Food, Finance, and Energy in the Gulf

Food, finance, and energy policies and security form a unique nexus in the Gulf countries, and how they interact will be central to the Gulf’s future prosperity, according to Eckart Woertz. Woertz is a senior research fellow at the Barcelona Centre for International Affairs (CIDOB), and he spoke at a Gulf Roundtable entitled “Food, Finance, and Energy in the Gulf” at CSIS on May 6, 2014. He argued that Gulf governments must address politically sensitive and difficult issues such as subsidies, economic diversification, energy consumption habits, and managing food import dependence in order to forge more sustainable futures.

Woertz opened the discussion by focusing on current and future energy challenges facing the Gulf. In his view, the real and most pressing threat to Gulf energy security is from rising domestic energy consumption, not the U.S. unconventional energy boom. Although most individuals think of Gulf Cooperation Council (GCC) nations as major oil exporters, they have also become sizeable oil and gas consumers. He estimates that most GCC producers consume nearly 20 percent of their own oil production, with Saudi Arabia consuming roughly 25 percent of its production. Growing electricity and water consumption, natural gas shortages, and reliance on energy-intensive desalination processes for water could diminish the future oil export capacity of Gulf countries. In fact, if consumption continues to grow at current rates, Saudi Arabia could lose three million barrels per day (bpd) of its export capacity by 2025. Saudi Arabia already consumes two million bpd of its roughly 10 million bpd production. Loss of export capacity would be highly damaging to its economic stability and could hurt the global economy by driving up prices.

On the other hand, the much-discussed North American shale revolution is unlikely to fundamentally change the dynamics of the global energy market and the Gulf’s position in it. Unlike natural gas, oil is a fungible commodity that trades on a global unified market. Even in the hypothetical event of U.S. self-sufficiency, the United States would still depend on the Gulf’s pivotal role in price discovery. There is nobody else who could quench Asia’s energy thirst. Woertz argued that Gulf countries must...
therefore focus on heading off growing domestic energy consumption. He noted that efforts to develop alternative energy in the Gulf—such as nuclear, wind, solar, and even coal—are useful to an extent, but cannot replace efforts to reduce burgeoning demand. Governments in the Gulf are hesitant to broach the subject of cheap water, electricity, and gas for citizens, which function as a form of entitlement spending, especially in the wake of Arab upheavals. Similar to the way that the U.S. and EU governments are loathe to address farm subsidies given the strength of constituencies supporting them, Woertz argued, Arab regimes tend to shy away from subsidy reforms and other politically sensitive resource-use issues.

Because high oil prices in recent years have brought a large influx of revenues into Gulf coffers, Woertz noted that asset stability remains a second major challenge for Gulf countries. GCC states require foreign markets in which to invest, save, and diversify their immense current account surpluses. Despite major investments in domestic infrastructure and industrial projects and a construction boom in the region, there is a limit to the GCC’s absorptive capacity. During the financial crisis of 2008, the assets of GCC sovereign wealth funds with the exception of Saudi Arabia’s SAMA lost 30-40 percent of their value, which was a shock. Though the value of these assets has since recovered, Gulf leaders remain keenly aware of the risks future financial crises pose.

In pursuit of financial stability, GCC states have initiated diversification strategies that include investing in emerging markets, in commodities, and in gold reserves. Yet every option has drawbacks: the gold market is illiquid and cannot serve as an effective alternative for all other types of assets; in addition, commodity markets have been volatile, and bonds do not currently offer attractive rates of return. Woertz noted that concern about the stability of financial assets might lead Gulf decisionmakers to prefer to constrain oil production as a way of keeping oil wealth in the ground longer. Finding sound and productive avenues for financial diversification will remain a vexing concern for GCC countries.

Financial health in turn affects food security, as GCC countries import the majority of the food they consume. The Middle East as a whole has lacked the ability to grow enough food for itself from renewable water resources since the 1970s, and countries there will remain net food importers for the foreseeable future. Woertz compared the Gulf’s reliance on food imports to the West’s reliance on energy imports, and he noted that interrupting food supplies to the Gulf would carry similar consequences to that of halting oil exports to the West.

Woertz cautioned against the “illusion of food self-sufficiency”—the idea that Gulf countries could produce all the food they need. A recently launched agriculture initiative in Qatar exemplifies the problem. Doha seeks to grow domestic crops with desalinated water, but desalination is extremely energy intensive and thus an unsustainable solution; it also produces highly saline brine that will either pollute the Gulf or Qatar’s groundwater supply. Other Gulf countries have similarly focused on ambitious technological fixes to the challenge of food security, with little regard for broader consequences. Saudi Arabia, for example, established a subsidized wheat cultivation program in the 1980s, which turned it into the sixth largest wheat exporter of the world in the 1990s. This meant that the water-scarce Kingdom was effectively exporting “virtual water.” This was unsustainable. Finite resources of fossil water have been depleted, and wheat production is being phased out now.

Sound policy decisions and investments will allow Gulf states to improve their security with respect to food, energy, and finance, Woertz argued. Ultimately the success of Gulf governments’ efforts will depend on political will and a focus on long-term, sustainable solutions that see all three sectors as interrelated forces driving the Gulf’s future.