



Gulf Research Centre Cambridge

Knowledge for All

Workshop 7

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Challenges of Change and Transformation in the Gulf During COVID Times: Social, Economic and Political Dimensions

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Abstract

The meeting is to discuss the current and future impact of ongoing regional geopolitical tensions, the COVID pandemic and turbulent energy transition on the dynamics of sociocultural, economic and political developments in the GCC. The main attention of discussion will be focused on three areas:

- a) Potential strategies that Gulf countries can apply in preparation of the anticipated instability in the oil and gas sector resulting from the potential peaking of oil demand and the beginning of the era of low oil prices.
- b) The impact of this instability in the oil and gas sector of the GCC economies on other aspects of the sociocultural and political life of the Gulf states.
- c) The wide array of sociocultural and political challenges faced by the GCC member states as a result of the global and regional changes.
- d) Challenges to Gulf states and states interested in the Gulf resulting from

economic, political, social, and security disruption due to the pandemic and fluctuating energy markets.

Description and Rationale

Objectives and Scope of Workshop

The impact of the global energy transition on the hydrocarbon producers of the Gulf Cooperation Council (GCC) is raising serious questions about the need to change the focus of Gulf energy security from the necessity to protect the interests of Gulf oil consumers to the need to ensure the interests of oil producers themselves. By the beginning of the COVID pandemic, the GCC countries had already been tested by contracting economic growth, falling incomes from oil exports, low oil and gas prices, unpredictable hydrocarbon market fluctuations, sluggish growth in oil demand, as well as rising competition with other oil and gas producers. This is further exacerbated by ongoing regional geopolitical tensions that predate the pandemic as well. In order for the GCC hydrocarbon producers to adequately respond to these diverse emerging challenges, it is important to clearly define and understand the origins of these issues, the majority of which are deeply connected to the oil and gas market transformation and regional tensions which started long before the Corona virus pandemic but were speeded up by its impact. The states of the Gulf are, in general, dependent upon export of energy for most of their revenue which in turn funds the security and social underpinnings of society. As the energy sector changes, can we expect to see economic stress manifest itself as a political or security challenge?

The event will consider the impact of global energy transition on the GCC member states through the prism of challenges faced by their hydrocarbon sector. Yet, the discourse will not be solely focused on the problems experienced by the oil and gas industries of the GCC member states. Instead, the contributors will analyze how these challenges and subsequent response to them affected other aspects of the GCC social, economic and political development. Consequently, the event will comprise of three parts discussing the direct impact of the energy transition on the energy sector of the GCC, social consequences of the oil market and other crises for the region and its potential fallouts for the international relations of the Gulf.

The event will attempt to answer the following questions:

- What is the nature of the global energy transition impact on the hydrocarbon sector of the Gulf?
- How deep were the changes in the social, economic and political life of the GCC countries caused by regional geopolitical crises and turbulence in the oil market?
- Were these changes triggered by the COVID pandemic or were they trends that existed before aggravated by the pandemic?
- Have the Gulf states managed to come up with the clearly formulated response to the emerging social, political and economic challenges?

Context

The COVID-19 hit the economy of the Gulf monarchies and their oil and gas sector in several ways simultaneously. First, the global oil glut forced the GCC countries to wage a severe price war for hydrocarbon markets' share. Moreover, in spring 2020, oil producers had to fight not so much for expanding their market presence but rather for securing what they have while being pressured by falling demand. This turned the market competition into a bloody knife fight where everything goes. During spring – summer 2020, the sharp drop in oil prices significantly erased the boundaries of suppliers' regional specialization, opening up access for some players to new markets, further increasing competition. Thus, in the Asian market the GCC countries had to compete not only with Iraq, Russia, and among themselves, but also with the oil producers of Latin America and West Africa who also joined the fight.

In 2021 with the beginning of gradual recovery in oil consumption in Europe and Asia, the situation somewhat improved and competition between producers got less aggressive, but the situation is still far from being normal. The delayed, recovery in the global gas market was also repeating some negative patterns of oil trade. Unlike the oil producers, gas exporters do not have their equivalent of the OPEC+ that could play, at least, the limited role of a market regulator. This, in turn, made the price war even more aggressive. Thus, during the first six-month of 2020 Qatar and Oman failed to offer competitive prices for their LNG supplies to the shrinking South Korean market. As a result, the volume of their exports fell by 24% and 10.5% respectively as compared with the same period of 2019. At the same, in 2020, Australia, the USA, Indonesia, Malaysia and Russia managed to raise their supplies to South Korea. In Taiwan, Doha played it differently. It managed to offer the most appealing prices to the local consumers and increased its volume of exports in spite of the negative market conditions. Yet, its main competitors (Russia, the US and Indonesia) also managed to raise their exports at the expense of other players thus making the gap between them and Qatar smaller.

At the same time, the struggle within the GCC has also escalated, bringing no good for them. Under the current circumstances, Qatar's plans to increase the volume of LNG supplies and get involved in a price war for gas sales with the United States, Australia and Russia make Oman think about whether there is a place in foreign markets for its products. On the other hand, the excessive supply of light oil from the Gulf forced Bahrain to question the previous plans to increase oil exports. Instead, Manama consider options to use oil that can be additionally produced in future for the needs of its own refinery.

Second, the macroeconomic indicators of GCC members have deteriorated significantly amid lower revenues caused by the fall in oil prices and the total war for market shares. The fall in oil and gas income accompanied by the need to support non-oil sectors hit by the global lockdown, triggered a significant budget deficit in the GCC countries. By 2021, this put countries like Kuwait at risk of running out of foreign exchange reserves, and Oman on the verge of a debt crisis. Given the dominant role of government institutions in financing the GCC economic development, reduction in oil revenues inevitably slowed down the implementation of the key development programs. Together with the slowdown in economic activity this led to negative GDP growth rates of the Arab monarchies in 2020 having significant impact on social

indicators.

Third, the ongoing pandemic threatens to slow down the development of the GCC oil and gas sector itself. On the one hand, national oil companies (NOC) had to revise and cut their expenditures for 2020 – 2021. The NOCs needed to reconsider their development plans not only due to decline in revenues. Their own governments also attempt to squeeze extra funds from the NOCs for the needs of socio-economic recovery, thus, deliberately depriving the national companies of assets that could be spent on development. On the other hand, during the protracted hydrocarbon market imbalance and very vague prospects for a rise in hydrocarbon prices, it is hard to expect foreign investors to be active in GCC oil and gas sector. The expected increase in government control over the Gulf economies and changes in tax regimes (such as a three-fold increase in VAT in Saudi Arabia) as a result of GCC austerity measures, will also have a negative impact on foreign investors' interest in the oil, gas and petrochemicals sectors.

Fourth, the pandemic also demonstrated the declining role of OPEC+ as a market regulator. This, in turn, negatively affects Saudi abilities to affect oil prices. The OPEC+ capabilities are insufficient for instant market stabilization. The subsequent recovery in demand as well as oil market rebalancing will be slow, depending on the dynamics of the COVID-19 pandemic.

Finally, the availability of a wide range of alternatives has made the threat of the physical disruptions of oil supplies from the Gulf less critical. Previously, mere oral threats by the Iranians about their readiness to block the Strait of Hormuz were enough to make world markets fluctuate in panic. By contrast, the ongoing tensions between the United States and Iran around the Gulf and continued threats by the Houthis and other Iranian proxies to Saudi oil infrastructure is of relatively little concern to the market today.

At the same time, the end of pandemic will not mean the return to the pre-COVID-19 normality either as the COVID-19 itself might not be a source of problems, but rather a catalyst. The roots of most of the above-mentioned issues go back in 2012-2015 being connected to two factors: the continuing impact of the US shale revolution on the global hydrocarbon market and the beginning of the global energy transition to non-carbon fuels. Driven by these factors, the growth rates in global oil supply have been steadily surpassing growth in oil demand since 2011 causing the markets' oversupply in recent years. Due to the specifics of shale oil production, neither the 2014-2016 price war waged by the KSA in an attempt to bankrupt its global rivals nor the subsequent OPEC+ efforts to regulate the market through the reduction of oil output could remove these extra barrels of supply. Not surprisingly, by the beginning of the pandemic the global oil market was already oversupplied. In 2020, even without the COVID-19 the volume of market supply was to surpass the demand by 2mbpd making the fall in oil prices inevitable (although not that drastic). In other words, the market oversupply that created alternatives to the Gulf suppliers and made any theories about the "uniqueness" of hydrocarbons irrelevant to the oil price formation emerged long before the coronavirus. Under these circumstances, it is not a coincidence that the new round of GCC socio-economic troubles de-facto began almost simultaneously with the rise of the US shale oil. The Arab monarchies have never fully recovered from the

2014-2016 fall in oil prices for the first time in history caused by the rise in shale oil output. After 2014, their GDP growth rates significantly dropped down occasionally demonstrating negative values and the oil incomes of the key players never returned to normal. These issues in turn bled into the ongoing geopolitical rivalries as well further complicating intra GCC relations and regional stability.

In addition to that, more frequent interchange between the periods of high and low oil prices increases chances for a "perfect storm". A natural decline in production under the pressure of falling oil prices caused by oversupply may more often than before coincide with a force majeure further suppressing demand and, thus, causing the market calamity due to unprecedented volume of available extra barrels. And this was exactly what happened when the Coronavirus pandemic began.

Contribution the Workshop Will Make to the Field of Gulf Studies

The top priority of this event is to offer a comprehensive view of recent sociocultural, economic and political developments in the GCC in the wake of regional geopolitical rivalries, unstable energy sector and an ongoing pandemic. This study will try to demonstrate that the GCC countries should not blame COVID-19 for their misfortunes. The pandemic merely amplified the negative impact of those processes that were launched long time ago. The meeting participants will argue that, under these conditions, it is impossible to expect that the end of the pandemic crisis will lead to a gradual return to the pre-COVID-19 situation, where social and political relations simply reset; and where the problem of Gulf energy security was solely related to the stability of consumers' access to the regional hydrocarbon. The world has entered an era of relatively low oil prices, frequent market fluctuations, limited potential for growth in oil demand, and intense competition. Whilst the experiences of the regional political rivalries will not simply evaporate because of the signing of the Al-Ula agreement or the shifting winds of political expediency. Subsequently, the old rules will not work effectively, and any solution to the problems currently experienced by the GCC countries should be focused not so much on fighting the consequences of COVID-19 itself, but on curbing the negative consequences of deep processes, whose damaging impact on the Arab monarchies was only worsened by the pandemic.

Draft of Workshop Agenda with Potential Paper Topics Outlined and Highlighted

Part 1. Gulf Hydrocarbons and New Realities

- COVID-19: Source of the Problems or just a Transformation Catalyst
- GCC Oil Industry Response to the Energy Transition Challenge
- GCC LNG Industry and the Global Energy Transition
- Renewable Energy Prospects in the GCC in the Post-COVID era

Part 2. Social and Economic Dimensions of the Oil Market Crisis

- Institutional Changes in the GCC
- GCC Sovereign Wealth Funds and the Oil Shock
- Falling Oil Incomes and Migrant Communities of the GCC
- Climate Change and the GCC: Social and Political Impact
- Social Change and the Challenge of New Identities in the Wake of Political and Economic Crises

Part 3. GCC International Relations and Security Issues During Period of Change

- Gulf Security during the Energy Transition Times: from the Security of Supply to the Security of Demand
- Iran, Saudi Arabia and the USA: Old New Triangle
- Issue of the Global Oil Market Recovery and the future of the OPEC+
- Security Challenges in the Gulf During the COVID Pandemic

Publication Plan

The proceedings of the workshop will be transformed in the collective volume published in Palgrave MacMillan publishing house. The expected length of the volume is between 80 and 100 thousand words. The submission of the first full drafts of the chapters to the book editor is expected on 31 August 2022. After the editors' revision, the authors will be given a month to make necessary corrections. The final drafts of the chapters is to be submitted by 15 December 2022. The final typescript is expected to be delivered to the publisher by 1 February 2023. This book is designed for a wide English-reading audience that will include researchers and academics interested in the topic of the GCC socio-economic and political development with a specific focus on the transformation of the Gulf hydrocarbon economies, social and political landscapes as well as post-doc students interested in GCC foreign and economic policies. The proposed book project also represents one of the first attempts to explain the impact of the COVID on the hydrocarbon economies of the GCC. Potential market competitors are mostly focused on the analysis of the socio-economic and political processes existed prior to the beginning of the pandemic.

Acknowledgement

By submitting this workshop proposal the workshop directors acknowledge that they have read and agree to abide by the Workshop Director Guidelines and Publication Guidelines