

EUCERS Newsletter

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Introduction

Dear readers and friends of EUCERS,

It is my great pleasure to welcome you to the short summer edition of the EUCERS newsletter.

In this edition, we present you with two articles.

In the first article, Maciej Hacaga, a researcher at the Institute for Security, Energy and Climate Studies in Warsaw, explains how Poland's geographical position determines its energy politics.

In the second article, Benjamin Abbs, the recipient of the 2016 EUCERS undergraduate fellowship, describes his vision of the choices that Saudi Arabia has to make in the upcoming years and how these might affect the oil markets.

Furthermore, the newsletter will inform you about the recent activities at EUCERS, including a report on the launch of the joint EUCERS/King's Russia Institute study by Andreas Goldthau on Nord Stream 2.

Feel free to keep us informed about your research projects and findings as we look to remain at the forefront of new knowledge and innovative ideas.

Thank you for your interest in EUCERS and for being part of our community.

Yours faithfully,

Thomas Fröhlich

EUCERS Newsletter Editor

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ARTICLES

Poland's lock-in. How geography shapes its energy choices

By Maciej Hacaga

Geography is a major factor shaping the ways Polish citizens think about security policies, including energy security policy. It operates on two levels. Firstly, geography has determined Poland's tragic history and puts security concerns at the centre of public debates, including about energy. Secondly, Poland has been endowed with extensive coal deposits. This ensures high levels of energy independence and allows its government a somewhat autarchy-oriented energy policy. This causes tensions as a future European energy market that is based on renewables, requires coordination while coal based national markets (including the Polish one) can operate independently.

A history that is shaped by geography has a stronger impact on Polish citizens perceptions than most Europeans would imagine. The existence of Poland – located at the centre of Europe – has been put in question several times in the last two centuries. It was attacked by its neighbours, subjected to partitions and disappeared for more than a century. Intellectuals from neighbouring countries argued for its subjugation and even called for eradication of Poles, treating them as racially inferior. Between 1939 and 1945 Poland lost about one fifth of the pre-war population. No other European state, except of Nazi Germany and Soviet Russia, both aggressors against Poland, suffered similar losses. Moreover, the lack of any real action of Polish allies, despite their written commitments, created a permanent feeling of being left alone. A tough past keeps the government distanced from deep cooperation and remains – as seen from the outside - over-sensitive on security issues. And Polish leaders who are accountable to their citizens, members of a nation that lost 20 per cent of its pre-war population, must accommodate these deep-seated fears. Hence, it is believed within the current ruling party that the Polish state cannot fully rely on its neighbours nor European allies and therefore it should pursue self-reliant policies. The concept of “[Polish energy sovereignty](#)” has been introduced into the debate by Piotr Naimski, an energy expert who holds the position of Secretary of State at the

Maciej Hacaga is a research assistant at the Institute for Security, Energy and Climate Studies, a Warsaw-based think tank. He holds academic degrees from the London School of Economics, University of Vienna and University of Warsaw. His core academic interest lies at the intersection of security and energy issues. He has worked for Polish NGOs and completed a placement in the Polish diplomatic service.

Chancellery of the Prime Minister and Government Plenipotentiary for Strategic Energy Infrastructure. In [his own words](#) “sovereignty nowadays can be measured, among else, by the state’s ability to practice independently its national energy policy and to unable influence from other states, organizations or international corporations which act for their own business, not necessarily the same as ours”. The idea of significant decrease of dependence on Russian energy resources has been heard in Poland for years but it has only gained momentum recently, due to aggravated international situation in the region.

However, to be materialized, ideas need means. This is where – again – geography comes into play. Poland disposes of one of the largest coal deposits in Europe. It is Europe's biggest hard coal producer and was once one of the world's leading suppliers, currently the tenth largest producer worldwide. Without vast coal reserves “Polish energy sovereignty” would neither be credible nor possible. Hence coal is critical for Poland to achieve its political goal of a certain level self-reliance. Independence, in the field of energy, is quite often understood as a synonym of security. [According to Eurostat](#), the EU as whole has continuously stayed above 50% of energy dependence since 2004. Differently, Poland's dependency fluctuated between 2007 and 2014 around 30%, reaching the tipping point at the level of merely 33.4%. This is almost half compared to Germany. Hence, it has been and will be a difficult task to convince Poles that coal is not connected with their security.

Coal is currently seen in Poland as a tool to stay on the path to protect the country from external influence, but its dominion is slowly coming to an end. Availability of coal reserves was assessed in between [nearly 18 to 39 years](#) and a [sudden collapse of coal mining sector is projected](#) in the next 10 to 15 years. Will Poland give up its inward

looking energy policy? Certainly not. Current geopolitical turbulences are already strengthening inward looking tendencies within the country. On the energy market subsidized German energy and uncontrolled loop flows from Northern to Southern Germany push through Poland and destabilize the grid – a situation that discourages the Polish energy establishment from supporting further integration. It also hampers [keeping power generation profitable](#) and obstructs [energy generation capacities replacement](#), both necessary for the preferred independence. Tensions between depletion of domestic reserves and the pursuit of self-reliance, goals and means needed to achieve them, are to be seen in the future.

The Polish government is already looking into how to increase domestic energy production. It has recently presented a [Strategy for Responsible Growth](#), a comprehensive annual strategy paper that was introduced when the Law and Justice party won the general election. In its energy section, the document provides support for new generation capacities based not only on coal but also on nuclear and renewables. Shale gas and coal gasification technologies will be developed in order to decrease dependency on a dominant foreign supplier, namely Russia. Not surprisingly, one would not find the same level of support for transnational electricity infrastructure as for gas infrastructure development in the document.

When seen from the energy policy triangle perspective, for Poland security is on top, economic performance comes in second and the environment is of least priority. The current fractures in the international security order will only strengthen this hierarchy in Poland. In effect more tensions will emerge on how to address the EU climate policy in the short to middle term. When limits of coal deposits will be reached in the future Poland's pursuit of self-reliance will probably shift to locally produced renewables. In effect, synergy may be achieved between the EU's environmental policies and Polish energy security policy over the long term.

The Future of Saudi Arabia and the Oil Market: the curse of a rentier state and the need for an oil price rise.

By Benjamin Abbs

It is a distinct possibility that the future global oil market will be heavily affected by events in Saudi Arabia. This article illustrates the nature of issues within Saudi Arabia, how it intends to deal with them, and the pressures and contradictory aims that will make this more challenging. This outlines the possible influences on the oil market and the implications for the energy security of oil importers and exporters.

Saudi Arabia produced 13% of the world's oil in 2015, and has the second largest proven reserves in the world.¹ However, it is faced with significant domestic political challenges which have been largely caused by its reliance on oil. These have been exposed since 2014 by the oil price drop, and can no longer be ignored.² Saudi Arabia's economy is not providing sufficient employment, and the political legitimacy of the state is being eroded; if unresolved, these problems could result in political instability. Saudi Arabia's comprehensive solution is its 2030 Vision Plan, but as this article shall illustrate, the needs of domestic and foreign policy contradict each other and external pressures will make delivery of the Plan challenging.

A high oil price is needed to fund domestic reforms, but low oil price is a current cornerstone of Saudi Arabia's foreign policy. Thus, there is scope for Saudi Arabia encouraging both a low and high oil price. In the long-term, it seems likely that events in Saudi Arabia will encourage a rise in oil price as domestic problems take precedence, by choice, and if not, by force. How dramatic or controlled the oil price rise will be will depend on how events unfold in Saudi Arabia, whether the rise is driven by policy, as it funds its domestic reforms, or by instability, if domestic problems promote unrest.

¹<http://www.statista.com/statistics/282742/worldwide-oil-production-share-by-country>, accessed 19/07/2016.; <http://www.statista.com/statistics/237065/share-of-oil-reserves-of-the-leading-ten-countries/>, accessed 19/07/2016.

²<http://www.economist.com/blogs/economist-explains/2014/12/economist-explains-4>, accessed 26/07/2016/

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Internal problems

Saudi Arabia possesses many qualities of a 'rentier state'. This theory seeks to explain the state-society relationship when the majority of State revenue is generated through direct purchasing of indigenous resources by external clients; in 2015, 80% of Saudi Arabian government revenue was generated by oil.³ Therefore, the State is autonomous and financially independent from its population and is able to forego serious domestic tax. The State acts as a distributor, directing money, that is largely 'effortlessly accrued' rather than generated, into society.⁴ This promotes an inefficient and an insufficient economy and an unsustainable political system. Reliance on oil has disfigured Saudi Arabia's socio-economic structure generating two challenges for political stability: a need to maintain political legitimacy and an emerging crisis with an increasingly unemployed and disgruntled, young population. Reducing direct dependence on oil revenue will alter Saudi Arabia's economic and state structure, fixing these problems and creating a more sustainable and secure economic and political system. This is crucial in light of the oil market's unpredictability and questionable future. The extent of these problems, and pressures facing Saudi Arabia will make this a treacherous journey. Any domestic instability could have serious implications for the oil market and thus oil-importing countries.

The 2030 Vision Plan acknowledges these issues and aims to create a sustainable State with a thriving economy, vibrant society and improve its comparative standing among nations. The central strategies of the Plan to resolve the economic issues are: raising non-oil government revenue from SAR163 billion to 1 trillion,

³H. Mahdavy, 'The Patterns and Problems of Economic Development in Rentier States :the case of Iran', in M.A. Cook (eds.), *Studies in the Economic History of the Middle East*, (London, 1970),428-429.; Matthew Gray, *A Theory of 'Late Rentierism' in the Arab States of the Gul*, Centre for International and Regional Studies, (2011),1-3.; <http://nationalinterest.org/feature/Saudi-Arabia-arabias-bold-new-oil-strategy-could-backfire-16515?page=2>., accessed 19/07/2016, accessed 25/07/2016; <http://www.forbes.com/places/saudi-arabia/>, accessed 25/07/2016

⁴H. Bablawi, 'The Rentier State in the Arab World', from *Arab Studies Quarterly*, 9(4),383-384.

increasing taxation, improving the effectiveness of government, lowering unemployment, and raising the share of non-oil exports from 16% to 50% of GDP. The Plan presents the State as socially caring to maintain legitimacy and popularity; for example, stating an aim to improve life expectancy from 74-80 years, increasing the amount of exercise of citizens and the amount households spend on cultural and entertainment activities.⁵ It proposes funding much of the reforms by selling 5% of Aramco to contribute to creating a \$2 trillion sovereign wealth fund. One would expect Saudi Arabia to encourage a high oil price before this sale.⁶

The Domestic Crisis

With wealth concentrated in the government, much of the population aspire to accessing wealth through public sector jobs rather than business generation. Government jobs are notoriously undemanding but well paid.⁷ The scale of oil revenue, is dis-proportionate to the economic opportunities it provides for the majority of the population, and is independent of input or success from the local economy. Consequently, the economy is poorly diversified and inadequately accommodates the employment needs of the populace, there is a human capital deficiency, and the State is inexperienced in developing the wider economy. A senior advisor to the Deputy Crown Prince Bin Salman stated that the government squanders \$100 billion a year due to inefficiency.⁸ In 2013, before the oil glut, 88% of Saudi Arabia's total exports came from oil.⁹ If oil is excluded, Saudi Arabia exported \$1694.44 per capita in goods and services in 2013; comparing poorly to \$1924.05 per capita from Turkey and \$20,000 per capita from Finland.¹⁰ The young workforce is particularly affected; unemployment among 16-29 year olds is 29%. As 37% of the population is under fourteen, it is estimated three million new jobs need to be created by 2020 to provide

⁵<http://www.vision2030.gov.sa/en/goals>, accessed 26/07/2016.; <https://www.theguardian.com/world/2016/apr/25/saudi-arabia-approves-ambitious-plan-to-move-economy-beyond-oil>, accessed 29/07/2016.

⁶ <http://economictimes.indiatimes.com/news/international/business/saudi-arabia-to-sell-less-than-5-of-aramco-create-2-trillion-fund/articleshow/51980935.cms>, accessed 30/07/2016.

⁷<http://www.nationalreview.com/article/433251/saudi-arabia-needs-change-course>, accessed 19/07/2016.

⁸<http://lb.shafaqna.com/EN/LB/1685360>, accessed 19/07/2016.

⁹Saudi Arabian Ministry of Finance, *Budget Report 2013*, (Ridyah, 2013).

¹⁰Divide country population by total exports minus oil exports - <http://www.oecd-ilibrary.org/docserver/download/2c072063-en.pdf?expires=1467210639&id=id&accname=id36301&checksum=390BEF407F832BD9B931E9FBDD0887F1>, accessed 19/07/2016; <https://www.gov.uk/government/publications/turkey-latest-killer-facts-about-the-economy/turkey-latest-killer-facts-about-the-economy>, accessed 19/07/2016.

for those entering the workforce.¹¹ Further, a study by the Boston Consulting Group indicates an inept education system; 63% of Saudi Arabia students attain degrees that are not useful in the private sector.¹²

A Lacking State Composition

Hootan Shambayati notes that 'rentier states' must seek legitimacy in ideological or cultural forms instead of by measures of economic growth. From the citizen's perspective oil revenues do not result from government policy, the state merely has to 'keep the tap flowing'; many perceive oil revenue as a 'gift from God' to be distributed among citizens.¹³ The twin foundations of Saudi Arabia's legitimacy are material rewards and future salvation, 'cradle-to-grave' welfare provisions and religious endorsement by the orthodox Wahhabi religious establishment.¹⁴ These sources of authority are waning.¹⁵ The welfare system cannot be funded and Wahhabi Islam is an increasingly less tangible unifying force.

The extensive social welfare offered by Saudi Arabia is not a sustainable pillar of authority because it is reliant on an unpredictable income. While Saudi Arabia has considerable influence over the oil market through OPEC it cannot control oil price which remains a commodity on global markets affected by unforeseeable events and other state policies. Saudi Arabia's foreign policy may have encouraged a lower oil price, but it could not, for example, control increasing production from US shale, Canadian and Russia production, the re-entry of Iran into the market, and the slowdown of major economies, which have forced the price even lower.¹⁶ During the 2011 Arab Spring, Saudi Arabia dealt with growing unrest of citizens seeking political liberalisation, by announcing a \$10.7 billion benefit package.¹⁷ Today,

¹¹<http://www.ibtimes.com/Saudi-Arabia-arabias-youth-unemployment-problem-among-king-salmans-many-new-challenges-after-1793346>; 8, accessed 19/07/2016.

¹²https://www.bcgperspectives.com/content/articles/public_sector_community_economic_development_what_matters_most_Saudi_Arabia_arabias_youth/?chapter=5#chapter5; <http://www.ibtimes.com/Saudi-Arabia-arabias-youth-unemployment-problem-among-king-salmans-many-new-challenges-after-1793346>, accessed 19/07/2016.

¹³Hootan Shambayati, 'The Rentier State, Interest Groups, and the Paradox of Autonomy', *Comparative Politics*, Vol.26, No.3(1994),307-308.

¹⁴<http://www.energypost.eu/saudi-arabia-needs-realism-2030-vision/>, accessed 29/07/2016.

¹⁵<http://www.nationalreview.com/article/433251/Saudi-Arabia-arabia-needs-change-course>, accessed 19/07/2016.

¹⁶<https://www.weforum.org/agenda/2016/05/why-are-oil-prices-so-low/>, accessed 26/07/2016

¹⁷<http://www.aljazeera.com/news/middleeast/2011/02/2011223105328424268.html>, accessed 19/07/2016.

the criticism and opposition remain but the present low oil price means Saudi Arabia must cut back its welfare budget; in 2015 Saudi Arabia had a budget deficit of \$98bn compared to a surplus of \$103bn in 2012.¹⁸ In its 2016 budget Saudi Arabia has introduced austerity measures and cut state subsidies. Such changes will be unpopular with a society conditioned to high state benefits.¹⁹

Relying on legitimacy through orthodox Sunni-imbued policies and laws has increasingly become less viable. It has, and will continue, to generate unrest among Saudi Arabia's Shia minority, which makes up 15% of the country, and those who hold more secular beliefs.²⁰ Moreover, this authority is disputed; Saudi presents itself as the protector of the faith against heretics, such as Iran, and so must maintain the 'gold standard' of religious orthodoxy in the world, yet this reputation has come under fire from the rise of Islamic Extremism.²¹ Between 2003 and 2006 Saudi Arabia was the scene of street battles with hundreds dead as members of the Sunni population became inspired by the more orthodox Al-Qaeda narrative and opposed the Saudi Arabian State.²² Today, the extreme orthodoxy of ISIS challenges this form of authority.

Crucially, the influence of the Wahhabi faith in political affairs needs to be curbed to successfully implement all aspects of the 2030 Vision plan; this will not happen while the State relies on it for legitimacy. There will likely be a cultural backlash from conservative Wahhabis against all, or aspects of, the Plan because of some liberal policies, such as supporting more women in the workforce.²³

External Pressures

External issues facing Saudi Arabia encourage it to follow a foreign policy that exacerbate its domestic problems, increasing the challenge of resolving internal issues amicably through its 2030 Vision Plan.

The effects of Global warming are a significant challenge to Saudi Arabian stability. The natural environment in Saudi Arabia is becoming increasingly inhospitable, whilst simultaneously the population is set to grow from 32 million to 60 million by 2050.²⁴ The Gulf saw one of its worst heatwaves in 2015 and temperatures in the Middle East are predicted to reach fatal levels on a regular basis by 2070.²⁵ As changes emerge disruption to economic life and provision of citizens vital needs will occur long before these temperatures are reached on a regular basis.²⁶

Simultaneously, global warming is creating a regional milieu, which threatens domestic stability and absorbs Saudi Arabian resources. Environmental pressures, particularly water scarcity, have exacerbated sectarian violence and conflict between those with differing religious and secular beliefs, and destabilized much of the MENA (Middle East and North Africa) region. The current civil war in Yemen started in Taiz, the most water-stressed city in the country, and hydrologists predict Yemen will be the first contemporary country to run out of usable water.²⁷ Droughts in Syria between 2006-2010 forced farmers to move to cities, forming a disgruntled, largely unemployed group who became the core of the 2011 uprisings, which started the Syrian civil war. In 2011 political turmoil in Saudi Arabia did not escalate seriously, which would have affected the oil price, because Saudi Arabia was awash with petrodollars to 'bribe' the population. As an orthodox Sunni State, with a 15% Shia minority, and a growing younger population exposed to secular ideas via the internet, it is easy for interaction between, and proximity to, these events to affect Saudi Arabia.²⁸ Indeed, the Yemeni intervention and the ISIS suicide bombing in Medina on the 5th of July illustrate this point.²⁹

The policies that oil-importing countries are pursuing to combat Climate Change threaten Saudi Arabia's oil-demand security, with potential to threaten its economy

¹⁸<http://www.bbc.co.uk/news/business-35188807>, accessed 19/07/2016; <http://www.bbc.co.uk/news/business-35188807>, accessed 19/07/2016.

¹⁹[https://www.theguardian.com/world/2015/dec/28/Saudi Arabia-arabia-spending-cuts-oil-prices-budget-deficit](https://www.theguardian.com/world/2015/dec/28/Saudi-Arabia-arabia-spending-cuts-oil-prices-budget-deficit), accessed 19/07/2016; [http://www.nationalreview.com/article/433251/Saudi Arabia-arabia-needs-change-course](http://www.nationalreview.com/article/433251/Saudi-Arabia-arabia-needs-change-course), accessed 19/07/2016.

²⁰[http://foreignpolicy.com/2014/12/03/Saudi Arabia-arabia-has-a-shiite-problem-royal-family-saud/](http://foreignpolicy.com/2014/12/03/Saudi-Arabia-arabia-has-a-shiite-problem-royal-family-saud/), accessed 19/07/2016.

²¹[http://www.theglobalist.com/understanding-Saudi Arabia-arabia-the-legitimacy-paradox/](http://www.theglobalist.com/understanding-Saudi-Arabia-arabia-the-legitimacy-paradox/); the two faces of Saudi Arabia, accessed 19/07/2016.

²²[http://www.nationalreview.com/article/433251/Saudi Arabia-arabia-needs-change-course](http://www.nationalreview.com/article/433251/Saudi-Arabia-arabia-needs-change-course), accessed 19/07/2016.

²³<http://blogs.reuters.com/faithworld/2016/04/27/saudi-reform-plans-flirt-with-social-change-risk-wahhabi-backlash/>, accessed 29/07/2016.

²⁴http://www.photius.com/rankings/world2050_rank.html, accessed 19/07/2016.

²⁵<https://www.theguardian.com/environment/2015/oct/26/extreme-heatwaves-could-push-gulf-climate-beyond-human-endurance-study-shows>, accessed 19/07/2016.

²⁶<https://www.theguardian.com/sustainable-business/global-water-crisis-politics-business-security>, accessed 19/07/2016.

²⁷<https://www.cigionline.org/articles/yemen-water-and-conflict>, accessed 19/07/2016.; <https://www.theguardian.com/global-development-professionals-network/2015/apr/02/water-scarcity-yemen-conflict>, accessed 19/07/2016.; <http://europe.newsweek.com/world-will-soon-be-war-over-water-324328?rm=eu>, accessed 19/07/2016.

²⁸<http://www.globalsecurity.org/military/world/gulf/sa-shia.htm>, accessed 19/07/2016.

²⁹<http://www.bbc.co.uk/news/world-middle-east-36706761>, accessed 19/07/2016.

and international influence. In February 2016, the European Union presented its sustainable energy package, which focuses on using gas as a cleaner fossil fuel.³⁰ OPEC predicts that oil will drop from a 31% energy market share to 25%, and gas will rise to 28%, by 2040.³¹ Moreover, emerging markets, a major force in oil demand, are increasingly looking to renewable sources; in 2016, for the first time, developing nations invested more in clean energy than developed nations, \$156bn compared to \$130bn.³² New energy forms do present an opportunity for Saudi to diversify its economic structure in support of the 2030 Plan, the country is a significant investor in renewables.³³ However, this will be dependent upon the wider success of all aspects of the 2030 Plan.

The increased pressure from Western liberal culture will also add to Saudi Arabia's sense of threat and isolation. In *The Clash of Civilisations*, Samuel Huntington predicted global politics would be increasingly defined by cultural values in the 21st century.³⁴ Relations between Saudi Arabia and the West, Saudi Arabia's 'old friends', are increasingly strained; Obama openly accused Saudi Arabia of provoking sectarian conflict in the region and has questioned its value as an ally; Saudi Arabia has not appreciated the liberal U.S. policy towards Iran with the recent Nuclear deal.³⁵ Relations are particularly strained as Western foreign policies' become imbued with a humanitarian, liberal, ideology from their own societal pressure. Justin Trudeau, the Prime Minister of Canada, has come under increasing pressure to cancel a \$15bn sale of armoured cars to Saudi Arabia, because of allegations that they may be used against civilians.³⁶ Saudi Arabia's harsh humanitarian record has come under sustained fire by the West; most recently the flogging of the blogger Raif Badawi.³⁷ Challenging the morality of Saudi Arabia's religious laws undermines the core of the State's legitimacy, its

religion. Criticism from foreign states also fuels the already present domestic problems as Saudi Arabia is increasingly exposed to secularism and pluralistic liberalism through social media. Saudi Arabia has the most developed internet censorship in the Arab world, but after Egypt, it also has the highest number of bloggers who use pseudonyms to avoid being persecuted for writing 'immoral' material. Policing the internet is somewhat like nailing jelly to the wall, and as 2011 shows, new political ideas are permeating Saudi Arabia.³⁸

An Antagonistic Foreign Policy

A sense of isolation and external threat, combined with a quest to maintain domestic support, could, and is, pushing Saudi Arabia to pursue a more assertive, independent foreign policy to cement its regional and global standing. In an interview with *The Economist* in May, Crown Prince Mohammed said he envisions "A Saudi Arabia with a very strong place in the world".³⁹ Saudi Arabia's foreign policy is characterised by using its influence in OPEC and as a major oil producer to encourage a low oil price, to defend its market share against rising competition, and a sectarian ideology, which is a platform to pursue regional hegemony and global influence.⁴⁰ However, this foreign policy and the 2030 Vision Plan are antagonistic; even if an assertive foreign policy momentarily distracts the population, it hinders resolving, and in fact exacerbates, domestic problems.

Its regional policies are imbued with orthodox Sunni undertones. As Oxford University's Toby Matthiesen said, 'Sectarian and Anti-Iranian sentiment is always a good tool to distract from problems'.⁴¹ This manifested itself in a Saudi Arabia-Iran Cold War along sectarian identities, characterised by the Yemen quagmire, proxy fighting in Syria and most recently the execution of the

³⁰EUCERS Newsletter, issue 52, (March,2016),2-3.

³¹OPEC Secretariat, *World Oil Outlook*, (Vienna, 2015),59.

³²<http://raconteur.net/sustainability/developing-countries-lead-in-clean-energy>, accessed 19/07/2016.

³³<http://www.theatlantic.com/magazine/archive/2015/07/saudis-solar-energy/395315/>, accessed 30/07/2016.

³⁴Samuel Huntington, *The Clash of Civilisations and the Remaking of World Order*, (New York,1996),1-32.

³⁵[http://www.cfr.org/Saudi Arabia-arabia/future-us-Saudi Arabia-relations/p38064](http://www.cfr.org/Saudi-Arabia-arabia/future-us-Saudi-Arabia-relations/p38064), accessed 26/07/2016.; [http://www.cfr.org/Saudi Arabia-arabia/new-Saudi Arabia-foreign-policy/p36456](http://www.cfr.org/Saudi-Arabia-arabia/new-Saudi-Arabia-foreign-policy/p36456), accessed 19/07/2016.

³⁶<http://www.theglobeandmail.com/news/politics/canada-must-stick-to-its-word-on-Saudi-Arabia-arms-deal-trudeau-says/article29981571/>, accessed 19/07/2016.

³⁷[http://observer.com/2015/10/with-the-Saudi Arabias-the-west-should-take-no-prisoners/](http://observer.com/2015/10/with-the-Saudi-Arabias-the-west-should-take-no-prisoners/), accessed 19/07/2016.

³⁸<http://www.bbc.co.uk/monitoring/social-media-break-atheism-taboo-in-arab-world>, accessed 19/07/2016.; <https://www.theguardian.com/world/2009/jun/30/internet-censorship-arab-regimes>, accessed 19/07/2016.

³⁹http://www.economist.com/Saudi-Arabia_interviewOb, accessed 19/07/2016.

⁴⁰<https://www.eia.gov/finance/markets/supply-opece.cfm>, accessed 26/07/2016.; <http://www.economist.com/news/finance-and-economics/21698695-kingdoms-new-oilman-chief-will-have-less-time-cartel-beyond-opece>, accessed 26/07/2016.; <http://www.bbc.co.uk/news/business-29643612>, accessed 26/07/2016.; <http://www.telegraph.co.uk/business/2016/05/18/how-saudi-arabia-is-tying-its-oil-and-foreign-policies-together/>, accessed 26/07/2016.

⁴¹<http://carnegieendowment.org/2016/01/04/why-saudi-arabia-escalated-middle-east-s-sectarian-conflict-pub-62398>, accessed 26/07/2016.

⁴²<http://www.cfr.org/Saudi-Arabia-arabia/driving-Saudi-Arabia-actions/p37420>, accessed 19/07/2016.

prominent Shia protest leader Nimr al-Nimr.⁴² By using its influence to ensure OPEC does not cut production, Saudi Arabia has impacted Iran's economy by preventing the resurgence of its oil industry; Iran requires \$130 a barrel to balance its budget.⁴³

However, Saudi Arabia needs a high oil price to combat its own deficit (predicted to be \$134bn in 2016) and fund its reforms to diversify its economy and provide for a society that will suffer from environmental pressures.⁴⁴

Avoiding costly interventions, such as in Yemen, would also aid this. Moreover, this foreign policy is not financially viable in increasing Saudi Arabia's long term oil revenue. Even if Saudi Arabia managed to increase its oil market share by 5%, this would only add \$7bn to its revenue at this year's oil prices. Indeed, the loss of revenue resulting from the price drop amounts to \$161bn.⁴⁵ If Saudi Arabia wishes to use oil as an arm of foreign policy it must first be more independent from it.

It also needs to placate identities, instead of hardening them; increasing the prominence of an orthodox Sunni identity in policies is not an option. Following an assertive sectarian foreign policy will strengthen the Wahhabi establishment and antagonise Shia and secular groups within Saudi Arabia.⁴⁶ Furthermore, repression of these groups, if unrest is created, will likely further ostracize Saudi Arabia from the West. Recently, Shia's have been emboldened to demand equal treatment in government, education and a right to their ritual celebrations. Crucially, the majority of Shia live in the oil-producing region of Eastern Saudi Arabia, making up 40-60% of the workforce in the oil industry.⁴⁷ Between 2010-2015, 27 people were killed and 200 injured in sectarian clashes in the Eastern provinces.⁴⁸ This tension has potential to severely disrupt Saudi Arabia's oil industry.⁴⁹

Conclusion

In the interest of a stable global oil market, it is time for one of the most resilient state in the Middle East to redesign its national composition. Soon it may find it has neither the money nor the political legitimacy to deal with domestic opposition. It must find domestic legitimacy that, while not necessarily excluding them, does not rely on oil wealth and religious orthodoxy. The implementation of Saudi Arabia's ambitious 2030 Vision Plan can achieve this, by diversifying and strengthening the economy, reducing reliance on oil, and using the State as a vessel for active societal development.⁵⁰ To do this, Saudi Arabia must overcome its domestic-foreign policy antagonism, using its influence to increase the oil price instead of keeping it low, to fund these reforms. Another, often-cited solution, would be to phase-in political participation as welfare is phased-out.⁵¹ Assemblies (even if these accommodate a public voice rather than agency) would engage opposition instead of smothering it, allowing Saudi to maintain support as its citizens receive less material benefits. Due to the obvious implications to the health of the oil market, Saudi Arabia's progress in dealing with these issues should be watched carefully.

Moreover, the international community should lend a helping hand, not just a scolding comment, because what is certain, is that while the world is addicted to oil, everyone will feel the pressure of political convulsions in Saudi Arabia.

⁴²[http://www.cfr.org/Saudi Arabia-arabia/new-Saudi Arabia-foreign-policy/p36456](http://www.cfr.org/Saudi-Arabia-arabia/new-Saudi-Arabia-foreign-policy/p36456); [http://www.cfr.org/Saudi Arabia-arabia/driving-Saudi Arabia-actions/p37420](http://www.cfr.org/Saudi-Arabia-arabia/driving-Saudi-Arabia-actions/p37420), accessed 19/07/2016;

<http://www.telegraph.co.uk/business/2016/05/18/how-saudi-arabia-is-tying-its-oil-and-foreign-policies-together/>, accessed 26/07/2016

⁴³EUCERS Newsletter, issue 53, (April,2016),4-6.

⁴⁴EUCERS Newsletter, issue 53, (April,2016),4-6.

⁴⁵EUCERS Newsletter, issue 53, (April,2016),4-6.

⁴⁶<http://blogs.reuters.com/faithworld/2016/04/27/saudi-reform-plans-flirt-with-social-change-risk-wahhabi-backlash/>, accessed 29/07/2016.

⁴⁷Zakir Hussain,*Saudi Arabia in Multipolar World: Changing Dynamics*,(New York,2016),31.

⁴⁸<http://foreignpolicy.com/2014/12/03/Saudi-Arabia-arabia-has-a-shiite-problem-royal-family-saud/>, accessed 19/07/2016.

⁴⁹<http://www.globalsecurity.org/military/world/gulf/sa-shia.htm>, accessed 19/07/2016.

DISCLAIMER

The views expressed in this Newsletter are strictly those of the authors and do not necessarily reflect those of the European Centre for Energy and Resource Security (EUCERS), its affiliates or King's College London.

⁵⁰<http://www.thenational.ae/business/economy/robin-mills-saudi-vision-2030-has-the-right-intentions-that-needs-an-honest-resolve>, accessed 29/07/2016.

⁵¹<http://www.nationalreview.com/article/433251/saudi-arabia-needs-change-course>

ACTIVITIES

EUCERS and the King's Russia Institute event to mark the launch of their joint study on Nord stream 2

Event Report

On the 12th of July 2016, EUCERS and the King's Russia Institute invited a number of guests from policy, corporate, legal, academic and media backgrounds, to the launch of their joint study "Assessing Nord Stream 2: Regulation, Geopolitics and Energy Security in the EU, Central Eastern Europe and the UK".

Dr Samuel Greene, Director of the King's Russia Institute, gave an introduction thanking everyone for coming and inviting them to read the report which was now online. He praised the relevance of the report in the fast changing circumstances of today's politics. Chris Mottershead, Vice Principal (Research and Innovation) of King's College London commented on the clear analysis the report communicated, it was 'clear, concise, balanced [and] a pleasure to read'. Professor Dr Friedbert Pflüger, Director of EUCERS who chaired the panel, thanked everyone for their support in the cooperation between the two centres at King's and congratulated Dr Andreas Goldthau, author of the study, on writing a balanced report on a very controversial and polarized issue in today's energy politics.

Dr Goldthau thanked his team and EUCERS before introducing his report. In his report Dr Goldthau has come to the conclusion that Nord Stream 2 could in fact bring benefits to many countries that oppose it. It is suggested that the pipeline is so contested that discussion today only revolves around geopolitics. Most people are shooting criticism at the project before it has even started, he believes when one steps back, these criticisms have less basis.

The politico-economic consequences of the denial of transit fees to Ukraine, a vital source of revenue, are a regular point of criticism. However, Dr Goldthau has noted that the effects of Nord Stream 2 would not be as negative as is often perceived. Ukraine would benefit from the strengthening prices and solidifying of demand caused by Nord Stream 2. Free market forces would naturally balance out the situation. Gas coming from the West is

increasingly putting pressure on Eastern prices; Czech gas price equalization was given as an example. Interconnectors and infrastructure are increasingly causing convergence between gas prices from Russia, Norway, Netherlands and LNG prices. It is even noted that Russian LTC gas is competing with Russian hub priced gas. Thus, Ukraine could benefit from a net economic gain from lower gas prices. The ability to source from the West would also give it more independence.



Dr Goldthau noted certain pre-conditions needed to be met to encourage these advantages of Nord Stream 2. A strong watchdog, in the form of EU Competition Authorities and infrastructure integration where seen as vital. The political challenge Nord Stream 2 present to the EU was also pointed out. If the project is too controversial from a political perspective, those states and actors need to step in. This is a litmus test for the EU Commission; will it define itself as a market watchdog or a political actor. If it is a market watchdog it has to maintain neutrality and not apply legislation selectively or regulate markets, or will it act as a political entity and pursue the EU's interests.

Professor Dr Pflüger then introduced Dr Katja Yafimava, Senior Research Fellow at the Oxford Institute for Energy Studies. Dr Yafimava said she appreciated Dr Goldthau laying out a mosaic of views and thought his point about the role of the EU Commission, as a guardian of regulation or a political actor, was interesting. She discussed the possible use of a 'bureaucratic weapon', whereby legislation is selectively developed and applied, and considered the possibility that Russian gas could be treated differently to other suppliers.



Dr Yafimava then noted that ASA, the independent regulatory body, has significant powers and stands above national interests. She considered that it was a possibility that the EU could allow ASA stronger powers to regulate the gas market, but questioned if this would occur. Again, it came down to the question of if Nord Stream 2 was a regulatory or political matter. She advocated transparency would help all parties and questioned, if it is the case that this is a political matter, how much of a mandate did the EU have to act.

Professor Dr Pflüger then introduced John Roberts, Director of Strategy and Chief Analyst at Natural Gas Europe. Mr Roberts agreed that any increase in Russian gas contributed to market flexibility and that more competition increased Energy Security. However, he pointed out what he believed was a caveat in Dr Goldthau’s argument, that in order for this to take affect there needs to be sufficient interdependent infrastructure in the EU. Currently, John believes, there is not sufficient infrastructure and most current developments are small scale. He then queried if Nord Stream 2 only created a more open market in the North whilst limiting the market in the South East of Europe. He also highlighted that it is crucial to understand Russia’s perspective of Nord Stream 2. How does Russia view the gas it sells? While he concluded Russia views it as both a commercial and geopolitical venture, what is important is to understand which one takes precedent.

The launch was followed by a Q&A. The full text of the study can be accessed [here](#).

ANNOUNCEMENTS

The next and final EUCERS/ISD/KAS workshop will take place on 22nd of September 2016. The roundtable discussion will be on invitation only and take a more strategic approach on the subject matter of “The Future of Fossil Fuels in an Era of Climate Change”.

EUCERS ON THE ROAD

Our team represents EUCERS at various conferences and events all over the world. This section gives a regular update and overview of conferences and interview contributions by EUCERS Director Professor Dr Friedbert Pflüger, Research Director Dr Frank Umbach and Associate Director Dr Adnan Vatansever.

19.07.2016	Friedbert gave a presentation at the Brussels, Belgium	Friedbert gave a presentation at the EPSC High Level Seminar in Brussels on: The Case of Iran: New opportunities for Partnership, followed by a panel with Commissioner Canete.
14.07.2016	Warsaw, Poland	Friedbert gave the concluding remarks to the 3rd German-Polish Energy Forum.

PUBLICATIONS

Goldthau, Andreas “Assessing Nord Stream 2: Regulation, Geopolitics & Energy Security in the EU, Central Eastern Europe & the UK” EUCERS Strategy Paper #10, EUCERS: London 2016.

Umbach, Frank /Ka-ho Yu, “China’s Expanding Overseas Coal Power Industry – New Strategic Opportunities, Commercial Risks and Geopolitical Implications”, EUCERS-Strategy Paper No. 11, August 2016, 64 pp.

Umbach, Frank, “Die EU-Zentralasienstrategie und ihre energiepolitischen Dimensionen: Bilanz und Perspektiven”, Konrad-Adenauer-Stiftung (KAS), Berlin, Juli 2016, 11 S. (http://www.kas.de/wf/doc/kas_45827-1522-1-30.pdf?160712081254)

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