MIDDLE EASTERN POLITICS and OIL

On a wintry 4 February 2009, **Sir Mark Allen**, *one of the world's leading Arabists and a special adviser for BP, gave the third in the series of 'Politics and Energy' lectures, at the Royal United Services Institute in London.*

WE ENTERED 2009 feeling nervous. We have been through a blizzard of analysis and forecasting; predictions have lain in drifts across the road. Snow-blinded by advice, it's been hard to see the way ahead; and tempers have not been improved by the hindsight know-alls.

Still, we keep trying to see ahead – our natures demand it. We cannot care nothing for tomorrow. So we try to stay close to the signs of the times – they reconnect us with the fundamentals, the underlying grammar of events. And that was my experience when the Warsaw Pact was breaking up and, later, when 9/11 happened. The calm voices we listened to then were the ones which said, 'Let's get down to the hard elements of what is going on.' In this article I want to offer my sense of the underlying themes in the politics of the Middle East and what they may mean for the energy scene.

The depth of today's uncertainty is evident in the new attention we are now giving to energy – something which we have long taken for granted. I remember ten years ago, being invited to a very senior meeting of officials dealing with the Middle East. We started early in the morning and at tea time there was a break. Across the rim of my tea cup, I saw the very senior official who was chairing the meeting. He remarked that things seemed to be going along very well and asked 'Don't you think so?' I replied that I thought so too, of course, though it was odd that there was one monosyllable which had not been uttered during the first eight hours of discussion. The very senior official made one of those interrogative nose movements. I said, 'Oil. Nobody has mentioned oil.'

Rather embarrassingly, at the start of the next session, the chairman observed that Mark had made an interesting point during the break which was that nobody had mentioned oil. 'And I suppose,' he went on, 'that's because we all know really that it underlies everything that we've been discussing.' With affirmatory nose movements, all the senior officials agreed with that; and then we continued an earlier argument about the programme of ministerial visits for the year ahead. I call that taking oil for granted.

Figure 1. *Rabigh Refining & Petrochemical Co. facilities, 120 km north of the Red Sea Saudi city of Jeddah, November 2007. Photo: Hassan Ammar/AFP/Getty Images.*

Since the crisis of the early 'seventies, we have taken energy for granted. It is so essential to the way we live now. Our civilisation is utterly dependent on it – light, heat, mobility depend on energy. Only recently have we moved from a long tradition of simple irritation at price rises (remember 'a pound a gallon'?) to worrying of late and at last whether there is enough energy and whether we shall get the share of it we think we need. Recently, we have even had to worry whether our use of energy is not itself existentially dangerous. Energy saving, sustainable energy, energy security are clichés which are sobering signs of the times. Climate change, carbon sequestration and alternative energy are expressions which, only a generation ago, would have meant little to most people; today they capture our anxiety.

Our anxiety is not ill-founded: oil is not so predictable, rational, scientific and technological as it might seem. Many so-called energy facts derive from recondite judgements or the official reporting from governments not given to frankness. We have to read the packet carefully. There is a disturbing lack of transparency in official information. At a distance, the price of oil seems as reliable as mood swings.

Oil, to a great extent, is found in greatest quantities at a distance from its main consumers. So, worries about energy must include worries about the owners of the oil fields, the others whom we do not know as well as we think we do.

The study of 'The Other', a 21st century successor discipline to ethnography, is growing apace. This is hardly surprising – and, in the world of oil, it is 'The Other', people who are different from us, who have what we want. And dealing with them means politics. In the oil industry, it's a home truth that there are just as many problems above ground as there are under the ground.

In the politics of dealing with 'The Other', we confront a counter-intuitive experience. In so far as globalisation links people closer together, in so far as we see development as '*them*' becoming more like '*us*', we have tended to see the modern world as integrative. Experience, however, is now suggesting that divergence seems as much of a likelihood as convergence. Our brave new world has dissonant voices, voices which dissent and disagree. Foreign cultures turn out to have enduring confidence and powerful personalities. Our new world turns out to be a world in which we had better be brave indeed – brave also because the voice of 'The Other' asks us questions about ourselves, searching questions about our beliefs, behaviour, motives and our interests. Once confident of our convictions, we now find ourselves uncertain, questioning ourselves about assumptions that were once so natural we hardly noticed they were prejudices.

In short, the globalisation of immediacy is easily mistaken for homogenisation. And in that mistake we can lose touch with the contours of cultural differences. Coverage of a bombing in Baghdad or Kabul, of an air raid in Gaza, quite properly engages our human sympathy with what is happening. It does not help us to understand the deeper drivers of what is going on. The Middle East is a region where all these uncertainties seem to interact and together they challenge our unpreparedness.

Politics in the Arab world

The Arab world has always been notable for its strong personality. Across its broadest sweep, from Morocco to Muscat, as we step out of the aeroplane, we at once sense an atmosphere which is unmistakably Arab. The ancient Persians and Old Testament writers spoke of the same impression. For all its many varieties and internal differences, the personality of Arab culture is powerful.

In a book a few years ago,[1] I tried to describe the elements which, in differing proportions, constitute this powerful personality in each individual Arab. The last of these, after the important influences of blood, Arabism and religion, was the most difficult and that was the Arab experience of politics. By our notions and preferences, the political experience of the Arab world has been unhappy. We cannot then be surprised that the intersection of concern about energy and the politics of the Middle East makes for a tricky passage.

Not only are the politics of the Middle East characteristically authoritarian, but they cleave, inevitably, to the exclusivities of blood – family loyalties – and to religious choice. The ancient Arabian tradition of participation and consensus has been overlain by what today we should call a *narrative* of justifying exclusive rule, by pointing to the dangers of social disintegration if power were to slip away from its safe mooring in the regime. The relentless circularity of this argument is only occasionally broken by an intervention (which may, or may not, be violent) by a relative or somebody else on the inside who thinks he can control things better. And from this conditioned inclination to tight political control spring other characteristics: restraint on information, education, judicial independence and, ultimately, restraint on free choice and a notable absence of accountability.

As a consequence, in the lives of the people, already focused on the interests of family, there is a tendency to be detached about political freedoms and extremely sophisticated in managing problematic relations with the centre of power.

Importantly, control of the principal resources, hydrocarbons and the surplus revenues they generate, stay in the tight grip of regimes. And the state sector of the economy has a corresponding preponderance. The state remains the significant employer, though often only offering shadow jobs in Potemkin departments of government, large armies and security forces. People find it pays, literally, to soldier on.

Identifying what does seem to be a salient and robustly enduring theme is not to deny that change is afoot. But the changes which are occurring are subtle. It is not easy to read their impact on the status quo, still less the timing of that impact. And this is a great concern to regimes. They do not necessarily find it any easier than we do.

Demographic pressures

The really significant change which it is easy to overlook is demographic. Taking a view of the wider region which encompasses the Arab world (less Sudan), Israel, Turkey and Iran, we are looking at a space which in 1950 had a population of just under 104 millions. By the end of the century, however, this figure had quadrupled to 400 millions. The UN's median projection for the middle of our new century gives a total population of 692 million people. Within this total, we can note that there may be 61 million Iraqis in 2050; 58 million Yemenis; 10 millions living in the Palestinian territories; 49 million Algerians and 121 million Egyptians. Turks may number nearly 99 million and Iranians 100 million. There may be 45 million Saudi Arabians. Already today, according to government sources, 75% of Saudis live in the kingdom's four main cities.

These are statistics which propose formidable challenges to social and security policy, to water supply, economic competitiveness and, indeed, energy policy (energy consumption in the GCC states[2] is already growing fast). And absent population reduction due to appalling disaster or major war, these population figures seem inescapable. Demographers like to point out, as though it had escaped the rest of us, that people do, in time, breed. The figures I have given have already taken into account falling fertility rates and shifting attitudes to family size. But with median ages of the population across the states of the wider Middle East ranging only between 17 and 31 years, the fuse which will deliver this slow-motion population explosion, has been lit for some time.

As a consequence, in Saudi Arabia, 200,000 young people enter the job market each year. The government is the major employer, providing the vast majority of jobs, but it only has about 80,000 new jobs to offer. In Oman, out of a total labour force of 500,000, the private sector labour force is estimated at 50,000 – just 10%. In Saudi Arabia, it is estimated that 83% of jobs in the private sector are held by foreigners. And these figures are mainly concerned with the men.

Education is bringing a new generation of women to the borderlands of employment. The region as a whole needs to create as many jobs in the next 15 years as it has in the last 50; and that projection does not include an increasing demand driven by women who want to be allowed to fulfil their educations in work.

These figures illustrate a number of pressures, but importantly a disturbing overhang of postponed action to secure the non-oil economy and the private sector and to ensure their international competitiveness while creating work for the young.

Cultural changes

Accumulating questions about how the young are to find their place in these societies, range across the ideological commitment of the young – whether to the status quo or to radical change – through to how the unemployed young may afford to marry in a culture which still sets a high price on a marriage contract.

The changes are subtle and long wavelength, but they are nonetheless real. The percolation of women from the private space of the family to the public space of employment is increasing in flow. The proliferation of internet access to information abroad which is not otherwise readily available at home, seems unstoppable. The renewal of religious commitment as a main driver of identity is challenging governments and regimes to answer questions about legitimacy, equity, justice and religious observance. This religious commitment has a penetrating insistence which is changing many social attitudes, all the way from dress to fasting, investment preferences and, of course, attitudes towards 'The Other', which in their case often means *us*.

Increasingly, it seems to me that the secularising vision of modernity which reached a high point of aspiration in the mid-20th century, is being gradually consigned to a compartment of exception in the region's long history. The Iranians, the Turks and the Israelis, each in their own way, are also participating in this rediscovery of identity through religion.

The religious register allows what seems to us a political discourse, to be continued without being labelled as political. In a culture so impregnated with religious idiom, this is not a binary discourse about faith or lack of faith, but about the implications and practice of beliefs which are generally accepted facts of life. And, all the while, the room for manoeuvre for regimes is slowly more tightly constrained. As 'Islamic' becomes a more preferred category, so the definition of what is acceptable behaviour, clicks, like a ratchet, tighter.

A pattern in events suggests itself all too easily. The immobility of regimes in the face of challenging change corresponds with a tendency to radicalism at the extremities of the disaffected and the young; their discourse about the legitimacy of authority is obscure to us – whether the domestic politics of ruling clans in Kuwait or Saudi Arabia, or abstruse debates about religious observance; Western interventions demonstrate our impatience with the ambiguities and the soft shading of the region's 'politics of no politics'; Arabs and Muslims react adversely to these interventions; previous assumptions about regional security and national interest are dislocated; and regimes seek new friends; they come to think of market conditions as being the *other* side of the cultural divide (and the consequence of our inferior culture); a new enthusiasm for investment inside the region grows stronger; volatility, finally, in the price of oil illuminates and strengthens these drivers.

These factors and drivers are awkwardly interlaced, and together have done much to promote suspicion and even hostility between producers and consumers of oil and gas. At any international conference about oil and gas, one senses two sets of references: the facts and figures based, economic exchanges on the industry and the self-editing attitudes of home truths about power at home and attitudes to 'The Other' – to us.

Exploitation of oil resources

As consumers, we need to recognise we were long thought of as bad partners in developing the natural resources of oil-rich Arab states. At the beginning of the 1970s, the Seven Sisters, as they were known then, and now in a less chivalrous world simply as 'Big Oil', controlled 75% of the world's oil production. It was the Libyan leader, Qadhafi, who broke 'Big Oil's' hold by breaking off negotiations with Exxon and inviting Armand Hammer of diminutive Occidental to take their place. From there, control of and participation in production became possibilities. The Shah of Iran embraced the opportunity, and by the

Figure 2. *Delegates attending the opening session of a summit on the soaring international price of crude in Jeddah, Saudi Arabia on 22 June 2008. Photo: Hassan Ammar/AFP/Getty Images.*

time of the Iranian revolution, the price of oil in 2007 dollars had surged to just under $100 a barrel. The story of National Oil Companies was begun and would in time reach further and further up the value chain of the industry's processes. In 2008, National Oil Companies (NOCs) controlled 80% of world production.

NOCs have done a very good job. There can be no doubt about that. They have kept a dangerous industry running, and in some cases, like Libya, have shown great inventiveness in keeping going despite serious difficulties. In Saudi Arabia, Saudi Aramco has achieved world-class levels of expertise and performance.

Their privileged circumstances, however, have not been an unmixed blessing. Have regimes been more interested in revenue than in greater efficiency? Have NOC staff played safe, rather than recommend the hazard of new projects to mercurial political bosses? In some respects, they have fallen behind the game. Their in-house experience has been largely limited to the local scene. Some of the major reservoirs which have yielded the greater part of production for decades, may now be ageing and need different techniques to coax along established levels of output. Critically, resource nationalism has deprived the NOCs of competition, the opportunity to renew and grow against a wider set of experience and standards.

A significant part of the international oil companies' offer has traditionally been finance. The offer of finance reduces government risk, and also brings good technology, experience and project management. In the Middle East, local confidence in the status quo and, in my own view, some inability to integrate the policy variables of the oil industry into a wider and more coherent approach to national security, have made the international oil companies' offers seem less and less attractive.

The successful example of Saudi Aramco sustains a bias in favour of independence and autarky among NOCs. The biggest reserves in the world, after Saudi Arabia and Iran, are in Iraq. As Iraq tries to open up its fields to foreign support and investment, its invitation to the international oil companies has not included production sharing agreements, but a conservative schedule of what amount to fees. This is unlikely to hold long-term attraction for the companies which could help Iraq. Some commentators argue that such resource nationalism, while of course understandable, does not actually further the interests of the Iraqi state, nor of its people.

Oil pricing

Superficially, anxiety today is centring on the price of oil and gas. Pricing, of course, is a mystery. Its main component factors – supply, demand, technology and market sentiment – are individually recognisable, but they are unstable in compound.

There has been a rapid but patchy growth in *demand*. Since 2000, 96% of demand growth has been outside the OECD area, notably in countries which subsidise energy prices to consumers. An underlying contraction in demand in OECD countries has been tightened by rising oil prices. In September 2008, the fall in consumption in the United States was the equivalent of India's total consumption. Overall, however, that growth in global demand was not matched by increases in *supply*. OPEC production (43% of world production) actually contracted in 2007, as did production in all other areas, save the former Soviet Union. Middle Eastern states hold 61% of proven reserves, but only produce 30.8% of world output (for gas, the figures are 41.35% and 12.1%). Last autumn, analysts were forecasting that, given a 1.1–2.4% growth in global GDP, demand for oil would outstrip supply in 2017. Such bald assessments are more striking than informative. The detailed outlook for demand always depends on many uncertainties and so remains opaque, but the broad trend is clear: modernisation and development need energy and more energy is needed to achieve an increase in GDP than is the case in developed economies.

The significance of *technology* for the price of oil lies in the possibility of increasing the efficiency of exploration, extraction and delivery. Today's technology allows approximately 35% of discovered oil to be recovered. 'Enhanced oil recovery' may offer increases in production, perhaps by harnessing carbon sequestration to maintain pressure in the reservoir. Technology associated with unconventional oil resources, like shale/tar sands can lift production and so may affect price. Today's low prices, however, constrain investment in innovation in unconventional operations.

Arab producers, notably the King of Saudi Arabia, have blamed market *sentiment* for much of the price increases in 2008, with speculators getting most of the opprobrium. It must be true that when oil becomes a hedging commodity during a period of cheap money, speculators can accelerate trends which are already in place. They can also exacerbate nervousness about political developments. But still the best advice seems to be that speculators follow and amplify price trends, rather than ignite them.

At home in the Middle East, high prices, for the beneficiaries of the status quo, are just what is wanted. In Saudi Arabia that may mean a price somewhere between $54 and $75 a barrel. Large financial reserves help steady budgetary instability. But not all oil producers are rich with revenue surpluses. Iran, like Venezuela, maintains pressure in OPEC to keep prices high. They need to cover lack of investment in the economy and consequent inefficiencies and the cost of extensive social programmes and subsidies as well. A fortnight ago, the Libyan leader, Qadhafi, announced to some Georgetown students that Libya may well break ranks with OPEC in order to maximise its short-term revenues.

The pressure of concern about climate change has been set back as more immediate anxieties press down on governments. But these concerns will resurface, not least because they are strongly voiced by the young – they have more to lose from inaction today. The taxes which might be applied to the energy industry as part of a programme of carbon regulation represent a further uncertainty.

At present, the best we can say is that long-term prices for oil are likely to be robust, if (and today this is a significant condition) major economies recover and grow.

The structure and behaviour of highly centralised governments, the challenges they face, especially with demographic pressure and popular expectations, leave them vulnerable when trading deficits arise. Drawing on reserves is a palliative, not a sustaining structural adjustment. Thus a sustained downturn in demand could accelerate long-term problems in the so-called 'petro-states'. As forward defence, Middle Eastern regimes are trying now to establish a floor for oil prices to cover regime expenditure and promote stability for investment planning. This can only be done by restricting supply. This will entail some tough talking in OPEC between members whose circumstances vary greatly and whose political interests differ sharply, like Iran and Saudi Arabia. There must be a high probability that OPEC discipline will be patchy, and oil prices will prove as difficult to forecast and manipulate during a downturn as they have in the past.

Further ahead, if today's low levels of investment reinforce high prices, when demand picks up, Middle Eastern producers will face awkward policy questions, if economic stability is perceived to be threatened by their insistence on low production. Ahead of the eventual integration of alternative sources of energy, these policy tensions could prove intense. And the economic wisdom that high prices incentivise efficiencies and innovation is unlikely to cool tempers.

Long-term uncertainties

When we take all these considerations, together with estimates for when much of present power generation capacity may have to be renewed, the third decade of our century appears to contain uncertainties, rather too many for comfort. It's true that today we have a global reserves-to-production ratio of 41.6 years[3] and new exploration successes continue to be scored, but the riddles of politics and global development throw long shadows ahead.

So the great fears of producer regimes must lie above ground – in the politics of their region. Across these time lines of decades, it is possible to imagine that Iraqi production could climb steeply and create a new political, economic and military reality at the head of the Arabian peninsula. This, taken with some resolution of pressures on Tehran, could propose a 'northern tier' of wealth and economic activity. It could be linked with Trans-Caspian and Central Asian resources and prove a sharp competitor for GCC states with their smaller populations. The Shi'ite temper of such a new tier of development would likely intensify the sense of competition.

Saudi Arabia's problematic trend in relations with the United States may be another long-range source of uncertainty. Another could be Iranian success with its military nuclear programme. This could inaugurate a sinister new boardgame of multi-polar deterrence stretching from New Delhi to Tel Aviv. And that game could open ahead of the rules being written and agreed.

And all the while, accumulating pressure to deliver in a harsh environment a tolerable life style (and adequate water) to growing populations will make increasing inroads on economic balances and reserves of domestic political good will.

The reductions in sovereignty which globalisation is imposing on all states must be a risk for those which have changed the least. Already, it is notable that vitality and effectiveness are most evident in structures below the level of state: the tribes, resistance and terrorist organisations, religious movements and ethnic groupings. The static model of statehood, in a region with such a transnational culture, is in need of deep reassessment and renewal, if it is keep ahead of the challenges. The policy and executive paralysis in Kuwait is a sign of the scale of these challenges.

Misfortune under any of these headings could spell trouble for regimes.

The world, however, will continue to be dependent on Middle Eastern oil for decades to come. Even when, as I am confident must eventually happen, the energy mix is altered by new technologies and scientific discoveries, oil will continue to be a commodity of great value. Its extraordinary and energy-releasing properties assure it of a long-term future. The middle ground, the scenery between here and there, is full of surprises and imponderables. As we have seen in Iraq, even regime changes contain fearful hazards, as those new to power gain experience and old scores are settled.

In my view, our interests require us to engage with this part of the world to understand it better. A slow-moving drama of political resistance to change, demographic explosion, unsteady pricing deriving from ill-matched supply and demand and continuing low trust in producer–consumer relations, all promise more than enough difficulty.

We can rely considerably on market forces to rebalance the account. But we can make matters considerably worse – by repeating the mistakes of the past and making assumptions based on inadequate knowledge and experience. Nobody can suggest that establishing trust and co-operation will be easy. It is just that we have no welcome alternative.

Notes

1 Mark Allen, *Arabs* (London: Continuum, 2006).

2 Gulf Cooperation Council states: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

3 In Saudi Arabia 69.5 years, and in the UAE 91.9 years. A reserves-to-production (R/P) ratio gives the confirmed reserves divided by the last year's production.

Sir Mark Allen studied Arabic at Oxford and worked for the diplomatic service from 1973 to 2004. For many years he lived in the Middle East, serving in the UAE, Egypt and Jordan. During his extensive service, he developed a keen sense of the unique nuances of each of the cultures of the region.

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