

Geopolitical Risks in the Middle East

Wednesday 16 May 2018, London

Access for Women in Energy (AccessWIE) organised a roundtable dinner discussion on the geopolitical risks in the Middle East on 16 May 2018. The dinner was hosted by Fieldfisher, a leading European Law firm, at their offices in London.

Participants came from different organisations with interest in the Middle East, including: embassies (Japan, Kuwait and Lebanon in London), UK Parliament, with Lord David Howell, Chairman of the House of Lords International Relations Committee and Co-Chairman of AccessWIE, academia (London School of Economics and City University), international oil and gas companies (BP, Total, Tellurian Inc.), financial institutions (Standard Chartered and the European Bank for Reconstruction and Development (EBRD)), the International Energy Agency (IEA), International Institute for Strategic Studies (IISS), and consultancy firms including Crystol Energy, Ernst & Young, IHS Markit and S&P Global Platts.

Dr Carole Nakhle, CEO of Crystol Energy and Director of AccessWIE, chaired the discussion, which focused on the ongoing war in Syria, US withdrawal from Iran nuclear deal, Lebanon's recent elections, the region's economic challenges and oil price, among others. The discussion was held under Chatham House rule.

Overall, the view was pessimistic: participants believe that the Middle East is experiencing a breakdown of the existing order and a new order is emerging – one which is likely to look more chaotic.

Below is a summary of the main points raised.

A Complex Jigsaw

- There is no shortage of topics when it comes to analysing the geopolitical risks in the Middle East. The widespread instability in the region is notable. What we currently have is a complex scenario where alignment is shifting, allies are attacking friends and international players collaborating with regional and local players.
- Iran is embedding itself in Syria and the Turks are supposed to be against Assad. The British support the Syrian free army which is split into at least three factions, some may be connected to the jihadists who are killing people in London. The Houtis firing missiles into Saudi Arabia and Israel's counter-attacks in Syria have further complicated the situation.
- The US decision to move their embassy to Jerusalem was provocative though not a big deal for Saudi Arabia, at least not publicly. ISIS has been the second most important terrorist group for each country in the region; the number one varies from one country to another. For Turkey, for instance, it has been the PKK. Russia wants to be the default negotiator in the Middle East, hoping to replace the US; the Russians are not unbiased but know how to position themselves.
- The Arab Street hasn't changed especially with respect to the Palestinian-Israeli conflict although it appears more tamed. The situation in Gaza, which is entering a third intifada, is worse than in Syria but it will not change the region's dynamics. The current Palestine leadership needs to realise that this is the last chance to strike a deal for a better future.
- Today the Middle East is very different today than what it was only a few years ago, with multi-year changes happening continuously. The situation remains fluid.
- The structural necessity to build a solid base for stability has not been addressed in the modern history of the region while regional rivalries are simply counter-productive.

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Syria: Heightened Pessimism

- Syria was once the model of tolerance in the Middle East. To understand what is going on there today, one domestic issue; it has been hijacked by regional and international crises.
- Local players lost ground when they lost the ability to decide the fate of the country. There is no single zone of influence in addition to friction on the borders.
- Internationally, the old line was ‘Assad must go’. But it didn’t take long for the international community to realise that ‘Assad is rather here to stay’.
- Bloodshed continues to be a part of everyday life and the future of the country does not promise well. There might be a seize-fire every now and then, but people move on from such events.
- At this point, it would be naïve to see an end to the civil war. Success is not in reach if the international dimension and regional context are not tackled.

Lebanon: Ray of Hope?

- Lebanon has been a relative success story. Despite the 1.5 million refugees and the fragmented sectarian make up, the country has managed to hold together because of the responsible behaviour from all stakeholders since everybody has much to lose from any military confrontation.
- In the recent (April/May 2018) parliamentary elections which have been internationally recognised as free, no sweeping victory for a single party is recorded.
- Lebanon is built on checks and balances; whoever wins the elections will always be subjected to these checks and balances. Representation is proportional.
- The propagation of tension is natural, but Lebanon hopes for a better collaboration from all parties, though some questioned whether the country will be able to distance itself from Hezbollah.
- The Lebanese army is at the borders and on standby. Security threats remain especially on the borders with Syria (ISIS).

Iran Nuclear Deal

- The Clinton administration once described Iran as the most dangerous player in the region, leading to sanctions and the bullying of Europe to follow suit.
- It is frightening to see the White House’s agenda on Iran’s JCPOA happening. President Trump has warned Iran of ‘consequences’ if they re-start Uranium enrichment. John Bolton and Benjamin Netanyahu are thrilled with the current developments.
- Some believe that Trump is simply following Obama’s legacy of disengaging from the Middle East by withdrawing from the JCPOA. Others, however, dispute that notion because Obama did not intend to ‘withdraw’; he had a different role for the US in the Middle East, a role which does not involve having troops on the ground. Besides, Trump’s new allies are very different from those of previous administrations.
- Technically, the US withdrawal from the deal can be seen as a violation of the agreement.
- The current situation with Iran has divided the international community. Despite the growing gulf between the US and Europe, it is difficult to see Europe disengaging from the US on Iran. European companies are saying the opposite to their governments; they will have to comply because their banks and insurance companies are asking them to do so. The Asian companies, however, are unlikely to comply; the Chinese already said that they would take over Total’s project if the French giant withdraws.

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Economic Challenge

- First the green shoots. There has been some improvement in terms of youth job creation in some Middle Eastern countries. The recent Saudi-British technology forum saw a 40 percent increase in start-up companies largely led by women. Technology transfer in Saudi Arabia has made a difference for youth employment. Patent applications, largely driven by Saudi Aramco, have increased significantly. Also, in Saudi Arabia the changes in the core ministries are encouraging as they are driven by reform minded leaders.
- However, many constraints remain because of the lack of privatisation and of capital markets which have led to lazy banking. The development of SMEs requires access to finance. Meanwhile, state owned enterprises continue to dominate the economy. Productivity growth is also needed.
- Companies and foreign investors are in a wait and see mode. Some reforms have already been suspended or delayed: Kuwait and Oman announced they would postpone the introduction of VAT. Saudi Arabia's crown prince is reinstating benefits of salaries. In this respect, the growth potential is rather negative.

Saudi Arabia

- The business elites (particularly family business) is perceived as corrupt. For a significant improvement in the economy, there needs to be a new class of business elite, but this will be very challenging. Entrepreneurship still has a long way to go.
- The Saudi economy has been positively correlated with the oil price since the 1960s. The Saudi Vision 2030 is a very ambitious economic plan; no such plans have been successfully implemented in any high or mid income country. The underlying truth is that the Vision 2030 is down to one person: the crown prince.
- Specific sector opportunities exist as diversification is pursued. However, even with the greatest vision, the challenge remains to make the Saudi economy non-oil based. It will take generations.
- The Saudi Aramco IPO is highly disliked within the inner circles of the company. Previously, the gas initiative was sabotaged by Saudi Aramco. The IPO is not expected to happen any time soon. The valuation is unrealistic, but it is believed that, along local investment, the Chinese will most likely make an offer in return for discounted long-term oil contracts. The trade-off will be between selling the family silver and not losing face.

Impact on the Oil Market

- The Iranian sanctions imposed in 2012 were effective; they reduced Iran's oil exports from to 2.5 million barrels a day (Mb/d) to 1.0 Mb/d. Europe's imports from Iran were reduced to zero. The Chinese also participated in the sanctions and reduced their Iranian oil imports accordingly, as China was a negotiating member (P5+1). Then, everybody wanted a deal.
- Today, the situation is different since there is no deal; it is open ended. Back in 2012, the oil price was more than \$110/barrel. Today, certain pressure on prices is expected to be seen but not near what the world saw in 2012. Iran will feel some pain but not as bad as in 2012.
- Despite their massive differences, Saudi Arabia and Iran managed to overcome those differences within OPEC (since December 2016).
- By the same token, despite being on opposite sides when it comes to politics, particularly in Syria, Saudi Arabia and Russia have worked well together and are in agreement on the oil price whereby USD 80/barrel is a good number to aim for.
- Saudi Arabia feels it has enough co-operation from outside OPEC, although it took the OPEC+ more than two years to 'rebalance' the market.

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- With Iran sanctions and Venezuela's probably more worrying situation, a normalisation of USD 70-80/barrel seems possible based on market fundamentals. However, this is more for the short term (next three months); if you buy Brent for six years out, the quote is likely to be USD 50-60/barrel.
- The current situation is not a long-term normal and the oil price will remain volatile.



Access for Women in Energy (AccessWIE) establishes a community of practice, offering women a peer-group platform to meet with their contemporaries both female and male in the private and the public sectors across the world of energy. Our central aim is to support the development of women in the energy sector – across the whole supply chain related services and all sources of energy: from oil, gas and coal to renewables and nuclear.

Members are engaged in regular informed debates on global energy related issues. These are usually held on a quarterly basis and include seminars, business meetings and roundtable discussions to address strategic issues involving energy globally.

AccessWIE was founded in 2007 by Dr Carole Nakhle, who is the Chief Executive Officer of Crystol Energy. The group is co-chaired by Lady Judge (The Hon. Barbara Thomas), Chairman Emerita of the UK Atomic Energy Authority, and Lord Howell, President of the Royal Commonwealth Society.