



The Saudi Arabian Protectorate of Bahrain

Posted by [JoulesBurn](#) on June 27, 2011 - 10:30am

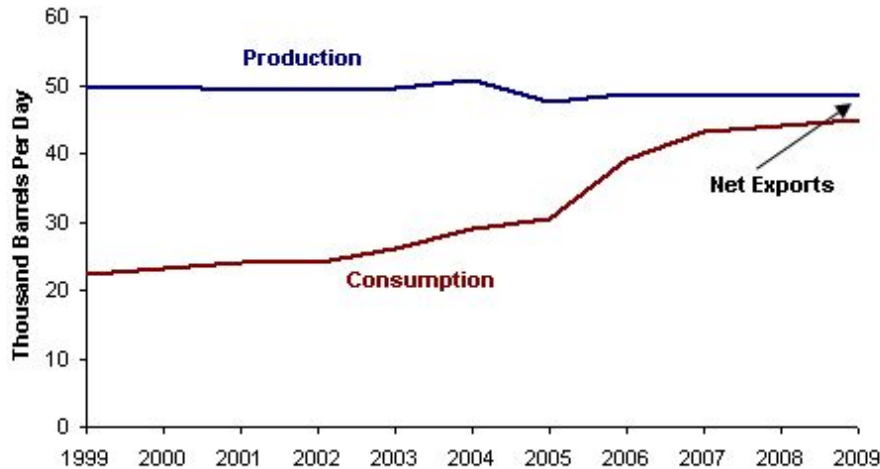
The small archipelago nation of Bahrain can't seem to stay out of [the news](#) lately, as the government continues its containment of civil protests that it perceives as a threat to its rule. The majority (60-70%) Shi'a population has observed the examples of regime-change elsewhere in the Middle East and were demonstrating publicly about their treatment under the Sunni monarchy. The Bahrain military has [escalated its armed repression](#) of these demonstrations, and Saudi Arabia [eventually sent troops there](#). Iran expressed its sincere displeasure with that, [recalling its ambassador](#) to Saudi Arabia. The United States, which has a strategic military presence on Bahrain and a strategic petroleum interest in Saudi Arabia, has expressed its displeasure to everybody involved except the protesters.



Bahrain wouldn't seem to have a lot to offer, except that it seems to offer something for a million people ([half](#) of which are guest workers) living on a desert island. Why is it generating so much interest? Is there any oil left there? In this article, I will discuss some recent developments between Bahrain and its neighbors in the context of its long history.

Bahrain and Oil

Given the presence of [anachronistic monarchies](#), [pricey palaces \(see linked pdf\)](#), [outlandish residential developments](#), and foreign meddling, you know that oil is somehow involved. Indeed, Bahrain was the first location in the Middle East that oil was "discovered" (in the sense of drilling for it and finding it). But even Bahrain oil is complicated, and many different factors influence the role that oil is playing in current events. For one thing, it actually produces relatively little oil directly. Its only field, Awali, peaked decades ago at about 75,000 bpd and has been producing around 30,000 bpd. Cumulative production is a little over 900 million barrels. The EIA has provided the following summary of Bahrain production and consumption:

Bahrain's Total Oil Production and Consumption, 1999-2009

Source: Energy Information Administration

The additional liquids production possibly comes from some natural gas liquids production (Bahrain has some non-associated gas fields), but most of the difference between the Awali and Bahrain outputs is refinery gains, as about 250,000 bpd of oil is refined at the state-owned refinery. According to the [IEA](#), consumption is approximately one third each gasoline and jet fuel and the remainder diesel and other liquids.

Bahrain is trying to squeeze more out of Awali, and has been doing some rather extensive drilling for such a small field. From the [2009 Annual Review](#) of Bapco (the national oil company):

An aggressive development drilling programme for the 2009-2011 period is underway. A total of 104 wells are targeted in the programme, including complex directional, horizontal and reentry wells as well as conventional vertical wells.

IHS/CERA [expressed some skepticism](#) about the economic prospects of extracting more oil from Awali, as [did Michael E. Lynch](#). The latter missed a couple of points, though. First, gas is injected in Awali as opposed to water. Also missed is that there are plans to target shallower reservoirs containing [heavy oil](#).

In Bahrain Occidental has partnered with Bapco and Mubadala to form Tatweer, who are currently conducting pilot studies on the heavy oil reservoirs in the Awali field. The reservoirs have low permeability (2mD) unfractured carbonates with large volumes of heavy oil, and a trial of steam injection above the fracture gradient is being considered for 2011/2012.

Some [early success](#) has been claimed, but it is not clear if this heavy oil has come on stream yet.

Bahrain's energy minister Abdul Hussain Bin Ali Mirza says his country's ageing Bahrain field, where EOR boosted output from an average of 29,000 barrels a day to a level of

40,000 barrels a day within a year, will see output hit 100,000 barrels a day within seven years.

If all goes well, they will have a bit more (of lesser quality) oil to export. However, in reading the Bapco Annual Reports, one will note that they claim quite a bit of oil exports at present. That is because Bahrain has claim to half of the output of the offshore Abu Safah field, which Saudi Arabia operates. Saudi Aramco handles all aspects of the production of 300,000 bpd of Arab Medium, and Bapco collects its share of the money paid when oil leaves the Saudi Ras Tanura port. Saudi Arabia gets credit the total Abu Safah production, but Bahrain gets half the net revenue. The benefit to the Bahraini treasury is rather substantial, and certainly makes for stronger ties with Saudi Arabia. How did this come to pass?

Islands in the Sun

History certainly plays a part in what is transpiring at present, as it is one of back-and-forth until relatively recent times. The Bahrain land grab goes back thousands of years, and its claimants have included Sumerians, Assyrians, Babylonians, and Persians. The Portugese occupied the islands starting in 1522, and after their forced exit in 1602, Bahrain was lorded over by successive waves of Persians and Arab tribes from the mainland for the next 180 years. In 1783, the Sunni al-Khalifa family, a clan from the Atabi tribe residing on the Qatari peninsula, seized Bahrain from Persia -- originally out of spite for getting their hands slapped for piracy:



Late in 1782 the Al Khalifah had raided Bahrain, plundered Manamah, its principal town, and retired with a great quantity of loot. Shaikh Nasir of Bushire was despatched by the Prince of Shiraz, Governor of the Persian province of Fars, to destroy Zubarah and chastise the Al Khalifah, but was himself defeated and compelled to withdraw. Fired by their success, the Al Khalifah crossed over to Bahrain and, with the help of the Al Sabah, their kinsmen from Kuwait, overcame the Persian garrison and made themselves masters of the island.

*From The Persian Claim to Bahrain by J. B. Kelly,
International Affairs (Royal Institute of International Affairs 1944-)
Vol. 33, No. 1 (Jan., 1957), pp. 51-70*

The Al Khalifah did very well with Bahrain, first taking advantage of its strategic location by creating a hub for merchant vessels and a trade emporium, and later with pearl fishing. Before long, though, it was again being tussled over by some new players: the ascendant Wahhabi religio-military empire from the Arabian mainland, and the Sultanate of Muscat and Oman. Things became even more complicated with the arrival of the British around 1820. They were trying to stop piracy in the region, and then ended up being in the position of deciding who "owned" the islands. Bahrain became a British Protectorate in 1830, and this enshrined the Al Khalifah family's hold on the islands to this day.

Some interesting background on how the British apportioned control over the Gulf region is found [here](#).

The British were concerned that rulers of the weaker gulf families would yield some of their territory under pressure from more powerful groups, such as the Al Saud or the Ottomans. Accordingly, the treaties signed between 1820 and 1916 recognized the sovereignty of these rulers within certain borders and specified that these borders could not be changed without British consent. Such arrangements helped to put tribal alliances into more concrete terms of landownership.

This excerpt really resonates today:

Controlling, or owning, land became more important with the discovery of oil. When oil companies came to explore for oil, they looked for the "owner" of the land; in accordance with British treaties, they went to the area's leading families and agreed to pay fees to the heads of these families. As oil revenues increased, the leaders became rich. Although the leaders spent much of their new wealth on themselves, they also distributed it in the area they controlled according to traditional methods, which initially consisted mostly of largesse: gifts for friends and food for whomever needed it. As time passed, the form of largesse became more sophisticated and included, for example, the construction of schools, hospitals, and roads to connect principal cities to towns in the interior.

When the British finally decided to get out of the Gulf, both Saudi Arabia and Iran made a claim for Bahrain. There was some talk of folding it into a new state including Qatar and what is now the United Arab Emirates, but this did not sit well with Iran.

An obstacle to creating a "superstate" was the status of Bahrain, which had been occupied by Iran at various times. The shah of Iran argued that he had a stronger claim to the island than the Al Khalifa, who had only come to Bahrain in the eighteenth century. Furthermore, the shah indicated that Iran would not accept a federation of Arab states that included Bahrain.

In the end, the United Nations (UN) considered the issue of Bahrain; it decided to deny the Iranian claim to the island and to allow the Bahrainis to form an independent state. Bahrain was better suited to independence than some of the other shaykhdoms because the island had been a center of British administration and had a more developed infrastructure and education system than its neighbors. Ironically, the greater British presence on Bahrain made residents more resentful of treaty ties to Britain. Bahrain was the only place in the gulf where demonstrations against Britain occurred.

Bahrain was granted formal independence in 1971.

Iranian Claims

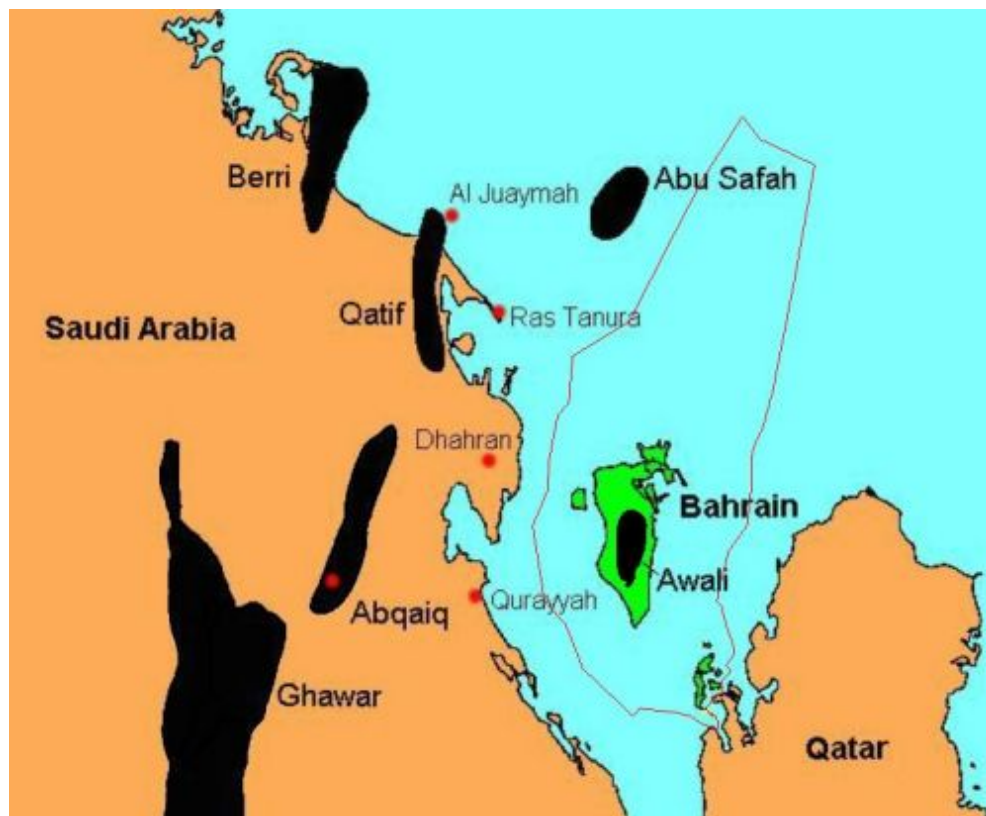
Despite the years that have gone by, there are [some with a different version of history](#).

What is evident is that the maritime and costal of Bahrain were part of Iranian territory from the beginning of Sasanian Empire until throughout of Iran was occupied by the Arabs Islamic forces and migration of Bedouins from Arabian deserts into southern Iranian territories started.

There were several territorial claims by Persia in the 20th century up until Bahrain was granted independence by Britain in 1971. At that time, the Shah of Iran at first restated - but then rescinded - all claims on Bahrain. Of course, the Iranian revolution in 1979 changed the scene dramatically, and Iranian clerics have occasionally used the Bahrain issue as one of their rallying cries. But the newer government has not made an official claim of ownership. A failed attempt by the Islamic Front for the Liberation of Bahrain to create an Islamic state was certainly inspired by events in Iran a short time earlier. However, there isn't much evidence to support direct involvement by Iran in the current unrest. According to Wikileaks US cables (see Appendix), there are stronger ties between the Shi'a in Bahrain and those in Iraq, than with those in Iran. More recently, King is Hamad bin Isa Al Khalifa had implicated Hamas as being behind the recent protests.

Sum of All Saudi Fears

The following map illustrates quite simply why Saudi Arabia has substantial concern over unrest in Bahrain:



*Location of Bahrain relative to Saudi Arabian Oil Infrastructure.
The orange outline shows the relevant maritime borders.*

Quite obviously, Bahrain sits within throwing distance (as few as 25 miles) from critical Saudi oil infrastructure. Shown on the map are nearby Saudi oil fields (Ghawar, Abqaiq, Abu Safah, Qatif, and Berri), the oil export terminals (Ras Tanura, Al Juaymah), the critical oil processing facilities at Abqaiq, and the equally critical water treatment facilities of Qurayyah which enable water

injection of many fields including Ghawar, Abqaiq, Berri, and Khurais. The even slight possibility that Iran could gain control over land so close to these facilities has motivated a surprising amount of largess towards Bahrain. This largess begins with the deal giving Bahrain half of the Abu Safah output (albeit under treaty), but there is more to the story. And while there are other factors besides security of the oil infrastructure which likely contribute to the largesse, it is probably true that Bahrain would not exist as an independent nation if not for it.

Let's Make An Oil Deal

Let's return to the agreement which provides Bahrain's largest single source of income. As discussed earlier, Bahrain has long had multiple claims of ownership. The first disputes were over who owned the islands; later disputes were about ownership of the water around them (and the oil under that). These disputes have come and gone over years, and just a year ago, Qatar, Iran, and Bahrain [signed yet another treaty](#) once again clarifying territorial boundaries in the Gulf. But the first agreement signed by Bahrain was with Saudi Arabia, and it concerned oil. Both BAPCO and Saudi Aramco had done some exploration on the seabed of the Abu Saf-ah Shoal, shallow waters located 65 miles NW of Bahrain but only 30 miles off the Saudi coast (see map), as early as 1949. In 1958, they came to an agreement: the disputed area was on the Saudi side of the border, but they would assign to Bahrain half of the oil revenue in perpetuity. What a sweet (...er, sour) deal that turned out to be.

http://www.jag.navy.mil/organization/documents/mcrm/saudi_arabia.pdf

The area cited and defined above shall be in the part falling to the Kingdom of Saudi Arabia in accordance with the wish of H.H. the ruler of Bahrain and the agreement of H.M. the King of Saudi Arabia. The exploitation of the oil resources of this area will be carried out in the way chosen by His Majesty on the condition that he grants the Government of Bahrain one half of the net revenue accruing to the Government of Saudi Arabia and arising from this exploitation, and on the understanding that this does not infringe on the right of sovereignty of the Government of Saudi Arabia nor the right of administration over this above-named area.

Note the wording "net revenue". The timeline below shows how this agreement has resonated through the years.

- | | |
|------------------|--|
| 1949-1950 | Bapco and Saudi Aramco explore on the seabed of the Abu Saf-ah Shoal. |
| 1958 | Maritime border agreement gives oil rights to Saudi Arabia in exchange for share of revenues |
| 1963 | Abu Safah field discovered |
| 1966 | Abu Safah production started |
| 1972 | Revenue sharing agreement gives 50% to Bahrain |
| 1986 | Abu Safah field mothballed due to collapsed oil prices |
| 1987-1992 | Saudi Arabia gives Bahrain 70,000 bpd from its remaining production |
| 1992 | Abu Safah field restarted. Bahrain receives 50% of revenue |
| 1996-2004 | Saudi Arabia gives Bahrain 100% of Abu Safah revenue. |

- 2004** Abu Safah reworked along with Qatif field. Abu Safah production at 300,000 bpd.
- 2004 -** Bahrain receives 50% of Abu Safah revenue (150 kbpd of 300 kbpd total)

In particular, these developments stand out:

- In border negotiations, Bahrain must have had some legitimate claims to the seabed overlying Abu Safah for Saudi Arabia to yield half of the production.
- Saudi Arabia was strongly motivated to keep the money flowing to Bahrain, even as the oil field was mothballed. Residual concern from the Iranian Revolution and the subsequent but failed uprising on Bahrain?
- Again in 1996-2004, Saudi gave all Abu Safah revenues to Bahrain despite much higher production and higher prices. And there are no production costs being charged to Bahrain for this. Interestingly, up until the 2004 field upgrade was finished, there was some expectation in Bahrain that it would get 100% of the new production level as well. But I guess there are limits.

Another big source of revenue for Bahrain and the government is the al-Bahrain Refinery, which process about 250,000 bpd of crude and exports refined products to Asia and elsewhere. It does not use crude from Abu Safah (although this [has been considered](#)). Rather, Arabian Light crude is imported via pipelines from Saudi Arabia to supplement the amount produced at Awali. But as [others have noted](#), the Abu Safah oil is the dominant fraction of the overall oil revenue for Bahrain. Even an oversized refining margin on 225 kbpd of crude will be much smaller in magnitude than the full take from 150 kbpd. This point isn't grasped by many analysts, including Tom Friedman, as reported [here](#). But a key point is that big sources of revenue for Bahrain - and even bigger for the monarchy - is directly tied to Saudi Arabian oil production. Thus, there should be no surprise that when Saudi Arabia want to drive tanks down the causeway separating the two countries, the King of Bahrain welcomes them in.

One important Saudi connection to the economy of Bahrain is the causeway connecting it with the mainland, and the millions of Saudis who [drive](#) over to enjoy a few days in a less restrictive society. What happens in Manama stays in Manama. According to the [Wall Street Journal](#), this economic exchange accounts for a tenth of Bahrain's GDP. Consistent figures for Bahrain's finances are difficult to come by, but a good summary can be found [here](#). Exports to Saudi Arabia are also important, and there is also the large and growing financial sector that benefits from being near that nation. As for the importance of Bahrain to Saudi Arabia, given the relative size of the latter, the evidence suggests mostly insurance against threats to its oil revenue but with a social safety valve thrown in. But recent events have spoiled the party somewhat.

Closing Thoughts

About ten years ago, a border dispute between Bahrain and Qatar involving the Hawar Islands (located near the coast of Qatar) was [settled in the World Court](#). Bahrain wanted the islands and the potential oil under the gulf waters nearby, and they got them. What I find amusing is that Qatar was satisfied as well, because Bahrain's original claim in court included a chunk of land on the northwest Qatari mainland (encompassing the long-abandoned town of Zubara). Their rationale was that this was where the Al Khalifah lived when they drove the Persians from what is now Bahrain, and they never relinquished their ownership. Well, the court unanimously thought that claim was ridiculous. And fittingly, Bahrain hasn't found any oil near Hawar yet. But the Al Khalifah continue their reign, enriched by the oil lying far offshore from the island seized by their ancestors centuries ago. Oil ownership is a funny thing.



Appendix 1: Wikileaks

[DESPITE ECONOMIC DIVERSIFICATION, BAHRAIN SHARES OIL-BASED INFLATION PRESSURES WITH GCC](#)

[Bahrain and Iran](#)

[Guide to Bahrain's Politics](#)

[Bahrain and Iraq](#)

[King Hamad and the US](#)

[Iran's Nukes](#)

[Bahrain Wants US Missles](#)

[Saudi and Iran](#)



This work is licensed under a [Creative Commons Attribution-Share Alike 3.0 United States License](#).