

### **Middle East Situation Destabilized Further**

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On July 11, the Committee for Energy Policy Promotion sponsored a Middle East seminar at the Keidanren (Japan Business Federation) Hall in Tokyo. As one of the panelists there, I presented a report on "International energy security and the Middle East situation" and participated in a panel discussion. The other panelists were NHK (Japan Broadcasting Corp.) news commentator Nobuhisa Degawa and Open University of Japan Prof. Kazuo Takahashi. IEEJ JIME Center Director Koichiro Tanaka chaired the panel discussion. The three are among Japan's representative experts on the Middle East. They made reports and discussions based on their deep analysis of international politics and relations, and the latest Middle East situation. In this sense, this seminar was very interesting and fruitful for me.

It may be needless to say that the Middle East is the gravity center of global energy supply in particular for oil and gas. In 2012, the Middle East produced 28.27 million barrels per day in oil (accounting for 33% of the global total), exported 19.7 million bpd in oil (36%), turned out 548.4 billion cubic meters in gas production (16%) and exported 131.4 billion cubic meters in liquefied natural gas (40%). The region has thus had large shares of energy exports. From the viewpoint of international energy trade, the Middle East has remained a far more dominant supplier than others. Various challenges and problems have emerged inside and outside the key region, shaking the international energy situation.

First, new developments have come regarding the Middle East's remarkable destabilization and growing geopolitical risks. The panel discussion at the seminar focused on rising tensions in Egypt and Syria after the Arab Spring democratic movement continued to shake the Middle East from early 2011. In Egypt, the rising democratic movement overthrew the Hosni Mubarak regime, paving the way for Mohammed Morsi to be elected president in June 2012. Since late last month or one year after the election, however, the Egyptian situation has been destabilized again. Anti-Morsi rebels intensified demonstrations, leading the Egyptian military to launch an effective coup where Morsi was dismissed as president and detained, with Supreme Constitutional Court head Adly Mansour nominated as interim president. While interim President Mansour has tried to stabilize his regime and make efforts for national reconciliation by announcing a future political schedule including parliamentary and presidential elections, the Muslim Brotherhood and other groups supporting Morsi have made strong protests and clashed with anti-Morsi groups. As the death toll in the clash reached 51 on July 9, the Egyptian situation remained tense.

The Syrian situation has also been very confused. The clash between the Bashar Hafez as-Assad regime and rebels has developed into a quagmire civil war, where even the number of victims is reportedly difficult to estimate. Behind the quagmire are complicated international relations involving Syria. While the United States and Europe seek to increase their pressure on the Assad regime, Russia and China have been negative about or opposed to the pressure. Iran and

Lebanon's Shi'a Islamic militant group Hezbollah support the Assad regime, while Persian Gulf countries are backing the Syrian rebels. Amid the complicated relations, the Assad regime has reportedly been rolling back temporary rebel gains. At the Middle East seminar, an emerging view was that new geopolitical risks including a cold war surrounding the Persian Gulf and deepening religious disputes have emerged in response to the Syrian situation. One seminar participant pointed out that national reconciliation, unification or stabilization in Syria is difficult to predict irrespective of how the Syrian situation will develop and that Syria in its strategic location in the Middle East could be "Balkanized."

Iran is expected to seek dialogue with the international community following moderate conservative Hassan Rouhani's victory in the recent presidential election. Given new sources of tensions in 2014 (including the expected start of operation of a heavy-water nuclear reactor next year in Arak, as well as the plutonium problem), however, the next international tensions in the Middle East are reportedly likely to emerge in Iran. Even in Iraq that has rapidly expanded oil production in the past years, the security situation has deteriorated since early this year, with deaths from terrorist attacks increasing substantially. Matters of concern have thus arisen in Iraq. As noted above, new developments of concern to us have come one after another regarding geopolitical risks in the Middle East as the world's oil and gas supply center. The presence and growth of tensions might have been recognized by oil market players as a new factor, contributing to the crude oil price hike since early July. The future Middle East situation will be a key factor exerting decisive impacts on the international energy market.

Second, energy problems inside and outside the Middle East have attracted attention from energy market participants throughout the world. Among these problems, the substantial expansion in energy consumption in the Middle East is becoming an important challenge that energy policy makers in Middle Eastern countries cannot ignore. For example, oil consumption in the region firmly increased by 2.9 million bpd (an average annual rate of 4.4%) from 2002 to 2012. Behind the growing oil consumption are increasing population, economic growth and policy-based low oil prices. An oil demand expansion at the recent pace could reduce surplus oil export capacity. In response to such possibility, the Middle East will have to increase oil production capacity or promote energy conservation and alternative energy development. As the shale revolution has led oil/gas producing countries in the Middle East to become cautious of expanding oil production capacity as explained below, energy conservation and alternative energy development are growing more important for these countries. As indicated through Prime Minister Shinzo Abe's visit to Saudi Arabia and the United Arab Emirates earlier this year, Middle Eastern countries are eager to promote energy conservation and alternative energy (nuclear and renewable energy) development and place great expectations on industrial countries' relevant experiences and technologies. A chance thus exists for Japan to deepen relations with the Middle East through energy cooperation.

The shale revolution has become a major external energy issue for the Middle East. A rapid expansion in unconventional oil and gas output is likely to exert various impacts on the Middle East as the leader of conventional oil and gas production/export. The impacts of an unconventional oil output expansion on the international oil supply-demand balance and of shale gas-based LNG exports on the Asian LNG market supply-demand balance are key factors that oil/gas producing countries in the Middle East must consider in planning and implementing pricing, sales and market strategies. Another matter of concern to the Middle East in this respect may be that the United States is going in the direction of energy independence under the shale revolution. As pointed out frequently, the United States is interested in not only the energy problem but also other various

matters in the Middle East. If a development in the Middle East works to destabilize the international oil market, it may be of great significance to U.S. energy security, irrespective of how the United States depends on oil imports. In this sense, it is very difficult to decipher the U.S. energy independence scenario's implications for the Middle East. But oil/gas producing countries in the Middle East have actually grown more interested in the U.S. energy independence scenario. Given many challenges for Middle Eastern countries, including how to maintain or enhance relations with the United States and how to develop relations with Asian countries (including China) that are deepening interdependent relations with the Middle East, the situation is complicated.

The Middle East as the gravity center of global energy supply is plagued with a number of complex and challenging problems domestically and externally. The future Middle East situation and major Middle Eastern countries' policies and strategies will structurally remain the most important for deciphering energy problems in the world.

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