addicted to the high level of oil prices and that you're going to see some of the same kind of irrational exuberance or unwise spending in (inaudible) decisions that were made during the prior oil booms?

And I guess related to that, do you think that there's any prospect -- and this is a question that I tend to get asked a lot -- that the Saudis either could or would expand production at such a rate that it would somehow drive the price of oil down to levels that would, in particular, hurt the Iranians in a very significant way? I know my answer to that question, but I'd be interested in hearing yours.

MR. MOHAMEDI: That's the last -- the second question -- absolutely not. They don't want to be part of that game.

And Ali Niami runs his OPEC meetings as business conference. They're not like the OPEC meetings of the '80s when, you know, there was so much turmoil, not only between the countries but between the OPEC -- in the OPEC meeting.

On $60 oil, we did a (inaudible) calculation like -- as on what do the Saudis and the other countries in OPEC need, and basically the Saudis -- if you add in their private sector imports -- so, it's not totally true that the Saudis need $60, because there -- there's also a private sector element that's coming in and importing all these goods. But if you want to balance out the current account, you know, the balance of payments, for the Saudis you need $60 oil at 8.59 million barrels a day production, okay? But definitely, even on the government side, they need a much higher price, partly because of domestic inflation, partly because they've started to crank up infrastructure spending -- what was -- what used to be infrastructure spending at 25 billion Riyals a year now is 75, a hundred billion Riyals a year, for example, just the capital side of that. And similarly with all the countries in the region. They all require a higher price.

On policy, I think they've come to the realization or a good realization that they can have a hundred-plus, and what's wrong with that picture? You know, it's not totally their doing. I would argue that let's say at the end of 2006 you had $50 oil and you had very high private stocks in the United States, so what OPEC did was cut about a million barrels out of the market and rain those stocks. Prices went to 75. Then this whole phenomenon of hedging against the dollar came in, so private sector put money into the oil price to hedge against the dollar in both relationships. So, that took us to 105 or something like that, and then there's a reason we're at 120, which I at times don't -- can't explain. But essentially I think that all OPEC wants a higher price and can get it. So, that's -- I mean, that's about -- I think as sophisticated as we can get about understanding their policy.

MR. POLLACK: Next, Dave Pollock.

DR. POLLOCK: Thank you. Dave Pollock from the Washington Institute for Near East Policy.

I'd like to ask about the political side of things, and I have a kind of a very short-term and a larger question if I may. One is: does either of you want to comment on what significance, if any, the Kuwaiti election this Sunday -- or Saturday I guess it is -- might have either on oil policy or anything else?

Much larger question is I think both of you made it sound as if these governments are very nonchalant about Iran, and, you know, whether it's the nuclear issue, the sectarian issue inside their own countries, other aspects of Iranian power projection or influence and so on, and I want to just ask is that really what you think for real, that it's all about just dollars and investments and they don't really care about Iran?

DR. SEZNEC: Well, I know it sounds a little flippant in a way, but I think you're right. I mean, I think the statement you made is exactly what they feel, that in my view they're not worried about Iran at all. They're more worried about us than they are about Iran, because they view their future as being -- as I mentioned, an economic power in the world, not only just in oil but all manners of related industries. If we attack Iran, or if some kind of very strong statement or force is used against Iran, this whole scheme of theirs could collapse. In other words, the money that is now going into the Gulf, the local money that is staying in the Gulf, the tens -- the hundreds of billions of dollars could start, as it did in the old days, move out and go into Switzerland and other markets, so they really don't want us to do anything about Iran, and, quite honestly, I think because of the corruption in Iran and so on they see -- and they may be wrong there -- but they see that Iran is probably going to remain as a very poor, very backward country for years to come, because all of the Iranian money is going to divide, which is one of the reasons why Dubai is doing so well. I'm sure Fareed will have more to say about that.

But just one word on Kuwait. Unfortunately, -- and it's really quite unfortunate in my view, but the Kuwaiti elections are really – sort of prove their points that democracy doesn't work for the region. They are very upset about it-- they're not upset. That's the wrong statement. They are not -- they see that the Kuwaiti experiment has brought Kuwait to a standstill, and of all the countries of the Gulf where there's really no progress in terms of economy, there is not in Kuwait. And why? Because the Emir and the Parliament have been at loggerheads for years, and every time a decision has to be made, either the Emir makes it and it's vetoed by Parliament or the Parliament makes and it's vetoed by the Emir. And the other regimes in the region are using this, you know, with great glee to say well, you see, democracy doesn't work. Of course it's not truly a democracy in Kuwait. Maybe there if were a democracy it would work, but that is the way it's represented.

MR. MOHAMEDI: I think that in general (inaudible) worried about Iran in the sense that if they, as the powerful country in the neighborhood, but I think that since this administration, the U.S. administration -- they're more worried about this administration doing something crazy that then inflames the region. So, I think that they are -- they're as concerned with U.S. action and especially what -- if we bomb Iran and Iran lights up the rest of the Gulf with terrorism and all of that. As Jean-Francois says, that'll be the end of the boom. All this capital is going to disappear. So, if you want to destroy the Gulf, please go ahead and bomb Iran. So, I think that's something that -- they would like to work with Iran, and that also is part, by the way, of the '95 changes that took place when Saudi Arabia started to distance itself to do as foreign policy, because (inaudible) Iraqi (inaudible) was looked upon as being uncool, and U.S. support for Israel was looked upon as being uncool. And now invading countries and all of that. It's all part of Saudi Arabia repositioning itself and saying we've got to live in the neighborhood, and I think in many ways that's what they rather do and work with Iran without (inaudible) behind the scenes. Worry about what Iran is doing in Iraq, for example, but keep the Americans out of this situation.

To show how this is happening, for instance, you know Bahrain, which really should be the one most worried about Iran of all the countries -- Bahrain has just signed an agreement with the Iran to supply natural gas. Now, this was not done against the will of the Saudis, I can assure you, and they're supposed to finalize negotiations on pricing and all that by December. That may be wishful thinking. Maybe it's just to keep the Iranians happy. But the fact is it's that there are contacts between Bahrain, which is the country most worried about Iran -- after remember, Bahrain is still a province of Iran, you know --

(Laughter)

MR. MOHAMEDI: But there are contacts at the highest level, and they are signing agreements, and I think that's very much in line with what -- they are trying to be -- to play nice with Iran. Oman needs Iranian gas even more than Bahrain, and they're also negotiating with Iran on these issues. And I think this is done not necessarily with the encouragement but certainly with the approval of the Saudis.

MR. POLLACK: Please resist the urge to make comments about Alsace-Lorraine.

(Laughter)

Judith Kipper: I apologize for coming in late, but I was at the doctor, and you know how doctors are.

I want -- I just want to associate -- I felt very strongly with (inaudible). I am very, very troubled, and I (inaudible) about Iran. (Inaudible) everybody is afraid of Iran is seen as a threat to the (inaudible) same way. (Inaudible) wake up every day (inaudible) as a shadow on your newspaper. But we have to remember that it wasn't Iran (inaudible). It wasn't, you know, (inaudible) war with Iran eight years later (inaudible), etc. So, the concern in the Gulf is obviously they would like Iran to be more integrating the area, less radical, (inaudible) rhetoric, etc., etc. Unless Iran actually proved it has a nuclear weapon, they are going to tolerate Iran, deal with Iran, have relations with Iran.

And the other thing that Washington totally, absolutely doesn't even know about -- and those who do forget -- is that Arab Shi'a from one end of the Gulf to the other (inaudible) all Arab Shi'a (inaudible) to interpretation, separation of mosque and state. They do not look (inaudible). That was a huge difference between the Arab's (inaudible). Even today, Iraq and the fight between (inaudible) is very much part of who's with Iran and who isn't. So, we shouldn't project. We should understand what our allies in the Gulf (inaudible) listen to what they have to say (inaudible) our own fears and some people (inaudible) threat.

MR. POLLACK: Chris.

CHRISTOPHER Schaffer: This is sort of a continuation of Tamara Wittes' question on really who's enjoying the fruits of the situation in -- particularly in Saudi Arabia, and I guess when Fareed talked about public/private partnership, I was wondering what that really looks like. I mean, who is the public? Who is the private? Do you need -- what there's been -- there have been legal changes since the WTO session, but where you don't need to have the same agent or you don't need to have an agent at all, but in reality in Saudi Arabia do you still need to have a partnership with a royal? Is there mobility? Are there good anecdotes you can use to say this Saudi or this company from a relatively unknown family, look at the position that they hold now? So, I'm trying to get a little texture on the picture of private/public and the mobility of who's enjoying this.

MR. MOHAMEDI: I actually will answer the question, but I want Jean-Francois to give you the answer, because he's actually got some special insight into the real gatekeepers of the economy, and that is (inaudible) much more than the royals. I think that the royals -- the old thing of having a royal on that protection and all that has diminished enormously, and even in the smaller countries it helps -- I mean, if -- mainly because they have a lot of capital they could bring to the table. But -- and also, especially if you get into the oil area in terms of access to -- beyond the Gulf or in special projects in the Gulf, you may need a royal, although definitely not in Saudi Arabia. But in general, that has diminished. There are now institutions like Saudi that are regulating (inaudible) that are really more important, and I've seen that personally because I've been involved in a lot of projects and the people who review what they're trying to convince that this is a viable project or this qualifies for SID financing or should be -- have access to very precious natural gas are some of the technocrats. So, I think this is a new thing that's happened. And also in the banking world, particularly in Bahrain, which is nearly built up of fantastic banking beyond the offshore business of banking (inaudible) of the past. It's really good bank supervision, bank regulation, etc., that's pouring on the growth.

DR. SEZNEC: To pick up on this, I think there is a definite difference between any kind of business that has to do with defense. It is always where you always need a royal mentor in Saudi Arabia to be your partner, and the rest of the economy where if you wanted -- if you want to have a license, and you want to have loans, you must not have a royal partner, because the technocracy will be sure that you don't get it. They really don't want to encourage the royal family to take over the economy. In fact, they're trying to make sure that the public at large is taking over the economy. A very interesting little statistic of last week -- there was a new bank floated in Saudi Arabia -- I forget the name of it, Al Amindar or something like that -- and that was the first time that the shareholders of the bank went to the market to sell 80 percent of the company up front, and so there will be minority shareholders. Eighty -- sorry, 60 percent of the company. Eighty percent of the Saudi citizens had bought shares into this bank. Eighty percent of the population. So, you know, some guy goes to the little -- the place there. They have ATM-like things in the bank where you buy and sell shares, and the father of the family comes in and he buys shares for every one of his sons, daughters, and so on. And it's really quite amazing. There is an effort by the bureaucracy, in particular by Al Asa, by the governor of the Central Bank, by the governor of the CMA, by the governor of Saudi to bring in the public at large into the industrialization. That's how they're trying to buy -- to get the public to buy in to this system. So, there is a lot of tension and there are a lot of problems, but they're really making a big effort to bring in the public at large. So, this seems to be the main institutions that are doing this in Saudi Arabia. Saudi, as you just mentioned -- but mostly today is the Capital Markets Authority, the CMA, which is an offshoot of the Central Bank, which is just like the SEC, and I highly encourage you to do that. You can go to the CMA's site and download the prospecti which are published by these new companies. It's really amazing. It gives you as much information as anybody on the New York Stock Exchange. So, they're really trying to make a big effort to bring this into the system. So, I know if that answers all your questions, but --

CHRIS: One other thing on transparency. I think what the government also realizes is the concept of scale. If you want scale, local scale, you're going to have to be more transparent. It's better to be -- it was better to be inside a few years ago, 10 years ago (inaudible). But now if you package it right, you could get the global investment coming in, buying into your businesses for a little bit of transparency.

DR. SEZNEC: A good example of that is the floating of the joint venture between Sumitomo and Saudi Aramco, you know, Saudi Aramco State Company? Well, now they're putting these joint ventures in Petro Rabig, which is $10 billion, to this date the largest; it will be the second largest when Dow Chemical comes in, but now it's the largest. They floated shares on the stock market in Riyah where they floated 40 percent of the company to the public at large, and Saudi Aramco has 30 percent and Sumitomo has 30 percent -- well, it's very close to that. And that means the Saudis still control, because of course the CMA made sure that they were only small shareholders. They limit the amount of money you can sign up for when you buy these shares so the bit princes cannot come in and buy all the shares up front. So, they make sure the small shareholders come in to get the population involved in these big projects. And Saudi Aramco -- so with 30 percent, so Saudi Aramco plus the small shareholders control the company, and it's -- this way they can raise money from the public market with Saudi Aramco. They've only put a billion dollars in this project.

MR. POLLACK: (Inaudible)

SPEAKER: In your presentation, have you given enough weight to what the rest of the world may do? I mean, for example, I think if the price stays at a 125, 130, at some point the American people are going to say we have to do something else. The last time I looked at it years ago, that if you sold oil at $20 a barrel you made enough money to be profitable. It may be 50 today, but it's certainly not what it is. And I know that, you know, in the United States people are trying to make other development. We have much less nuclear energy than almost any other civilized country in the world, and I think, as I understand it, 31 applications pending. Now, you could say well, Coleman, you don't make gasoline out of nuclear power. I agree with you. But if you have more electricity, you need less oil, but even important as I read in the newspaper there are people that say they can make cars so that if you at night plug it in you can get 60 miles before you start using the gas. You have other methods, and I just -- and I also know and I've heard that some nations who are not as rich as we are are buying this oil at the price but they are giving something like $70 or $71 of it in a one percent note due 40 years from now which nobody every checked to pay . I really think that you've got to weigh that interest, and I think it's much in the interest of that part of the world if they say, you know, if you don't kind of straighten out in 10 or 15 years, we'll find another substitute.

The other observation I want to make, that I somewhat disagree with you about this military security. I just talked to somebody from one of them today, and they were telling me that now they're buying more in the United States than ever bought before, and a lot of it's military equipment. So, they are buying our equipment, and I really think that the Kuwait experience demonstrated that if you really get in a jam you may need the United States. So, I really think that we have a little more effect out there than you've indicated so far.

MR. POLLACK: Go ahead.

SPEAKER: On the conservation and on energy use, one of the things that happened to us back in the '80s was -- and why -- if you look at our demand in the '80s we crashed demand quite a bit, demand for oil, because we were faced with the natural gas and other fuels in the nontransport area, okay? That's a very important part of our conservation back then. But now we don't have -- what we have to do is make great efforts on conserving in the transport area.

DR. SEZNEC or MR. MOHAMEDI: All right, and that is going to take a long time. Yes, you're right. Electricity will ultimately come to power batteries that we, you know, charge at night and all of that, but think of the infrastructure that's needed for that to come in. And I think that's one of the things that going to happen in the future. In the Chinese experience, which is really the other demand center that we're really -- that's making demand grow, is they are going to -- they also have to look to conservation. They also will look to finding other sources, like nuclear, but they'll already be stuck on coal for the most part, because there are vast coal resources. But they are also trying to figure out -- the problem for them is that they're going through the classical stepwise changes on an annual basis because they're not adding one million cars, they're adding five million cars a year, so it's a structural change that's taking place.

The other thing about demand, global demand, is that the Gulf itself is becoming a great demand center. So, it's feeding on its own, and, actually, that is creating a huge problem. One of the problems that we mentioned -- unemployment or employment of foreigners -- we've mentioned inflation. The third real danger for the Gulf -- the boom, and this is why I sober up a little bit -- is that actually the Gulf is becoming -- as it becomes a consuming region for energy, it is gas short and it is everything else short but it crude oil, okay? And that's why you recently started to hear about nuclear, you've started to hear about GTL -- I'm sorry, CTL, which is coal to liquids and all of that. So, anyway, that's a danger for the gulf, but that's why we're having these high prices.

One last point on policy. (Inaudible) in sharp contrast to Sheikh Zaki Yamani who wanted low to medium prices so that they would enjoy demand going forever and a day. Ali al-Naimi's today talking about we like some demand destruction in the world. It's to take the pressure off us. We can give you 12-1/2 million barrels a day capacity, beyond I'm sorry, we're not going to invest in it at least for the next 10 to 15 years. And so I think -- and also there are -- this is an aging oil sector and there are parts of the oil sector -- not as much as Matt Simmons says, but there are parts of the oil sector which are seeing fairly sharp declines in production, because --

SPEAKER: (Inaudible)

MR. MOHAMEDI: Sure. I think all those -- if you add up all those little plays out there, they will continue to help us to meet new demand and possibly -- and replace the decline in oil fields, okay? Don't forget the decline rates. There are two moving parts. There's an increase in demand, and there's a decline in oil supply. So, all of things will come into play, but it takes some time.

SPEAKER: (Inaudible)

(Laughter)

MR. MOHAMEDI: Well, you know, you've obviously profited out of it more than anybody else.

(Laughter.

DR. SEZNEC: A quick figure there. Saudi Arabia today is refining 2.2 million barrels a day between their own refineries and the joint venture refineries. They are not -- they're on the books, and they're building now another 1.6 million barrels in refining capacities, so they'll will be at 3.8 million barrels a day. Now, some of this of course will be re-exported as products, but one of the reasons they're putting this off is because that's really where they want to go. This 3.8 million sooner or later make take 10 years, but this 3.8 million barrels will be removed from the crude market and used locally. So, that will put a fair amount of pressure on the world demand for prices. Fareed would know that better than I.

MR. MOHAMEDI: Russia went through its big investment phase in oil, and I think that's going to stabilize in the next few years, and there's a whole debate within Russia whether the taxes are too high for their companies and all of that. It as restructured the oil sector to favor the recreation and -- of its own national oil companies and natural gas company, Gazprom, and it is struggling to bring on more and gas both for Europe, for hopefully the United States as it sees it, and sudden LMG projects, and then gas to the

Far East.

DR. SEZNEC: Final point on -- you asked -- you made a point on the defense spending that is coming to this country, and I don't disagree with that whatsoever. It's a big argument. We could spend days discussing on why they're doing it, so I take your point for -- you know, it's a very valid point.

SPEAKER: (Inaudible)

DR. SEZNEC: That's right, that's right.

SPEAKER: (Inaudible)

DR. SEZNEC: Yes. So, anyway, it's a big issue. It's perhaps too big an issue to discuss right now. We don't have the time, but I --

MALE SPEAKERS: (Inaudible -- talking at the same time)

SPEAKER: (Inaudible)

SPEAKER: Well, since my questions were asked already I'll ask another one, which is could you talk a bit more about the management of these huge capital flows that are going to Saudi Arabia (inaudible) just the last four or five months, as huge as they seemed just five months ago (inaudible) management's money (inaudible).

DR. SEZNEC: Well, I encourage you to read --

I just published an article in the Middle East Policy which is coming out next month I think on this sovereign wealth fund, and I think you're right, they're huge. They're not as big as people said they are though. So, I think the Saudis have just -- don't have that much money. I mean, even this morning Brad Vorland from Saudi Arabia was publishing a paper saying the Saudi reserves to get -- will be at the end of 2008 will be $435 billion. However, one must remember that three quarters of these reserves are not government money. They are the money of the Social Security Fund. And that is managed by the Central Bank, but that's the Social Security Fund. The rest, of course, is now this new money you're talking about. The next profit of Saudi Arabia today is not much more than $70 or 80 billion a year, which is substantial enough, but it's much less, and it's only been for the last two or three years that they've actually made money on -- actually got money into their own reserves, state reserves. As far as (inaudible) Abu Dhabi, I argue in my article that Abu Dhabi probably does -- Adeah , the famous Abu Dhabi investment (inaudible) probably doesn't have much more, I argue, more than $250 to 300 billion, not a trillion as being said by

Mike Kinsey and people like that. It's still a whole lot of money.

Now, what do they do with it? Abu Dhabi's an interesting point for that. We don't really know what Audea is doing, but we know what they -- everybody talks about Audea as the big sovereign wealth fund, but there are four other sovereign wealth funds in the Abu Dhabi. One of them invests in industry, and it's very interesting from the view of probably Sheikh Mohammad (inaudible) is organizing this, is this company -- one of the industrial adventures -- what do they do? They buy the companies that have the technology to develop their own petrochemical plants in Abu Dhabi. For instance, the biggest -- one of the biggest plants in the Gulf is Borouge in Abu Dhabi, which is a big ethylene and downstream plant. Bouruge -- their technology for Bouruge comes from Borealis of Norway. Well, Borealis from Norway has been bought by Abu Dhabi Sovereign Wealth Fund, and it's managed by another company from Austria called OMV, which is 20 percent owned by the same fund. So, see, they try to control the means of technology on this, and that's how Abu Dhabi has been doing that. So, it's quite interesting. They're going now for much more important strategic (inaudible) business plan on strategic investments. The Saudis have decided this week or last week there now -- said they were going to start a whole big sovereign wealth fund of $5 billion, which is, you know, nothing really. So.

MR. POLLACK: (Inaudible)

SPEAKER: No, that's fine.

MR. POLLACK: David Mack.

MR. MACK: Jean-Francois, my question will ask you to expand a little bit on some of the subjects that you touched on in that last one, specifically the investment policies and strategy of the sovereign wealth fund and (inaudible) exceptions -- I gather that you've some exceptions in the Abu Dhabi cases between the Audea policies (inaudible) in my experience is very, very conservative. They don't invest in start-up companies. They may buy a gazillion CitiBanks or something and -- but (inaudible). But they're not. It's not venture capital. And then (inaudible). Could you talk a little bit more about that. (Inaudible) is just a small exception and overall (inaudible). And also could you tell us whether there are any cases that have come to your attention of people using sovereign wealth funds (inaudible).

DR. SEZNEC: The last point is no, I've never heard of anything like this. In fact, ultimately the biggest sovereign wealth fund today is the Kuwaiti Fund. They have -- because that's actually -- we know the figure, and it has been released to the Parliament of Kuwait. We know they have $280 billion, and -- which is a sizeable amount, and that KIO invests it in mostly minority participation all over the world, not just in the United States. They are very, very -- after they got beaten up by Margaret Thatcher over VP -- some of us might remember that --

MR. POLLACK: (Inaudible)

DR. SEZNEC: That's right. They were forced to sell out -- at a great profit I might add. They sold out their 50 percent of that investment. So, they only go for minority shareholders. The Saudis, other $400-some billion they have now investing the Social Security Fund, it's all in U.S. Treasuries short term pretty much. They might have some Japanese securities and some European securities, but it's all short-term government paper.

I cannot really - the biggest unknown is the $60 billion from Tatar, what are they investing in. I don't really know.

MR. MOHAMEDI: I want to add -- are you finished? I want to add -- I think there are some -- I think the old government funds, like Audea's fund and Fund for Future Generations in Kuwait and then the sum of managed money -- is pretty much the old stuff. It's trying to preserve the wealth, and they may have diversified by currency of course over the last few years, because you don't want to be in the shrinking dollar, especially if you are long on oil. You want to diversify a little bit. But I think the interesting thing with IPIC, and now QPI is doing it, cut up petroleum international. The Kuwaitis are thinking of this new sovereign wealth fund in Saudi Arabia. What they want to do is take this bucket of money and wrap it with a strategy and target it to a particular industry … towards upstream oil and gas, for example, and for that it has -- it really doesn't have the indigenous -- the people to manage that type of strategy, so what it is doing is it's made an alliance with OXY, and what it provides OXY is access into Libya, into a gas field in Oman, and that, because of Sheikh Mohammad (inaudible)'s connections and because he sits on top of that bucket of money, and you're starting to see that IPIC wants to do it with downstream, and IPIC I think also owns ONV, and then ONV with Borealis and all of that. So, they're trying to create -- actually turn these buckets of money into real companies and then go after the investments and hope -- and IPIC also -- oh, they got the -- what's the -- there's one with -- it starts with an M and is targeting environmental technology and they're creating this energy -- this

SPEAKER:

MR. MOHAMEDI: Muzda -- and they're creating this city in -- which is going to be totally zero emissions and things like that. What have they got -- the rates of return of the -- I don't know -- whether they're successful I don't know, but that's some of this new idea.

QPI may be tied to QP, which Qatar Petroleum, but be the external wing of it, so go out and buy assets around the world. I doubt that any of this really political externally. Whether Mohammad (inaudible) would like to use his dolphin and other assets to improve his standing at home, that's a different story, but I don't think it's fair to buy out America Inc. or whatever, you know.

SPEAKER: How about the possibility

(inaudible) connected with some of these ideas putting sovereign wealth money into building refinery capacity in countries like our own.

MR. MOHAMEDI: Impossible. He'll tell you why. In fact, Ali Niami two, three years ago at CSIS said we'd like to put two refineries in the United States, and there was an Undersecretary for Energy or (inaudible) I was sitting next to him and says when you figure out the permitting could you please tell me how you're doing it.

DR. SEZNEC: What they've done, though, (inaudible) told us last -- two weeks ago (inaudible) that they were going to double -- you see, they're not putting new capacities -- new refineries, they're just doubling the capacity of the (inaudible) --

MR. MOHAMEDI: -- and all of that.

DR. SEZNEC: -- (Inaudible) so, that's about all we can --

MR. POLLACK: I still have five people on my list and we less than 15 minutes, so I'm going to ask people to make their questions very brief and that we keep the answers brief as well.

Robert Finley.

MR. FINELY: I just want to ask both of you (inaudible) about how the Gulf leaders see the long term (inaudible).

DR. SEZNEC: I think it depends on which country. I think there they evolve differently. I think we talked to -- Dubai is very much Mohammad (inaudible), you know, Inc. Perhaps the same could be said about Dubai, but more Abu Dhabi -- I mean, there's more of the family. And Saudi's different. The family is really sort of totally separated from the economy in many -- I mean, it -- there is some encroachment nowadays, especially with (inaudible) and people like that, but it's still, by and large, the economy is separated from the family, and then the civil service is really pushing this into the private sector and into the -- so, I think the key here is the vision they have to push to make the countries become modern is to sustain themselves definitely. In that sense, yes, it is for the long-term political survival of the family, and I think the king is perfectly willing in Saudi Arabia to let the civil servant manage all his stuff provided the king is still in place and that they give their -- allow the royal family to get a percentage of the income from the GNP of the country. But I think it's slightly different. Kuwait is sort of in between.

What do you think, Fareed?

MR. MOHAMEDI: I got the sense -- and this may be an analyst putting analysis into a web. Things are not explained. But I got the sense about a decade a half ago that in the crisis period, in the '90s, mid-'90s, that they got the model from Singapore where effective government run by an effective technocracy would take over and reduce the sort of image -- I mean, reduce the visibility of the ruling family except for certain very important things, like security and all of that, and then also start giving local representation in terms of the provincial counsels and even allow some level modicum of voting and then increase that voting to a hundred percent of the provincial and then possibly add in a little bit of voting at the national level and you create -- so you absorb some of the politics into the national assemblies and then ultimately allow that and have sort of a checks and balances between a technocracy and a voted official though and slowly over the next 50 years sort of not fade out but become the board of directors of the place. And you're still very important, but you're letting the place run itself and even have budgetary authority and control while some of the budget -- some of the revenues are earmarked from before they go into the general pool for the ruling family. I think that's the Bahraini hope over time, and they've already implemented quite a bit of that, although there's a lot of problems with that. I think the Kuwaitis are -- the Parliament wants to go further than what the ruling family would like it to go in terms of phasing out the ruling family.

MR. POLLACK: (Inaudible)

MR. MOHAMEDI: I intend to do that.

(Laughter)

MR. MOHAMEDI: But I think that's the ultimate vision -- is a long-term participatory but, you know, autocratic participatory system.

MR. POLLACK: Sort of sounds like home.

MR. MOHAMEDI: Yeah.

(Laughter)

MR. POLLACK: Let's take paired questions now in the few minutes. So, Gary and the gentleman next to him.

MR. MITCHELL: Gary Mitchell from the Mitchell Report, and I -- to a certain extent you've sort of danced around the question that I want to ask but I'll pose it anyway, and if you feel like you've answered it that's fine with me. It's a sort of back-to-the-future question and it imagines us all being in this room five, six years from now where it turns out that the drugs you were on were truly (inaudible).

(Laughter)

MR. MITCHELL: And so we're analyzing what happened or what didn't. And my question is if you were forced to imagine now that what seems likely didn't turn out to be, what - which of the sort of major categories causally would you imagine were the culprits? Is it the kind of thing that Tamara talked about in terms of social unrest? Is it the failure of governance? Was it markets that didn't perform as you anticipated -- you know, alternative energy sources coming on faster? I mean, politically, economically, socially what would you imagine might have thrown a monkey wrench into the scenario that you talk about?

MR. POLLACK: Before you answer that, Ed, I think you had a question.

ED: No, I'll follow.

MR. POLLACK: It's okay, go.

MR. BAYGENTS : Ron Baygents, Kuwait News Agency. It used to be such a big thing, and we don't talk about it here at all. I don't know, I just want to know, what about the future of Iraq, whether, you know --

(Laughter)

MR. POLLACK: Feel free not to comment on that as we'll be doing any number of events specifically on that in the near future.

MR. BAYGENTS: You know, Iranian influence, how much stability versus sectarian war in the next few years. How much is this concerning them since you downplayed their concern about Iran but filtering in through Iraq? How do you respond to that? What about the long-term terrorist threat in the region, which we used to hear so much about and now it's not being talked about much here today. And then how do they see the election of a new U.S. President affecting any of their economic and security calculations in the next couple of years? That's it.

(Laughter)

SPEAKER: I'm an independent, free-lance op-ed writer. In the late '70s, the (inaudible) countries got together and started investing some funding in Latin America and other areas where they thought they would get political and economic support in the long term. Do you see the same trend developing now with their current unexpected boom in wealth?

MR. POLLACK: Go ahead.

DR. SEZNEC: There are a lot of things I cannot talk about which Fareed can talk about -- your last question (inaudible).

What can we being wrong? I think it's what Tamara mentioned very well. I mean, it's the ability of the -- to absorb the young people in Saudi Arabia. Really, I think that's the key issue. Whether the education reforms actually happen and work is still, you know -- they're making a big effort, but will it work. You know, education people doesn't take six months unfortunately, and, you know, will there be enough time for people and enough money to buy the people off for another 15, 20 years I don't -- to answer your question, I think, in my view, that's the main key issue.

In terms of Iraq, I don't think the region at least is not overly worried about Iraq at this point, although -- I mean, of course they're worried about it for al the reasons we know, but I think you're going to talk about that more, but the short answer is I don't think they're so worried about it at this point.

And, well, long-term terrorist threats.

They're working very hard to make sure it's -- one thing about autocracies is that they also have very good secret services, and they're -- that's not been always very nice, but it has worked very well, and that plus, you know, giving more power to the so-called Parliaments (inaudible) and so on that sort of diffused some of the problems they've had. But they-- it's -- it could always happen at any one time. But there is very much a -- the problem which Al-Qaeda suffered in 2004 is when they killed all these people and, you know, went on televisions cutting people's throats and so on. It's really turned the country, which was quite in their favor at that time, totally against them --

SPEAKER: (Inaudible)

DR. SEZNEC: Yes. And the extremists have been their own worst enemies, and I think there the government has been able to use this against them to the hilt, and they've been very successful at turning the country against that. The devil you know is better than the devil you don't know. That's what it turned out to be I think.

MR. MOHAMEDI: My fear -- and this comes out of actually looking at that other boom part of the world, Southeast Asia, which I kind of made a comparison to earlier -- is distribution of income, that -- and that's kind of tied in with what Tamara said, but really the resentments come in as they see certain parts doing really well and certain parts not doing well, and I think that galvanizes people, and inflation is part of that story, because it hits different people differently.

The other thing that really would derail -- and I've also said that -- is a U.S. attack on Iran, and I think the U.S. has a very important role to play, just as in Southeast Asia, to patrol the sea lanes and keep the Straits of Molacca open and keep the Gulf of Hormuz open, but I think it's time that it stopped interfering in the domestic politics of the region, because it doesn't know anything about it.

MR. POLLACK: Okay, and then last we have Jim Flack (inaudible).

SPEAKER: Unfortunately, I'd like to return to Iraq.

(Laughter)

MR. POLLACK: Alone or with a hundred thousand of your friends.

(Laughter)

SPEAKER: (Inaudible). (Inaudible) those

states are building these -- this newly popularized economy, if I can use that term, based on a capitalist bond and more fully integrated into the international community, all of which are good things. Look across the Gulf, what is Iran doing? Essentially the opposite, really in every respect. Building up their military capacity and of course concentrating on a full uranium fuel cycle enrichment process, more and more isolated from the rest of the world, more and more determined to be the dominant power in the Gulf. How do you reconcile these things without ultimately coming to the point where it falls apart?

MR. POLLACK: Scott.

SCOTT HAROLD: Fareed, you kind of hinted at some -- one of the other things that neither of you really mentioned as a possible risk factor down the line. That's China's role. China has recently stated they're -- for a number of years actually, it's been looking at trying to reduce its dependence on the Middle East in part because of the choke points at the Straits of Malacca and partly because they have to rely on U.S. naval protections on those transshipments (inaudible) Central Asia and Russia. I wonder if you could comment on how the Gulf states are looking at the future of China where if high oil prices are maintained for a long time, it really puts stability of that regime at risk if they can't continue to provide (inaudible). So, both be thinking about access as well as the implication of high oil prices for China.

MR. MOHAMEDI: You want to do Iran or I could.

DR. SEZNEC: Well, I mean, I think we started mentioning it a little bit. I think when the Arab side of the Gulf sees Iran, they see exactly what you're talking about. They see a country which is becoming increasingly impoverished, although we were talking about that this morning and maybe it's relatively the people of Iran see themselves as being poor even though they may not be poor. But the fact is Iran, because of its policies, is losing a lot of good money, an enormous amount of flight capital -- 15, maybe $20 billion a years goes to Dubai -- then none -- because they cannot have access to technology, all the modernization of the economy is not happening, and therefore Iran is becoming a -- the new proletariat of the Gulf. They will always be producing, you know, oil, and they will never be able to go into the value-added products which the Saudis are and all the Gulf countries are going into. So, in that sense, that creates a problem, that by the Iranians going into more military expenses, the nuclear issue, and so on, it's only stopping them from developing. So, there's a time -- and I think the Gulf are hoping that somewhere along the line they're going to spend, spend, spend, spend and eventually collapse. It may not happen, but I think they sort of hope, if you like, in that sense. So, that's really all I can say about that.

MR. MOHAMEDI: My back-of-the-envelope calculations where I said the Saudis need 60 and the Venezuelans need 95 to hundred-dollar oil, the Iranians, in my calculation, need 75. So, they need a high price to sustain themselves. They built up foreign reserves, but I think that these type of populace policies which have led to capital flight will -- are setting them for a long-term problem, and usually they go into a balance of payments problem very quickly. Inflation, too, is much worse in Iran than the rest of the Gulf, etc. So, they have the cadre -- and Suzanne will tell you that better than I will -- they have the technocracy in the Central Bank. Among other people I've talked to them, like (inaudible) and others who know want to do. It's an easy thing. It's an easy -- but it's a political problem rather than an economic solution, and I think there's one point where they'll be looking across the Gulf and saying wow, those guys have been doing well, what about us, and we could have done the same thing. In fact, Iran could have had a double multiplier -- not only the oil but the diversification because it has such a big economy.

On the Chinese thing, the -- China would like to buy oil first from Asia -- oil and gas. Second, from -- well, first from home, second from Asia-Pacific, third from the near abroad, which is Central Asia, fourth from Russia, and fifth from that American lake called the Persian Gulf or the Arabian Gulf. And it's not only policed, by the way, these days by the U.S. Navy but also by the Indian navy, which is doing joint maneuvers with -- coming into the Gulf and also going out to the Straits of Malacca. But they have no choice on that front, and to Saudi Aramco's great credit, they have set up a system where they are delivering crude to Saudi-built refineries -- well, one and then now they're going to several m ore. And the Saudis have 190 of their own people studying at universities in China, speaking in Chinese -- and I've personally seen at least 15 of them, okay, and so they're building up their long-term strategic economic ties over China, and they really that. And he mentioned petrochemicals on the crude oil and on the other side, too.

Lastly, they're now getting quite close to Chinese service companies to come in and work on the oil sector, so there's a real increase in ties. Having said that, the Gulf in general on a social level -- very racist against Asia, not only on terms of -- so, there is this sort of -- I wouldn't call it west toxification , but in a sense that the West is the gods and the Asians are a bunch of coolies. There is that problem. But I think over time you can see the wiser heads in Aramco and all saying that our real future lies with East Asia as much as it lies with the West.

MR. POLLACK: Please join me in thanking Fareed and Jean-Francois.

(Applause)

MR. POLLACK: Thank you all very much. Have a good afternoon.

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