The State, Oil and the Gulf

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TODAY

• News from the region (5 mins)
• Introduction: Explaining MBS
• The re-thinking the State (again) (45 mins)
• Break (10 Mins)
• Oil and the Gulf (45 mins)
• Discussion/Feedback
Key news stories?

- What are your 4-5 news stories of the week?
Mohammad bin Salman’s Gathering Storm

• Initially hailed as a great reformer

• MBS has lost friends in the West
  
  • A brutal, costly and apparently unending war in Yemen, prosecuted with Western support;

  • An unprecedented and unsuccessful siege of the neighbouring state of Qatar;

  • The kidnapping and apparent beating of Lebanon’s prime minister, then forcing him to resign, only to see the Lebanese leader reclaim his job after the French intervened; and

  • A bizarre feud with Canada over a tweet that has produced no positive results of consequence for the kingdom.
Jamal Khashoggi

- Saudi journalist
- Had been close to the Royal family and very supportive of MBS
- Grew less supportive over time - especially of increasingly repressive nature of the regime
- Tortured and murdered by (probably) Saudi agents in the consulate as his fiancee waited outside
- After initially uncertainty - MBS has clung on
- Trump administration remains supportive
Bigger looming crisis

- The question of succession
- Broader structural challenges at the core of kingdom’s political-economic model
- A ‘rentier state’ - traditionally sells oil, doesn’t raise tax revenue
- Faces greater competition (supply side)
- Long term questions over demand
How to explain this

• Intro to the region
• Intro to the Middle East state system
• Theory of the rentier state
• Break
• Oil, the state and the challenge
The origins of the state
Europe and the Middle East
BASIC ELEMENTS

- Definition from Max Weber
  - An organization that maintains a monopoly of violence over a territory

- Key elements of states
  - Possess *sovereignty*
    - The ability to carry out actions or policies within a territory independently from external actors or internal rivals
  - (Typically) highly institutionalized
    - *Institution*: an organization or activity that is self-perpetuating and valued for its own sake
STATE AUTHORITY

- **Government**: leadership or elite who run the state and make policies

- **Regime**: fundamental rules and norms of politics that shape...
  - long-term goals regarding individual freedom and equality,
  - where power should reside, and
  - use of that power.
**The State Is . . .**

- The monopoly of force over a given territory.
- A set of political institutions that generate and carry out policy.
- Typically highly institutionalized.
- Sovereign.
- Characterized by such institutions as an army, a police force, taxation, a judiciary, and a social welfare system.

**A Regime Is . . .**

- Norms and rules regarding individual freedom and collective equality, the locus of power, and the use of that power.
- Institutionalized, but can be changed by dramatic social events such as a revolution.
- Categorized at the most basic level as either democratic or authoritarian.
- Often embodied in a constitution.

**Government Is . . .**

- The leadership or elite in charge of running the state.
- Weakly institutionalized.
- Limited by the existing regime.
- Often composed of elected officials, such as a president or prime minister, or unelected officials, such as a monarch.
- **Country**: state, government, regime, and the people who live within that political system
- **Nation**: a group of people bound together by a common set of political aspirations
ACTIVITY

• In Groups Give examples for each (Middle East):
  • State
  • Regime
  • Government
  • Nation

• How important is national identity to you?

• What other forms of identity are important to you?
THEORY HOW WERE STATES FORMED?
The European State

- Theorized by Charles Tilly

- Focus was on how and why ‘the state’ became the most common form of polity since its emergence in the European Middle

  - efficiency in enforcing the will of the governing group on its own population

  - and fighting its opponents. Or, as he memorably argued:

  - ‘War made the state, and the state made war’ (Tilly 1975, 42).

- Coercion and consent
The ‘integral state’

- established and comprehensive structure of government wherein the ruling class’ domination is well integrated with the entire machinery of rule
- including political and civil society
- widely accepted as legitimate by the general population
- The integral state ‘has the functions both of coercion and consent. It contains both the apparatuses of government and the judiciary and the various voluntary and private associations and para-political institutions which make up civil society’ (Gramsci and Forgacs 1988, 429).
State Formation: European Model
The post-colonial state

• Decolonised states in the Middle East (and elsewhere) were much less likely to achieve this kind of ‘integral’ status

• they had come into being not as a product of long periods of conflict, compromise and negotiation between the population and the ruling class,

• but as a result of the actions of foreign powers.

• see, inter alia, Anderson 1987; Khoury and Kostiner 1990; Massad 2001
Overstated

- Nazih Ayubi (1996,12) explains:

- “Part of the problem [of the post-colonial state] may be due to its ‘lopsided’ nature: to the fact that it is underdeveloped in certain respects but overdeveloped in others …

- “The state in the ex-colonial societies was not created by a national bourgeoisie but by a foreign colonial one which over-inflated the size of the bureaucratic machine, especially its military wing, to serve its own purposes in the colonies.”
The Post-Colonial State (Overstated?)
Republics vs Monarchies

- Obviously republics vs. Monarchies engage with this state structure differently
- Republics - overthrew the colonial regime
- Monarchies - adopted/compromised with it
- But the lopsided nature of the state persists
- In virtually all cases - tension remains between “the modern” and “the traditional”
- Military and public sector have acted as ‘statebuilding’ mechanisms
BREAK
This lecture

• Introducing hydrocarbons
• The history of the Gulf
  – Oil and KSA
  – The other resource-rich states
• The impact of hydrocarbons on Gulf states
• The rentier state
• Challenges facing the Gulf-Arab monarchies
  • Explaining MBS
Introducing Hydrocarbons

• Oil(s)
  – Refers to a range of fluids varies in terms of:
    • Viscosity, appearance, flammability, quality and value
  – Commonly understood as ‘crude’ – which itself refers to a range of complex mixtures

• Gas(es) (again varies)
  – Natural Gas
  – Liquid Petroleum Gases
  – Liquefied Natural Gas
Oil prices

dollars per barrel (real 2010 dollars, monthly average)

Sources: Bloomberg, Thomson Reuters. Published by: U.S. Energy Information Administration. Updated: Monthly | Last Updated: 12/31/2012
How it works (a crude summery)

• Traded on global markets
• Inelastic commodity – price driven by scarcity (or perception of scarcity)
• States benefit from being a shareholder and selling... not necessarily for simply possessing oil (though it may be taxed)
• i.e. because you can produce oil doesn’t make you (or your citizens) invulnerable to price changes
• In states strategic interest to have a favourable arrangement
• Maybe possible for big producers to influence price – difficult to exercise over all control
Demand and supply

• Essential for modern farming techniques
• Plastics, Cement, Asphalt, Polypropylene
• 1 liter of oil is equivalent to 5 weeks human labour (approx.)
• And Hydrocarbon energy is use in the manufacture of numerous other, not necessarily obvious, goods
• Extremely difficult to predict prices – especially long term
  – Clouded in secrecy (many of the basic facts are not known)
  – Extremely profitable businesses – but volatile history
Demand

- Since 1860s Kerosene used for lighting and heating (Dangerous Stuff!)
- 1880s Internal Combustion Engine invented
- 1908 ‘Model-T’ Ford
- During WWI Royal Navy switched from coal to oil
- WWI –WWII and after: US industrialization and beginnings of a growth in car ownership and beginnings of aviation age
- Post-war recovery, industrialization in Europe and Japan
- 2005 Gasoline = 25% of global refinery output
  - Main consumers: US 43%, EU 13%, Japan and China c. 10%, India 1%
Car ownership

Aviation

- 2008 Total emissions 3% of all EU’s
- However grown by 87% since 1990
- One trip from London to NYC = (roughly) heating a house for a year (EU commission on Climate Change).
Plastics

From Crude Oil to Plastics

Source: adapted from a table supplied by the British Plastics Federation.
Supply

- Market operates as a cartel
- Not free trade
- No one has overall power
- Price determined by scarcity supply, demand – influenced by speculation in the markets
- The price paid ‘at the pump’ is a very poor measure for the true cost of Oil
- Many ‘externalities’
- Volatile and, therefore, hard to predict
Oil prices (EIA)

- Disruptions in supply caused by natural and political events can also significantly affect prices.
- Difference between production capacity and demand is very small, even the possibility of a supply disruption can cause oil prices to increase.
- Rapid and large oil price increases occurred in response to crude oil shortages caused by the Arab oil embargo in 1973, the Iranian revolution in 1979, the Iran/Iraq war in 1980, and the Persian Gulf conflict in 1990.
- Hurricanes in the Gulf of Mexico have also caused oil prices to spike.
Oil Price

• Crude oil and petroleum product prices are the result of thousands of transactions taking place simultaneously around the world, at all levels of the distribution chain from crude oil producer to individual consumer.

• Oil markets are essentially a global auction — the highest bidder will “win” the available supply.

• When markets are "strong" or “tight” (when demand is high and/or available supply is low), the bidder must be willing to pay a higher premium.

• When markets are "weak" or “loose” (demand is low and/or available supply is high), a bidder may choose not to outbid competitors, waiting instead for later, possibly lower-priced supplies.
Oil Price

- Contract arrangements in the oil market cover the majority of oil that changes hands.
- Also sold in spot transactions, meaning an “on the spot” purchase of a single shipment for immediate delivery at the current market price.
- Oil is also traded in the futures markets.
- Subject to speculation.
- Most major oil companies are state-owned – sovereign immunity – not like free market between companies.
OIL AND GAS IN THE MIDDLE EAST
Creation of Saudi Arabia

• Founder of al-Saud dynasty: Mohd ibn Saud (c. 1703/4-1765)
• Became patron of Mohd ibn Abd al-Wahhab:
  – zealous religious revivalist with strict puritan beliefs

WW1: Growing British interest in Arabia
1916: Colonel T. E. Lawrence sent to Hijaz to persuade Sharif Hussein of Hijaz revolt against Ottomans
Cont’d

• End of WW1: al-Saud relations with now King Hussein deteriorating
• Clashes
• By 1932: 1932: King Abd al-Aziz ibn Abd al-Rahman al-Saud formally united Hijaz and Najd to form the **Kingdom of Saudi Arabia**
Part Two: DOMESTIC POLITICS
Political ideology

- Political culture inseparable from Islam
- SA: cradle of Islam, Arabic and Qur’an
- Wahhabism (puritanical Islamic revival movement) constitute political ideology of SA

Political decision-making process

- Two fundamental concepts at heart of system:
  - *ljma* (consensus), which is derived through *shura* (consultation)
- IT revolution has called for citizens to be more involved in decision-making process
- Islamic law form basis of judicial system and is supreme, even over king.
Oil

• Oil first discovered in 1938 but not major oil producer until late 40s & early 50s
• Claimed to be 2nd largest oil reserves in world (Venezuela 1st)
• Rentier state
• 1960s SA joined OPEC and became a dominant power
• 1970s high oil revenues enabled accelerate economic & social welfare programmes
Major Oil Fields in the Gulf

OFFSHORE AND ONSHORE OIL AND GAS FIELDS IN THE GULF

OFFSHORE PROJECTS PLANNED OR UNDER WAY

VALUE ($bn)

*Many projects in Iran have been announced, but are unconfirmed. Source: MEED Projects
Hormuz Straits

• 30km at its narrowest point
• 40% of all sea-bound oil traffic (approx. 17 Million Barrels per day).
• Iran-US tensions
• $150/bbl was possible should the Iran act on its threats (Moody’s).
Seven Sisters (Le Sette Sorrelle)

- Meeting in Achnacarry Castle (Scotland) in 1928
- Chairmen of Esso; Scocony; Socal; Shell; Anglo-Persian (joined later by Gulf and Texaco) met to divide the world market between them – ‘Le Sette Sorrelle’ – Enrico Mattei
- At this point western companies have near-total dominance of world market – 60% of production in 1960
- Hit hard by nationalisations – including Anglo-Persian, precipitating the 1953 coup in Iran (led by CIA at British urging)
- By 2005 only 15% market (for their descendants)
Organisation of Oil Producing Countries (Opec)

- 1950 53% of oil was produced by the US
- Wave of new discoveries in the ME 1950-70s
- Seven sisters depressed the price (reducing their tax burden too)
- In response KSA, Kuwait, Iran, Iraq and Venezuela founded Opec (Baghdad, 1960) other countries joined later:
  - Qatar (1961); Libya and Indonesia (1962); Abu Dhabi (1967); Algeria (1969); Nigeria (1971); Ecuador (1973, left in 1993); Gabon (1971 left in 1996); and Angola (2007).
Oil weapon

- 1973 Egypt (and Syria) go to war with Israel in the Sinai 6 October
- 16 October, Arab Gulf states raise posted oil price by 17%
- 19 October – all oil exports to the US embargoed
- Embargo failed (multinationals re-routed supply) but sharp price increase
- In 1973 Oil Price rose from $3 b to $11.65
- KSA took over 60% of Aramco
- Various panics and demonstrated the power of speculation (there were no actual shortages of oil)
- Windfall for Opec governments – though also drove inflation
Cues for petrol in 1973
Iranian Revolution and Iran-Iraq War

- 1979 - $13.63 b
- 1981 - $34.89 b
- Though Opec’s efforts to keep prices high (cutting production to create scarcity) failed
- In 1985 KSA tied its prices to market values
- 1986 - $15 b
1990s and 2000s

- 1991 – short lived spike (Gulf Crisis)
- Growing demand in West
- Opec share rose to over 40%
- Economic recession following 9/11 – prices fell briefly
- Iraq 2003 (next slide)
- 2007- financial crisis (below)
- Increasing demand from East Asia
- Threat to Hormuz Straits
Oil price (again)

Graph from ‘energyoutlook’ blog
Part Three:
FOREIGN POLICY
Foreign & National Security Policies

• Based around four major goals:
  1. Preserving Islamic way of life at home & abroad
  2. Protecting against external threats to national and regional security
  3. Providing for national economic welfare and extending economic assistance to those in need throughout the Arab & Muslim world
  4. Survival of regime
Relations with the US

- the British failed to consider the possibility of significant oil deposits and so did not seek a concession.

- The US was quick to fill any gaps let by the British. Standard Oil of California, later called Chevron, sought concessions in Saudi Arabia.

- We see the beginning of American presence in Saudi Arabia

- 1967 & 1973: embargo on Saudi oil to US

- 1990/1 Gulf War:
  - 500,000 US troops deployed to SA & region.
  - After war SA reluctantly agreed to US 5,000 troops

- 1995 US military bombed in Riyadh

- 1996 bombing of Khobar Towers
Part Four:

SAUDI ARABIA AND THE REGION
The Gulf Cooperation Council (GCC)

• Closed sub-regional organisation: Member states: Saudi Arabia, Kuwait, Oman, Bahrain, Qatar & UAE
• 1981: Formed in direct response to Iran-Iraq war – After War formally restore relations with Iran
• Main strategy based on fear of domination by regional actors: mainly Iraq, Iran and also Egypt
• Lacks military plans, integrated economies, boundary stability & approved means of conflict resolution
• 1991 Gulf war showed military weakness of GCC – no member offered military assistance to Kuwait
• Inter-state disputes over territory
• Jordan and Morocco offered membership in response to ‘Arab Spring’ – club of kings?
Riyal Politik?
Impact on the (Gulf) state

• Renterism
  – Key discussion in analyses of the gulf
  – ‘Rent’ has two meanings for economists
    1. Income from hiring out land (or other goods).
    2. The difference between the ‘factor of production’ and the price paid – (i.e. between true market value and cost paid).
  – Often manifest payment of funds or awarding favourable contracts (non-competitive)

• Luciani outlines key elements of Rentier economies:
  1. The source of rent is the outside world.
  2. Rent should accrue directly to the state.

• “No Representation without taxation”
Theory of Late Renterism

• More nuanced analysis
• Suggests that rentierism can be understood in 3 phases
  1. Classical rentierism
  2. Rentier characteristics understood in the context of other factors (social, cultural etc.)
  3. Rentierism in the context of state maturity and globalisation – more strategic outlook (Oman 2020, various diversification plans)
• Attempts to account for more subtle changes in Gulf States’ Economic and Foreign Policies
Key Challenges
Peak oil? Exploration elsewhere
Shale oil, a fracking revolution?
Diversification?

• 2006, Abu Dhabi decided to create Masdar – "will be living testimony to the possibility of sustainable cities."

• Sovereign Wealth Funds – oil retirement funds?

• Liquefied Natural Gas (LNG) development
Vision 2030

• Based on the work of U.S. consultancy firm McKinsey, Prince Mohammed in 2016 launched a program of reform and economic diversification known as Vision 2030.

• aimed to build a new Saudi Arabia with a “vibrant economy” that would no longer be a slave to the oil market.

• Taxes would be introduced,

• women would be brought into the labour market,

• corruption would be curtailed and

• Saudi Arabia would become an international commercial and renewable energy hub.
• Two critical elements of the kingdom’s identity that were not up for debate:

  • The absolute authority of the royal family within the country

  • the supremacy of Saudi Arabia within the Persian Gulf region.

• Governing has traditionally depended on dealing with opponents either through buying them off or brutally oppressing them, the royal family has developed a greater reliance on oppression.

• Given these circumstances, is it any wonder that the kingdom has produced a ruler as vicious and tyrannical as Crown Prince Mohammed bin Salman?