



# Conference Report

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## **The strategic dimensions of the shale gas revolution: Shared views from NATO and Gulf countries**

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On 19 September 2013, the Middle East Faculty of the NATO Defense College (NDC) convened a workshop on the shale gas revolution and its ramifications for NATO countries and its partners in the Persian Gulf<sup>2</sup>. The initiative was born out of concerns on both sides of the NATO-Gulf partnership<sup>3</sup>, which were voiced during our various talks in European and Gulf capitals over the last twelve months. Indeed, the issue of shale gas has been definitely in the air for everybody, but the concerns are framed in different ways. On the NATO side, the main question can be summarized as: “How does the shale gas revolution impact our traditional reliance on Gulf energy”? For the Gulf countries, the central question relates not so much to economics as to security – in other words, “Are the US and our European allies leaving the Gulf?”

Differences in the way the shale gas revolution is perceived, and in the concerns it raises, should not be underestimated: it is the differing perceptions and apprehensions of the various actors which drive the decision-making process. Such was the background to the one-day workshop: the aim was to examine all these dimensions in detail, bringing together scientists, business entrepreneurs, economists, political scientists, and NATO political and military officers for an exchange of perspectives and an interdisciplinary overview of the topic.

Some trends now appear obvious. By 2035 the United States will produce 342 billion cubic metres of shale gas: this will account for 47% of its total gas production, as opposed to 16% in 2009. According to estimates from the US Department of Energy, this shale gas is likely to supply the US for the next 90 years. This ‘gas bonanza’, as it is now called by economists, will engender a major global redistribution of power between energy exporters and importers. Overall, Exxon Mobil predicts that North America will become a net energy exporter by 2025; and the IEA foresees the US overtaking both Russia as the largest gas producer and Saudi Arabia as the largest oil producer<sup>4</sup>.

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2 According to the US Energy Information Agency, “shale gas refers to natural gas trapped within shale formations. Shales are fine-grained sedimentary rocks that can be rich sources of petroleum and natural gas. Over the past decade, the combination of horizontal drilling and hydraulic fracturing has allowed access to large volumes of shale gas that were previously uneconomical to produce”.

Source: [http://www.eia.gov/energy\\_in\\_brief/article/about\\_shale\\_gas.cfm](http://www.eia.gov/energy_in_brief/article/about_shale_gas.cfm)

3 NATO’s relations with Gulf countries are primarily framed under the auspices of the Istanbul Cooperation Initiative (ICI), a partnership launched in 2004 with the United Arab Emirates, Kuwait, Qatar and Bahrain. Although Saudi Arabia and Oman are not part of the ICI, they maintain diplomatic relations and limited military education cooperation.

4 Jeppe Kofod, *The Economic and Strategic Implications of The Unconventional Oil and Gas Revolution*, Draft General Report for the NATO Parliamentary Assembly, 11 March 2013, pp. 2-3.

However, one should be mindful that the more the US shale gas industry grows, the more the demand for regulation does too. So far there is no national-level regulatory framework, and conditions for fracking vary according to each individual state's legislation.

In the meantime, European and Gulf countries have been much less proactive in this domain. In the EU, legislative issues, environmental uncertainties and political disputes over the fracking technique have so far left the continent in disarray. Some countries which were initially enthusiastic (such as Poland) have tempered their expectations after negative assessments of costs and benefits; in other countries (e.g. France), the question has become a matter of partisan politics. In the Gulf, although Oman and Kuwait are said to be preparing ambitious projects and there are signs of an ongoing debate in Saudi Arabia, the Arab monarchies have not yet embraced the shale gas revolution. Arguably, the prospective Asian demand for conventional oil and gas mitigates the risks of a sudden and drastic downturn in Gulf exports for the near future. This partially explains the lack of eagerness in the region for shale gas prospecting.

All in all, these trends fuel a narrative that has emerged in the last few years across the pages of the main business media outlets. The narrative goes as follows: the US is going through a major shift in its global posture, pivoting away from the greater Middle East toward Asia, and the shale gas revolution is making this move easier. As a result, NATO's role in the Gulf is likely to decrease and Asian powers like China and India will replace Western powers there.

This narrative is a convenient one, as it expediently gives a meaning and a framework to a worldwide transition. However, such a view of the international system as a zero-sum game is too simplistic to really account for the strategic ramifications of the shale gas innovation.

First, the assumption that the US will leave the Persian Gulf because of this energy bonanza is misleading. Contrary to popular belief, the US has not left the Middle East following the withdrawal of its armed forces from Iraq in December 2011. In reality, the level of American commitment to the region is not declining but quite significantly increasing. Following Ayatollah Khamenei's threat to close the Strait of Hormuz in January 2012, the US Navy doubled the number of vessels patrolling there. During the same period, the US Army 1st Cavalry Division's 1st Brigade was redeployed from Iraq to Kuwait. Comprising about 4,500 soldiers plus tanks and artillery, the brigade will play the role of a "mobile response force" for the region.

Overall, the US still maintains nearly 50,000 soldiers in the Gulf region. In the field of arms sales, Washington has never been so active: the purchase of F-16 fighter jets by the UAE in 2013 (for a value of US\$ 5 billion) follows Saudi Arabia's 2011 purchase of 84 F-15 jets (a record US\$ 29.4 billion deal). Washington also plays a critical role in shaping the defensive architecture of the Gulf Cooperation Council (GCC). The GCC kingdoms rely increasingly on US weapon systems (through confirmed and planned purchases of Patriot batteries) and the command structures of US Central Command. Finally, the launching last year of a first US-GCC strategic dialogue aims at uniting all these efforts.

On the other hand, the idea of China or India replacing the Western powers in the Persian Gulf, as a consequence of the shale gas revolution, is preposterous. Even if Gulf-Asian relations have intensified in numerous economic sectors, the view of an emerging Gulf-Asian strategic nexus downplays many substantial contradictions. First, for example, India and China have reinforced economic and political relations with Saudi Arabia, strengthened military ties with Israel and also maintained cooperation with Iran. And Saudi Arabia's ties with India, Pakistan and China have been strengthened, despite the competition inside this triangle. In reality, these contradictory relationships demonstrate the reluctance of Gulf and Asian countries to think strategically about Gulf-Asian rapprochement.

Second, the Gulf-Asian rapprochement narrative does not tackle the issue of pricing. The US military remains the leading security provider for global markets. As said during the conference, it is US command of the commons that ensures its global primacy. This mission matters not only because it safeguards US imports but, more broadly, because it guarantees the stability of the global flow of commodities. The fungibility of markets works in such a way that if the US leaves a region without security provision, prices will rise not only for the products originating from this area but globally.

An interesting comparison is the instability in the Gulf of Aden and the rise of piracy in 2008. A growing number of Somali pirates (estimated at more than 1,000), enabled by the absence of the rule of law in Somalia, have staged increasingly frequent and brazen attacks on commercial vessels transporting

vital cargo such as oil, food and weapons in the Indian Ocean and the Gulf of Aden. In just one year (2008), insurance costs for shipping cargo through the Gulf of Aden soared from US\$ 900 to US\$ 9,000. As a result, NATO and other actors deployed naval vessels to contain the phenomenon. In other words, the shale gas revolution may provide the US with leverage over its energy suppliers, but Washington has no interest in creating a security vacuum in the Persian Gulf.

This leads to the third issue, which is that the popular narrative around the shale gas revolution and its geopolitical ramifications overplays the role of economics in defining policy orientations. The US and European strategic commitment to the Gulf is driven not only by energy demands, but also by national security interests. Among these interests, the prevention of a nuclear-armed Iran, and more generally the prevention of the proliferation of weapons of mass destruction, outweighs economic considerations and is more likely than shale gas to drive transatlantic policymaking in the near future.

While the shale gas revolution does not constitute a strategic revolution for NATO and its Gulf partners, its importance should not be underestimated. As reflected by the depth of exchanges during the workshop, the topic is likely to grow in coming years and many dimensions and challenges surrounding it have yet to take form. The conclusion of the gathering was therefore that this discussion should be the first stage in an ongoing conversation among the various stakeholders involved. The idea is that further meetings should be held, in order to update and refine assessments on the interaction between energy trends such as the shale gas revolution and security concerns such as the stability of the Persian Gulf.

When push comes to shove, decision-makers need to know how this combination will impact NATO's military planning and diplomatic engagement in the Gulf. Specifically, this could be one of the main issues discussed during the forthcoming second edition of the NATO-Gulf Strategic Dialogue, which will be organized by the NDC in spring 2014.