

Address on Energy Geo-politics to THE ARAB BANKERS ASSOCIATION

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Our subjects are oil markets and Middle East battles and hopes. Many different forces are currently disrupting the world energy scene.

I will focus this morning mainly on the on the second part of our subject– the geo-politics and the political prospects- and mainly leave Carole to share her wisdom on oil markets evolution and prospects when she follows on.

All I would just note before turning to the politics is that the way the energy transformation plays out over the next ten years, as between continued world demand for fossil fuels and the rise of low-emissions renewables , along with the progress of hydrogen and nuclear power developments, is going to have a major impact on Middle East region stability – not least through Budget breakeven challenges and the social consequences of fundamental economic change- which I will touch on at the end.

Is the bullish tone from OPEC and the IEA right about oil demand growth, or are the very loud voices in all societies, pushing governments and energy policy faster and faster into greener technologies and towards net-zero goals, going to win sooner?

Also I have to note that I am leaving aside in my comments here the current pandemic and its huge impact short term on world energy demand, and out of the equation on the assumption that we can get to a further safe shore in due course, although there can be no doubt that it has acted as a giant accelerator of trends already going on in the energy world .When one sees Exxon drop out of the Dow Industrial Average and Shell and BP slash employment, investments and dividends one is left gasping that it is all happening so quickly .

But now to the underlying politics and I want to start not with war horrors in Syria, or Yemen, or Iraq, or the Sinai, but with Turkey.

Why? Because spreading Turkish intervention, reminiscent of the Ottoman expansion which dominated the world for 300- 400 years up to the 20th century, is emerging as a decisive balancing factor in the whole region.

The Ottomans took Cairo in 1518 (from the Mamluks). We are not quite back there again but Erdogan's ambition may be not far short of that.

We have Turkey now in the heart of the LIBYAN turmoil – backing the GNA Tripoli Government -in theory UN-backed - with Italy, plus Qatar and some unsavoury terrorist allies up against the UAE, Saudis, some Russians, Egypt and it seems France, and maybe now half-heartedly, America – a real boiling stew of rival interests.

We have Turkey’s fingers deep into the Nagorno-Karabagh growing conflict. Turkey hold a sword over the EU on migrants.

Turkey is stirring up the gas exploration rivalries with Greece, Cyprus, Egypt, Lebanon, Israel in Eastern Med.

Turkey is the weak link in NATO, as it turns to the Russians for arms,

Turkey is deep into the Syrian melange,

Turkey is raising tension in the Aegean and becoming not the friend but the enemy of Egypt and friend of the Muslim Brotherhood.

All this points to an unfolding tableau of instability and rivalry in the MENA region.

Analyses of Middle East turmoil tend to fall back on interference by the outside powers. But that phase may now be passing. It is the powers in the region that are flexing their muscles, with Turkey in the lead.

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What are the other great regional destabilizing factors?

1.Of course the technologically driven centrifugal forces all around us, fanning the flames of identity, localism and tribalism and populism , enabling protest on a greater scale than ever before in history, are just as much at work in Middle Eastern societies as everywhere else, and just as likely to lead to anarchy – in fact more so, given the lack of democratic restraints and traditions.

2.Trump’s plans for closer Arab-Israeli alliance, as a path to settling the Palestine issue offers a bit more hope, and the UAE-Israel treaty announced this morning is a clear step forward. But whether it will all move forward as long as Netanyahu is there is doubtful.

3.As for Iran, the West is divided, not so much by the nuclear threat as by whether the Agreement is the way forward. President Trump thinks not, most of Europe thinks ‘yes’. China and Russia also think Yes.

4. I mentioned Mid-East oil producers’ budgets at the beginning, and flat oil prices are undoubtedly going to add to internal tensions - as one can see right now

over in Nigeria – which in turn into fertile ground for extremists protest and movements right along the Maghreb, and it seems in Lebanon and Iraq, and may be Saudi Arabia.

The IMF says the Budget breakeven for Saudi Arabia is around \$80, for UAE, \$70 and Kuwait \$60. Brent crude this morning is \$42, with revived US shale and reversed OPEC production cuts looming – implying soggy crude prices for an indefinite periods ahead (barring catastrophes). These figures all spell big spending cuts and deep digs into reserves for oil producers -all sources of continuing and growing political trouble and unrest .

Lastly -Western policy-makers have to grasp that Middle East problems are not just a Western affair. China is everywhere. A Chinese consortium is building the massive new port of Duqm in Oman, China is encamped in Djibouti. China is investing everywhere. Chinese investment in the MENA region is now reaching \$2 trillion.

America under Trump and Pompeo may regard China as the enemy, but Europe does not see it that way. Nor does the Middle East. China is interwoven into Western economies by supply chains and technology. China is oil's biggest importer. China's appetite for energy drives world markets and innovation in all fields. China is the world's recovery locomotive.

The Western world, including possibly a Biden-led America, have to get their relationship with China in balance, and face the fact that both power, security responsibility and development in the Middle East are all going to have a strong element of Chinese influence in every state and with every government.

The adjustment of Western Governments to that new factor – and the speed of that adjustment - is probably going to be the most important route of all to reduced conflict, more peace and therefore more stability and more prosperity, in a very fast changing Middle East environment.
