

Black Swan Plc

People who say it cannot be
done should not interrupt
those who are
doing it" George Bernard Shaw



What is really happening with Qatar: “That Casablanca Moment” August 2017

“I am shocked, shocked to find that terrorism is being funded here...”

There is that wonderful moment in the film Casablanca where the German General Strasser tells Captain Renault to find a reason to close Ric's Café. Of course countless parodies mean that it has lost some of its force today but it all comes back with a bang when we have, as we have had during

June and July, the Kingdom of Saudi Arabia (“KSA”) accusing Qatar of funding terrorism. I mean we all **know** that Qatar has been doing this, except possibly those of you who rely on the BBC for “news”, but equally we all **know** that KSA does it as well. And we also know (thank you Julian¹) that the USA knows all of this because that awful woman broadcast it from her unsecured email server. So what is actually going on here?



I cannot explain the tortuous politics of the Middle East in a few pages but as so often in this region hydrocarbons play a disproportionately large role². As we work through the story and the maps below I want you to remember that you are looking at around 60% of the world's easily exploitable hydrocarbon resources. I want you also to hold in your mind that famous quote from Zaki Yamani³ as he predicted the fate of the Middle East and its wasteful spending: “The stone age did

not end because we ran out of stones”.

¹ Julian Assange, Wikileaks can we give this man a Nobel Prize?

² In this article I give a very simplistic view of the pipeline map. If you want a full view, I highly recommend

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³ KSA Oil Minister of Oil and Resources in KSA 1962-86 Minister in OPEC for 25 years.

Is the party ending?

All of a sudden across the region and in particular in the GCC⁴ there is a realization that the party might be over a lot sooner than everyone thought. The Crown Prince in KSA, the recently appointed His Highness Mohammad bin Salman, has set out a program to shift KSA away from oil dependence by 2030. It could happen. It won't of course because KSA mainlines money like heroin straight into the vein. The UAE is different: from its foundation Sheikh Zayed set about saving and investing so that Abu Dhabi now has the second largest sovereign wealth fund in the world. But Qatar is not. They are another one that has pissed the money away on vanity purchases (Harrods for example or buying the world cup) and covering their small island in skyscrapers. Qatar is the GCC's version of Frankfurt: some people will tell you it's not all *that* bad and everyone knows where it is but nobody wants to go there, let alone actually live there. But to work out what is happening here we need a bit of background.

Marketing Commodities: Class 1.01

Those of you who are my age will remember the days when the oil companies used to "market" their petrol: "Go Well, Go Shell", "Put a Tiger in your tank" "the Spirit of 76". Then along came a company called Jet which did no marketing at all but just sold gasoline cheaper. In a forehead smacking moment everyone (except I think my mother who I miss so much for her rebelliousness and sense of humour) just bought cheap petrol. All that expensive marketing was over.

It is pretty much the same back up the commodities chain. One country's oil or gas is the same as another.⁵ So the key thing is how do you get oil or gas from the producer to the consumer? There are only **TWO WAYS**: pipelines or boats. That's it. And these are BIG boats. You can't generate electricity and sell that because the losses over distance in the cables are too great with current technology.

Now although pipelines are cheaper in the long run they require planning, foresight, co-operation: things like that. So this immediately rules out a whole bunch of countries from the pipeline game: KSA, Qatar most of the Middle East in fact.

More forehead smacking moments: Ric: "I came to Casablanca for the waters" Renault: "But we're in the middle of the desert!" Ric: "I was misinformed"

At this point, because I love you all, I am hoping that most of my readers are smacking their foreheads and going: "OK so where are the effing pipelines in the Middle East? Does this explain everything?" It gets close.

The richest country in the world

Per Capita, Qatar is the wealthiest country in the world if you take the population of Qatari citizens and divide that into the headline value of its gas reserves. And they love to tell you this. Also, Qatar is the largest supplier of LNG in the world. And that goes in boats....down through the gulf, down through the straits of Hormuz...why? because.....it doesn't have a choice because it has only one pipeline: the "Dolphin" pipeline linking it to the UAE. I know, I know, I can't work it out either. The UAE's gas is sulphurous but you can still burn that in a power station.

⁴ Gulf Co-operation Council: KSA, UAE, Oman, Bahrein,

⁵ Before the pedants get to me I know that you have to blend mixtures of crude to make gasoline and sulphur rich gas is (currently) unsaleable.

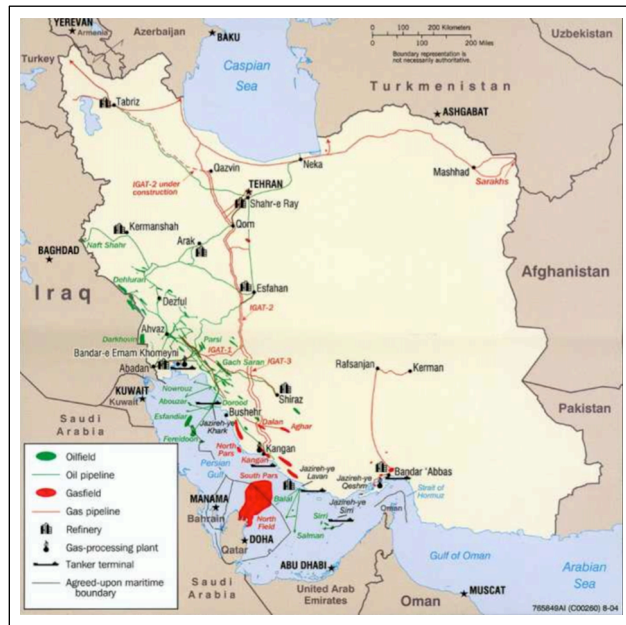
So Qatar's problem is that because of the multiple bottlenecks of LNG capacity, moving the ships down the gulf through the straights of Hormuz etc etc it can't actually sell as much gas as it would like. It is like some post-apocalypse movie where paper currency is valueless and all you have are suitcases of dollar bills and no food.

So did this come as a surprise? Well, to KSA it seems like a bolt from the blue because they have no external pipelines to anywhere...What? Wait? So who does?

The Politics of Pipelines

Well Iran of course. They are linked into the Chinese pipelines. Ah...ok....so no one on CNN or the BBC told you about those did they. China is linked into the 'Stahns and is also building a new pipeline from Iran to Pakistan and India as part of the plans for "One Belt One Road" ("OBOR"). These

pipelines provide a massive flow of oil and gas from the Middle East and Central Asia straight into China to power its growth. To give you a feel for the volumes going through these pipes Kazakhstan alone supplies more gas, just through its link to China, than the entire gas output of Qatar.....whoops.



Now there have been conversations about pipelines over the years: linking from KSA to Europe, etc but nothing ever got done. Then, KSA and Qatar had an idea. America and Britain had trashed Iraq and so they reckoned they might be able to take it over. They hate Syria because it is a secular regime and refuses to play the religion game so why not fund a terrorist organization to destabilize that part of the Middle East and then build a pipeline through it. So they did. And the USA came to play as well. It's called ISIS or as I prefer Da'esh. But as America should know by now

funding these organisations and setting them up is very different from controlling them to do your bidding: think Osama bin Laden for example. So it all went horribly wrong.

Then a bit of snuggling led to trouble....

Now Qatar has been snuggling up to Iran, a bit...not a lot....but they have been doing this for a while. You see if you look at the big red blob on the map between Qatar and Iran that is the South Pars gas field. Part of it is Qatari and part Iranian. In July, Iran and Total announced an agreement to exploit South Pars. This makes very good sense, as the output will go into the existing links to China and the new OBOR pipelines. But of course it doesn't make sense for Qatar to be part of this because they cannot sell the gas they already have....unless.....

So Iran saw a way to make mischief, and to divide the GCC and to stick one right up the KSA where the hatred is entirely mutual. So I guess somebody in Tehran up picked the phone to Qatar and said words to the effect of: "Wanna play in our pipelines?" From Qatar's simplistic point of view it is a no brainer: they get to export their gas to the fastest growing economy in the world, which is, lets be honest, going to dominate the world for the rest of our lives, the bottleneck to export is gone and they can stop funding Da'esh and the mess that is Syria/Iraq.

But Iran is KSA's biggest enemy so when they found out about this the shit hit the fan. I suspect that KSA brokered a deal with the UAE that the two of them could now take control of the GCC...but they needed USA support. So Salman and Mohammed bin Zayed went to Washington. I don't know the exact script of the conversation but it will have been something along the lines of "we will buy 50 trillion \$ of high tech equipment which none of our military will ever be able to use if....."

I think it is rather naive of Donald Trump to give his support to the "takeover" of Qatar but I do not believe KSA and UAE would have moved in the way they did without full USA support. The demands they initially made of Qatar were totally outrageous and were immediately rejected. Possibly recognizing that they may have overstepped the mark the demands have been steadily watered down. However Qatar has simply refused to negotiate anything and told the KSA led group to get stuffed.

I hope somebody sensible somewhere can see this mess for what it is and broker a deal: maybe a pipeline from KSA to Iran? I am afraid this is more of a pipe dream: but it does make sense.....

Very best

A handwritten signature in blue ink, consisting of stylized, cursive letters, positioned above a horizontal line.

RP