

# Saudi 'Hawks': Oil & Gas Don't Mix

Seven years ago, I attended an **International Energy Forum (IEF)** meeting in **Riyadh, Saudi Arabia**, with some of the region's most senior diplomats.

There were several topics of conversation, but the one that caught my attention involved a simple graph in which the IEF predicted that natural gas would become the world's dominant "bridge fuel" on the way to a renewable energy over the next 50 years. That was great news for **Qatar** and **Iran**—which share the world's largest natural gas field in the Persian Gulf—but absolutely disastrous for Saudi Arabia. **Because while Saudi Arabia has natural gas, 90 percent of its export economy is based on the sale of one commodity: oil.**

The country's infrastructure is based on exporting oil. And its power in the world, including its historic power to run embargoes, is based almost entirely on oil being the world's dominant energy source. From that perspective, it's no surprise that the displacement of Saudi oil by Qatari and Iranian natural gas is causing many of the tensions in the Middle East today.

When the current state of Saudi Arabia was founded in 1932, natural gas was barely used as a fuel and represented a tiny fraction of the world's energy mix. For decades, when Saudis would extract natural gas while drilling for oil, they'd burn it off rather than sell it. However, today natural gas represents over 24 percent of the world's energy mix.

**The battle between oil and natural gas is a major reason that Saudi Arabia recently cut off all diplomatic relations with Qatar.** Hawks in Saudi Arabia hope that by threatening Qatar, as well as Qatar and Iran's natural gas shipping routes in the Bab Al Mandeb Strait (BAM) and the Red Sea, they can extend the dominance of Saudi oil over natural gas in the world.

In other words, the central conflict in the Middle East today is not about religious differences between Sunnis and Shias. It is about money and the future of energy.

Natural gas is not a sexy energy source. Because it is a fossil fuel, it still produces some pollution, albeit far less than oil or coal. Burning natural gas produces about 25 percent less carbon dioxide than oil and 50 percent less than coal. Additionally, in terms of other pollutants (sulfur dioxide, particulates, etc.) natural gas produces ten to 2,000 times less pollution than oil and coal. Though some worry that natural gas-related methane leaks make the fuel problematic, demand for LNG is likely to continue to increase, particularly in Europe, where a dozens of LNG-facilities have already been built.

The EU is the largest importer of natural gas in the world, and demand is going up due to European concerns about Russian military expansion, as well as the sudden decline of several oil and natural gas fields in the EU.

The importance of Qatari and Iranian natural gas to Europe has increased significantly over the last two years. In 2015, natural gas exports to Europe increased by nearly 20 percent. This February, Iran announced that it had doubled its daily shipments of natural gas to Europe to 2.8 million barrels of LNG per day, partially due to a reduction in sanctions. New LNG facilities, alongside massive renewable energy projects, made possible by huge subsidies for wind and solar farms in the EU, have significantly reduced European reliance on Saudi oil. These trends, combined with fracking in the US and gigantic renewable energy projects in China, have further pushed down the value of Saudi oil exports.

So what can the Saudis do? In terms of stopping the growth of renewables, not much, other than convincing the US to abandon the Paris Agreement, which Trump did shortly after his visit to the country.

Fracking in the US is also extremely difficult for Saudi hawks to stop. However, both American frackers and Saudi benefit from higher oil prices and the removal of competition (i.e. Qatar and Iran) for the European energy market.

Thus, from the perspective of Saudi hawks, the best strategy to boost the current value of Saudi oil would be to substantially reduce the flow of natural gas from Qatar and Iran to Europe, if not to the rest of the world. In order to significantly reduce natural gas exports to Europe, the Saudi hawks have three options:

- Expand their naval forces or war in Yemen in order to disrupt or control the Bab Al Mandeb Strait (BAM) and/or chokepoints in the Red Sea, through which Qatar and Iran ship nearly all their natural gas to Europe;
- Launch or threaten attacks on Qatar until natural gas extraction in the Persian Gulf is significantly reduced or redirected and sold to Saudi Arabia at a discount;
- Increase the cost of shipping Qatari LNG to Europe by convincing the UAE to place a port embargo on Qatari/LNG vessels and/or by convincing the Egyptians to block or levy high taxes on Qatari/LNG vessels through the Suez.

Currently, hawks in Saudi Arabia are opting for the third option via a port embargo in the UAE. However, unless the Egyptians cut off the Suez Canal, it is unlikely that such an embargo will be sufficient to raise Qatari LNG shipping costs to a level where Saudi oil will regain its predominance, especially given Qatari plans (announced a month before the Saudi blockade) to vastly increase natural gas production by removing drilling restrictions.

If oil prices and the Saudi economy declines further, it is possible that Saudi hawks may take more drastic measures. We've already seen a major PR campaign against Qatar by Saudi media as part of rising tensions between the two Gulf

countries. All Qatari media, including Al Jazeera, has been blocked in Saudi Arabia and the UAE. (Saudi's excuse for the ban was that Qatar's leader made a positive comment about Iran which he probably did not make.)

As soon as Qatar's news sites were shut down, Al Arabiya, a Saudi government-controlled media outlet, unleashed a flood of anti-Qatari articles with catchy titles like "Hezbollah and Qatar - a story of forbidden love." Shortly thereafter, Saudi Arabia and its oil-producing allies cut off all relations with Qatar, all Qataris were ordered to leave both Saudi Arabia and the Emirates, and expressing sympathy for Qatar on social media was made into a crime. Given the timing, coordination, and size of the Saudi PR and diplomatic assault on Qatar, it seems highly likely that, as David Hearst (veteran Middle East reporter for the *Guardian*) put it, these events have been planned by Saudi hawks for quite a while.

Meanwhile, food security concerns among Qatar's population have increased, with grocery stores initially flooded with customers, due to a Saudi blockade. As such concerns increase, so does the risk of a military escalation, especially since Qatar has recently announced its intention to increase natural gas production by 30 percent.

If the region moves toward direct conflict, Turkey will likely stand with Qatar, since the country has a substantial interest in running pipelines from Qatar's gas reserves in the future as well as relatively strong historical ties.

When the current showdown began, Saudi Arabia and its allies issued a list of 13 demands on Qatar (i.e. shut down Al Jazeera, remove a Turkish military base, pay reparations, etc.) that were virtually impossible for Qatar to meet. Then, shortly after Turkey began sending troops to Qatar and its president began preparations for a diplomatic trip to the region, Saudi Arabia and its allies appeared to reduce their list of 13 demands to "six broad principles," suggesting that they were, perhaps, unwilling to risk a direct conflict with Turkey. US Secretary of State Rex Tillerson has also been calling for a lifting of the anti-Qatar blockade.

But on Sunday, Saudi Arabia returned to demanding that its list be obeyed and accused Qatar of having made a "declaration of war" by demanding that the Hajj pilgrimage be internationalized. (Confusing matters still further, there's been no evidence that Qatar made such a demand.)

Should the Saudi economy decline much further, it is unclear what will happen next. Sometimes, economic desperation can lead to reforms. Other times, it can lead to war. Hopefully, we'll get the former rather than the latter.

-Ryan Riegg

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