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Security and Energy Security Global Challenges

Persian Gulf Issues

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Main Points

- Local wars for oil within the Persian Gulf?
 - There are many potential sources of conflicts but
 - Would guarantee mutual economic annihilation of Gulf States and of Iran
- Tensions between clients: ie US vs China most unlikely to lead to arm conflict
- Major world player unlikely to seek control of one or more Gulf States
- Gulf states policies seem to point to a switch away from an emphasis on military might to economic might
- Long term interest of Saudi Arabia and of other Gulf states is to move away from Crude production
 - Develop high value-added energy-based industries
 - Become as important to the world in chemicals as they are today in oil
- Saudi policy could be precursor to other changes & imply much closer links to China and India, lesser links with US



Sources of Tensions



- Within the Gulf
 - The Island disputes with Iran
 - Tumbs and AbuMusa
 - The oil fields between Iran and Kuwait
 - The oil laws of Iraq and the Kurdish provinces
 - Shaiba field between the UAE and Saudi Arabia
- Between users of oil
 - China imports +/- 2million b/d from Gulf ~ as US
 - China still needs US to protect sea lanes [for free]
 - China needs US to deter Iran or Iraq or any one else from trying to exercise price controls through military action
 - US cannot afford one more large scale conflict



Overview of Oil and Gas Resources





Oil as source of stability



- Armed conflict between Gulf powers would ensure mutual economic destruction
 - Was tried by Saddam Hussein against Iran and against Kuwait
 - At first would only profit to Non-Gulf producers
 - Huge run up in prices could trigger massive economic decline and kill all the producers' income
- War between local states [cf Iran-Iraq in '82] would bring huge increase in prices as 16 million b/d of exports could be disrupted
- Armed conflicts between the buyers [US, EU, China] also would create mutually assured economic destruction
- Armed conflict between outside power and a local state seemed doomed to fail [see US-Iraq]



Energy and the New Paradigm

- Control of politics may no longer be based on military power
- States want to maximize their economic influence over other states
- For example
 - Saudi Arabia is using income from oil to become an industrial power
 - Seeks to become largest producer of chemicals in the world by 2020 [may be earlier]
 - Wants to be as important in chemicals in 2020 than it is today in oil
 - To do so would require less than 3 mm b/d and return more than its present income on 8 mm b/d of export [very rough estimates]
 - Will export less crude over time!!!!
 - Will use more of the refined products locally!!!!
 - China is becoming more dependent on Saudi Arabia
 - First supplier of crude to China
 - Major supplier of chemicals to China- and increasingly so
 - Forces China and Saudi Arabia to become mutually dependent



Strategic implication of the Saudi Switch away from oil



- Substantial increase in relationship with main clients: Asia as a whole, China especially
- Decrease in relations with US: except for guarantee of sea lanes
- Arrangements between Iran and Saudi Arabia