

THE QATAR DIPLOPMATIC CRISIS AND THE POLITICS OF ENERGY

The prolongation of the diplomatic crisis between Qatar and its Gulf Cooperation Council (GCC) allies – which saw Saudi Arabia, the UAE, Bahrain, and Egypt cut ties with Qatar in June 2017 – will not only have implications for Qatar, but also for the political and economic landscape of the entire region. In this article, the author takes stock of the energy and geopolitical dimensions of the crisis from both the Saudi and Qatari perspectives. On the Saudi side, swift de-escalation is needed in order to prevent Qatar from drifting further into Iran's sphere of influence and changing the balance of power in the region. For Qatar, the extension of the crisis will adversely affect its exports of LNG in the medium and long-term, and hence will benefit US exports of LNG and Russian pipeline gas.

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On 5 June 2017, Saudi Arabia joined by the United Arab Emirates (UAE), Bahrain, and Yemen from the Gulf as well as Egypt and the Maldives, severed diplomatic relations with Qatar and placed the country under a blockade closing it off by land, sea, and air. This triggered a serious diplomatic crisis in the Gulf. Saudi Arabia pointed to Qatar's alleged terrorism and support of fanatical Islamist groups as grounds for their action. Qatari officials dismissed these accusations as baseless and responded with similar claims against their opponents. However, at the same time Qatar announced that it would not apply counter-measures but was prepared for dialogue and negotiations. Can a *modus vivendi* be reached for this untimely and artificial crisis through peaceful negotiations and one that will address the different interests? In doing so, the often neglected energy dimension should also be taken into consideration.

The Saudi Perspective

Saudi Arabia is one of the world's largest producers of oil, ranking in the top three along with Russia and the United States. Oil makes up around 80 percent of its exports and it is also the only producer to have spare capacity, which allows it to increase its output up to one or two million barrels a day whenever it feels it to be necessary. However, most of its oil reserves are found on the western coast of the Gulf, in towns like Dammam, Katif, and al Hobar. This region has another characteristic as that part of Saudi Arabia nearest to Iran. Furthermore, the vast majority of its population, as in Bahrain, is composed of Shiites.

The Saudis have always questioned the loyalty of the Shiite population and have excluded them from important positions in state institutions. The Saudis have also claimed that Iran has been stirring up the population of the region, and Saudi Arabia regards Iran as both an ideological rival as well as a threat to its oil fields and vital interests in the region. In response, one of Saudi Arabia's basic foreign policy objectives has been to encircle and weaken Iran whenever possible and restrict its influence in the eastern coast of the Gulf.

Saudi actions against its neighbor, Qatar, triggered by other players in the region and beyond, in part may be explained as the product of this anxiety. Following the nuclear agreement Iran concluded with the West, it was not very easy for the Saudis to accept Iran rejoining the international community and returning to the global markets as one of the major oil exporters. In this context, it should also be recalled that the Saudis never forgave President Obama for concluding the nuclear deal with its arch nemesis.

Iran's activities in Iraq, Syria, Yemen, and Lebanon have been a source of concern for the Saudis. They were interpreted as attempts to boost Iran's influence in the

Arab world. As a result, Saudi officials began to look for new allies to distance Iran from these countries and put Iranian activities under control in the region.

However, the Saudi strategy to isolate Iran was upset by the serious decline in oil prices. The Saudis had anticipated oil prices would quickly rebound and consequently were quite disappointed when this did not happen. Income from oil fell as a result, which forced Saudi Arabia to drop 250 billion dollars of infrastructural developments and use part of its foreign exchange reserves to balance its budget. The Saudis viewed Iran, the country which had entered the markets so rapidly and made major increases in its oil production, and also Iraq, another major oil producer and exporter, among the scapegoats responsible for this “calamity.”

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During this period, Iran did not remain idle. They immediately started negotiations with major oil companies and investors. The last agreement they concluded was with Total, a French multinational oil and gas company, and began development operations on the South Pars field. Talks are still continuing with other companies over additional field developments and investments in other energy sectors. Given that Qatar and Iran share a vast natural gas field, it would be expected that they be engaged in dialogue with each other and explore new opportunities for cooperation. It is not surprising that the Saudi officialdom feels uneasy about the situation and would have misgivings over the cooperation between its main rival and partner in the GCC. It is also not surprising that during US President Donald Trump’s recent visit to Riyadh, Saudi Arabia enthusiastically read between the lines of his speech and together with its allies, decided to press the Qatar button.

The Qatari Perspective

Located between Saudi Arabia and Iran geographically and politically, Qatar is prone to feeling almost besieged by these two regional powers, and so has developed its foreign and defense policy accordingly. Qatar maintains close cooperation with the other Gulf countries via the GCC and at the same time also feels the need to remain in dialogue with Iran, its neighbor on the eastern coast of the Gulf. However, this has been perceived by the Saudis as an action against them, perhaps even a threat. Qatar’s policy of maintaining dialogue and cooperation with Iran began in the time of the present Emir’s father, Sheikh Hamad bin Khalifa al Thani, and has

been carried on by the Emir Sheikh Tamim bin Hamad al Thani.

There are undoubtedly other important reasons why Qatar strives to have an enhanced dialogue with Iran.

“Qatar and Iran share the world’s largest single natural gas field.”

The two countries share the world's largest single natural gas field. Its proven reserves amount to 25 trillion cubic meters, i.e. about 14 percent of total global reserves. Furthermore, Qatar has definite fixed purchase agreements for the sale of most of its liquefied natural

gas (LNG) for the period until 2021. So its most pressing concern is to be able to dispatch its fleet of giant tankers to fulfill its guarantees without interruption until resolution of the current crisis. It should be added that Qatar is perhaps the only country who can produce LNG at very low prices, around 2.50 dollars per mmbtu (million British Thermal Units.)

In the last two decades, Qatar has spent around 150 billion dollars to build the present capacity, including Ras Laffan Energy City, to make itself the largest LNG producer and exporter in the world. As a result, with exports of 77 million tons a year, it controls about 30 percent of global LNG output. However, this leading position appears to be under threat from Australia, the US, and Russia.

As a result of the shale gas revolution, the US has emerged as a major producer of LNG and with its recent investments it is expected that US LNG exports may very well outperform Qatar in the years to come. It is also expected that in 2018, Australia will be in the race with its newly commissioned LNG facilities. Qatar has been working over the last 12 years to protect its status as the top producer. But in view of the growing competition and in order to protect its position as a top producer, the country decided to lift the self-imposed moratorium and restart development of the North Field gas field. In this context, Qatar decided to generate additional capacity equivalent to 400,000 barrels of crude oil as a first stage, which amounts to an additional production of 20 billion cubic meters a year. This decision was not timely as it was not well-received by other major players. The statement made by His Excellency Mohammed Al-Sada in April 2017 during the Tokyo energy conference was the last straw. In fact, President Putin stated during this same period that Russia can and will become the world's largest LNG producer. Eventually, it seems that there will be too many lions in the jungle, as some experts have put it, hence the expected competition and struggle for the markets. It should also be borne in mind

that sidelining Qatar in this struggle would strengthen the position of the shale-producing countries of which the cost of production is quite high.

At this point, it is useful to underline the fact that of all fossil fuels, natural gas is generally seen as the lesser evil in combating climate change and as only an intermediate or short-term fuel. The fact that Qatar has enjoyed such enormous success with natural gas has inevitably caused eyebrows to rise in some circles. No success ever goes unpunished: Qatar's hyperactive foreign policy and its apparent desire to play a part in all issues everywhere has been judged by the leaders of some countries as attempts to do things that are disproportionate to its size. In addition, Qatar has other success stories to tell like Al Jazeera, Qatar Airlines, and the Qatar Foundation.

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The blockade now being imposed on Qatar may adversely affect its exports of LNG in the medium and long-term. The technical barriers which Egypt will be able to impose and the preference for not supplying it via the Suez Canal – for reasons to do with security and insurance premiums – mean that if Qatar's LNG exports to Europe must be transported via the Horn of Africa, prices are expected to rise perhaps as much as by half a dollar per mmbtu. This might make US exports of LNG to Europe more attractive price-wise. Pipeline gas from Russia may also partially benefit from the situation. Against this, Qatar may lower its prices and supply countries in the Far East in order to maintain its market share.

When discussing the energy dimension of the crisis, it is important not to neglect the issue of Turkey's LNG imports from Qatar. Although Turkey has extended its full support to Qatar during the crisis and that the two have developed excellent bilateral relations, it is unfortunately difficult to say that Qatar has always been forthcoming in enabling Turkey to obtain a long-term LNG contract. Despite all the initiatives that Turkey has made in the past, it has proven impossible to sign a long-term agreement with either Qatargas or Rasgas, the two Qatari gas companies. Turkey should be supplied with LNG from Qatar at reasonable prices on a long-term contract basis so that it can enhance its energy supply security.

A Lose-Lose Situation for the Region if the Crisis is Prolonged

If the crisis continues for a long period, we can expect it to have an adverse impact on regional trade. The crisis may also impact tourism, trade, air travel, and the service sectors. Under the present circumstances, it is highly likely that there will also be consequences for the Expo World Fair, which is to be held in Dubai in 2020, the 2022 FIFA World Cup, and many other cultural and commercial activities. But ultimately, it is the people of the region as a whole who will suffer.

“In the long-term it is in the interests of Saudi Arabia to find a negotiated settlement to the crisis as soon as possible in order to safeguard the role of the GCC as the leading regional platform under Saudi leadership.”

mediation and facilitation efforts, from countries including the US, Russia, and Turkey, in order to put an end to the crisis.

The prolongation of the crisis does not bode well for Qatar either. In addition to the deteriorated business and investment climate which has resulted from the blockade, Qatar will have to negotiate new long-term contracts for LNG sales to the Far East and Europe for the period beyond 2021. The Qatari authorities should be prepared to guarantee uninterrupted deliveries of LNG and convince potential buyers not to be concerned about the stability and the present political environment in the Gulf. Shale gas producers will also be following developments in the Gulf with great interest because any fluctuation in the LNG prices as a result of a protracted crisis would have a direct bearing on future investment decisions.