

# Chapter 5

## **Building SABIC**

## Establishing the Enterprise

To push forward the industrialization of Saudi Arabia, Al-Gosaibi realized he needed more than the ad-hoc New Projects Unit that Al-Zamil had put together in the Industrial Studies and Development Centre. Initially, he thought to create a state-owned organization that would be responsible for bringing about joint-venture projects—not unlike the Royal Commission that was responsible for building the industrial cities of Al-Jubail and Yanbu or even like the ill-fated Petromin.

A friend, Mohammad Aba Al-Khail, the minister of finance and national economy and a fierce proponent of the private sector, planted another idea: why not create a joint-stock company that would operate like a private enterprise? At first, this entity would be state owned, but eventually it would be sold to the public. The notion appealed to Al-Gosaibi; it also resonated with Crown Prince Fahd, who turned out to be equally enamored with what the private sector could do. On 7 September 1976, by royal decree, the Saudi Basic Industries Corporation, known as SABIC, was created. Its formal mission, however, spoke little to the ambition that Al-Gosaibi had for the new enterprise.

From the beginning, Al-Gosaibi envisioned that SABIC should operate like a private company in every way: “From day one there was no bureaucratic hierarchy, no bureaucratic jargon, and no bureaucratic thinking. To us, the only relevant question was ‘Will this make a profit?’” SABIC would need to be manned by individuals who thought of the needs of customers and of the bottom line first, not of their own needs.

To this end, Al-Gosaibi wisely chose Abdulaziz Al-Zamil to serve as SABIC’s first chief executive officer (CEO). SABIC’s board of directors included Al-Gosaibi as chairman, as well as several leading Saudis—academics and members of government. Al-Zamil was the vice chairman. The partnership of Al-Gosaibi and Al-Zamil would give a powerful start to Saudi Arabia’s industrialization. Occasionally, they would debate issues facing them, but on the whole they saw eye to eye. As Al-Gosaibi recalls, “My outlook in most important matters coincided with Abdulaziz’s.” Reflecting years later on his choice of Al-Zamil, Al-Gosaibi noted, “Abdulaziz and his first colleagues

must take the lion's share of the credit for guiding SABIC from infancy to adulthood, an industrial giant bestriding the world stage.”

The two most important immediate undertakings were recruiting a talented and highly motivated staff and negotiating the terms of joint-venture agreements with Western partners. Al-Zamil sought to recruit young Saudis whose motivation was to serve their country by transforming the fledgling corporation into a major global company: individuals eager to be part of a team and reach the team's goal. In return they received modest salaries, no perks, and the opportunity to work day and night.

An example of the ethos—the frame of mind—that Al-Zamil embedded in SABIC was the way in which SABIC's first offices were established. Insisting on frugality, he personally searched not only for a good location for SABIC's first offices but also for one that was inexpensive. “When we had to leave the Industrial Studies and Development Centre and find an office for ourselves, there were very few suitable locations; it was also very expensive.” Al-Zamil went personally to check on each location.

Abdulrahman Al-Zamil accompanied his brother to inspect one potential site, an apartment building on a back street of Riyadh. He encouraged Abdulaziz to reserve the whole structure for SABIC's use rather than just a few units.

**Abdulaziz and I were driving in a car, looking for the first headquarters for SABIC. I can see Abdulaziz jumping from one building to another. He was so hesitant to rent a whole building. He wanted three, four apartments. I told him, “Take the whole thing.” He said, “No, no. We don't know what will happen. Let's go conservative.” Behind his back, I talked to the owner of the building. I said, “Please don't rent any apartments before checking with Abdulaziz.” After four or five months, Abdulaziz was renting all the units in the building.**

SABIC's beginnings were far from grand. It was just “a regular apartment building,” says Abdulaziz.

**We redesigned it a little bit, but it was furnished very minimally. It gave a very important message to all the employees: that all the pennies count, and to be careful. I told them, “Look, let's do**

**the projects. Let's make money, and when we make money from projects, I promise you'll have a nice building."**

Flush with oil revenues, the Saudi government had infused SABIC with \$2.7 billion of capital, and the company had secured loans from the Public Investment Fund and commercial banks; yet here was the CEO of the company driving about trying to save on the cost of office space. It not only sent a message of thriftiness to SABIC's employees but much more. It signaled the need for everyone to pitch in. SABIC's employees responded. Al-Zamil's young team, with degrees from leading Western universities, were soon transporting paint, carpeting, wall-board, and other materials in their private cars and then doing the painting and installing themselves! It was an experience they not only would gleefully recall in later years but that they would use to inspire a new generation of Saudis. As Abdulaziz Al-Jarbou recounts,

**Recently, I brought a new employee to a company I am running now, and I showed him around. The accommodations are very modest, and I think he might have been a little bit disappointed. I said to him, "Let's go." He says, "To where?" He's puzzled. Here is the chairman asking him to go outside the company. I say, "Just come with me." Then I go to my car. There is no driver; I am driving. He thinks, "What kind of company is this? The chairman is driving in a congested city like Riyadh."**

**I take him to the very first building SABIC had—a three-story building, with the main entrance on an eight-meter-wide side street. He sees the laundry and air conditioning in the balconies, and I say, "You know SABIC? The company that has that huge building near the airport road that you see when coming to downtown Riyadh?" He says, "Yes." I say, "It started in this apartment building." What our company has now is ten times bigger than the one I am showing him. This way I try to give him the vision that he is part of something that is just developing and that he will have his fingerprints on it when it grows up into something big. It affects him. It's a real story.**

## Seeking Good Partners

A hallmark of Al-Zamil's recruitment effort was the enormous trust he and Al-Gosaibi placed in the capacity of young Saudis. Both Al-Gosaibi and Al-Zamil were only in their thirties, so why would they doubt the ability of men in their late twenties to tackle the job of negotiating with experienced counterparts from major international companies and wrangling the best joint-venture terms possible for SABIC? This confidence in the young men working for SABIC was tempered by the realization that SABIC's future hinged upon securing resources that Saudi Arabia lacked: namely, technological know-how, the capacity to train both blue-collar and white-collar personnel, and access to markets for industrial products. As Al-Zamil explains,

**We had the money, the raw materials, and the infrastructure. What we did not have was the technological know-how and the commercial experience in the markets of the world. We needed these to make quality products and sell them. To get these two assets, we had to draw from wells of knowledge outside the Kingdom.**

SABIC gained access to these "wells of knowledge" through 50/50 joint ventures with leading Western firms. Such partnerships were the essential ingredient in Saudi Arabia's early success creating an industrial sector. Yet, at the time, the joint-venture strategy was heavily criticized both by Saudis and by others in the Middle East. There were many who called for a go-it-alone strategy of national development. Such critics feared that SABIC would be taken advantage of by Western partners and that Saudi Arabia's emerging industrial sector would fall into the clutches of Western firms. There were even those in Saudi Arabia who doubted that their countrymen were capable of undertaking something as complicated and high-tech as a petrochemical enterprise. The naysayers were not small in number. History, however, would prove them wrong. Looking back, Al-Zamil points out,

**One of the first things we had to do in creating SABIC was to abandon all the flashy and glossy Arab nationalism slogans that had no actual value. We had to turn away from those that said, "Do not work with Westerners. Build your own industries and your own factories. Do not let them back in; they will take over again."**

**We were able to reject that way of thinking because we believed in ourselves and believed that we could deal with these companies on an equal basis, plus we needed them for our economic growth. They had the know-how. We had the resources. That's how we built very successful partnerships.**

The folly of trying to establish Saudi industrial enterprises without Western partners had already been demonstrated with the aforementioned fertilizer plant that Occidental Petroleum had developed and had turned over to Petromin in 1965 on a turnkey basis. It was the Kingdom's first petrochemical venture, run by Petromin without a Western partner. The resulting enterprise—the Saudi Arabian Fertilizer Company (SAFCO)—never worked to capacity or produced a profit until, in the 1980s, it was brought under the SABIC umbrella and restructured. SAFCO's failure convinced both Al-Zamil and Al-Gosaibi of the foolhardiness of going forward without good, reliable, experienced Western partners who had a financial stake in the success of each venture.

Securing such partners was not an easy task. In certain ways, Saudi Arabia had little to offer joint-venture partners. In 1976, it lacked the basic infrastructure for industrialization, such as highways, ports, and good telecommunications links. Moreover, in most cases, companies form partnerships when each has something to offer in the way of technology or access to difficult-to-penetrate markets. These, of course, were the very benefits that SABIC was seeking. What could Saudi Arabia offer to avoid the pitfalls that befell the SAFCO joint venture of 1965?

The answer was simple. Saudi Arabia could offer oil. The world in 1976 was completely different from the world in 1965. Back then, Western companies anticipated steady access to low-priced oil. The Arab oil embargo and the subsequent oil crisis of 1973 had destroyed that worldview. In 1976, Western companies, especially energy companies, were unsure of whether they would be able to secure oil at any price in the future. In this climate, “oil entitlements,” which had been the idea of Minister Yamani and Petromin's chief, Abdulhadi Taher, were sufficient enticement to attract Shell, Exxon, Mobil, Mitsubishi Corporation, and others to partner with SABIC in joint ventures. Leading Western companies willing to make equity investments in joint ventures with SABIC were guaranteed the right to buy Saudi oil, according to Al-Zamil:

**Our Western partners were guaranteed that they would be able to purchase crude oil in amounts proportional to their equity in a joint venture. For each \$1 million invested in a joint venture, they could purchase a thousand barrels a day of crude. The price would be the market price, but if there were two hundred companies lined up to buy, our joint-venture partners would jump to the head of the line. U.S. oil companies like Shell, Exxon, and Mobil were keen to jump the queue.**

Even with the lure of oil entitlements, it was not always easy to attract joint-venture partners. Al-Zamil and his team encountered indifference and even skepticism in their meetings with representatives of European chemical enterprises. Al-Zamil recalls, “When SABIC went to Europe in search of joint-venture partners, businessmen there smiled pleasantly, formed committees, and waved polite goodbyes. In private, they expressed doubts that Saudis could even understand the technology of petrochemicals, much less manufacture them.”

Soon, Al-Zamil realized that his approaches to chemical companies in Europe were falling on deaf ears:

**I went to the U.K. to see ICI. They gave us cups of tea, a few nice words, and promises of “we’ll investigate that”—but nothing came of it. They didn’t think SABIC could succeed, and even if it could, they didn’t want to encourage it. The same thing happened in Germany. When we called on German chemical companies and invited them to come and invest and take advantage of our access to feedstock at an attractive price, nobody showed up. None of the European chemical companies would pay attention to us. It seemed that the European chemical industry didn’t want oil, didn’t care about oil, and the availability of feedstock simply was not attractive.**

The attitude of the European chemical sector was not hard to understand. European petrochemical production was based on naphtha, which was at a cost disadvantage compared with production based on natural gas, which predominated in the United States and which would be the basis of petrochemical production in Saudi Arabia. European petrochemical producers feared that SABIC, given its enormous feedstock cost advantage, would flood

the world market with inexpensive petrochemicals, undercutting European producers.

The disinclination of Europeans to partner with SABIC was also manifested when Al-Zamil sought partners for SABIC's steel and aluminum plants. In 1962, Prince Faisal had insisted that a Saudi steel plant was necessary for the country's economic development. Petromin saw steel as a vehicle to industrialize the Eastern Province and in 1963 proposed a ten-million-ton mill at Al-Jubail, with three blast furnaces making plate steel for shipbuilding. A steel-rolling mill was built in Jeddah in 1965 and became part of the Saudi Iron and Steel Company, known as HADEED.

In 1976, Al-Zamil explored the development of the Kingdom's steel business, including enlarging the steel-rolling company in Jeddah. "The steel project had high priority," he recalls. "Steel prices were high then." Al-Zamil recruited Ahmed Al-Madany from the Industrial Studies and Development Centre and put him in charge of setting up a steel operation. Al-Madany saw Petromin's 1963 proposal as "much too ambitious." The project was scaled down to one manufacturing plant, making eight hundred kilotons a year. It took time to find a partner for this Saudi steel venture. Al-Zamil remembers, "Major steel producers weren't interested because they wanted to export steel products to Saudi Arabia, not help us make it in Saudi Arabia. In the end, a contract was signed with Willy Korf, a smaller producer in Germany."

## Joint Ventures

Eventually, willing partners for chemical joint ventures were found in the United States and Japan. The Kingdom's oil incentives proved an effective "carrot." Japanese companies were more open to SABIC (Mitsubishi was "always ready to discuss things"); and in the States, chemical firms connected with major energy companies—Shell Chemical, Mobil Chemical, and Exxon Chemical—had lined up to create chemical ventures in Saudi Arabia before SABIC was even formed. They were followed by Dow Chemical and Celanese.

With joint-venture partners, Al-Zamil and his team proceeded much as it had with Shell. In every case, the objective was an equitable 50/50 joint-venture agreement that included the construction of petrochemical facilities in Saudi Arabia (either in Al-Jubail or Yanbu), training for Saudi personnel, and provisions for marketing the products of the joint venture.

In the first phase of its development, SABIC negotiated with several U.S. companies—Shell USA, Mobil Chemical, Exxon Chemical, Texas Panhandle Eastern, Dow Chemical Company, and Celanese—and with two Japanese consortia (one headed by the Mitsubishi Gas Chemical Company and the other by the Mitsubishi Corporation) and with the Taiwan Fertilizer Company. A later Asian partner would turn out to be South Korea's Lucky Goldstar.

Negotiations with each company lasted several years. Al-Zamil remembers the early days of SABIC as consisting of a series of intensive discussions and negotiations:

**We negotiated with representatives of Shell Oil's chemical arm, with Exxon, with Mobil, and with consortia of Japanese companies, all at the same time. These companies came with very strong negotiating teams—legal advisers, economic advisers, and vice presidents—and of course they all pretended that they knew everything. This was not always the case, especially about what was happening here, but we had to face these teams, so we needed to hire some people of our own. We could have recruited legal people, but instead we made arrangements with consulting firms to build a team to negotiate.**

As joint-venture discussions got under way, Al-Zamil and Ibrahim Ibn Salamah negotiated on behalf of SABIC. Each of SABIC's three divisions had a project manager for each set of discussions, who would have the file on that project and would coordinate and liaise.

Al-Zamil included young members of SABIC in the negotiations. Mohamed Al-Mady recalls,

**Al-Zamil had young people who could not negotiate, and negotiating was a big piece of it. We were just enjoying the discussion and listening to the style of it. Abdulaziz listens more than he talks. He's a big listener. He's respected by the opposition because he does not**

demean people, put them down. We learned from his negotiation skills and from his very high level of integrity.

We tried to help technically, but our negotiating skills were not developed, at least not to a point at which we could make a difference. Did we know what we were doing? Not really. We were young. What you learn in school is how to make polyethylene. In the beginning, we were just engineers. We had no strategy except to harness the gas: just use the gas. We never talked about markets. We never talked about innovation. It was about project implementation. Fortunately, we had good leadership and good teachers.

Al-Zamil's later business associate Fahad Al-Rajhi, an industrial management graduate, says that Al-Zamil had exceptional skill in negotiating.

**Mixing talent with experience is a good combination: he has both, and he has a nice touch. He has confidence about himself; he knows what he is. He is a very casual man, very simple, down to earth, mature, and quiet.**

**He likes everyone to be frank; he's positive with everyone. He has the ability to simplify complicated things, to make them flexible and easy. He has the ability to make you smile. He persuades others, with a light attitude, to accept things in a very positive way. Sometimes we will be in a deep discussion, and he will lean away with a nice smile and then come back and persuade me. He's very flexible. I've been with him in many negotiations, and I've seen him reach his objectives in a very smooth way.**

The SABIC team was small in number and wet behind the ears: it was essential to learn quickly. Al-Zamil put his men in situations that stretched their abilities, but he always provided appropriate support. Idris Tairi, director-general of finance, recalls being asked by Al-Zamil to negotiate service agreements with a particular company.

**I said, "Me?" "Yes," he said, "you. Once you finish, come to me and I will solve any problems you run into." Later he sent me to negotiate with our Japanese partners. I spoke with the Japanese, and they appeared to agree to all our terms and conditions, and the numbers, too. As soon as I got back home, they would come back**

**to us with counterproposals. So we had to start all over again. But with Al-Zamil leading the way, we reached agreements.**

Al-Zamil usually chaired meetings, but as time went on, he became sufficiently confident in his teams to let them negotiate alone. “Usually I would leave the details of the negotiation to others. I would have a strategy meeting on what was the minimum we could accept, and then ask how we could try to get the best possible results.” With Shell, it became his habit to join the negotiations on the fifth and final day, to smooth out any problems. Al-Zamil recalls,

**We had a very basic principle from the beginning: we were coming into this partnership by choice. We were convinced that the partnership was a path to developing a successful petrochemical industry in Saudi Arabia. We had to make sure that either we could accept what was being negotiated or could explain why we could not accept it.**

With each company, SABIC would negotiate a joint-venture agreement that included technologies. Some prospective partners did not own certain needed technologies. Consequently, Al-Zamil notes, “We would go to others to license technology and negotiate a technical service agreement, terms and conditions that meant a partner would appoint some of his people to come and work on the project.” He adds,

**When we reached initial agreements, we started to go to what we called the interim agreement, which required more expenditure; then we had to spend money on engineering. Our partners knew that negotiation was only one part of it. We had to be convinced that the project was viable.**

**We had to carry out a feasibility study, which required both of us to engage engineering companies. We hired marketing companies and financial analysts (we had to go to the financial institutions to get funding for these projects). The departments of the joint-venture companies had to cooperate in project implementation. For important meetings, there would be at least eight people from our side and probably twenty from their side.**

Negotiations took place mainly in Riyadh but also in Houston, New York, and locations in Europe and Japan. As had been the case with Shell, any time there was a deadlock, Al-Zamil would personally intervene. He recalls, “I organized quite a few meetings to set certain objectives and negotiation milestones. I would admonish my people, ‘Let’s not drag things out too much.’”

By the end of the 1970s, SABIC was pursuing a dozen potential joint ventures simultaneously. Al-Zamil recalls that pressures came “from the internal demands of complicated logistics. Once a project starts rolling, parts have to be ready at the right time to avoid delay. Let one piece of it be out of line, then all of it stops.” Managing the work flow—with discussions all at differing stages—was a challenge, but SABIC’s method had its advantages. Al-Mady recalls,

**We were clever in using negotiation to develop our skills. We also took advantage of agreements reached with one partner to help in negotiations with another. We would take “good paragraphs” from one agreement and make them a model for a different joint-venture agreement. That expedited the negotiating. We had different teams, pushing different projects, all negotiating at the same time.**

Al-Zamil was honing his tactical skills, tempering decisive action with patience. While it was crucial to reach final agreements and move toward production as soon as possible, it was also necessary at times to employ a “softly, softly” approach. Wooing multinational companies was a delicate process.

**If a certain company was not coming through, we would put that negotiation on hold and go with another company, saying perhaps we can reach a more reasonable arrangement with them.**

**Then we’d come back, and perhaps the first company would be encouraged once it saw that others had agreed to something. This helped a lot. I would visit with people to ensure that CEOs really had their hearts in the projects and desired them. We didn’t want to waste our time.**

The thread that ran through all SABIC’s discussions was one of integrity in intent and conduct—fairness for all concerned. Contracts were to be similar; if terms were agreed to with a certain company, these had to apply to all companies. No one would be given a more favorable deal.

By the close of 1979, interim agreements had been signed on six projects; some final agreements were imminent. SABIC's confidence in its clear competitive advantage in petrochemicals had grown; it had received offers of partnership from international companies with keen interest in manufacturing products, including artificial rubber. SABIC was also screening secondary industries to process primary products into finished goods and was planning a second phase of its development.

One of the earliest joint ventures, the previously mentioned project with Korf Stahl, created a steel complex at Al-Jubail. This integrated operation used gas as fuel to process iron ore into rebar and steel wire coils for the construction industry. A second similar joint venture, the Jeddah Steel Rolling Mill (SULB), would follow.

SABIC also reached joint-venture agreements with Asian partners. In 1979, the Japanese consortium led by Mitsubishi Gas Chemical formed a joint venture with SABIC, the Saudi Methanol Company (also known as AR-RAZI) in Al-Jubail, to process natural gas into methanol, a basic chemical with many applications. AR-RAZI would be the Kingdom's first world-scale petrochemical plant, looking to export most of its output. Meanwhile, negotiations with the Taiwan Fertilizer Company led to the formation in 1979 of the Al-Jubail Fertilizer Company (SAMAD) to manufacture ammonia and urea from methane. In 1983, both AR-RAZI and SAMAD would begin operating at full capacity.

More complicated were negotiations with a second Japanese consortium—led by the Mitsubishi Corporation—that involved sixty-five firms. Al-Zamil recalls that it was “extremely difficult to reach a satisfactory agreement with such a large number of companies.” However, documents were signed in 1981 to create a 50/50 joint venture—the Eastern Petrochemical Company (SHARQ)—to produce ethylene glycol and linear low-density polyethylene from ethylene feedstock supplied by other SABIC companies. SHARQ would come fully on stream in 1985.

SABIC eventually reached joint-venture agreements with several U.S. companies. With Exxon Chemical Company, it formed the Al-Jubail Petrochemical Company (KEMYA) to produce polyethylene and ethylene; with Mobil Chemical, it formed the Saudi Yanbu Petrochemical Company (YANPET) to produce ethylene, polyethylene, ethylene glycol, polypropylene,

and propylene; with Celanese and Texas Panhandle Eastern (later part of Duke Energy Corporation), it formed another methanol operation—the National Methanol Company, or IBN SINA—in which SABIC had a 50 percent interest and each of its partners had 25 percent. All of these joint ventures came fully on stream in 1985.

## Manpower Development

As the vice chairman and CEO of SABIC, Abdulaziz Al-Zamil saw successful development in terms of human resources, as well as in infrastructure, productive output, and return on investment. These latter metrics were important, but he was deeply and enduringly committed to developing a workforce of Saudis who could run their own world-class enterprises within the Kingdom in a sophisticated and strategic manner. He was clear in communicating this vision. “The development of human resources is as important as the formation of physical capital,” he wrote in SABIC’s 1979 annual report.

Other strategies might evolve along the way, but SABIC’s long-term objective was to be governed and run by Saudis alone. Abdulrahman Al-Zamil observes,

**The government built a model based on recruiting the elite of young Saudis who had finished school in the U.S. and giving them the responsibility for such huge enterprises as SABIC. Abdulaziz continued this policy by recruiting young people, many of whom went on to take leadership positions within SABIC and Saudi industry. He understood that our future depended on young brains. The main reason for our future success would be our young, dedicated people.**

To create a highly trained, competent workforce, Al-Zamil knew that he needed to build confidence: within his own country, at all levels, and in the minds of outsiders. He had to convince people that Saudis could operate at the highest levels: to achieve this goal was essential for the future of the

country. In Al-Zamil's view, good financial returns were not the only measure of success:

**Human resource development to me is very important. In fact, it is the main objective of this whole exercise. It's very important that you make sure you have profitable ventures; otherwise you cannot sustain development, but the purpose is not only to make money but to build human resources.**

Potential joint-venture partners needed to be convinced about the value of training Saudis. "When we started," recalls Al-Zamil, "the joint-venture partners did not take manpower training seriously because they wanted to get the project up and running. When we told them that we needed to employ Saudis, they said, 'That's difficult. All we can find are expatriates. Where are the Saudis?'"

To answer that question, SABIC mounted a major recruitment campaign, led by Abdulmohsen Al-Asiry, SABIC's thirteenth recruit. He soon developed a mobile exhibit and took it through the countryside in order to reach as many potential recruits—even in remote villages—as possible. SABIC recruiters showed films and handed out brochures and application forms. In the very first year, only fifteen men were hired this way, but the campaign grew and eventually brought in six hundred new employees, most aged under twenty, ready to be trained and sent to work.

SABIC's Moayyed Al-Qurtas remembers the "considerable challenge" in recruiting and training plant operators and technicians in SABIC's early years. Up to then, the only modern industrial enterprise in all of Saudi Arabia was Aramco. Most Saudis had no idea of what industrial employment was all about. They lacked role models. It was sometimes a challenge to convince young men to take their industrial jobs seriously. "The engineer in charge of training would tell me, 'Today we have ten trainees.' And a few days later, he would say, 'Today we have twelve trainees because we hired four and two left.'"

Rod Grandy, an Exxon senior executive, asked SABIC board director Faisal Basheer what was stopping SABIC from relying on foreign workers instead of training Saudis. In reply, Basheer pointed out that each foreign worker cost SR 1 million (\$267,000), and added, "When I replace him with a Saudi, we not only save that one million, but we spread his earnings out

among his entire family.” Grandy calculated the costs of an expatriate and a Saudi employee and realized that the employment of Saudis by Exxon’s joint venture would reduce the payroll by SR 112 million (\$30 million). Once SABIC’s partners realized that it was possible to reduce costs by relying on Saudi manpower, their attitude toward training Saudis became more positive.

Al-Zamil had devised an ambitious program of manpower development, but a realistic one. SABIC would initially target 3,400 men, the majority—2,900—being high school graduates, the rest being qualified engineers. Everyone would be given a year’s English-language training. The high school graduates would also get training in science and technical skills. Each SABIC employee would then be sent on a three-year program of training that included a period of hands-on experience in a plant owned by the joint-venture partner, either in the United States, Japan, or Taiwan. “High school graduates would go there to be trained on how to be industrial workers. When they finished, they would come back to be operators for SABIC.” Al-Zamil adds, “It was a very challenging program, but most of the trainees were really enthusiastic because they knew that they’d be going abroad. It was an incentive to see a different world and to advance their careers.”

In the late 1970s, even before final agreements on joint ventures were signed, Saudis were receiving substantial levels of superior training abroad. “At that time, there was no training facility at Al-Jubail nor operating plants for people to practice in,” says one contractor who helped design training courses for SABIC. “Our conclusion was that SABIC trainees had to have experience in a real petrochemical plant. They had to learn on the job in petrochemical plants in Texas or Louisiana or wherever.” In 1978, fourteen SABIC employees were sent to Shell’s U.S. plants for training, and a further fifteen to Mobil, nine to Exxon, and seven to Celanese–Texas Eastern. Eight SABIC men went to Japan to Mitsubishi plants, and three were sent to Holland as part of the Dow project.

Al-Zamil was concerned when stories came back that hands-on training was not being provided to SABIC employees slated to work in the manufacturing process. Foreign partners were responsible for the safety of the inexperienced Saudi youths whom SABIC had sent. Companies such as Shell were reluctant to put these young men on the firing line, concerned that accidents might happen. Instead, they put them into classrooms with training materials and diagrams. Abdulaziz and his team feared that by using this approach, it would

be many years before Saudis could play an important role in manning the numerous joint ventures already on the drawing board. Hands-on training was critical to prepare for takeover of the joint ventures.

With Ibrahim Ibn Salamah and Abdulaziz Al-Jarbou, Al-Zamil flew to Houston in 1978 to tell Shell negotiators they would accept “nothing less than the training procedures” called for in the original proposals. Shell gave way. “After that, our young Saudis had real training, doing real work. Shell came through for us, and so did Exxon and Mobil. They performed a great service for the Kingdom in teaching Saudi men the skills and self-discipline they would need to be as good as the best in the field of petrochemical technology.”

Not only plant operators were being trained overseas. The future leadership of the company also spent time working with joint-venture partners, learning the intricacies of running petrochemical companies. In 1978, Mohamed Al-Mady went to Shell in Houston and stayed there for two years, building his understanding of how a petrochemical enterprise operates.

**I said, “I want to learn new things. I want to learn everything I can about how a petrochemical enterprise is run, not just about the manufacturing process.” Only by knowing all the ins and outs can you make a major contribution. I was just an engineer when I came to Shell, but I left ready to help lead a petrochemical operation at SABIC.**

The initial returnees (some 80 percent completed the training program) formed the nucleus of SABIC’s manpower going forward. SABIC’s success in developing a trained workforce had a positive impact on how the organization was perceived by its peers, says Al-Zamil.

**When these international companies saw we had trained 3,500 people abroad and brought them back to run industries, they developed respect for us. We had proven that we are a producing nation, not just leeches.**

**How did we turn the tables? Training and experience! Nothing happens for free, and nothing happens overnight, especially in terms of gaining experience. We invested in our youth, opened offices in twenty countries, and sent them to study abroad.**

**During a four-year period, we needed to train four thousand young men in order to start production. Did the Americans know we were planning to take control? Yes, they did. The Americans and the Japanese played a positive role in this turnover. They agreed to train our people in their factories; they agreed to pay half the costs. One factory in Texas even rented a small school to teach three hundred of our engineers the English language before they could start industrial training. Now we have the internal capacity to train new employees. We don't have to send these young men abroad.**

In his years as SABIC's leader, Al-Zamil was shrewd in hiring and training able, astute young men and in identifying dynamic leaders to bring SABIC's joint ventures to fruition.

**Choosing people to take charge is very important. Picking people is very important. It is also important to trust in their integrity, honesty, and dedication. I've found out that in every organization there has to be a key man who moves things; you have to try to make sure you select the best man. Once you select him, he can help identify others for important positions.**

For Al-Zamil, development of human resources was the most important achievement of SABIC.

**SABIC's contribution was not just to build and operate manufacturing facilities but also to build human resources for the entire country. When you get young engineers and give them the right environment and training, they become a national asset. They can move anywhere and add value to whatever they do.**

**It is true that we found a way to utilize wasted resources—I'm talking about the gas that Saudi Arabia had been flaring—but I consider that to be an instrument in achieving the real objective, which was to develop a more important resource, i.e., the potential of Saudis. By providing them with training, employment, and the opportunity to develop, we added value to the economy in a much more significant way. When I see that SABIC today has more than an 80 percent Saudi workforce, it gives me a sense of satisfaction. I feel I have really achieved something.**

By the early 1990s, more than 15,000 Saudis had been trained to take up jobs in industry. SABIC had built the largest industrial training program ever undertaken in a developing country, and arguably the most successful. In an interview, Al-Zamil reflected,

**Today we have over 47,000 qualified, well-trained nationals in SABIC and other industries with leadership positions that stemmed from this policy. Training became the core of the Saudi development program, which has seen the Kingdom enter into sophisticated industrial sectors through joint-venture initiatives. We have seen improvements in standards of living through the provision of decent jobs that have resulted from our policies.**

SABIC's insistence that joint-venture initiatives include an obligation to train young Saudis has helped ensure that today any international company wishing to do business in the Kingdom will deal directly with Saudi nationals. Al-Zamil is modest about the leading role he played, yet SABIC's human-resources track record is testament to his enduring and unrelenting focus on training Saudis for industrial jobs.

## An Unexpected Opportunity

SABIC's joint venture with the Dow Chemical Company, which had started out well, was one venture that went sour. Though most chemical companies not connected with a major energy firm had shown little interest in joint ventures with SABIC, there were exceptions. Celanese was one, and so was the Dow Chemical Company, a major manufacturer of commodity chemicals. Dow was enticed by the prospect of receiving secure low-cost feedstock for an oil-based petrochemical operation (a petrochemical refinery) it was planning at its Freeport, Texas complex.

Discussions with Dow about a joint venture started in 1976, leading to the formation of the Arabian Petrochemical Company, better known as PETROKEMYA, in 1981. The product slate included ethylene, polystyrene, butene-1, propylene, polyethylene, and benzene. Nine Saudis traveled to Midland, Michigan, to train at Dow's headquarters. This number was

eventually to increase to over a hundred. Then, just a year after the joint-venture agreement had been signed, Dow abruptly withdrew. Frank Popoff, president of Dow Europe, traveled to Riyadh to give Al-Zamil the bad news.

Dow's decision to withdraw was not due to dissatisfaction with how the joint venture with SABIC was progressing. For the most part, it was a strictly financial decision precipitated by a severe economic recession in the United States. Dow was heavily leveraged and having great difficulty meeting its debt obligations. Dow CEO Paul Orefice and Dow chairman Bob Lundeen decided that the company had to sell off assets and withdraw from projects that required major additional financial commitments. Accordingly, Dow withdrew from joint ventures getting under way in South Korea and Yugoslavia, and also from PETROKEMYA, which would have entailed a massive \$1.5 billion investment. Al-Zamil recounts,

**Dow told us they were pulling out because they needed liquidity and therefore were recalling projects in Korea and elsewhere. They were not capable of injecting the money required. We were very keen on Dow, but they were not keen on the project.**

Dow's withdrawal was a disappointment to Al-Zamil and his team but not a surprise. Word of Dow's financial challenges had already reached Riyadh, and steps had been taken in anticipation of Dow abandoning the joint venture. For example, SABIC had started shopping around for a second contractor for the construction of the PETROKEMYA complex, and it had even taken steps to organize alternative training for the Saudis who were being trained at Dow facilities in the United States. Abdulaziz Al-Jarbou remembers the dilemma SABIC faced:

**We thought if we don't continue and we have fourteen successful projects with other partners, people will say, "The Saudis saw they could not do the project alone, so they abandoned it." However, if we continue and we fail, then people will say, "See, all the projects they do succeed at except the one they try to do alone." But if we proceed with the project and we succeed, then that's a turning point in the history of SABIC. For the first time, SABIC does a project by itself and succeeds.**

Dow's exit offered an opportunity to show what SABIC could do. By going forward alone and succeeding, SABIC would demonstrate its capabilities to

the world. Moreover, Dow had already invested in the project, and SABIC was now in sole possession of PETROKEMYA's technologies, engineering, and plans. Al-Zamil and his team chose to push forward with the project.

SABIC's decision to proceed was a surprise to Dow and to quite a few observers of the chemical industry. At the same time, some at Dow doubted the wisdom of withdrawing from the project, and many more have come to lament the decision. Al-Zamil reflects,

**I have met many Dow executives who say that they have never regretted a decision as much as the decision to abandon the PETROKEMYA project. They lost a big opportunity. For us it turned out to be a lucky break. We proved we could succeed on our own, and it gave us a lot of confidence. Our people from top to bottom felt validated in their achievement. There was talk of doing more projects alone, but I discouraged that idea. I said, "This is a risky international business. It's better to stick to the strategy of working through joint ventures, at least at this stage, because you can do more of them, and that spreads your risk and protects you against unforeseeable losses."**

It was a big risk to continue on with PETROKEMYA without a Western partner. More than prestige was on the line, as Al-Jarbou notes:

**Going forward with PETROKEMYA involved opportunities, but also it was a challenge. We had to have the guts to do it. Remember, SABIC at that time was 100 percent state owned, and there are very big risks, whether for Dr. Al-Gosaibi, the chairman, or for Mr. Al-Zamil, the managing director, and for us, the subordinates. It was a big risk for all of us because if we failed, there were financial consequences for the company, and people would question our competence and the ability of Saudi Arabia to pursue high-tech enterprises. Everyone's career was on the line.**

In this case and throughout, Al-Zamil credits King Khalid, Crown Prince Fahd, and Al-Gosaibi for giving him and his team staunch support and encouragement. "They set out the objectives for SABIC. At the same time, they did not interfere. The king said, 'Get me the results.'"

## Success in Marketing

Joint-venture agreements included provisions for marketing. In every case, SABIC's partner was obligated to take and market the entire production of a given joint venture, but SABIC had the option to market 50 percent of production should it so choose. Nevertheless, it was widely assumed that joint-venture partners would handle all the marketing since SABIC lacked experience in this area.

SABIC's marketing group had no illusions about its own know-how, but its members were eager to learn. In 1981, Al-Zamil had selected Abdullah Nojaidi to organize and head SABIC's marketing arm. This decision proved to be a good one, as Nojaidi turned out to be creative and entrepreneurial—just what a start-up operation needed.

Since SABIC's manufacturing facilities were still being built, Nojaidi decided to sharpen the skills of his staff by buying petrochemical products from other companies and reselling them. This tactic was first carried out in the domestic market and eventually extended overseas. The experience gained this way readied SABIC for the day when it would market its own production.

Al-Zamil had decided that SABIC would sell its products directly to end users. As he notes, "We made it a point that no one would represent SABIC in marketing except SABIC." Many were skeptical of this approach since it required a more detailed understanding of the marketplace. Consultants hired by SABIC advised against it, suggesting that SABIC work through distributors. Al-Zamil, however, was persistent. He believed that relying on its joint-venture partners or on distributors would hinder the development of SABIC's marketing capability—understanding the ins and outs of marketing and the needs of customers. Nojaidi and his team eagerly and doggedly pursued the approach of selling directly to end users, which was not without its adventures, as Nojaidi relates:

**I recall a very vivid incident. I went to Germany to sell methanol, anticipating our first methanol plant, AR-RAZI. I visited the senior vice president of purchasing of a German company. He was a very big German. I sat about two hours outside his office, waiting patiently. Then his secretary said, "Okay, you can see him now."**

I went in, and he looked at me and asked, “What do you want?” I said, “I’m selling methanol.” “Where are you from?” “I am from Saudi Arabia, and we have methanol that will be coming from our plant.” “What is your discount?” I told him, “We have no discount.” He said, “You see that exit door?” “Yes, sir. I see it.” “Go through it. Goodbye.” Three years later in Riyadh, I heard a knock on my door. I opened it. It was the same man. He said, “I want to buy methanol.”

When production started at SABIC plants, Nojaidi and his team were battle-tested and ready to handle marketing. Soon, they were even selling the majority of the production of some joint ventures, a further manifestation of how SABIC had developed its marketing savvy. This expertise surprised SABIC’s joint-venture partners, as Shell’s Larry Wheeler remembers:

**It astonished us how quickly SABIC’s people became involved in marketing and how good a job they did, even though they had virtually no experience. They were fast learners and benefited from the perception that Saudi Arabia was a low-cost producer of everything. Therefore, there was a great interest in buying some products from Saudi Arabia.**

In 1983, Al-Zamil and the leadership of the company moved out of the humble building that was SABIC’s first home into brand-new quarters with a four-story annex devoted to two SABIC marketing companies: SABIC Marketing, Ltd., which handled domestic and overseas marketing and sales, and SABIC Marketing Services, Ltd., which helped customers with technical issues and handled such activities as shipping, logistics, and insurance. In just three years, SABIC’s humble department of marketing had been transformed into two large operations, with storage facilities in Rotterdam and Singapore and plans for offices in London and Hong Kong.

## A Business Established

The joint-venture agreements that Al-Zamil and his team had negotiated laid out the path forward for those ventures in the first years of their

operation. Executive leadership of each was entrusted to a president from the Western partner. Each president's second-in-command, however, was a Saudi, who would eventually take over as president; and the executive team as a whole consisted of half Westerners and half Saudis. Ultimate oversight of each joint venture was in the hands of a nine-member board of directors that included four directors from SABIC, four from the joint-venture partner, and a chairman—most often Al-Zamil but occasionally someone he had appointed.

The responsibilities of a joint-venture executive team entailed much more than operating and maintaining a plant. First was the massive task of overseeing the construction of manufacturing facilities. Oversight had to be coordinated with the Royal Commission, which was developing the infrastructure to support each manufacturing facility: roads, ports, canals for cooling systems, telecommunications. The Royal Commission also provided housing for SABIC workers. These were enormous undertakings.

Manpower was another challenge. SABIC's Saudi recruits returning from overseas training took jobs at the joint ventures. They worked side by side with expatriate employees the Western partner had recruited. The job of the expats was not simply to help run the plant but also to reinforce the training and the industrial work habits their Saudi colleagues had acquired either abroad or in-country. The expats had to help put in place the systems, policies, procedures, and standards that were the basis for a joint venture to operate safely and efficiently. Bill Carpenter of Shell recalls explaining these duties to his American and British employees:

**Their job was not only to provide experience in the operational and technical aspects of the job but to set an example about how to run a safe and productive plant. It took a while for some of the expats to get that message, but eventually all of them came to understand what we were trying to do.**

By the end of 1983, production had started at some of the petrochemical joint ventures. SABIC was clearly at a takeoff moment in its development. All of this formed the context in which a new chapter would begin in the life of Al-Zamil. As 1983 came to a close, he anticipated serving as CEO of SABIC for many years to come. He had much to look forward to. Seven years of hard

work had laid the foundation upon which a great company could be built, and Al-Zamil expected to lead the process forward.

**Everything was coming together. The essentials were in place. In April, we had sent our first shipment of methanol from AR-RAZI to Japan. PETROKEMYA was taking shape despite Dow's withdrawal. We had moved to new headquarters. We had nearly six thousand people working for SABIC, and half were Saudis. There was excitement in the air.**

SABIC's prospects were bright amid growing confidence that the organization would be the engine for Saudi Arabia's industrial development and modernization. The young band of Saudi technocrats whom Al-Zamil had directly recruited was inspired by the vision for the future of the company, as was Abdulaziz himself. Who in his place would not want to go forward leading this dynamic company? Instead, a still bigger challenge and a greater role in service to his country awaited Al-Zamil.

\* \* \*



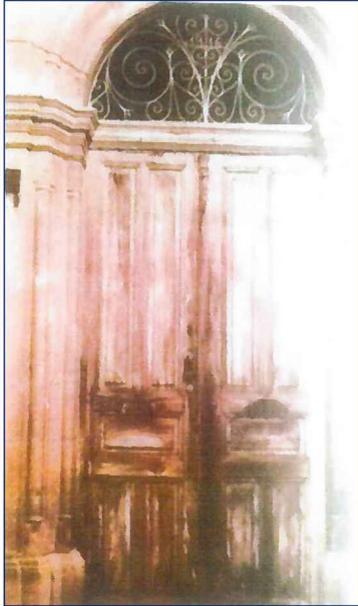
*Mohammed Abdullah Al-Zamil - Brother of Abdulaziz, behind him picture of his father: Abdullah Hamad Al-Zamil Founder of Zamil Group*



*Abdullah Hamad Al-Zamil, Founder of Zamil Group – Father of Abdulaziz*



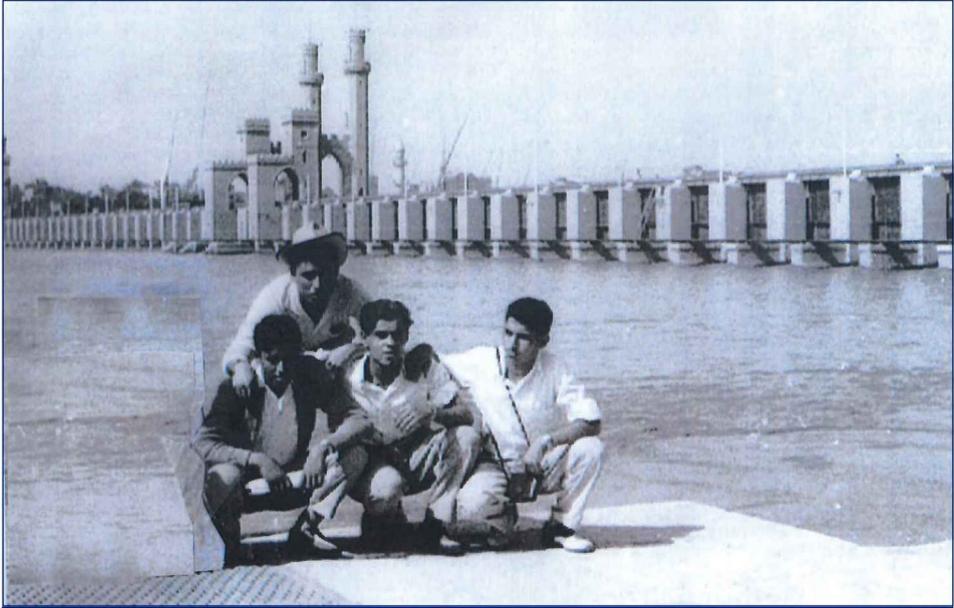
*Hamad Abdullah Al-Zamil*



*Zamil House in Oniza*



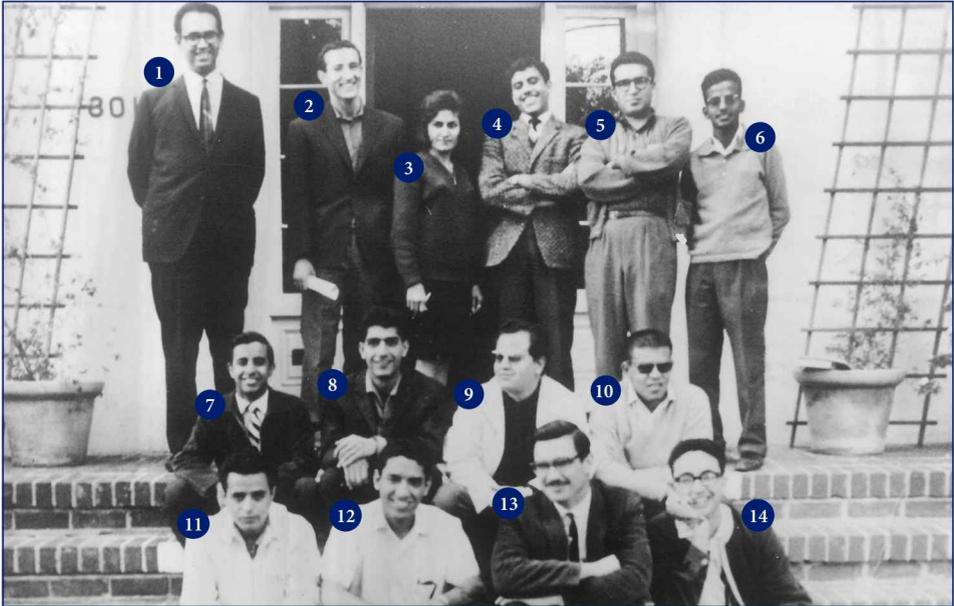
*AlZamil's House in Bahrain*



*Vacationing with his brothers in Egypt in late 50's*



*With his brothers: Abdulrahman, Hamad, Zamil, Ahmed, Khaled at the University of Southern California (USC)*

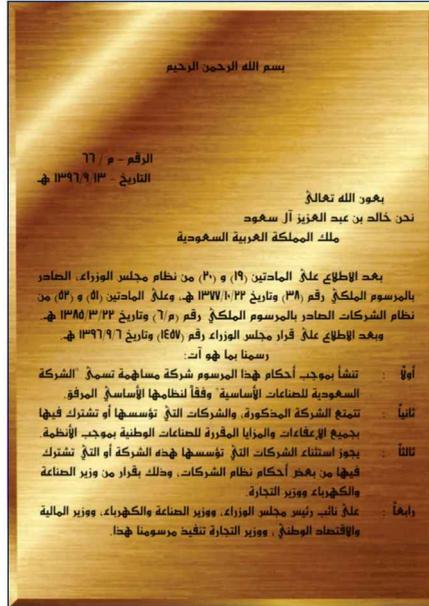


A rare photo showing a number of Saudi and Arab students in front of the International Students House at the University of Southern California. From left (1) Ghazi Al-Gosaibi, (2) Moustapha Hajawi (Moroco), (3) Victoria Zado (Iraqi), (4) Abdulaziz Al-Zamil, (5) Khaled Al-Gosaibi, (6) Abdullah Al-Nafea, (7) Abdulrahman Al-Sadhan, (8) Bader AlGosaibi, (9) Morocean Student (10) Hamed Al-Zamil, (11) Sulaiman Al-Saulaim, (12) Hassan Yamani, (13) Terry Webb (International Students Advisor), (14) Sarni Samkari

*AlZamil with Dr. Ghosaibi and other Saudi students at USC*



*Flared gas in Saudi Arabia*



*Royal Decree establishing SABIC*



*First rented Head Quarter of SABIC*



*First - Thirty (30) employees of SABIC*



*Dr. Al-Gosaibi and Mr. Al-Zamil honouring SABIC Employees*



*Some members of the Board of SABIC*



*Signing the initial Agreements with Shell Chemicals*



*Al-Zamil visiting SABIC construction site*



*SABIC Petrochemical Plant*



*The founding CEO of SABIC with the First Production of Polymer in Saudi Arabia*



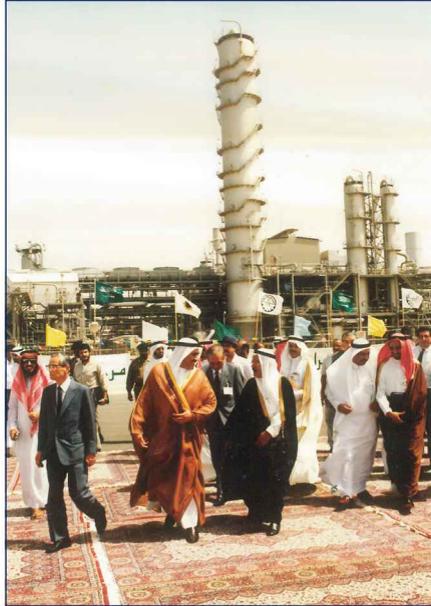
*King Fahad inaugurating the first petrochemical plant in Saudi Arabia*



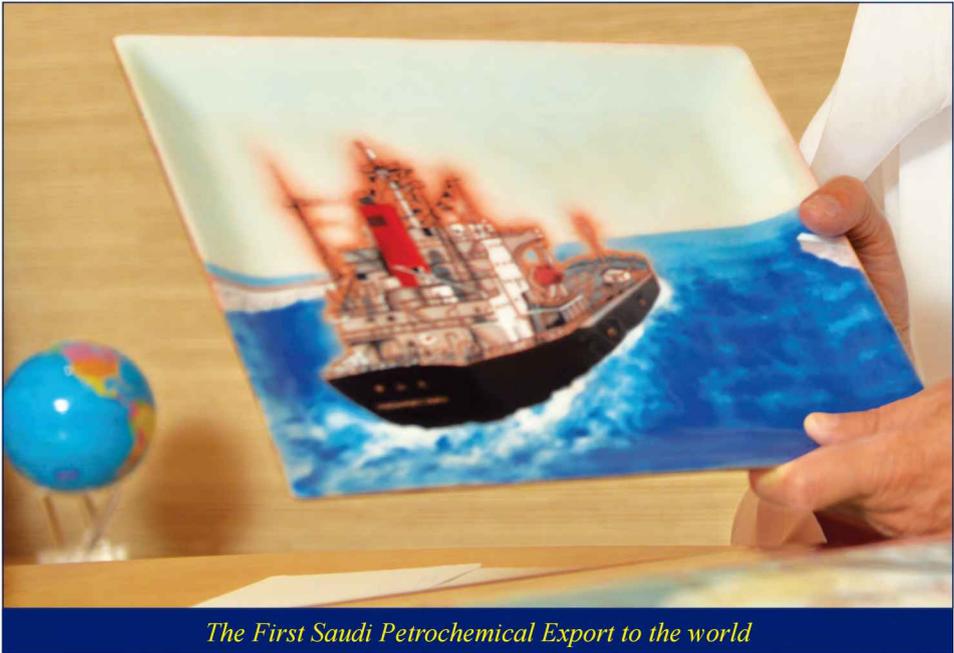
*King Fahad inaugurating the first iron steel plant in the Kingdom*



*King Fahad inaugurating SABIC fertilizer plant in Kingdom*



*AlZamil inaugurating the expansion of the First Petrochemical Plant in Saudi Arabia*



*The First Saudi Petrochemical Export to the world*



*SABIC First owned Head Quarter in Riyadh*



*Prince Salman, Governor of Riyadh inaugurating the First Owned SABIC H.Q.*



*AlZamil and AlGusaibi in their first week, in the Ministry of Industry and Ministry of Health.*



*AlZamil with Minister of Finance and Minister of Labour*



*Inspecting & Inaugurating new factories in Saudi Arabia*



*Inspecting & Inaugurating new factories in Saudi Arabia*



*Prince Salman and other GCC ministers inaugurating new factories in Riyadh*



*Prince Salman, Governor of Riyadh inaugurating the First SABIC Research & Development Center.*



*AlZamil with Dr. AlGosaibi and Mr. Sherawi, Ministry of Industry in Bahrain.*



*AlZamil with Sheikh Eisa, Amir of Bahrain*



*AlZamil with Crown Prince (present King) of Bahrain*



*AlZamil with the Prime Minister of Bahrain*