Politics of Power

The Impact of Emerging Gas Dynamics on the Future of Cooperation in the Middle East

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Table of Contents

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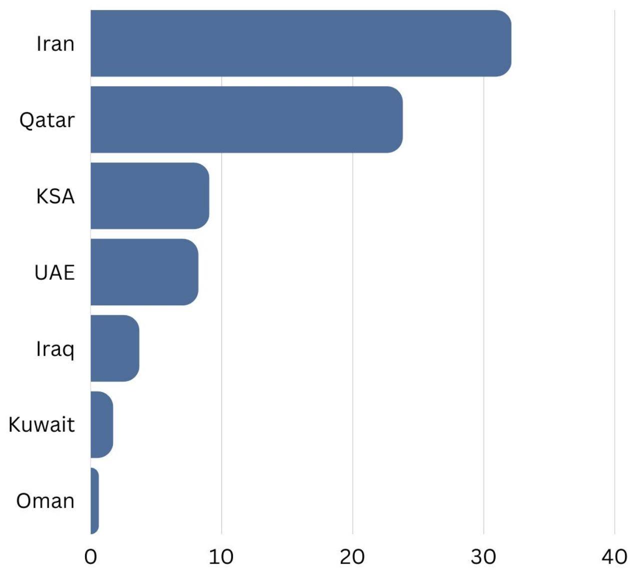
Background

The Middle East, long a focal point of energy geopolitics, has traditionally seen Iran and Qatar as dominant players in gas, while Saudi Arabia, the UAE, Iraq and Kuwait have primarily focused on crude oil. However, a transformative shift is now on the horizon, as Gulf nations venture into gas production. Beyond energy dynamics, the region is also navigating a new geopolitical landscape—one centred around improving inter-state relations in the region. Amidst the pursuit of fresh alliances, Saudi Arabia, the UAE, Kuwait, Iran, Iraq, and Qatar find themselves not only contending for energy supremacy, but also grappling with how their aspirations intersect with regional cohesion and partnership goals. As the global energy landscape evolves, the intricate policies of these nations are intertwined with their political and economic ties, requiring a delicate balance of competing interests.

Middle East's Proven Natural Gas Resources (b.c.m)



SOURCE: GECF, OPEC, ARAMCO, BOTHO ANALYSIS

SOURCE: GETTY IMAGES

Saudi Arabia's Shifting Focus to LNG

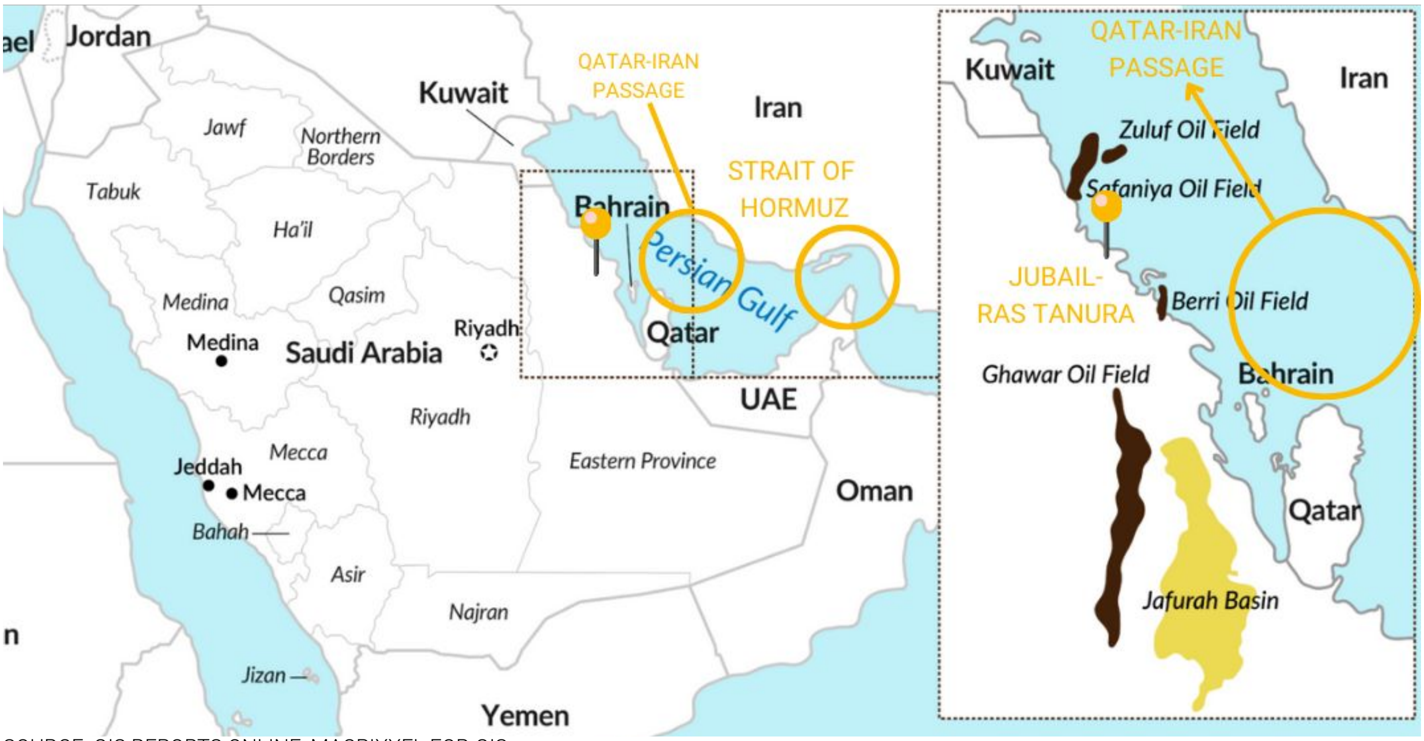
At the forefront of these developments, Saudi Arabia emerges as a key protagonist, with ambitions to harness its gas resources for economic growth. Saudi Arabia aims to increase its production of natural gas and renewables to reduce domestic fossil fuel consumption, potentially boosting oil exports by 1.5 million barrels/day if economical shale gas extraction succeeds.

To realize this ambition, the Kingdom's crown jewel, the state-owned O&G company, Saudi Aramco, has been in discussions with global energy giants TotalEnergies and Sinopec to establish a liquefied natural gas (LNG) export project utilizing the vast Jafurah Field. While the company initially showcased a commitment to greenfield blue hydrogen projects, there have been indications hinting at a tactical pivot towards elevating LNG exports to a prime position.

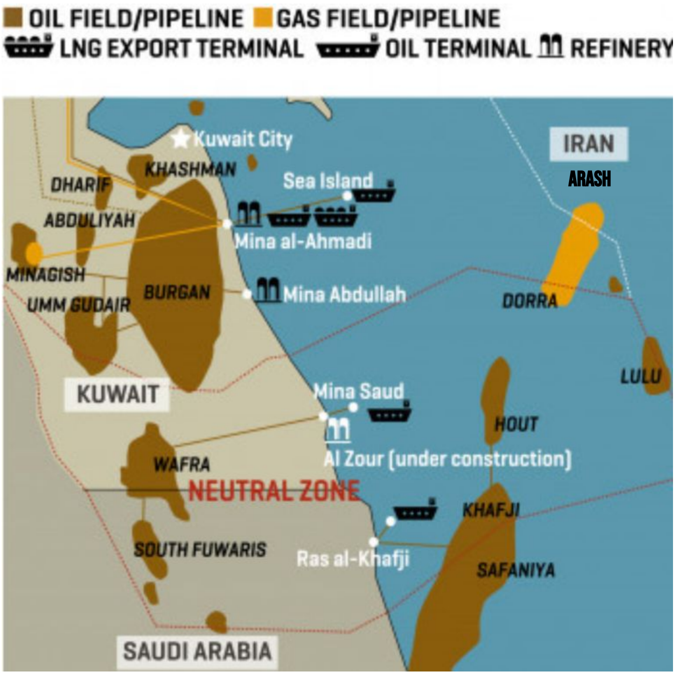
This strategic realignment casts a spotlight on Saudi Arabia's timely realization of LNG's meteoric ascent in the global energy mix. Commercializing this ambition, the Saudis have proposed locating the plant in Jubail-Ras Tanura. However, constructing the plant in this area could become a challenge, because it is already congested with crude tankers, Kuwaiti maritime traffic, and other international cargo and military vessels. Additionally, unlocking the treasure trove of exports demands passage through two geostrategically significant maritime routes, the Qatar/Iran passage and the Strait of Hormuz, the choke point through which about a fifth of global oil exports passes. Here, Saudi's new-found gas ambitions might clash with two other gas giants in the region, Qatar and Iran — nations with whom the Kingdom's relationship has been tumultuous over the years. It remains to be seen how Saudi handles its recent friendships with the countries as it prioritizes its own economic interests.

The Arash-Dorra Gas Field: Kuwait-Saudi-Iran Complexities

Another intricate facet of this evolving geopolitical puzzle revolves around the Arash-Dorra offshore natural gas field, which falls within the maritime boundaries of Kuwait, Iran, and Saudi Arabia. Tensions have arisen due to the lack of a resource-sharing agreement among these countries. Friendly neighbors, Kuwait and Saudi Arabia have tried pursuing the gas field jointly multiple times since the 1960s, with the most



SOURCE: GIS REPORTS ONLINE, MACPIXXEL FOR GIS recent declaration of ambition in March 2022. However, each time, these joint ambitions have attracted Iranian objection and Saudi-Kuwaiti counter-objection. As Iran and Kuwait once again sit down to negotiate this year, they now have the advantage of the new peace deal between Iran and Saudi, which could bolster the possibility of reaching an accord. However, the reconciliation between Saudi Arabia and Iran is still in its early stages, and no significant commitment has been made to tap into the potential 1 billion cubic feet per day (cfd) of gas resources shared among the three nations. As diplomats sit around the negotiation table, the outcome has the power to sway the tides of Iran's cohesion with the Gulf Cooperation Council (GCC) states. A possible agreement will herald a new era of economic cooperation for the three countries and global gas markets.

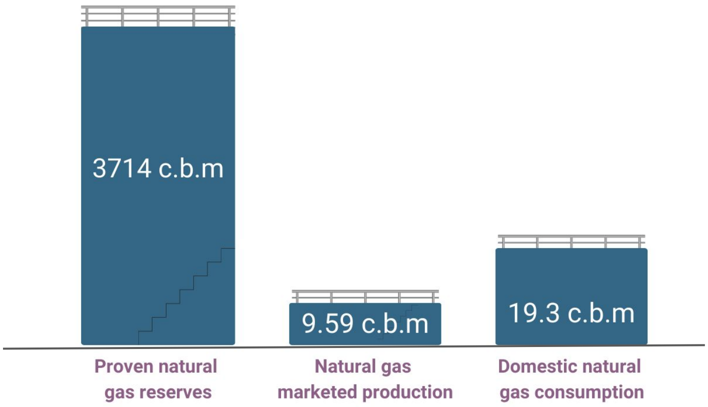


SOURCE: MEES

Iraq's Quest for Gas Independence and Regional Cooperation

Iraq, a nation marred by decades of conflict and instability, is striving to capitalize on its gas resources to address pressing economic and environmental challenges. Iraq's gas-flaring crisis involves daily flaring of 16 billion cubic meters of gas, 0.5% of global production, to power Iraq's oil sector. This wastage along with underutilization of existing proven gas reserves of 140 trillion cubic feet (Tcf) makes Iraq dependent on Iran for its LNG supply. Despite the abundance of gas reserves, corruption has hampered energy projects, leaving Iraq heavily dependent on Iranian gas for electricity production, while the gas flaring continues to pose a health and environmental risk.

Iraq's Natural Gas Paradox



SOURCE: GECF, BOTHO ANALYSIS

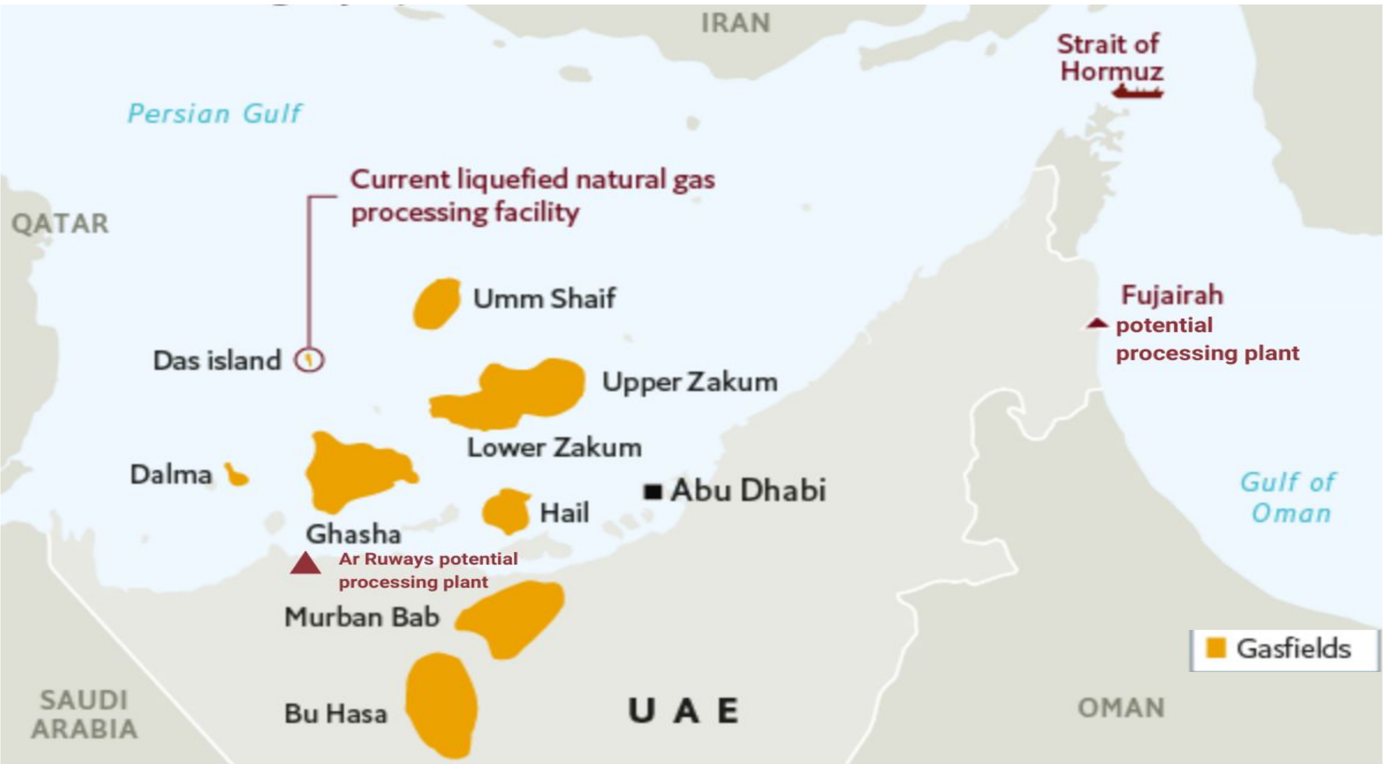
Additionally, Southern Iraq's autonomous Kurdistan region boasts of 200 tcf of gas reserves. However, unlocking these natural gas assets in the country necessitates substantial investment, estimated at around US$17 billion, in a geopolitically sensitive region. Herein lies an opportunity for cooperation with Arab Gulf companies keen on investing in Iraq's energy sector. One notable example is Saudi Aramco's commitment to develop and operate the Akkas gas field, situated in Anbar province near Iraq's borders with Syria and Saudi Arabia. Until the recent wave of reconciliation in the Middle East, Saudi Arabia had shown little enthusiasm for bolstering ties with Iraq, a relationship clouded by the aftermath of the Gulf War. If successful, this project could reduce Iraq's reliance on Iranian gas by 2025, marking a crucial step towards greater energy independence, while also bolstering its relationship with the Saudis. Additionally, Iraq has recognized the need to court its other Gulf neighbors for investments. Qatar's QatarEnergy and the UAE's TAQA and Crescent Petroleum, have signed deals to explore gas extraction in Iraq. Hence, as Iraq pursues its gas independence ambitions, investments from the more economically resilient Gulf neighbors remain crucial.

The UAE's Bid to Reset Its Gas Paradox May Reset Regional Gas Trade Dynamics

The UAE grapples with a unique gas paradox. Home to the world's 9th largest gas reserves, it paradoxically became a net LNG importer in 2007. To reverse this trend and transition to net exporter status by 2030, the UAE has undertaken strategic policy shifts. Spearheading these ambitions is state-owned ADNOC, the world's 12th-largest oil company. To fulfill the UAE's vision of self-sufficiency and net exports, Adnoc has embarked on a range of initiatives, encompassing:

- Expanding domestic gas production with new gas discoveries, increasing the country's reserves by 16 trillion cubic feet in 2022.
- Upping its international gas assets with foreign investments, including Israeli offshore gas producer NewMed Energy and Azerbaijan's Absheron gas and condensate field in the Caspian Sea.
- Trimming domestic natural gas consumption through innovative measures: capping gas use in oil production, amplifying renewable energy resources for local energy needs, and scaling back electricity subsidies

LNG self-sufficiency holds paramount importance for the UAE, especially considering its primary gas supplier. Prior to the Qatar blockade, the UAE relied on Qatar for 26% of its gas needs through the Dolphin pipeline. Although Qatar maintained supply during the blockade, it underscored the UAE's energy vulnerabilities. Gulf pipelines, including the Dolphin pipeline, passing through Saudi territorial water have remained a contentious issue for the Kingdom. Similarly, the UAE's exports, similar to potential Saudi LNG exports, encounter issues around strategic locations. While Fujairah, initially considered for LNG exports, avoids the Hormuz choke point, the final choice, Ruwais, aligns in proximity with ADNOC's main site. Overcoming these challenges and expanding LNG capacity to 25 million tons/year would position the UAE ahead of Oman (11 million tons/year), unlocking European exports. These exports are likely to compete with Qatar, which has been the go-to for European gas needs post the Russia-Ukraine conflict. Additionally, while Qatar will remain the pivotal Gulf player at the Gas Exporting Countries Forum (GECF), come 2027 when the UAE expects its gas dreams to be realized, the UAE may emerge as a dark horse.

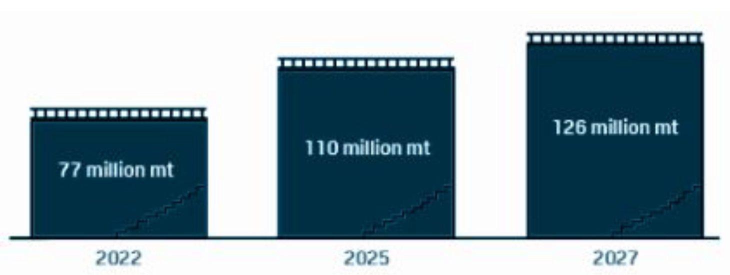


SOURCE: EIU

The Qatar and Iran Factor: Gas Giants May Band Together to Consolidate Influence

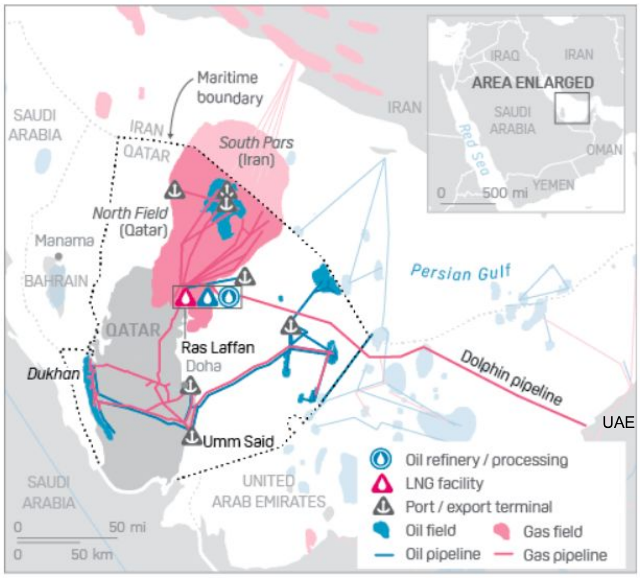
As the Middle Eastern countries look to develop their gas resources, it is impossible to ignore Qatar and Iran. In recent years, both Qatar and Iran have had a love-hate relationship with the other Gulf countries, albeit to varying degrees. As the chief gas producer in the Gulf, Qatar exports gas to many of its regional peers, including the UAE, Oman and Kuwait. Qatar's annual target output is equivalent to 33% of all LNG traded worldwide in 2021. If any of the Gulf countries want to commercialize their gas reserves and build export markets, it's unlikely that they can ignore Qatar, be it for investments, market competition, or cooperation, especially given that Qatar has one of the lowest gas production costs in the world, at $5/MMBtu. Additionally, Qatar hosts the GECF, also touted as the Gas-OPEC. The GECF members together control over 71% of the world's natural proven gas reserves, 44% of its marketed production, 53% of the pipeline, and 57% of the liquefied natural gas (LNG) exports across the globe. Unlike OPEC, GECF lacks coordinated production efforts, yet calls for similar restructuring have arisen, propelled by Russia and Iran. For Iran, GECF holds promise to sway Gulf reconciliation in its favor. Despite holding the second-largest global gas reserves at 1,200 trillion cubic feet, Iran's strained regional ties hampered gas trade, unlike Qatar. Yet today, it stands at an inflection point. Gulf reconciliation may not yield major LNG export contracts immediately, but it could give Iran enough wiggle room with the Gulf countries to transform GECF into an OPEC-style cartel. Iran and Russia's

Qatar's Export Capacity Set To Expand



SOURCE: S&P GLOBAL INSIGHTS

recent gas cooperation MoU paves the way for this, as Russia has committed to examining "all opportunities to encourage other major gas powers in the Middle East to join in the gradual roll-out of the 'Gas OPEC' cartel". With Qatar's expanding gas resources and Iran's proximity to Russia and its own vast reserves, a gas OPEC is nearing reality, making these two LNG players impossible to overlook in the region.



Sources: S&P Global Platts Analytics, EIA, IHS EDIN, CIA, NOAA

Conclusion

Amid shifting energy dynamics and evolving geopolitical landscapes, the Middle East finds itself at crossroads, where the convergence of gas ambitions and geopolitics could redefine the region's trajectory of cooperation. As the Middle East diversifies its energy portfolios, countries across the region, including Oman, are ramping up their gas production. As regional geopolitics enmesh with global ones — China's bid to play the mediator role, Russia eyeing leverage through GECF, and the US and Israel's skepticism of the return of Iran to the fold — geopolitics will play a major role in how the Middle East develops its LNG portfolio. Navigating this geopolitically charged landscape, the future of natural gas hinges on the harmony of interests, where the realization of shared ambitions and cooperative frameworks could usher in an era of stability, prosperity, and mutual growth.

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