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## Bahrain

*Bahrain produces only a modest quantity of oil, but it is a growing regional services center strategically located on the Persian Gulf.*

*Note: The information contained in this report is the best available as of October 2004 and is subject to change.*



### GENERAL BACKGROUND

A small group of islands linked by causeway to Saudi Arabia, Bahrain recently became a constitutional monarchy. Since 1999, the country has been ruled by Sheikh Hamad bin Isa Al-Khalifa, who has committed to a process of gradual democratization. In February 2001, Sheikh Hamad held a referendum on his National Action Charter, which called for constitutional reforms. The Charter received the approval of 98% of the electorate, and in February 2002, Sheikh Hamad declared himself king and Bahrain a constitutional monarchy. He also called for parliamentary elections in October. The new bicameral legislature (to be made-up of a lower chamber of elected representatives and an upper house of appointed legislators) was Bahrain's first since the National Assembly was dissolved in 1975. Though the elections occurred without

irregularity, turnout was only 53% due to the decision by Shi'ite groups to boycott the election. The king responded to Sunni Islamist candidates' capture of most of the seats in the lower house by appointing secular MPs to the upper house.

Since 1948, the United States Navy has made Bahrain its headquarters for activity in the Persian Gulf. At present, its base occupies more than 60 acres of land in Manama, the country's capital, and is the headquarters of the U.S. Navy's Fifth Fleet. The U.S. and Bahrain also have a Free Trade Agreement (FTA), which was signed in September 2004.

Already a regional financial services center specializing in offshore banking, Bahrain is intent on further diversifying its generally liberalized economy. For the time being, the country remains heavily dependent on the oil sector. Petroleum revenues make up about two-thirds of government revenue and export earnings. Hydrocarbons also provide the foundation for Bahrain's two major industries: refining and an aluminum smelter. Accordingly, oil prices dramatically affect Bahrain's

economy. The relatively high oil prices of recent years have helped Bahrain's real gross domestic product (GDP) to grow at 5.3% in 2003 and an estimated 4.6% for 2004. Growth for 2005 is forecast at 3.9%. These relatively strong growth rates have not kept unemployment from becoming a growing economic and political problem.

## **OIL**

All of Bahrain's 125 million barrels of onshore proven oil reserves are located in the Awali field, the first oil field to be developed in the Persian Gulf. Discovered in 1932, Awali's crude oil production peaked at more than 75,000 barrels per day (bbl/d) in the 1970s, but has declined since then. As of late 2004, Awali is producing around 35,000 bbl/d of crude oil.

In addition to Awali, Bahrain also might have undiscovered oil reserves offshore in the Gulf of Bahrain. These areas became available for exploration and potential exploitation following the International Court of Justice's March 2001 resolution of a territorial dispute between Bahrain and Qatar over islands located between the two countries. The court awarded sovereignty over the Hawar Islands to Bahrain, allowing Qatar to retain the neighboring islands of Zubarah and Janan. Bahrain has since offered concessions to foreign investors. In November 2001, Bahrain awarded two blocks off the country's southeastern coast to Petronas (Malaysia) and another similarly located block to ChevronTexaco. Both companies have since begun to explore their concessions. Since then, the Calgary-based EnCana Corporation has also become involved in offshore exploration. To date, no new discoveries of oil in commercial quantities have been reported.

In addition to what is produced in its territory, Bahrain receives oil via subsea pipeline from Saudi Arabia. Some of this oil comes from the Abu Safa offshore field, which lies in Saudi Arabian waters. As a way of supporting their neighbor's economy, the field's Saudi administrators donate Abu Safa's production to Bahrain. In late 2002, Bahrain announced that the Saudi petroleum company Aramco would begin development work aimed at increasing Abu Safa's production capacity from 140,000 bbl/d to 300,000 bbl/d by late 2004. As of October 2004, the new capacity is partially operational, in the process of ramping up to the full 300,000 bbl/d. The remainder of the oil that Bahrain receives from Saudi Arabia comes from the oil fields around Dammam. The Abu Safa pipeline passes through this area on its way to Bahrain. Unlike the Abu Safa oil that it receives as a gift, Bahrain purchases the Dammam oil, albeit at a discounted rate.

Unlike other Gulf states, Bahrain exports refined petroleum products rather than crude oil. The country's only refinery, Sitra, is located south of Manama and has a current capacity of 248,900 bbl/d. Bahrain exports most of the Sitra refinery's products to India and the Far East. The Sitra refinery was built in 1936, and has been modernized several times. The Bahrain Petroleum Company (Bapco) recently completed a \$900 million modernization project, which increased overall capacity. It also introduced hydrocracking facilities to allow production of 40,000 bbl/d of low sulfur diesel. In September 2002, the government authorized Bapco to initiate a study of the feasibility of building a \$1.3 billion petrochemical complex at Sitra. The Bahraini government has not made a final decision on the project, but if approved, construction could start in 2005.

Consolidation of Bahrain's state-owned petroleum sector began in January 2000, when the upstream Bahrain National Oil Company (Banoco) began merging into Bapco. The merger was completed on June 1, 2002. The new entity, the Bahrain Petroleum Company BSC, is charged with the exploration, production, refining, marketing and distribution of Bahraini oil for domestic use and the international market.

## **NATURAL GAS**

Bahrain has natural gas reserves of about 3.25 trillion cubic feet (Tcf), much of it associated gas

from the Awali oil field. The country produced 327 billion cubic feet (Bcf) of natural gas in 2002, all of which was consumed locally. Gas production and processing are the responsibility of the majority state-owned Bahrain National Gas Company (Banagas). The largest domestic consumer was Aluminium Bahrain (Alba), which uses it in its power plant. In September 2003, the government signed an agreement with Alcoa allowing the American company to take up to a 26% equity stake in the company. Banagas awarded a contract in June 2004 to the U.S. engineering firm Foster Wheeler for upgrades to their main natural gas processing facility at Awali.

Bahrain's growing demand for electric power generation (see below) is likely to cause it to become a net natural gas importer in coming years. In January 2002, Qatar and Bahrain signed a Memorandum of Agreement indicating Bahrain's intentions to purchase natural gas from Qatar's North Field Enhanced Gas Utilization Project. The project was expected to come online in early 2003, but it now appears that it may be 2006 before Bahrain receives the 0.5 - 1 Bcf/d that it is seeking. Bahrain also opened negotiations with Iran on possible purchases of natural gas in early 2004.

Banagas has also pursued investment in liquefied natural gas (LNG) projects. In 2002, the country set up a joint venture with the American firm Dynegy to invest in related opportunities in the Middle East and North Africa.

## **ELECTRICITY**

Electricity production and distribution in Bahrain is the responsibility of the Ministry of Electricity and Water. In 2002, Bahrain had an estimated electric generating capacity of 1.4 gigawatts (GW), and produced 6.9 billion kilowatt-hours (bkwh). Installed capacity is barely able to meet current consumption, with the country's population growth and economic development leading to rapid power demand increases. Nevertheless, domestic power prices are expected to remain at the low level set by the government in 1992 in an attempt to help low-income groups. Like other Gulf states, Bahrain has made official appeals for voluntary conservation, but a widespread blackout in August 2004 underscored the need for additional capacity.

At present, Bahrain gets its power from two combined water and power production complexes and three smaller electricity-only plants. The recent focus has been on the modern Hidd complex. Phase One, which was completed in 1999, added 280 megawatts (MW). Phase Two added another 600 MW when it was completed in 2004. In addition to the work being done at Hidd, the government awarded a contract in 2001 to Siemens Power Generation to extend the life of the Rifaa power plant.

In July 2004, Bahrain awarded its first contract for an independent power project (IPP) to the Belgian firm Tractebel. The first phase of the gas-fired Al-Ezzal Power Plant is scheduled to begin commercial operation in mid-2006, with a capacity of 470 MW. The full capacity of 950 MW is to be completed by mid-2007. Once the project is complete, roughly one-third of Bahrain's generating capacity will be privately owned.

In addition to trying to increase supply, the Bahraini government has continued its attempts to improve the nation's transmission and distribution infrastructure. In December 2002, Bahrain awarded a contract to the Saudi Cable Co. for the supply and installation of power lines, optic cables, and other accessories.

While movement is likely to be slow, Bahrain is considering the privatization of the country's entire electricity sector. Along these lines, Bahrain retained Ernst and Young to act as financial

consultants in June 2003.

## COUNTRY OVERVIEW

**Head of State:** King Hamad bin Isa al-Khalifa

**Independence:** August 15, 1971 (from United Kingdom)

**Population (July 2004E):** 677,886 (includes 235,108 non-nationals)

**Location/Size:** Persian Gulf, 257 square miles

**Major Cities:** Manama (capital)

**Languages:** Arabic, English, Farsi, Urdu

**Ethnic Groups:** Bahraini Arab (63%), Asian (19%), other Arab (10%), Iranian (8%)

**Religion:** Shi'a Muslim (70%), Sunni Muslim (30%)

## ECONOMIC OVERVIEW

**Currency:** Bahraini Dinar

**Fixed Exchange Rate:** 1 Bahraini Dinar = \$2.65 US (Fixed)

**Nominal Gross Domestic Product (2003E):** \$8.3 billion **(2004F):** \$8.8 billion **(2005F):** \$9.3 billion

**Real GDP Growth Rate (2003E):** 5.3% **(2004F):** 4.6% **(2005F):** 3.9%

**Inflation Rate (consumer prices) (2003E):** 2.1% **(2004F):** 2.0% **(2005F):** 2.0%

**Current Account Balance (2003E):** -\$400.0 million **(2004F):** \$9.5 million **(2005F):** -\$145.4 million

**Major Export Products:** petroleum and petroleum products, aluminum, textiles

**Main Destinations of Exports:** India, US, Saudi Arabia, Japan, South Korea

**Major Import Products:** crude oil, machinery, chemicals

**Main Origins of Imports:** Saudi Arabia, US, UK, France, Japan

## ENERGY OVERVIEW

**Minister of Oil:** Isa bin Ali bin Hamad al-Khalifa

**Proven Oil Reserves (1/1/04E):** 125 million barrels

**Oil Production (2003E):** 44,000 bbl/d (of which 35,000 bbl/d was crude oil)

**Oil Consumption (2003E):** 40,000 bbl/d

**Net Oil Exports (2003E):** 4,000 bbl/d

**Crude Oil Refining Capacity (1/1/04E):** 248,900 bbl/d

**Natural Gas Reserves (1/1/04E):** 3.25 trillion cubic feet (Tcf)

**Natural Gas Production (2002E):** 327 billion cubic feet (Bcf)

**Natural Gas Consumption (2002E):** 327 Bcf

**Electric Generation Capacity (1/1/2002E):** 1.4 gigawatts (GW)

**Electricity Production (2002E):** 6.9 billion kilowatt-hours (bkwh)

## ENVIRONMENTAL OVERVIEW

**Total Energy Consumption (2002E):** 0.4 quadrillion Btu\* (0.1% of world total energy consumption)

**Energy-Related Carbon Dioxide Emissions (2002E):** 23.5 million metric tons of carbon dioxide (0.1% of world carbon dioxide emissions) (includes flaring)

**Per Capita Energy Consumption (2002E):** 586.8 million Btu (vs. U.S. value of 339.1 million Btu)

**Per Capita Carbon Dioxide Emissions (2002E):** 9.0 metric tons of carbon dioxide (vs. U.S. value of 5.5 metric tons of carbon dioxide)

**Energy Intensity (2002E-PPP):** 41,410 Btu/ \$1995 (vs U.S. value of 10,613 Btu/ \$1995)\*\*

**Carbon Dioxide Intensity (2002E-PPP):** 2.33 metric tons of carbon dioxide/thousand \$1995 (vs U.S. value of 0.55 metric tons/thousand \$1995)\*\*

**Fuel Share of Energy Consumption (2002E):** Natural Gas (81.5%), Oil (18.5%)

**Fuel Share of Carbon Emissions (2002E):** Natural Gas (76.9%), Oil (23.1%)

**Status in Climate Change Negotiations:** Non-Annex I country under the United Nations Framework Convention on Climate Change (ratified December 28, 1994). Not a signatory to the Kyoto Protocol.

**Major Environmental Issues:** Rapid industrialization during the 1970s and 1980s has placed increased stress on the natural environment. Limited natural fresh water resources are increasing dependence on large-scale desalination facilities. Rising sea levels also pose a long term threat.

\* The total energy consumption statistic includes petroleum, dry natural gas, coal, net hydro, nuclear, geothermal, solar, wind, wood and waste electric power. Fuel shares of energy consumption and carbon emissions are also based on EIA data.

\*\*GDP figures are based on OECD figures using purchasing power parity (PPP) exchange rates.

## **OIL AND GAS INDUSTRIES**

**Organization:** Bahrain Petroleum Company BSC; Bahrain Natural Gas Company (Banagas)

**Major Foreign Energy Company Involvement:** ChevronTexaco, Petronas, EnCana Corporation

**Major Ports:** Manama (Another port is under construction. The Sheikh Khalifa bin Salman Port is in the Hidd region. Begun in January 2002, it should be completed in January 2005.)

**Producing Oil Fields (crude production - bbl/d)(2003E):** Awali (35,000 bbl/d)

**Major Refineries (capacity - bbl/d):** Sitra (248,900)

*Sources for this report include: Bahrain Tribune; CIA World Factbook; Global Insight; Economist Intelligence Unit; Financial Times; Gulf News; Hart's Middle East Oil and Gas; Middle East Economic Digest; Oil and Gas Journal; Petroleum Economist; Petroleum Intelligence Weekly; International Market Insight Reports; U.S. Energy Information Administration; World Gas Intelligence.*

## **LINKS**

For more information from EIA on Bahrain, please see:

[EIA - Country Information on Bahrain](#)

Links to other US government sites:

[CIA World Factbook - Bahrain](#)

[US Department of Energy Office of Fossil Energy - International section - Bahrain](#)

[US State Department Consular Information Sheet - Bahrain](#)

[US State Department Country Commercial Guide - Bahrain](#)

[US Embassy in Manama, Bahrain](#)

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[Government of Bahrain](#)

[Embassy of Bahrain - Washington, DC](#)

[Bahrain National Gas Company \(Banagas\)](#)

[Gulf Daily News, Manama, Bahrain](#)

[NationMaster.com: Bahrain](#)  
[Bahrain Post](#)  
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