THE ROLE OF OIL IN SECURITY ARCHITECTURE OF THE GULF AND IMPACT OF DUAL OIL SHOCK ON REGIONAL STABILITY

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26 June 2020

Keywords
Gulf, Retrenchment, Oil shock, Stability, Shock

Introduction
The year 2020 is an epoch in modern history that stands not only for the fatal impact of the pandemic, but also for the disruption of societies and economies. The Gulf countries have been severely hit by the dual shocks of plunge in oil prices and shrunken demands. The Brent crude spot price fell to less than $19 in April 2020 and the futures price is likely to hover around $40 in 2020-21, which is significantly less than the fiscal breakeven price of all Gulf countries. These developments have unfolded ominously, against the pervasive backdrop of fragile states, regional instability, and the prospects of US retrenchment from the Gulf region. This article examines the role of oil in defining the security architecture of the region. It establishes the effect of dual shock on Gulf economy. Finally, it evaluates the impact of oil price tumble and US retrenchment on the regional stability.

Role of Oil in the Security Architecture of the Gulf Region
The 1916 Skyes-Picot Agreement between Great Britain, France, Italy and Russia structured the security architecture of the Middle East during the World War I, by artificially dividing the region into states that did not cohere with nationalistic sentiments of its people. Vestiges of fault-lines implanted then, continue to ferment the regional instability even today, and manifests by the way of Arab Spring of 2011-12, rise of Islamic State (IS) between 2014 to 2018, proxy wars in Yemen and Syria, and intrastate conflicts1. The United States of America made an entrance into the region immediately after the World War II. The US-Saudi relationship was formalised by an agreement between President Roosevelt and King Abdulaziz, that assured exclusive US access to the Saudi Oil in return for protection of the Al-Saud regime2. At this stage the US indigenous production was nearly equal to its consumption (Figure 1).

Various attempts to establish Pax-Americana during the Cold War had failed. The anti-Soviet alliance of Bagdad Pact of 1955, popularly known as Central Treaty Organisation (CENTO) was dented by the Czech arms deal treaty (1955). In 1979, Kremlin also managed to

forge an anti-Camp David coalition. Moreover, the superpower rivalry, had given a degree of autonomy to the Gulf States that was disproportionate to their intrinsic power.

Notwithstanding the Soviet-US contestation for strategic influence in the Middle East, until the early 1970s, the Gulf’s security architecture had an overbearing influence of the United Kingdom (UK), after which the US stepped into the British shoes. Western oil companies exploited the oil wealth at the expense of local populace until the early 1970s, with the backing of their governments. The first high profile opposition to western oil companies was spearheaded by the elected Prime Minister of Iran, Dr Mohammad Mosaddeq, who tried to nationalise the Iranian oil in 1951, which led to his removal from office in 1953. This incident vindicates the primacy of oil as a motivation for western presence in the region.

The gap between US oil consumption and production had started to widen in the 1970s (Figure 1). Simultaneously, Iraq has signed a friendship treaty with the Soviet Union in April 1972. Thus, a combination of oil and strategic factors, kept the US engaged in the region despite its entanglement in Vietnam. The Nixon Doctrine envisaged drawing down on US presence in Asia and propping up amiable proxies to protect its interests. As a result, the Shah of Iran, was afforded support to assume the mantel of the Guardian of the Gulf.

After the Iranian revolution in 1979, Saddam Hussain was projected as the regional policeman briefly. However, in response to the Soviet invasion of Afghanistan and the taking of

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6 Cooper Andrew Scott, The Oil Kings: How the US, Iran and Saudi Arabia Changed the Balance of Power in the Middle East (New York: Simon and Schuster, 2011), 5-53
66 hostages in 1979 by Iran, the *Carter doctrine* came into effect\(^8\). “An attempt by any side to gain control of the Persian Gulf was regarded as an assault on the vital interests of the US”\(^9\). Thus, the *Carter Doctrine* established hegemony to a degree unmatched by the British imperialism\(^10\). During Carter’s presidency, oil imports had started to dwindle, but the strategic imperatives forced the US to dominate the security architecture of the Gulf.

Between the first Gulf War in 1991 and the terror attack on the World Trade Centre in 2001, the Clinton administration had adopted a strategy of *dual containment* of Iraq and Iran\(^11\). During this period, the US oil imports had grown steadily. Since post-Cold War, the US had no strategic competitor in the Gulf, protecting oil exploration, production, and transportation was the only justifiable rational for US presence in the Gulf. Especially so, in the light of steadily rising oil imports between 1985 and 2005, a large component of which was imported from the Gulf (Figure 2).

After 9/11 (2001), the *Bush Doctrine* authorised pre-emption and preventive actions\(^12\). (White House, 2002). Democracy deficit was considered primary reason for the world-trade-centre attacks. Democracy deficit in the Middle East was considered as the primary reason for instability\(^13\). Though the US dependence on Gulf oil remained an important driver, imposition of democracy and liberal values outweighed all other, post-9/11.

![Figure 2: US Imports from the Gulf Countries of Crude Oil and Petroleum Products](image)

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\(^13\) Markakis, *US Democracy Promotion in the Middle East: The Pursuit for Hegemony*, 65
A significant foreign policy milestone that signifies the US’ receding strategic interests in the Gulf is President Obama’s Pivot to Asia in 2011. At this juncture, the US net import of oil had declined to levels of 1973. Under the Trump administration, successive attacks on oil tankers in the Gulf in May and June 2019 and missile attacks on Saudi’s Aramco oil fields in September 2019, did not provoke the usual retaliatory actions from the US. It has also been reported that the US has removed two of the four Patriot missile batteries from Saudi Arabia and 24 aircraft from the Middle East. Presidents Trump’s declining commitment to security is being widely perceived as retrenchment from the Gulf. When evaluated against the backdrop of US’ net imports, it can be found that US net imports in 2019 have declined to the 1953 levels and so has its motivation to disinvest in the region’s security architecture.

Amidst the ups and downs of US foreign policy on the Gulf, the US-Iran tensions have remained fairly consistent since 1979. It has only escalated after the Trump administration decided to withdraw from the 2015 Joint Comprehensive Plan of Action (JCPOA). The killing of Qasem Soleimani, the commander of Iran’s Islamic Revolutionary Guard Corps-Quds Force (IRGC-QF), on 3 January, 2020 has further deteriorated the relations. Attacks on the critical oil infrastructure in Saudi Arabia, in September 2019 has demonstrated that Iran is capable of inflicting considerable damage on the US and its allies.

Conflicts between Iran and Saudi Arabia have more roots than the traditional Sunni-Shi’a divide. An imminent US retrenchment has provided them greater space and intensified the competition for influence and hegemony in the region. Iran played a decisive role in halting IS expansion into Iraq and Syria. It has also supported the Houthis in order to resist Saudi Arabia and its allies. Saudi Arabia consider Yemen as its backyard, and do not appreciate Iranian influence in its southern neighbourhood. Likewise, Iran does not want Saudi Arabia to undermine the Houthis and Zaydis. Saudis also accuse Iran of interference in Arab politics and for creating proxy groups like Hezbollah in Lebanon.

Discovery of oil has brought prosperity to the Gulf states. But it has also attracted major powers into the region and made the region hostage to great power interests. However, under the overhang of the US hegemony, Iran and Saudi-allies have contested for influence in the region. This trend can be expected to aggravate post-US retrenchment.

Impact of Dual Oil Shock on Gulf Economy

According to the International Monitory Fund (IMF), the fiscal breakeven price per barrel for 2019 were: $67 for UAE, $83 for Saudi Arabia, $45 for Qatar, $53 for Kuwait, $56 for Iraq, $93 for Oman, $106 for Bahrain, and $245 for Iran. If the oil prices go below this,
the countries face budget deficit. The unprecedented crash of oil prices in 2020 saw the prices of the Organisation of Petroleum Exporting Countries (OPEC) basket tumble from an average spot price of $66 per barrel in January 2020 to $18 in May 2020. Portentously, the price war with OPEC Plus coincided with the COVID-19 outbreak, which also impacted the oil demands. As a result, the futures oil price through 2020 and 2021 is expected to hover around $40 per barrel. This implies that the deficit between futures price and fiscal breakeven price is likely to accumulate at least for the next 18 months. Oil is the backbone of the Gulf economy, as it forms substantial share of their net exports. For example, petroleum exports of OPEC Gulf countries as a share of their net export constitute – 81 percent for Kuwait, Iran 56 percent, Iraq 72 percent, Saudi Arabia 66 percent, and UAE 18 percent (Table 1). Hence the dual shock of oil would have an impact on their real income, which in turn will have a cascading effect on their economies and military spending. As a corollary, it would affect their ability to influence the region’s security architecture, in a manner witnessed earlier in 2019.

<table>
<thead>
<tr>
<th>Country</th>
<th>Net Export $ Million</th>
<th>Petroleum Export $ Million</th>
<th>Petroleum as percentage of net export</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuwait</td>
<td>71,931</td>
<td>58,393</td>
<td>81</td>
</tr>
<tr>
<td>Iran</td>
<td>107,435</td>
<td>60,198</td>
<td>56</td>
</tr>
<tr>
<td>Iraq</td>
<td>95,256</td>
<td>68,192</td>
<td>72</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>294,544</td>
<td>194,358</td>
<td>66</td>
</tr>
<tr>
<td>UAE</td>
<td>388,179</td>
<td>74,940</td>
<td>19</td>
</tr>
</tbody>
</table>

Table 1: Petroleum Export as Share of Net Export of OPEC Gulf Countries – 2018

Source: OPEC

Impact of Oil Price Tumble and US Retrenchment

Military expenditure of Gulf Countries as percentage of Gross Domestic Product (GDP) (2018) have been relatively high. Figure 3 shows the correlation between crude oil price of the OPEC basket vis-à-vis the variations in defence budgets as percentage of GDP between 2010 to 2018. It can be found that the defence expenditures of all Gulf countries increased without exception, from 2010 to 2015. This can be corroborated with the increase in real income of these countries due to high crude oil price between 2010 to 2014. As the crude oil price declined, the defence spending as percentage of GDP also started to shrink. Hence, it would be safe to assume that the dual oil shock is likely to have considerable impact on the defence budgets of these countries. As a result, regional competition for influence is likely to see a decline. This provides an opportune moment to put in place a collaborative security mechanism in the region.

Dwindling security commitments of the US have convinced some Gulf states that the US is no longer willing to defend them and is unlikely to initiate military action against Iran. This has triggered an attitudinal change amongst the Gulf Cooperation Council (GCC) states. The United Arab Emirates (UAE) has withdrawn from the war in Yemen. It has also begun talks with Iran for decreasing tensions in the Gulf. Even the Saudis are being urged for reconciliation with Iran. Hence, US’ policy of retrenchment and harsh economic condition are forcing the Gulf region to rethink their foreign policies\textsuperscript{23}.

Sensing US retrenchment, Russia had proposed a "Collective Security Concept for the Persian Gulf Region" to the United Nations Security Council (UNSC) in 2019\textsuperscript{24}. China was prompt in backing the Russian proposal\textsuperscript{25}. A joint military exercise ensued in the Gulf of Oman by China, Russia and Iran in December 2019\textsuperscript{26}. However, the proposal did not garner much support from states in the region, except Iran. Collective security requires consensus between states to respond against an aggressor. It is often difficult for states to decide on the definition of an aggressor and hence the corresponding response. Instead, Cooperative Security is a more flexible option. It broadens the definition of security beyond traditional military challenges to include

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3}
\caption{Crude oil price \textit{vis-à-vis} Defence Expenditure as percentage of GDP 2010-2018}
\end{figure}

\textbf{Source:} Based on Statista and World Bank

\begin{itemize}
\item\textsuperscript{26} Reuters. “Russia, China, Iran start joint naval drills in the Indian Ocean”, 27 December 2019, https://www.reuters.com/article/us-us-military-russia-china/russia-china-iran-start-joint-naval-drills-in-indian-ocean-idUSKBN1YV01B
\end{itemize}
environmental, economic, and social concerns. It also encompasses a process of confidence-building through consensus\textsuperscript{27}. Thus, amidst the economic recession, Cooperative Security would be the more prudent than collective security.

The US is heavily committed in the region. US operates drones from Saudi Arabia, hosts an Air Force Command Centre in Qatar, and its Navy Fifth Fleet is based in Bahrain. So, a retrenchment from the region is unlikely soon. However, its recent restrain from direct escalations might continue. The Russian and Chinese model of collective security has not found much traction. Very nascent signs of a thaw in hostilities between the Gulf countries are visible due to the harsh economic recession. Hence, the situation is just ripe for introducing a mechanism of Cooperative Security, similar to one in the Association of South Asian Nations (ASEAN). Stability in Gulf is vital for India’s energy interests. India could advocate the concept of Cooperative Security mechanism for the Gulf region.

**Concluding Remarks**

Discovery of oil at the turn of the 20\textsuperscript{th} century had enhanced its salience by many folds. The region has been dominated by the extra-regional players. Post-Cold War, the US emerged the sole power and arbiter of security in the region. Oil has always remained the underlying reason for US presence in the Gulf. However, the predominant narrative of the US foreign policy has fluctuated between geo-strategy, imposition of democracy and protection of energy interests. But Gulf states too have been contesting for regional hegemony. This has become especially relevant against the backdrop of an impending US retrenchment.

Dual shock of oil would have an impact on their real income, which in turn will have a cascading effect on their economies and military spending. As a corollary, it would affect their ability to influence the region's security architecture, in a manner witnessed earlier in 2019. The US is heavily committed in the region. So, a retrenchment from the region is unlikely soon. Besides, the Russian and Chinese model of collective security has not found much traction. Hence, the situation is just ripe for introducing a mechanism of Cooperative Security, similar to one in the Association of South Asian Nations (ASEAN). India could advocate the concept of Cooperative Security mechanism for the Gulf region.

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\textsuperscript{27} Craig Snyder, *Contemporary Security and Strategy*, (London: Macmillan Press, 1999), 107-114