



RICE UNIVERSITY'S
BAKER INSTITUTE
FOR PUBLIC POLICY



ENERGY AND POLITICS IN THE PERSIAN GULF

Conference Report

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December 2018

This report summarizes the perspectives of panelists at a half-day conference on “Energy and Politics in the Persian Gulf” held at Rice University’s Baker Institute for Public Policy on October 3, 2018. The conference, co-sponsored by the Baker Institute’s **Center for the Middle East** and **Center for Energy Studies**, addressed the impact and implications of these issues for Houston and for U.S. energy and security interests.

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“Conference Report: Energy and Politics in the Persian Gulf”

Introduction

The energy-based political economies of the Persian Gulf are entering a period of profound change as the impact of four years of lower oil and gas prices intersects with the rise of a younger and more assertive leadership among strategic American partners such as Saudi Arabia and Qatar. Together with their counterparts in the United Arab Emirates (UAE) and Kuwait, officials in these states are moving toward adopting longer-term plans to diversify their economies, strengthen their private sectors, and create jobs for a growing workforce. Their aim is to prepare for a transition in which hydrocarbons assume a smaller—yet still crucial—role in Persian Gulf economies.

At the same time, more than seven years after the Arab Spring shook the political order in the Middle East and North Africa, much of the Arab world remains embroiled in conflict and political uncertainty. In the Persian Gulf region, this includes an escalation in tensions between the United States and Iran since 2017 and the impact of nearly four years of war in Yemen that has left the country on the brink of widespread famine and humanitarian catastrophe. Furthermore, issues such as climate action, new regional splits, and internal economic reforms all have the potential to further affect stability in a region that continues to be vital to U.S. strategic interests.

On October 3, 2018, seven experts gathered in Houston at Rice University's Baker Institute for Public Policy for a conference on "Energy and Politics in the Persian Gulf" to consider how issues pertaining to the Gulf region impact both Houston and U.S. energy and security interests. The Center for the Middle East (CME) and the Center for Energy Studies (CES) at the Baker Institute co-hosted the half-day event.

The conference began with the director of the Baker Institute, Ambassador Edward P. Djerejian, introducing the Persian Gulf as one of the world's most geopolitically sensitive regions. The states on both sides of the Persian Gulf face multiple challenges and security concerns in coming years that range from the impact of climate change and climate action to a reduction in oil and gas revenues, shifts in the demographic pyramid as large numbers of young people come of working age and enter the labor market, and the need to transition beyond oil-dominated economies. These domestic and foreign policy issues are of tremendous importance for U.S. policymakers and private sector leaders alike. The Baker Institute aims to provide a forum for nonpartisan and data-driven discussion on these topics, the ambassador said.

Jim Krane, the Wallace S. Wilson Fellow for Energy Studies at the Baker Institute reminded conference attendees that it has been 100 years since Winston Churchill's decision in 1911 to use oil instead of coal to fuel British Navy ships. This historic decision conferred on oil a strategic value just as oil was discovered in vast quantities in Iran (in 1908) and, two decades later, in Iraq, Saudi Arabia, and the smaller Persian Gulf states. As a result, the producer countries of the Persian Gulf, though comparatively underdeveloped at the time, rapidly rose to become strategic linchpins of the global economy by the 1950s. The region became an arena for major energy-related events, including the 1973 oil embargo and the various nationalizations of oil company holdings in the 1970s; the 1979 Iranian Revolution and the

hostage crisis that cast a long shadow over relations with the United States; and three major interstate wars in the Persian Gulf between 1980 and 2003. The period also witnessed the emergence of Dubai as a global center of ostentatious consumption, which was later matched by Qatar.

The goal of the conference, Krane observed, was to examine the post-Arab Spring Persian Gulf and to make sense of and delve into current rapid-fire changes and issues in the region. These include: 1) the resurgent conflict between the United States and several of the Persian Gulf monarchies and Iran; 2) the blockade of Qatar by three of its regional neighbors plus Egypt; 3) the grinding wars in Yemen and Syria; 4) the headstrong new leadership in core regional partners, including the generational transition in the Saudi royal family; 5) the clash between the rise in social freedoms and the decline in political freedoms in regional states; and last but not least 6) climate action and the threat it poses to oil-dependent states amid questions about the longevity of U.S. security commitments in and to the region.

Shifting Internal Dynamics in the Field of Oil

Presentations

The first panel featured a discussion of internal political and economic trends in Persian Gulf states. The panelists were:

- Dr. F. Gregory Gause, III, the John H. Lindsey '44 Chair, Professor of International Affairs and Head of the International Affairs Department at the Bush School of Government and Public Service at Texas A&M University.
- Dr. Mohammad Ayatollahi Tabaar, a fellow for the Middle East at the Baker Institute and an associate professor at the Bush School of Government and Public Service at Texas A&M University.
- Dr. Jim Krane, the Wallace S. Wilson Fellow for Energy Studies at the Baker Institute.

Nathan J. Citino, an associate professor of history at Rice University and a Rice faculty scholar at the Baker Institute, moderated the panel discussion.

Presentation: F. Gregory Gause—"Shifting Internal Politics and Social Dynamics in the GCC"

Gause began the session by emphasizing the exceptional regime stability of the Gulf monarchies, which succeeded in weathering the shock of the Arab Spring. Saudi Arabia was least affected by the regional uprisings. Despite multiple calls for public protests in Riyadh in early 2011, there was no mobilization in the country except in the eastern region of Qatif. And even the protests in Qatif were more of a reaction to events in neighboring Bahrain rather than directed against the Saudi monarchy itself, which, Gause noted, has long developed a formula for maintaining social stability. The only Gulf monarchy that experienced a regime-shaking crisis in 2011 was Bahrain. But Bahrain's small size and the

ruling family's close ties to the other Persian Gulf monarchies had a strong stabilizing effect on regime security at that time of social and political volatility.

Nevertheless, Gause observed that the Arab Spring gave Gulf rulers a sense of the gravity of potential threats to domestic and regime stability in their countries. The leadership of Saudi Arabia and the UAE took this possible threat to heart the most. Gause pointed to the hypersensitivity, even paranoia, of the UAE government about the possibility of Islamist political mobilization through the Muslim Brotherhood and its region-wide affiliates. In Saudi Arabia, the opening of political space after the attacks of September 11, 2001, afforded the Saudis the ability to discuss important political and social issues in social media and in print, but this was short-lived and later closed. In actions that predate the rise of Mohammad Bin Salman (MBS) but that accelerated after he became Crown Prince, the Saudi government has, in recent years, declared the Muslim Brotherhood a terrorist organization, arrested dozens of clerics, journalists, and women's rights advocates, and temporarily detained hundreds of members of the Saudi elite at the Ritz Carlton in Riyadh in an effort to intimidate potential critics.

Gause noted that elsewhere in the Persian Gulf monarchies, Saudi and Emirati hypersensitivity has been accompanied by political repression in Bahrain and even some tension in Kuwait, the most "liberal" of the Gulf monarchies, with the recent arrest of several parliamentarians and an increase in the banning of books deemed sensitive. This hypersensitivity has also affected the conduct of foreign policy, including increasingly hawkish Saudi and Emirati positions toward Iran and their policies in Iraq, Syria, Lebanon, and Yemen. Specific concerns have been raised over Iran's perceived intervention in the domestic politics of Gulf countries through an attempt to mobilize Shia communities and individuals.

For Gause, the price of oil is a major driver of social and political change and initiatives in the Persian Gulf region. King Salman and his ambitious son came to power in January 2015 with far-reaching plans to change Saudi Arabia economically, socially, and even politically, and have made a start by consolidating power for themselves. This goes against the pattern set by King Faisal after he ousted his brother, King Saud, following a protracted power struggle between 1958 and 1964. Since then, Saudi Arabia has been ruled by coalitions of senior princes who injected a kind of informal checks and balances system that prevented the unconstrained projection of power by any one individual. The concentration of power by Mohammed bin Salman has bucked this trend and has formed the backdrop to the crown prince's expansive program of economic transformation.

MBS's ambitious plans for Saudi Arabia, Gause added, have been driven more by the collapse of oil prices than by anything else. At \$30-\$35 a barrel, Saudi Arabia could not sustain its welfare state commitments and an elite consensus developed that something needed to be done. MBS' Vision 2030 offered a radical change, including a proposal to privatize 5 percent of Saudi Aramco; changes to longstanding subsidy regimes; new fees that would increase the cost of aspects of everyday life, such as the price of water and electricity; and social changes that included allowing women to drive. But as oil prices recovered, the breadth of the Crown Prince's ambition was scaled back. Oil prices at \$75-\$80 present Saudi Arabia with a stable fiscal picture. The planned initial public offering

(IPO) of 5 percent of Saudi Aramco has been put on hold, public spending has increased again, and an expansionary budget has been put forward for 2018 and 2019.

Concluding his presentation, Gause zeroed in on the profound difficulties that surround any changes to an oil-based economy such as that of Saudi Arabia. At \$70-\$80/barrel, the urgency or pressure to change no longer exists. But this does not mean that MBS' power has declined, as there are no visible signs of an emerging coalition against him. Even if something happened to MBS, his decision to permit women to drive will have a profound and lasting effect on the social, economic, and at some point potentially political, life of the country. This issue alone may prove to be the most important thing that MBS ever does.

Presentation: Mohammad Ayatollahi Tabaar—"Iran's Persian Gulf Policy After the JCPOA"
Tabaar focused on three points in his presentation: 1) Iraq as Iran's primary focus in the Persian Gulf; 2) the intensification of this focus after the Iran nuclear agreement in July 2015 and again after the U.S. withdrew from the deal in May 2018; and 3) Iran's attempt to gain and cement its influence in Iraq by building there a set of parallel institutions that replicate those in Iran.

Tabaar began by describing the recent history of the two countries as one wrought by conflict, including their eight-year war between September 1980 and August 1988. Iraq has been Iran's strategic rival since Iraq gained its independence in 1932. Iraq's Arab majority population, sizeable Sunni and Kurdish minority populations, Shiite clerical centers, and, since 2003, close relationship with the United States all can pose a wide range of economic, political, co-ethnic and ideological threats to Iran and its clerical regime. Tabaar noted that both a strong (as under Saddam Hussein) and weak, failed state in Iraq is a source of concern for Iran, as a fragile entity could provide a safe haven for Salafi, Takfiri, or other Saudi-backed Wahhabi groups and a base for attacks inside Iran, akin to those witnessed in September 2018 in the oil-rich province of Khuzestan.

Iraq became more important to Iran after the latter signed the Joint Comprehensive Plan of Action (JCPOA) with the P5+1, Tabaar argued. Perhaps unintentionally, the nuclear agreement injected a tremendous amount of insecurity into the region. Leaders in Saudi Arabia, on the one hand, feared that the deal would make Iran and its Revolutionary Guards richer and thus more aggressive throughout the Middle East. Iran, on the other hand, was concerned with the United States' power in the region after the JCPOA removed Iran's nuclear card. Additionally, Iranian conservatives viewed the JCPOA as Washington's reward to Iranian President Hassan Rouhani and thus feared changes to the internal balance of power at their expense and in favor of Rouhani's centrists.

For Tabaar, the Trump administration's decision in May 2018 to withdraw from the JCPOA exacerbated regional concerns. Even though Iran has given up the most important and challenging aspects of its nuclear program, as per the agreement, the U.S. restored critical sanctions on November 4, 2018, which ironically marked the 39th anniversary of the 1979 hostage crisis. Meanwhile, the United States has thrown its support behind the Saudis and the Emiratis in regional politics. But on the domestic front, the U.S. withdrawal from the deal mitigated some fears among conservative elements of the Iranian regime; it was also a

boost for the Revolutionary Guards, conservative leaders, and elites as the centrist Rouhani had campaigned in the 2017 presidential election on resolving nuclear issues, bringing about economic reforms, and restoring the relationship with the U.S. This message was embraced by Iranians after the JCPOA was signed in 2015, and Rouhani was re-elected by a substantial majority two years later.

In 2018, however, excitement turned into anger, frustration, and confusion as the new U.S. administration abandoned the JCPOA and in the aftermath, it became increasingly difficult for Rouhani to claim foreign policy and economic achievements. Tabaar suggested that the Revolutionary Guards are trying to exploit the situation to further undermine Rouhani and his centrist allies. By presenting themselves as the defeaters of ISIS in Syria and Iraq, the Revolutionary Guards are also framing their role as a security provider for Iran's regional interests. By demonstrating success, particularly in Iraq, the Revolutionary Guards hope to translate what they see as their foreign policy triumph into domestic gain. As such, Iraq is the leverage that the Iranian conservative leadership uses both domestically and regionally to strategically balance against the U.S., Saudi Arabia, the UAE, and others.

For his final point, Tabaar drew attention to Iran's ambitious "parallel state-building" in the region, particularly in Iraq. This is not an easy task, as shown by recent signs of backlash and resentment from the Iraqi state, society, and even Shia circles against Iranian influence and what is seen as "IRGC [Revolutionary Guards] domination." But, Tabaar noted, Iran has experience in the matter. First, after the 1979 revolution, Ayatollah Khomeini established a set of Islamic state institutions to parallel the secular state apparatus the new regime inherited from the Shah. The parallel Islamic state never managed to absorb the secular state apparatus, as was Khomeini's intent, but it today enjoys a commanding position even in the face of numerous conflicts between the Supreme Leaders (first Khomeini and now Sayyid Ali Hosseini Khamenei) and Iran's secular presidents, including Rouhani.

Second, Iran has used its model of parallel state building in foreign policy already once before in Lebanon. Creating Hezbollah in the 1980s afforded Iran a tremendous amount of influence over the Lebanese government and leverage over Lebanese politics. Tabaar noted that the Revolutionary Guards are trying to replicate a similar scheme in Iraq (by influencing the Hashed al-Shaabi, or Popular Mobilization Forces), in Syria (albeit to a limited extent), and in Yemen (through Ansar-Allah or Houthi movement).

Presentation: Jim Krane—"Climate Strategy for Producer Countries: The Case of Saudi Arabia"

Krane's presentation described how Saudi Arabia's climate footprint includes a major legacy of greenhouse gas (GHG) emissions from the early decades of oil production, a product largely the result of methane vented during oil production. At the time, the upstream oil sector was the main source of emissions. Since those early years, the kingdom has become a major consumer of its own oil and is now the world's fifth-largest oil consumer and its ninth-largest carbon emitter. Domestic consumption is currently the source of most of Saudi Arabia's emissions, but the carbon unlocked in the kingdom is tallied in the emissions numbers elsewhere. In fact, if that non-domestic carbon is attributed to Saudi Aramco, the company becomes the world's largest source of current

emissions (4.3 percent), and second-largest source of historical emissions among all commercial fossil fuel producers (3.2 percent). Chevron, the former Saudi concession-holder (as the Standard Oil Company of California in 1938) is responsible for 3.5 percent of historic emissions.

From the Saudi perspective, Krane explained, climate action represents a threat to the country's oil exports and the rents they generate, which are crucial for regime survival. To mitigate risks, Saudi policymakers have turned to economic diversification and tried to position their oil sector so it can survive over the clean energy transition period, which promises to unfold over multiple decades. Krane highlighted three distinct, though sometimes intersecting, strategies that Saudi Arabia has employed to protect its oil export business: 1) "Dig in" and keep oil production and exports alive; 2) "Join in" through a credible decarbonization policy; and 3) "Throw in" by conceding that some climate damage is acceptable.

The first strategy, "dig in," covers attempts to reduce the vulnerability of the oil business to climate action. "Digging in" used to mean obstruction of various international climate actions, such as Saudi attempts to delay and weaken climate agreements. Nowadays, digging in has a more sophisticated approach that accepts many of the premises of climate action. Krane pointed to three distinctive tactics used here by the Saudis. First, there is a focus on non-combustion uses for oil and gas, the biggest of which involves petrochemicals—perhaps Saudi Aramco's most promising climate hedge. Carbon is locked inside resins and polymers that form the basis of countless finished products, including auto parts and paint. In fact, the demand for petrochemicals outpaces that for oil, and is fueled by large markets in developing Asian countries. Since petrochemicals also provide manufacturing jobs, they are both a diversification strategy and a social "protection" measure. Aramco invests in direct conversion of crude oil into chemicals, thereby bypassing the refining phase and reducing energy inputs.

Another part of the "dig in" strategy involves a push to differentiate crude oil grades by carbon intensity. This can give Saudi Arabia a competitive edge if/when and where carbon taxes are launched. Designed to differentiate grades of crude, carbon taxes are likely to favor Saudi Arabia crudes, which are produced with minimal flaring or energy-intensive enhanced oil recovery (EOR). This makes them less carbon-intense than competing grades.

The last part of the "dig in" tactic identified by Krane involves locking in the kingdom's market share. This involves investment in refineries in Asia, which Aramco/Motiva can then configure around Saudi crudes. Another way is to ensure the main oil-based technology, the internal combustion engine (ICE), is not displaced by electric vehicles (EV). Hence, Saudi investments in R&D toward more efficient ICEs that can retain a cost advantage over EVs and, in effect, prolong the viability of gasoline and the oil business itself.

Moving to "join in," the second Saudi strategy to protect their oil business, Krane highlighted the sensitivity of the governments of all producer countries to public opinion, which made them all "join in" in taking at least symbolic action on climate and resulted in selective GHG

reductions. For example, subsidy reforms curbing domestic energy demand are Saudi Arabia's contribution to the Paris Agreement. In fact, the reforms will probably allow the kingdom to surpass its modest goal of reducing 130 megatons of CO₂ emissions by year 2030. These reforms are economically rational, since they reduce opportunity costs and spending on subsidies and serve double duty as climate action. Internationally, Saudi Arabia champions policies that aim to retain fossil fuels in the energy mix, including carbon capture and storage (CCS), the use of CO₂ for enhanced oil recovery, and flaring reductions to clean up the upstream so as to reduce pressure to curtail final consumption. There is also an attempt to move the focus to "alternate" GHGs, particularly nitrous oxides and methane, the latter supported by Saudi Arabia's participation in the Global Methane Initiative.

The final strategy employed by Saudi Arabia, "throw in," centers around lobbying efforts to relax the 2°C warming limits that Paris Agreement sets as a goal for carbon emission reductions, explained Krane. "Throw in" relates to a more pragmatic climate approach that concedes that compliance with Paris' 2°C emissions limits is too costly. Oil exporters might prefer more climate damage rather than undergoing the costs of rapid decarbonization. This argument sees the "optimum" path at 3°C warming, where reductions in spending on mitigation would theoretically offset the damage costs associated with climate change. Krane suggested that some of those damage costs had been underrepresented, given that in 2017 costs associated with weather/climate disasters in the U.S. alone reached \$306 billion, about five times the 2017 revenues of Saudi Aramco.

Concluding his presentation, Krane posited that climate action and competition from non-fossil technologies would cause producer countries and firms to compete in new and more intense ways. Producer countries will leverage their unique comparative advantages. In the end, economic diversification becomes a key backstop for climate risk mitigation. Perhaps OPEC might also play a useful role as a forum for climate collaboration, Krane said.

Escalating Regional Rivalries

Presentations

The second panel featured three scholars who focused on external and geopolitical dynamics in the Persian Gulf:

- Dr. Kristian Coates Ulrichsen, a fellow for the Middle East at Rice University's Baker Institute for Public Policy.
- Dr. Suzanne Maloney, the deputy director of the Foreign Policy Program at the Brookings Institution and a senior fellow at the Brookings Center for Middle East Policy and Energy Security and Climate Initiative.
- Dr. Abdullah Baaboud, the former director of both the Gulf Studies Center at Qatar University and the Gulf Research Center-Cambridge at the University of Cambridge.

Gabriel Collins, the Baker Botts Fellow in Energy & Environmental regulatory affairs at the Baker Institute, moderated the panel.

Presentation: Kristian Coates Ulrichsen–“Regional Rivalries: The Results of U.S. Disengagement or More Assertive Leadership by U.S. Partners in the Gulf?”

Ulrichsen began by describing how the regional rivalries that have erupted in the Gulf during the past 18 months stand in considerable contrast to the solidly pro-U.S., pro-Western Gulf alliance of the previous 30 years, and will shape long-term regional dynamics. Ulrichsen argued that the rise of more assertive regional and foreign policies in the Gulf states was rooted in the frustration and deep disillusionment of their ruling elites with the foreign policy direction of the Obama administration. Obama’s “pivot to Asia” was incorrectly perceived as shifting U.S. focus and engagement away from the Gulf region. Following the Arab Spring in 2011, the Obama administration’s policies also were seen in the region as acquiescing to regime change in Egypt, a long-standing political and security partner of the U.S. This conveyed to Gulf leaders the need to take security concerns into their own hands. As a result, without consulting even the U.S., the Saudis and Emiratis entered Bahrain to assist in the restoration of stability in March 2011.

Ulrichsen noted also that the Arab Spring sharpened the regional perception of the threat that Iran and the Muslim Brotherhood posed to the stability and security of the Persian Gulf monarchies. These perceptions were used by the ruling elites as justification for maintaining their grip on domestic and regional security and suppressing domestic discontent, including the 2011 and 2012 protests in Bahrain and the Eastern Province of Saudi Arabia. Ulrichsen suggested that the Muslim Brotherhood’s 2012 rise to power in Egypt sharpened the differences between Qatar on the one side and Saudi Arabia and the UAE on the other, as the Persian Gulf monarchies became more regionally assertive but in support of different regional groups and visions. Egypt and Libya became microcosms for these competing rivalries. In Libya, the support for different militia groups on the ground in 2011 planted the seeds for the destructive civil conflict that followed the fall of the Gaddafi regime. Moreover, Ulrichsen argued that the Qataris’ greater regional assertiveness between 2011 and 2013 pushed the Saudis and Emiratis to become more assertive in response. This triggered the anger that is currently so visible within the Gulf Cooperation Council (GCC) states and turned its members against each other, first in 2014 and again in 2017.

Considering the role of the U.S., Ulrichsen pointed to the failure to include the GCC states in the negotiations for the nuclear agreement with Iran. This, he argued, contributed to a sense of abandonment and a false perception that a grand bargain was being struck between Iran and the United States. Ulrichsen suggested that the war in Yemen was a reaction to the JCPOA; it was a way for Saudi Arabia to take matters into its own hands, as the war began on March 26, 2015, just five days before the JCPOA was originally supposed to be signed. With a different presidential administration in the U.S. in 2017, the Saudis and Emiratis, Ulrichsen suggested, had great hopes for more compatible positions on Iran and Islamism, and lobbied heavily for a common position against the Iran deal and a blockade of Qatar, both of which President Trump initially supported.

Ulrichsen asserted that the Qatar dispute could be resolved in a reconciliation summit at Camp David, as the Trump administration has hoped, as none of the parties are likely to admit to any wrongdoing. Additionally, there is no face-saving mechanism for the parties to gracefully back away. A system of pragmatic workarounds is instead taking place just as

the Trump administration is attempting to put in place elements of a new Middle East Strategic Alliance (MESA). This includes recent talks between all six GCC member-states plus Egypt, Jordan, and the U.S. to address common technocratic interests such as counterterrorism, intelligence sharing, security, and defense. Such pragmatic meetings of a “GCC plus 3” (Egypt, Jordan, and the U.S.) on specific issues will probably continue as a workaround scenario.

In his concluding remarks, Ulrichsen stressed that the political landscape in the Gulf region has changed in profound ways after the rift over Qatar, ongoing since 2017. The social dimension to the crisis means it will not be simple to overcome. Regional leaders in power or in places of authority are too young to forget and people have a deep sense of bitterness and anger. Even if an agreement were to be reached, Ulrichsen said, ruling elites would not be able to simply flick a switch and turn off the resentment that has so powerfully shaped recent threat perceptions in the region. Ulrichsen ended by suggesting that it may be appropriate to talk about a “post-GCC” era, as the organization risks becoming marginalized and irrelevant while remaining intact on paper.

Presentation: Suzanne Maloney–“Washington, Tehran, and Rising Tensions in the Gulf”
Maloney focused on U.S.-Iran dynamics and the Trump administration’s stance on Iran. She pointed out that the president came into office wanting to renegotiate the nuclear agreement rather than withdraw from it. However, once in office, Trump put together a team with a hawkish foreign policy approach, and his first national security advisor, Michael Flynn, unexpectedly put Iran on notice about U.S. withdrawal from JCPOA in a very public way. Maloney added that speculation about what the president would do with the JCPOA reflected discussions within the administration while it attempted to reach a successor agreement during three-months of negotiations about the deal with the Europeans. These negotiations failed despite high initial hopes, and created a sense of bitterness among European signatories to the JCPOA.

Although the U.S. withdrawal from the JCPOA caused friction with European partners to the agreement, Maloney argued that it placed Trump within the mainstream Republican position on the deal, aligned him with the majority of Republican members of Congress, and with his Republican base. Maloney added that the Trump administration regards the U.S. withdrawal from the Iran agreement as a successful tactical decision, as the impact on Iran has been traumatic, severe, and rapid. Within moments of the announcement, there was a rush to exit of foreign investment originating from Europe, Japan, and South Korea. American companies such as GE that were operating under provisions that enabled multinationals to use non-U.S. subsidiaries to engage with Iran rushed to exit as well, as did foreign financial institutions that were just beginning to re-engage. The U.S. withdrawal from the agreement also had a direct impact on the day-to-day economy of Iran, including a further collapse in Iran’s currency. Sharp declines in Iran’s oil exports will also impact the economy, even if exports to China and India continue, since they will not be transacted in hard currency that Iran can repatriate.

Iran may mitigate some of the effect of the re-imposition of sanction through smuggling and the use of cryptocurrencies, but it is not clear whether they could do so through to January 2021, when a new U.S. administration may take office. Iran's difficulties with waiting the sanctions out are related in particular to demographic challenges arising from the country's post-Iran-Iraq War baby boomer generation graduating from universities and requiring jobs and housing. Iran appears trapped as domestic frustrations boil over into street protest.

For Maloney, the tactical success of U.S. sanctions on Iran has also been a strategic failure for the Trump administration, for it leaves Iran with no exit strategy and without any credible prospects for serious negotiations. In addition, divisions within the administration and the president's own unpredictability provides further cause for uncertainty moving forward, given President Trump's recent references to President Hasan Rouhani as "a lovely man" and to Iran as "a very special place". Some in Iran suggest President Trump is hungry for a "Singapore part 2" bilateral leadership summit, this time with Iran, and Iranian officials were discretely taking soundings at the United Nations General Assembly in September. Maloney observed that the transactional dimension at the core of President Trump's approach to policy in the Persian Gulf is, however, fundamentally corrosive to a stable and constructive American presence in the region.

Abdullah Baaboud—"Is There a Future for the Gulf Cooperation Council After the Qatar Blockade?"

Baaboud began his remarks on the future of the GCC by pointing to the resilience of the Persian Gulf monarchies, which have weathered many regional upheavals throughout the years including the Soviet invasion of Afghanistan in 1979, the Iran-Iraq War in the 1980s, and, closer to home, the British military withdrawal from the Persian Gulf in 1971, which required the newly independent monarchies to develop their own security arrangements after the loss of British protection.

That said, Baaboud reminded the audience that the formation of the GCC in 1981, shortly after the outbreak of the Iran-Iraq War, contained the seeds of future weakness, as the entity came together in a rush and has been characterized by numerous flaws ever since. While the founders of the GCC tried to emulate the European Union in their endeavor, the differences are vast and obvious. To start, the EU is composed of democracies whereas the GCC is a top down project, and the GCC does not oblige member-states to pool aspects of state sovereignty for the benefit of the collective entity, an element integral to the functioning of the EU. In fact, Baaboud noted, the GCC has been seen as a way for Saudi Arabia—the only large country in the group—to dominate the region. The Secretary General of the GCC is based in Riyadh, unlike in the case of the EU, where Belgium, rather than the more conventionally powerful France or Germany, houses the headquarters.

Notwithstanding the shortcomings of the GCC, Baaboud underscored that its successes on a regional scale should also be emphasized. The GCC brought together six countries, creating a common market with free flow of capital and people, which is crucial to diversify oil-based economies. The GCC countries also signed agreements for a custom union and held talks about a common currency and monetary union, though these were unsuccessful. To an

extent the bloc also formulated a collective decision-making structure and the GCC Supreme Council provided a means for heads of state to meet and discuss strategic issues. And yet, Baaboud asserted that the GCC could not go further than this as it lacked a vision and the visionary leaders who could push successfully for additional integration.

Baaboud ended his presentation by describing the rift over Qatar and its impact on the GCC in the delicate post-Arab Spring environment. Saudi Arabia, the UAE, Bahrain, and Egypt accused the Emir of Qatar of giving a controversial speech at a military academy in May 2017. As a resident of Qatar at the time, Baaboud noted that his conversations with various ambassadors who attended the military ceremony confirmed that the Emir of Qatar did not make any remarks and that the Saudi-Emirati accusations were fabricated. Baaboud recalled that the so-called “anti-terror quartet” made its move against Qatar during the holy month of Ramadan when the flow of people and goods from the four states to Qatar was halted amid speculation that military action was imminent. Baaboud suggested that these drastic steps were intended to cause Qatar to capitulate, but concluded that the blockading countries miscalculated, as Qatar proved far more resilient than expected.

Baaboud concluded his presentation by observing that the split in the GCC has been deep enough to introduce an additional layer of regional instability at a delicate moment in the fragile post-Arab Spring era. Moreover, the rift has contributed to global security challenges by making it hard for international partners, such as the U.S., to rally regional states to contain Iran and the remnants of the so-called Islamic State. Baaboud ended by expressing strong doubt as to whether mooted alternatives to the GCC, such as the “Arab NATO,” could succeed, given the lack of common interests among the countries in the region that the U.S. envisions as its members.

Keynote Address

The Honorable Gerald M. Feierstein, director of Government Relations, Policy and Programs at the Middle East Institute and the former U.S. ambassador to Yemen, delivered the keynote address for the conference. He presented his perspective on developments in the Gulf as they pertain to U.S. interests and how the rise of more assertive regional partners has affected U.S. interests.

Feierstein framed his remarks around a 1987 seminal study on international relations by Paul Kennedy, “The Rise and Fall of the Great Powers,” that posited “a very clear causal connection in the long-run between an individual great power’s economic rise and fall and its growth and decline as an important military power (or world empire).” Feierstein suggested that President Trump appears to have absorbed the key points of Kennedy’s thesis. But despite the president’s confidence that U.S. diplomatic and security influence continues to expand around the world, the trajectory of U.S. involvement in the Middle East will continue a decline as it has since at least the Obama era, Feierstein said. In the face of a U.S. retreat in the Middle East, both Russia and China have moved aggressively to fill the vacuum. More importantly, the region’s states, led by Saudi Arabia and the United Arab Emirates, have made clear their intention to shoulder greater responsibility in ensuring

their national interests, leaving relations in the region more transactional and less committed to reliance on the U.S.

Regarding the basis of the U.S. vision for the Middle East, Feierstein's presentation centered on the following themes:

Eliminating Violent Extremism

For Feierstein, the implementation of the Trump administration's more aggressive counterterrorism approach has brought a short-term tactical advantage as extremist groups are pressured and denied territory. As a result, U.S. efforts in Syria and Iraq, which are largely a continuation of initiatives launched by the Obama administration, have succeeded in eliminating Islamic State control of most of the territory it gained over the past several years. Likewise, in Yemen, there is some evidence that al-Qaeda has been weakened by the intense counterterrorism campaign waged by the U.S. and its coalition partners.

However, Feierstein did not see the long-term consequences of the Trump administration's strategy in as nearly a positive light. The absence of a clear commitment to aid in the reconstruction of war-torn societies and to assist in the development of sustainable political and economic institutions will mean the continuation of ungoverned spaces in which existing or new extremist groups can take root, he said. The relaxation of Obama-era standards of near certainty that there would be no civilian casualties as a result of U.S. kinetic operations will alienate populations whose goodwill is essential for sustainable outcomes in defeating extremist groups. Thus, prospects for Trump administration success in its purported goal of defeating and eliminating violent extremism are unpromising. Indeed, despite Trump's claim that ISIS has been driven from territories in Iraq and Syria, new evidence suggests that its presence is resurgent in places like Mosul. Given the administration's resistance to programs designed to address underlying causes of violent extremism, we will likely soon face new threats and the rise of Islamic State 2.0, Feierstein said.

Confronting Iran

Feierstein expressed his belief that Trump's decision to walk away from the JCPOA impedes international cooperation to address problematic elements of Iran's behavior. At the last UN Security Council session, the president pressed for concerted international action in support of the U.S. move. In response, the other council members unanimously reasserted their support of the JCPOA. French President Emmanuel Macron emphasized the need to together build a long-term strategy that does not just boil down to sanctions and containment. On the margins of the meetings, Iranian President Rouhani joined Federica Mogherini, the High Representative of the European Union for Foreign Affairs and Security Policy, to announce an EU initiative to help insulate from U.S. sanctions the European companies doing business in Iran. Feierstein argued that while the European effort is unlikely to significantly derail U.S. pressure on Iranian oil and gas exports, it nevertheless underscores the distance between the U.S. and its European allies on the Iran issue.

When it comes to Trump's reference to Rouhani as a "lovely man," Feierstein suggested that the U.S. president is potentially seeking to replicate the strategy he employed with North Korean dictator Kim Jong-un, i.e., alternately pressuring and engaging an adversary. Such a strategy would require one to ignore the very significant differences in the nature of the regimes in Tehran and Pyongyang, Feierstein said.

Israeli-Palestinian Conflict

Feierstein said the Trump administration's strategy for Israeli-Palestinian peace appeared to rest on two main pillars. First, it includes the deal that Jared Kushner and Jason Greenblatt have been developing for the past 18 months. But the Kushner-Greenblatt effort is complicated by the refusal of the Palestinian leadership to deal directly with them in light of the actions that the administration has taken in Jerusalem and with regard to Palestinian assistance programs.

The second pillar of the administration's peace initiative, Feierstein continued, is what is billed as an "outside in" approach that would rely on regional partners, especially the Saudis, to finance major investments in the Palestinian territories and normalize political and diplomatic relations with Israel. The Trump administration's approach was encouraged by a perceived convergence of interests between Israel and the Arab states, especially their shared concerns about Iran, that opened a window of opportunity to press for a more aggressive Arab effort to normalize relations with Israel. Nevertheless, the Saudis, at least in public, have underscored that they continue to support the Arab Peace Initiative first unveiled by then-Crown Prince of Saudi Arabia, Abdullah bin Abdul Aziz, in 2002. That initiative pledges normalization of Israeli-Arab relations, including establishing normal diplomatic relations, following rather than preceding an Israeli-Palestinian agreement.

Feierstein added that broader Arab support for the U.S. effort has been constrained in recent months by the widespread anger in the Arab world over the move of the U.S. embassy to Jerusalem and the punitive actions regarding Palestinian assistance. The administration's actions on Jerusalem and Palestinian aid have alienated the Palestinian population and rendered doubtful the continuation of the U.S. role as an honest broker in negotiations. King Salman, who has personally led the Saudi government's outreach to the Palestinians for decades, appeared to rein in his son's enthusiasm for the Kushner-Greenblatt initiative and make clear that Saudi Arabia would not undercut the Palestinian leadership in the pursuit of a peace agreement. In his meeting with Israeli Prime Minister Netanyahu on the margins of the General Assembly session, President Trump repeated earlier statements that his administration would support either a two-state or one-state solution based entirely on the preference of the parties. He also discomfited Netanyahu by repeating an earlier declaration that the Israelis would now be expected to offer the Palestinians a concession of comparable value to his decision to move the U.S. embassy from Tel Aviv to Jerusalem.

Feierstein said that the possibility there would be any serious movement on the Israeli-Palestinian peace initiative anytime soon is near zero. As Israel is likely to hold general elections sometime in mid-2019, it almost certainly would not be prepared to engage in

meaningful negotiations with the Palestinians before the latter part of 2019. At that point, the U.S. election clock also would have started to count down, presumably meaning that the Trump administration would not be prepared to do the heavy lifting required to reach a resolution on the Israeli-Palestinian issue. Thus, for Feierstein, it appears nearly certain that Trump's first term will end without any significant movement on resolving the issue.

Russia

Feierstein framed his analysis of Russia's policy in the Middle East around a Rand Corporation report by Sladden et al. and a Ha'aretz op-ed by Chuck Freilich, the former Israeli deputy national security advisor. Freilich warned that Russia threatens to supplant the U.S. as the leading foreign power in the region. The Rand report is more cautious about assessing Russia's role in the Middle East and warned that it should not be over-emphasized. Feierstein stated that in his own experience, Russian bandwidth in the region remains relatively modest. He noted that he had personally encouraged the Russians to work with the U.S. to resolve the ongoing civil war in Yemen, but that his Russian interlocutors had made clear that the conflict in Syria occupied all of Moscow's energy and attention and that Yemen, in their view, was a U.S. problem.

China

In Feierstein's view, China is likely to pose a far more significant challenge than Russia to U.S. interests in the Middle East. Feierstein emphasized that energy and economics remain the bedrock of China's Middle East policy. He noted that according to 2017 statistics, the GCC states, Iran, and Iraq accounted for 60 percent of China's imported oil. China-Saudi Arabia bilateral reached approximately \$70 billion in 2016, while UAE bilateral trade exceeded \$46 billion, and Iran-China trade registered over \$31 billion. Feierstein added that in 2016, Beijing released its first Arab policy paper that outlined a 1+2+3 cooperation framework with energy forming the core ("1"), infrastructure construction and trade/finance as its two wings ("2"), and further cooperation in the three ("3") high tech fields of nuclear energy, space satellite, and renewable energy.

Chinese President Xi Jinping told the opening forum of the 7th Ministerial Meeting of the China-Arab States Cooperation Forum in Beijing that the Arab states are natural partners in China's Belt and Road Initiative (BRI) and called for comprehensive, cooperative, and sustainable security. The so-called Maritime Silk Route, a part of the BRI, includes passage through the Red Sea and Suez Canal to the Mediterranean Sea. Feierstein added that China's role and ambitions in the Middle East clearly exceed energy imports and trade alone and include creating conditions for economic interdependence. Chinese investments are generating enhanced influence throughout the Middle East, as countries are increasingly anxious to diversify their economies away from dependence on energy markets.

In addition, Feierstein said that the Chinese have also recognized that regional conflicts, especially the tension between Saudi Arabia and Iran, risks complicating their economic and energy security interests in the region. The Chinese have offered their good offices to the two parties in an effort to relieve tensions if the parties request it and are taking steps to balance their economic relations with Tehran and Riyadh. Thus, parallel to their collaboration with Saudi Arabia on investments and Saudi Vision 2030, Beijing supported

Iran's admission to the Chinese-led Shanghai Cooperation Organization and extended to Iran a \$10 billion line of credit for infrastructure projects.

Feierstein added that China has expanded its military footprint in the region, establishing its first permanent naval facilities outside of China at Djibouti and Gwadar to guard the strategic chokeholds of the Strait of Hormuz and the Bab al-Mandeb. Thus, in contrast to Russia, China has developed the capacity to potentially compete in the future with the U.S. for influence across the full range of political, economic, and security arenas in the Middle East.

Regional Powers

U.S. partners in the Middle East recognize that the Trump administration may be too chaotic and unpredictable to implement anticipated policies or pursue a consistent policy direction and, accordingly, are taking on greater responsibility in looking after their own interests. While they still express confidence in the administration and undoubtedly would embrace administration success, Feierstein provided several examples that illustrate how U.S. partners are taking matters into their own hands:

- Saudi Arabia and the UAE have rejected U.S. entreaties to resolve their conflict with Qatar, which the U.S. sees as undercutting Persian Gulf security and stability.
- The Saudis and Emiratis are pursuing their strategy in Yemen without reference to U.S. concerns or U.S. appeals to emphasize diplomatic solutions to the conflict.
- Despite President Trump's criticism of OPEC pricing, which he characterized as "ripping off the rest of the world," there is no sign that the Saudis are willing to increase their oil production substantially to bring prices back down.

In addition, confronting a strategic threat from Iran's growing presence in Syria, the Israelis have turned to Vladimir Putin, not President Trump, to constrain Iran and reduce tensions. At the same time, as leaders in the region continue to rely on the Trump administration as their partner in confronting Iran and violent extremism, Feierstein noted they are also strengthening relations with Russia and China. Saudi and Emirati senior leadership have traveled to Moscow and Beijing in order to secure a friendlier hearing for their interests and to neutralize Tehran's ties. While the two governments are wary of the Russians in particular and the Emiratis, at least, see the Chinese as a potential rival for influence in the Horn of Africa and the Red Sea littoral, they increasingly consider both countries to be useful alternatives to the U.S.

In this context, the Persian Gulf states also see relations with Moscow and Beijing in transactional terms and have used their financial resources to maximize their influence. The Russian sovereign wealth fund, the Russian Direct Investment Fund, has entered into co-investment arrangements with the sovereign wealth funds of Bahrain, Qatar, Kuwait, Saudi Arabia, and the UAE to make equity investments in the Russian economy, without reference to international sanctions imposed on Moscow. Saudi Arabia, the UAE, Qatar, and Egypt have all announced arms sales agreements with Russia in recent years.

Feierstein concluded that the Trump administration's apparent preference for transactional arrangements rather than the political, economic, and security commitments that have characterized U.S. involvement in the region historically, has opened the door to the entry of rival powers and facilitated the shift by regional partners toward a more multi-polar vision. From his demand for cheaper oil to his emphasis on arms sales as a measure of bilateral relations, President Trump has made clear that the value he places on ties to the region correlates directly to a mercantilist, "dollars and cents" approach to international relations; that is, the emphasis is on what those states "do for us" rather than the enduring importance on longstanding ties as a pillar of national security and economic prosperity. Thus, the Trump administration's vision has come to resemble Russian engagement in the region, one heavily focused on short-term deals rather than longer-term interests.