



GRC Annual Strategic Survey 2022

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Chairman's Foreword



The Gulf region continues to experience a great deal of volatility and unpredictability due to several global and regional factors. While many challenges have remained consistent over the years, the coronavirus disease (COVID-19) pandemic that began in 2020 and the Russian invasion of Ukraine in February 2022 have added new dimensions to an already complicated situation. These new factors are likely to impact the region's overall growth and stability.

Fortunately, the domestic political situation in the Gulf Cooperation Council (GCC) states remains stable with a relatively smooth power transition to a new generation of leadership. While Gulf economies are the biggest beneficiaries of the recent rally in oil prices, it is essential to continue with the ongoing efforts to diversify sources of revenue or at least reform the existing economic structures to make them less hydrocarbon intensive. It is good to note that the rise in oil prices has no impact on the GCC countries' commitment to diversifying their respective economies away from oil.

The Ukraine conflict has brought energy security concerns back to the forefront with the GCC states finding themselves at a crossroads. The Gulf oil producers are faced with two options: Maintain tight supplies and high prices, or the full utilization of capacity to bring prices down.

The crisis has also reinforced the central role of the GCC countries as global energy providers. It is, however, clear the Gulf countries need increased investments in the energy sector to carry out their responsibilities as major energy providers.

Yet, maintaining a central role in the international energy system also requires serious engagement in the ongoing process of decarbonization around the globe. Indeed, there

has been a strategic shift in GCC countries' policies toward energy transition, green economy, and climate change, as it is also seen as an opportunity to diversify their respective economies, attract more local and foreign investment and create jobs.

On the security front, the region is faced with numerous challenges and the coming year is likely to be marked by continued tensions. The relationship between the GCC states and Iran remains the key strategic issue. While efforts at de-escalation and conflict management have increased, there is no indication that such developments are part of a paradigm shift. While the issues among the GCC states have been largely resolved, the conflicts in Yemen, Syria and Libya as well as the instability in Iraq and Lebanon, could easily deteriorate and draw in the wider region.

Developments at the global level such as the rising tensions between the western powers with Russia, China and the rise of the Asia-Pacific will also have a profound effect on the Gulf region. The US remains the preeminent security partner for the GCC countries, but a shifting global environment also necessitates a variety of partnerships and level of cooperation. This is not an easy balance to maintain.

To contribute to a better understanding of some of the dynamics outlined above, the Gulf Research Center has put together this Annual Strategic Survey 2022. It represents the views of the GRC team of analysts with the center continuing to strive to increase an understanding of the factors determining the Gulf strategic environment. I sincerely hope you will find this publication valuable and insightful.

Dr. Abdulaziz O. Sager
Chairman
Gulf Research Center



Dr. Abdulaziz Sager

The Gulf Region in 2022

The year 2022 continues to be a year of challenge yet combined with opportunities for the Gulf region. The socio-political foundations of the GCC countries are strong enough to withstand all sorts of shocks. Despite much of the turmoil associated with the region, the fact remains that the Gulf countries are among the most economically modern and stable countries. The GCC and its members have endured innumerable challenges which they have overcome. The Gulf countries have endured innumerable challenges, which they all have managed well.

As a contiguous region, the countries have common interests in the areas of security, economy, and similar goals for global, regional, and local prosperity. The GCC Summit at AlUla restored a sense of normalcy in the Gulf region, as the member states established a framework toward a unified policy on Gulf security and economic cooperation/future integration. Such a unified stance toward geopolitical and economic development is necessary for the region to realize its full potential.

Unified approach

The AlUla agreement ended the three-year rupture with Qatar. It opened the door for renewed diplomatic relations between Qatar, Saudi Arabia, Bahrain, and the UAE. The agreement put in place a more unified approach toward regional challenges faced by the GCC states. This is exemplified in the growing coordination among the neighboring states in terms of setting a common agenda for Yemen, Iran, and Iraq. However, all the issues have not been resolved, but a significant step has been taken that places the GCC on a more unified and forward-looking path.

Economically, the GCC states have been undergoing a tremendous shift by introducing fiscal adjustments to curb supply and demand pressures of the oil market as well as to modernize their respective economies and encourage foreign direct investment.

The GCC governments have made economic diversification their central policy to ensure sustainable growth for the bloc.

The ongoing oil price rally and the GCC governments' stimulus packages to boost their respect for non-oil sectors are helping the Gulf countries emerge stronger than the pre-pandemic levels.

Socioeconomic transformation

Like Saudi Arabia's Vision 2030, Oman, Qatar, Bahrain, Kuwait, and the UAE all are taking independent initiatives to diversify their respective economies and further modernize their societies, yet in essence, all these visions for the future lead to the common goal of making the Gulf region a global modern hub of knowledge-based economy and prosperity. Despite the coronavirus disease (COVID-19) pandemic, Saudi Arabia's Vision 2030 remains broadly on track. Due to the pandemic, resources had to be diverted to effectively fight the health crisis, which caused delays to some initiatives. Vision 2030 was designed to be flexible in anticipation of unforeseen circumstances.

As countries around the globe recover from the economic and health consequences of the pandemic, the GCC countries have deployed various quantitative measures such as debt rescheduling and large fiscal stimulus packages to alleviate the suffering of individuals and help small and medium enterprises (SMEs) and large corporations to stay afloat.

Given the measures that were provided by GCC governments during the course of the global pandemic, as well as the positive oil markets this year, the outlook of 2022 seems to be a recovering year as businesses in the Gulf have progressively rebounded in the first half of the year. Through increased localization of selected food and medical supply chains during the pandemic, the GCC ensured its stability and helped reduce the region's excessive dependence on imports. In addition, the flexible nature of the GCC policy environment allowed the states to deal with the COVID-19 crisis effectively.

At the same time, throughout the pandemic and the subsequent demand shock in the oil market, the GCC countries suffered from the stagnation of oil-driven revenue as demand, particularly in East Asia, plummeted



to record lows. China, for instance, is the largest trading partner for Saudi Arabia and imports the vast majority of its hydrocarbons from the region. The same holds for other East Asian countries. While demand has resurfaced as countries enter a post-COVID recovery phase, the Russian invasion of Ukraine has opened another front with food security, in particular, emerging as a key issue for the GCC states and the wider Middle East due to their reliance on Russia and Ukraine for wheat and other staple foods. All of these issues underline the urgency of implementing economic diversification plans in the GCC.

The regional and international environment

While a largely positive picture can be provided as far as the political and economic stability of the GCC states is concerned, the picture is less clear and more challenging when it comes to the wider regional and international security environment.

At the core of the GCC's concerns is the future relationship with the US, which has always played a central role as a security provider to the Gulf region. Recently, however, Saudi-US, as well as the overall GCC-US relations, have undergone a recalibration from both sides with individual national interests being pursued with greater emphasis.

Divergent views

The US wants complete Saudi and UAE alignment on its policy on the conflict in Ukraine, its desire to limit China's influence in the region, issues concerning the ODNI report, and human rights issues. Washington also wants the GCC to address its concerns over the OPEC+ framework and increase oil output. Energy issues are also becoming a key area of dispute. As a result of OPEC formalizing the OPEC+ coalition in July 2019, the US Senate passed "The No Oil Producing or Exporting Cartels" (NOPEC) bill that threatened to allow antitrust lawsuits against the bloc.

For the GCC states, there are other issues of paramount importance such as protection of critical infrastructure, national security threatened by the situation in Yemen and Iranian interference in neighboring countries, and the US curbs on the sale of weapons to the Gulf countries.

The US efforts to limit the extent of Chinese-Saudi cooperation and labeling the Kingdom as a "pariah" has raised questions about the longstanding institutional relationship between Riyadh and Washington. Much attention is now being placed on the visit of President Joe Biden to Saudi Arabia in July 2022 where both sides will have the opportunity to address issues of concern. The visit is likely to serve as a reassurance to the renewed commitment of both states toward each other's economic, security, and foreign policies.

However, with the shifting sands of global politics and the ongoing transition in the Middle East and the Gulf region, it should not be expected that all issues will be resolved during the upcoming meeting.

Gulf's stance

Based on legal principles, the Arab Gulf states stand opposed to the Russian invasion of Ukrainian territory, as an act contrary to international law, and the rules of respect for the sovereignty of the state and the sanctity of its territory. It is a position firmly adopted by the Gulf states over the Iraqi invasion of Kuwait in 1990. The Gulf countries wish to maintain a balanced approach and their willingness to keep some channels of communication with Russia open should not be viewed as an endorsement of Moscow's actions.

Saudi Arabia made its position clear in its vote in the UN against the invasion of Ukraine and efforts are focused on ending the violence and avoiding further escalation. Economically, the growing food security concerns posed by the Russian-Ukraine conflict are also affecting the GCC as well as the wider Middle East.

The Ukraine crisis has, however, caused an added divergence of US-GCC policy in terms of energy policy. The Saudi and the UAE's positions toward the US demand to increase oil production have been interpreted as being motivated by overall displeasure with the US policy toward the Gulf. While jumping to conclusions, many Western politicians ignore the oil market dynamics and the fact that any immediate measures are unlikely to bring about relief for the Western economies as such actions defy the supply-demand principles of the open market.

After dealing with a significant drop in oil prices in recent years, the GCC efforts are now focused on maintaining a degree of price and market stability and protecting national interests as well. It is a difficult balancing act but there aren't many viable options available. For further analysis of these developments, please refer to the chapter by Giacomo Luciani in this volume.

US' role in the region

The Gulf countries also have serious concerns over the US' present role in the region. There is a growing perception in the region that the US is no longer as fully committed to the security of the GCC countries as it was in the past. These concerns are based on the US policies in the region, which include a lack of or slow response to Iranian aggression. For a brief period, Russia's increased assertiveness and its efforts to offer countries in the region an alternative to Washington in the form of political and military support allowed Moscow to gain a stronger foothold in the region but the invasion of Ukraine is likely to reverse the trend. On the other hand, the US inaction in the recent past underscores the need for the



GCC states to maintain a variety of relationships that can ensure their security in the face of several regional threats and challenges.

Similarly in the energy field, the Gulf Arab states are pursuing a balanced approach without wanting to be forced to take sides.

Existing opportunities

However, at the same time, the overall regional environment presents opportunities to recalibrate the GCC-US ties and resolve current issues. What has made the relationship so robust, and one that has endured the shifting political dynamics throughout the tenures of 14 US presidents, is that, more often than not, the interests of both nations aligned well in the areas of counterterrorism, global economics, and energy markets. The relationship helped ensure the stability of the wider Middle East and North Africa region, and secure the waterways for the free flow of trade.

With the emergence of new issues, such as climate change, new technologies, and digitalization, additional areas of cooperation are also appearing. Saudi Arabia has defined environmental and climate change as a key pillar of its domestic and foreign policies. The nation has bold ambitions of achieving net-zero by 2060 by investing in renewable energy and has introduced the Saudi Green Initiative. Regionally, the Kingdom, in line with the Middle East Green Initiative, is participating in reforestation efforts to plant over 50 billion trees across the region. In the context of the future of Saudi-US relations, climate change represents a growing opportunity for both nations to cooperate bilaterally and multilaterally. The appointment of Adel Al-Jubeir, Saudi Arabia's former foreign minister and former ambassador to the US as the Saudi climate envoy represents the Kingdom's growing interest in cooperating with its allies in this realm. There are further opportunities to enhance trade and investment ties between the US and the GCC. As far as Saudi Arabia is concerned, Vision 2030 seeks to build upon three of the Kingdom's comparative advantages: Its key role as guardian of Islam's two holiest sites, its financial strength as a prospective investment giant, and its geographic location at the crossroads of three continents.

The same goes for the other GCC economies which offer unprecedented opportunities to foreign investors. With further steps being taken in working jointly toward technological and space advancement, a new foundation for bilateral GCC-US ties is being laid.

Understanding GCC-China relations

It is also necessary to understand the GCC-China ties. The US is a critical security partner while China is a major economic partner for the region, yet it is important to

emphasize that the GCC's relationship with China does not come at the expense of the strategic relationship with the US. Over the years, China has gradually built and maintained relations across the Middle East by increasing its strategic investments across the region. This includes several diplomatic, political, and economic initiatives across the GCC. China's heavy reliance on the GCC for oil to fuel its economic development makes the region of vital and strategic importance to the country.

As of December 2021, Saudi Arabia accounted for over 20 percent of Chinese oil imports, and the GCC as a whole accounted for over 50 percent of the total Chinese hydrocarbon imports. The total value of the GCC-China trade is over \$190 billion.

With China's rise on the world stage over the past decades, the relationship between the GCC and China has developed into one of a comprehensive partnership based on energy and economics. This is primarily due to their mutual interest in policy initiatives, such as China's Belt and Road Initiative and economic diversification plans in the GCC. Through its Belt and Road Initiative, China has extended infrastructure developments throughout the GCC and the greater Middle East to establish logistics hubs and trade routes.

All of this has provided some concrete benefits to the GCC economies which cannot be ignored. Yet, the Arab Gulf states think rationally and do not see China as a substitute for the US and the key security role it has always played in the region.

The Iranian issue

The GCC states continue to stress the importance of dealing with the Iranian issue in a holistic manner that addresses security threats such as Tehran's missile program, terror financing, interference in external affairs of neighboring countries, maritime activities, and efforts to achieve nuclear capabilities. The Gulf countries want any agreement reached with Iran to be multifaceted and must address the Iranian's behavior in the region.

The prevention of nuclear proliferation and efforts aimed at creating a zone free of weapons of mass destruction in the Middle East remains prudent for the region's stability. Iran's continued failure to fulfill its obligations to the International Atomic Energy Agency (IAEA) as well as its negative attitude toward the renegotiation of the JCPOA further destabilizes the region and brings Iran closer to confrontation with Israel. A confrontation between Iran and Israel will undermine the stability of the GCC states, therefore, it remains in the Gulf countries' interest to resolve matters with Iran diplomatically.





At the same time, Iran must be willing to engage constructively to understand the various threat perceptions in the region. Throughout, the GCC states have stressed Iran's need to abide by principles of good neighborliness, respect for the sovereignty of states, non-interference in internal affairs, and resolving disputes by peaceful means, avoiding the use of force and the sectarian card.

Threat to the region

Iran possesses the largest and most diverse missile arsenal in the Middle East, ranging from short and medium-range missiles and long ballistic and cruise missiles. Iran's further development of ballistic missile technology contributes to regional tension and poses a threat to international peace and security.

Of particular concern is the fact that missiles are a central tool for power projection for Iran. The Houthi militias in Yemen have fired more than 400 ballistic missiles against Saudi Arabia, in addition to missiles fired at the UAE, which were reportedly supplied by Iran. As a result of the Iranian proliferation of weapons, drones, unmanned aerial vehicles, and cruise missiles, GCC security is continuously threatened.

An additional issue has become the continuous disruption of shipping lanes and seizure of ships in the Arabian Gulf by Iran which hinders maritime navigation in the waterways of the Gulf in violation of international laws. The implications of Iran targeting marine installations, energy supplies, oil pipelines, and oil installations in the Arabian Gulf and waterways are acts that threaten the security of the GCC states and the wider region. Additionally, maritime disruption threatens the international freedom of navigation and undermines regional and international economies, peace, and security.

Another element is the support for non-state actors such as the Houthis in Yemen, the Popular Mobilization Forces in Iraq, Hezbollah in Lebanon, Al-Ashtar Brigades in Bahrain, and other armed organizations in Palestine. All these groups undermine the control of central governments and threaten the stability of the Middle East. The Iranian alliance with Hezbollah in Lebanon continues to act as a destabilizing force at the expense of the Lebanese people.

Channels of diplomacy

Despite the numerous challenges, there continues to be a conviction that channels of communication are needed to introduce conflict management and de-escalation efforts to move the region out of its perennial cycle of instability. The Saudi-Iran talks held in Iraq are just one example. Unfortunately, the developments of 2021 and 2022 do not suggest that a needed paradigm shift in thinking as far as Teheran is concerned has so far occurred.

In line with a broader de-escalation approach, Saudi Arabia's position on the conflict has also evolved. While the Kingdom remains the largest humanitarian donor to Yemen, with over \$17 billion in foreign aid being spent in the impoverished Arab country so far, there is also a focus on renewed efforts to achieve a political solution in Yemen through dialogue.

Truce in Yemen

The GCC has been successful in playing a role in securing a truce in Yemen, which has been extended by two months and comes as a relief to the Yemeni population. Additionally, the GCC initiative in supporting the creation of a Presidential Leadership Council in Yemen also lays the foundation for ending the conflict.

In terms of Saudi Arabia's security, the conflict in Yemen remains a priority due to the instability caused by the Houthis on the Kingdom's southern border. This includes the Houthi targeting of Saudi critical infrastructure facilities and threats posed by the Houthis to Saudi maritime security and its civilians.

Saudi Arabia welcomed the UN-brokered truce as a chance for political dialogue to gain traction as well as an opportunity to renew confidence-building between the parties to the conflict. The Kingdom wishes to see a stable and secure Yemen with a legitimate government that can meet the demands of the Yemeni population. Saudi Arabia is optimistic due to the success of two recent truce agreements between the fighting sides in Yemen. However, it also recognizes that the truce remains fragile and adequate support for the Presidential Leadership Council is necessary to achieve a political solution in Yemen.

Conclusion

The Gulf region continues to face numerous economic and security challenges, which are elaborated on in the chapters that follow. The GCC nations remain robust economically and the various economic development plans have begun to yield results. In the meantime, there is a need to address the security challenges holistically faced by the region. The region is not short of security proposals to overcome present challenges including the US MESA proposal, Iran's HOPE proposal, Russia's idea for Gulf security in addition to ideas laid out by the EU. All initiatives still fall short of achieving the intended results as a result of a lack of buy-in from the concerned stakeholders. One alternative could be for the GCC states to combine the elements of the proposed initiatives and formulate their vision of a stable and secure Gulf. The timing of such would certainly be right.



Dr. Christian Koch

The Gulf in 2022: The Regional and International Environment

In terms of regional and international relations, the Gulf region continues to be confronted by a highly fluid and volatile security situation. While the focus has shifted toward efforts at de-escalation and promotion of conflict management mechanisms, the threat and ongoing conflicts remain largely unchanged. For one, the GCC states continue to find themselves under direct threat from Iran and Iranian-supported proxy forces. Second, the war in Yemen remains unresolved with tremendous economic and reputational costs for all those involved. Third, while the rift within the GCC states has at least for the moment been patched over, conflicts continue in Iraq, Syria, Lebanon, Libya, and Sudan with the constant possibility of a sudden increase in tension at any time.

Fourth, all of this is occurring while the US, as the preeminent provider of security for the GCC states, is reassessing its future role in the region. This has led both to tensions within the GCC-US relationship and to an increased determination by the GCC states to strengthen their self-reliance and broaden their strategic alignment. Fifth, the Russian invasion of Ukraine in February 2022 has added an additional layer that has complicated matters further while raising questions on the impact of international shift in the regional security environment.

A common thread running through the above is the degree of uncertainty with which the region finds itself confronted with – uncertainty about the near-term direction of the regional environment, about the role of the US, Russia and China, about the outcome of the impending energy transition, as well as uncertainty about the world of globalization and the economic order. The result is an ongoing search for a new balance in the broader Middle East characterized by GCC's outreach to potential new allies and a great degree of hedging.

This paper attempts to put the developments in 2021 and 2022 into perspective by outlining broad themes through which GCC foreign policies can be better understood

and highlighting shifts that have occurred at the bilateral level with countries outside of the GCC. While the paper uses the term GCC states or Arab Gulf states throughout, there is a clear recognition that the GCC states are not a monolithic bloc, neither do they follow unified policies on regional and international issues. Nevertheless, there exists broad agreement on the core threat issues that the region faces and a lowest common denominator approach in terms of how to tackle and approach those threats. The issue of GCC unity, however, is an additional complicating element in understanding the regional security environment.

Threats close to home

Iran continues to remain the main strategic challenge to the GCC states. Iran's regional ambitions and readiness to employ a variety of military, ideological and political tools to spread its influence at the expense of its neighbors is seen negatively throughout the Arab Gulf states. Ideologically, the instrumentalization and sponsorship of sectarian identities within the broader Middle East is seen as a deliberate attempt to undermine the stability not only of the Gulf monarchies but also the other Arab states of the Middle East.

Following direct attacks on GCC interests, including oil installations in Saudi Arabia, shipping in Gulf waters, and infrastructure targets in Saudi Arabia and the UAE, there has been an effort to lower the regional temperature by reaching out to Iran politically and diplomatically. Numerous delegations from GCC countries visited Tehran, Iran's President Ebrahim Raisi has visited Qatar and Oman, and Saudi Arabia and Iran have engaged in several rounds of talks under the mediating efforts of the Iraqi government.

It would be wrong, however, to see the recent efforts at de-escalation and diplomatic engagement with Iran as an indicator of a broader paradigm shift. The readiness to engage with Iran in talks reflects current GCC thinking that direct communication channels to Tehran are needed to prevent further escalation in the region. However, from a GCC perspective there is still a requirement for Iran to adhere to principles of international law, respect state sovereignty, end its malign activities across maritime



issues, end support for violent non-state actors, promotion of sectarianism, and seize the pursuit of nuclear capability as well as the proliferation of ballistic missiles along with other weapons throughout the region. There continues to exist a broad consensus within the GCC that Iranian actions in regional theatres such as Iraq, Syria, Lebanon, and Yemen are clear examples of Tehran's broader regional ambitions.

The current convergence of Saudi and Iranian policies toward mediation and de-escalation efforts highlights an initial attempt to repair relations at a bilateral level. The Gulf capitals still view Iran in a triumphalist mood with Tehran increasingly ready to use tools at its disposal, including missile and drone technology, for intimidation rather than deterrence purposes. Saudi Arabia has for now stated that it is willing to continue discussions with Iran while also indicating that it will engage with the new Raisi government based on "realities on the ground." However, while talks on bilateral ties have progressed, Saudi Arabia has seen little indication that Iran is ready to have a more open dialogue on the regional issues that divide the two sides. As a result, Saudi Foreign Minister Prince Faisal bin Farhan, stated at the 2022 World Economic Forum in Davos, Switzerland in May, that Saudi Arabia's "hands are stretched out" while calling on Iran "to lean into what can be a very, very important sea change in our region" and adding that "a new era of cooperation" could deliver benefits for all.

The contentious issues thus remain the same as they have been for the past decade. As Saudi Crown Prince Mohammed Bin Salman elaborated in his interview in April 2021: "The problem that we have lies with certain negative behavior they (Iran) have, whether in terms of their nuclear program, their support for illegal militias in some countries of the region, or there for these problems." Whether a new page can be opened, especially on the Saudi-Iranian front, very much depends on the progress on calming down the conflict situation in the wider Middle East. But as of mid-2022, while the circumstances may have shifted, the mindset has not and as such current policies are focused on preventing further instability rather than embracing strategic re-engagement.

With the priority placed on countering the strategic threat from Iran, it can be argued that the GCC states have undergone shifts in how they approach their immediate neighborhood and the wider Arab world. To be sure, the Iranian element is never far away. But the focus has shifted somewhat from an interventionist policy pursued by individual GCC member states in order to directly influence developments in specific arenas, to more defensive positions that seek to prevent adverse developments of the region from spilling over and endangering GCC national security.

The policy now is for the building of rings of defense starting with the GCC states, then covering immediate neighboring states such as Iraq and Yemen, before moving to the broader Middle East. This means consolidating ties within the GCC, re-building links with Iraq, opening communication channels with Iran while strengthening defense and deterrence capabilities, and pursuing efforts to end the military involvement in Yemen.

The GCC summit meeting in Al-Ula brought the rift within the organization over the issue of Qatar to a formal end although so far not all issues have been resolved. The repercussions from this unfortunate chapter in relations remains and as such a certain level of distrust continues while member states begin to focus on the broader strategic issues facing the region. New areas of competition have also emerged, for example on the economic front. But as the UAE presidential adviser, Anwar Gargash, noted on the sidelines of the 42nd GCC meeting held in December 2021 in Riyadh: "The are areas that will need some time, but ... practical, functional cooperation is back on track."

A concerted effort has been put forward to move the conflict in Yemen toward a political solution with Saudi Arabia holding back-channel negotiations with the Houthis through the mediating efforts of Oman, the establishment of a new presidential council headed by Rashid Al-Alimi to replace the ineffectual government of President Hadi, and the agreement of a truce that has temporarily halted the fighting through the summer months of 2022. Fully aware of the tremendous economic, political and reputational costs of the conflict, Saudi Arabia and the UAE have stepped up their effort to jointly push forward with political efforts alongside the international community including with the US and the UN. Saudi Arabia has also attempted to talk about the future course in Yemen with Iran as part of their bilateral dialogue although there is no indication that Iran is ready to exert sufficient influence on the Houthis to move them to engage more seriously on the political front. For the moment, the maintenance of the cease-fire is the best that one could achieve.

The GCC states have also continued their outreach to Iraq with a multi-level approach at the GCC level involving political consultations, exploring trade and investment links, and promoting people-to-people engagement. During the visit of Prime Minister Mustafa Al-Kadhimi to Saudi Arabia and the UAE in April 2021, multibillion-dollar investments were announced including the possibility of linking Iraq into the GCC electricity grid. Fully aware of the critical role Iraqi security plays for the Middle East region as a whole, the GCC states have thrown their support behind Kadhimi's efforts at regional mediation. In addition to the ongoing Saudi-Iran talks that have taken place in Baghdad, the Qatar emir, the prime ministers of Kuwait and the UAE and the



Saudi foreign minister all attended the Baghdad Conference for Cooperation and Partnership in August 2021 where the participants agreed that the region faces common challenges that required a new “basis of joint cooperation.”

In the person of the Iraqi prime minister, the GCC states found a person they felt comfortable to deal with and future ties will be very much dependent on the person that occupies this office. The current political stalemate in Iraq following the October 2021 parliamentary elections have dampened quick progress although it can be expected that GCC-Iraq ties will continue to improve under future Iraqi administrations.

Outside the immediate neighborhood, one aspect that has undergone greater scrutiny is the Arab Gulf states’ tendency to utilize financial investments as a tool to garner tangible political influence within the Arab environment. Here, a stricter cost-benefit analysis in comparison to previous times now exists. Taking Saudi Arabia as an example, the recent assessment within Saudi policy circles has been that most of Saudi Arabia’s financial investments in its neighboring countries have not produced the desired results and that, considering Saudi domestic requirements, they have become increasingly unsustainable. Similar assessments are being made in other GCC capitals. What this means is also a less hands-on approach to regional politics in response to the continued Iranian advancement throughout the region. Currently preoccupied with enforcing its Vision 2030 national transformation plan and ensuring its external security, Saudi Arabia, for example, will most likely only intervene in the region if it deems it necessary to ensure its national security.

Of significance has been the re-building of UAE and Saudi ties with Turkey following a period of outright hostility. While the Ottoman legacy of Turkey in the Middle East does not play a significant role, Turkey is still perceived as a non-Arab power that pursues an expansionist agenda in the region. Yet, Turkey is also a fellow Muslim Sunni country viewed as an essential potential counterweight to Iranian expansionism. Bridging this dichotomy between the two perspectives has not always been easy as far as present-day relations are concerned. The result is a fluctuating relationship that is very much determined by developments on the ground and not oriented around consistent strategic visions. Complicating the issue further is the support of Turkey for Islamist groups in the Middle East that are ideologically close to the ruling Justice and Development Party (AKP), or moves by Turkey into the Gulf region, particularly the positioning of Turkish troops in Qatar. Of course, the above is seen from a completely different angle as far as Doha is concerned. Nevertheless, in 2021, the highly volatile security environment in the Gulf caused Abu Dhabi, Riyadh and Ankara to reach out to each other to

bridge existing differences. Due to its economic difficulties, Turkey is open to such an undertaking, while Saudi Arabia and the UAE are intent to ease regional tensions. Given that Turkey does not represent a direct threat to Gulf security, an attempt for repairing relations could be made. The results have been clearly visible with UAE-Turkish trade alone increasing by 80 percent in the last 2 years. Yet, it is too soon to suggest that a page has been turned as relations remain susceptible to many variables, including the personal ties with President Erdogan. Therefore, a level of continued volatility in bilateral ties is to be expected in the foreseeable future.

The most dramatic developments have been seen with regard to the growing ties between the GCC states of the UAE and Bahrain with Israel under the Abraham Accords although there are also numerous reports suggesting increased ties between Riyadh and Tel Aviv as well. In March 2022, the Saudi crown prince was quoted in a piece in the Atlantic magazine as saying: “We do not look at Israel as an enemy but as a potential ally in various interests that we could seek to achieve together. But it should solve its problems with the Palestinians.”

The UAE has taken the relationship with Israel furthest, including signing a free trade agreement at the end of May 2022 with the stated goal to reach annual trade flows of \$10 billion within five years. Overall, the Abraham Accords signify a changing of calculus as far as the region is concerned and they have emerged as a core element around the development of a new regional security arrangement. US President Biden’s visit to Saudi Arabia in July 2022 and the holding of a GCC-US summit could give this arrangement further impetus.

The broader external environment

Regional politics cannot be separated from the broader developments occurring in the international arena especially considering the extensive role that external powers play in Gulf regional affairs. As such, Gulf states’ views of its immediate neighborhood also reflect the status of relations these states hold with key external actors, primarily the US. The past years have brought forth a fundamental review and re-evaluation of the relationship between individual GCC states and the US as well as the overall role that the US plays in the region. Much of the traditional relationship centered around oil, trade, and foreign military sales remains intact. At the same time, the political nature of the relationship is shifting.

From its very start, the Biden administration took a skeptical view of its involvement in the region, calling for a “recalibration” of the relationship with Saudi Arabia, and committing itself both to a reopening of talks with Iran over the Joint Comprehensive Plan for Action (JCPOA) as well



as stopping the delivery of military supplies as a means to bring the war in Yemen to an end. All of this was not received well in the Gulf capitals.

A key issue is the growing doubts about the level of commitment by the US to the security of the GCC states underlined by the precipitous withdrawal from Afghanistan in August 2021 that allowed for the renewed takeover by the Taliban. In addition, the so-called non-response by the US to the attacks on the Saudi oil facilities by Iran or Iran-supported groups in September 2019, or the missile and drone strike on the UAE in early 2022, laid bare the region's vulnerability and the questions associated with its reliance on the US for external defense. The crux of the issue is that the GCC states are looking for reassurances from Washington that the US remains committed to ensuring regional stability and security. Announcements such as those in June 2021 by the Pentagon of the withdrawal of its air defense assets while missile attacks from Houthis rebels in Yemen continued, have not inspired confidence.

Equally, the Russian invasion of Ukraine caused friction to intensify with the UAE abstaining from the first UN Security Council Resolution condemning the invasion and the US publicly criticizing Saudi Arabia's and the UAE's decision not to increase their oil production and abandon the OPEC+ arrangement with Russia considering skyrocketing oil prices. The Ukraine crisis has at the same time led to a re-evaluation of overall ties with the two sides engaged in intense diplomacy to overcome differences. The announcement of President Biden's visit to Saudi Arabia where he will also meet the entire GCC leadership could prove to be a watershed given the indications that more formal security guarantees by the US might be on the offer.

One direct consequence of fraying GCC-US ties has been the GCC's determination to extend their autonomy and increase self-reliance as far as international ties are concerned. Here, the dialogue with Iran is as much about resolving bilateral issues with Tehran as having direct lines outside of those overseen and controlled by Washington.

Outside of the region, there has been an effort to strengthen relations with other potential partners, such as Russia and China. In Russia's case, the focus has been on bilateral issues rather than seeking a broader, more strategic approach. The potential of Russian arms supplies at significantly lower costs than US equipment, and the fact that Russia stands ready to support GCC states in establishing a military-industrial base, are two critical areas that have found favor within GCC countries. There is, of course, also the energy front as evidenced by the continued commitment by the UAE and Saudi Arabia to stick to the OPEC+ framework and to resist pressure for immediate production increases as demanded by the US and urged by European countries. The

overall sense within the GCC has been that it was important to maintain ties to Moscow also because a sudden rupture in relations could have direct negative consequences for the GCC states, for example on the Syrian and Iranian front, where Russia maintains degree of influence, or economically in terms of an increased unstable global oil market.

As the conflict has continued, however, Russian agency on the key interests of the GCC in terms of cooperation in energy policy, investment, access to Russian military technology and coordination on geopolitics has been reduced.

As far as China is concerned, many of the GCC bilateral relationships have developed into comprehensive partnerships based on energy and economics. This is primarily due to their mutual interest in policy initiatives, such as China's Belt and Road Initiative and Saudi Arabia's Vision 2030. As a result, China has become the region's most significant economic partner while the region delivers significant parts of its oil to China. Trade between the GCC states and China has grown exponentially and China has replaced the EU as the region's most important trade partner.

The expansion of trade ties has spread to other areas. During the COVID-19 pandemic, China offered vaccines to the region as part of its "COVID-19 diplomacy." There is cooperation on climate issues and there is an increased political and military dimension. Beijing appears intent on engaging with the GCC with Chinese Foreign Minister Wang Yi stating in October 2021 that "China always prioritizes its relations with the Gulf states in its diplomacy in the Middle East." Overall, GCC-China relations are developing more comprehensively and even strategically than GCC-Russia ties.

Outside of Russia and China, the GCC states also continue to give special attention to their ties to India. GCC-Indo relations have progressed significantly in recent years with increased investment opportunities and specific agreements such as the UAE-India Comprehensive Economic Partnership Agreement (CEPA) that entered into force in May 2022. CEPA is expected to increase the total value of bilateral trade in goods to over \$100 billion and trade in services to over \$15 billion within five years. What this exemplifies is a determination of the GCC states to expand their relationship with Asia as a whole.

Despite growing relations with other countries, there is a recognition that there is currently no alternative to US-GCC relations. On the one hand, the GCC states need the US for assistance in strategy, power projection, and arms supplies. Therefore, the US remains the region's preferred partner and top military sales supplier. On the other hand, the US recognizes that the Arab Gulf states remain a strategic partner in promoting greater stability in the Middle East and



providing for GCC's medium-term security. In this context, the capacities that Moscow and Beijing bring to the table do not meet the GCC's needs in particular as far as a clear political commitment to defend these countries against external aggression is concerned.

Europe, in the meantime, remains the odd man out. While the bilateral ties with countries such as France and the UK remain strong, the overall role of Europe in Gulf security affairs is negligible. The lack of cohesiveness in European policy is cited as the main reason. In May 2022, the European Commission attempted to adjust its approach with the release of a joint communication to the European Council and the European Parliament entitled "A strategic partnership with the Gulf." The EU clearly underlines the fact that "the security and stability situation of the Gulf region bears direct consequences for the EU" and that as a result the "EU is determined to partner with the Gulf region and revitalize cooperation through a robust strategic partnership and solid bilateral institutional frameworks." Whether this can indeed be turned into a new page in Europe-GCC relations remains to be seen. Cooperation could be improved when it comes to energy and maritime security for example. But the emphasis will likely be limited to more soft security themes such as climate change, trade and investment as well as development and humanitarian needs. Overall, the bilateral rather than the multilateral level will remain predominant as far as the GCC states are concerned.

Finally, in addition to the traditional relationships, the region has also gradually moved Africa up the priority list. This is due to several factors. Firstly, strengthening relations across the African region allows the Gulf to gain support on its international and regional issues. Secondly, the African continent represents a range of economic opportunities for the GCC from investment perspective and access to new markets. Third, Africa currently lacks meaningful security arrangements, which given the proximity and significance of East Africa towards Gulf security represented a dangerous vacuum.

The GCC states have historically maintained positive bilateral relations across the African continent, including the Sub-Saharan region. Those ties, however, have not extended to the strategic domain. Policy officials in the Gulf recently recognized the region's dire need for collective action to protect and preserve its stability, in particular in the Horn of Africa and, as a result, there is gradual reassessment of the policies towards Africa, including multilateral efforts vis-à-vis a mechanism such as the King Salman Red Sea Initiative, consolidating political alliances in the region through diplomatic engagements, and enhancing economic and trade ties across the continent to supplement

the region's diversification efforts. Several attempts at mediating disputes in the region, such as facilitating the peace treaty between Ethiopia and Eritrea and supporting the negotiations between Sudan, Egypt, and Ethiopia on issues related to water security, have already been undertaken from the GCC side.

What has become equally clear to GCC officials is that areas such as the Horn of Africa and other parts of the continent are becoming areas of increased international geopolitical and geostrategic competition. Global powers continue to expand their geopolitical and economic presence, resulting in competing spheres of influence in the region. This, in turn, has been accompanied by regional powers also attempting to expand their footprint in the region. While the GCC states acknowledge and support the role being played by Western partners in combating terrorism and their broader efforts to preserve peace and security across the continent, the actions by regional powers such as Iranian and Turkey to expand their spheres of influence across Africa are seen as problematic. Moreover, following the Houthi offensive on Yemen and subsequent instability in Bab Al Mandab, the stability of the Red Sea has become a growing concern. In this context, simply to rely on Western allies to preserve the overall stability of the key maritime trade routes in the Red Sea is no longer sufficient.

All of the above adds up to a continually shifting and volatile strategic environment which will test GCC foreign policy on numerous fronts. A couple of final conclusions. First, the GCC-US relationship remains largely intact. With Iran so far not providing enough assurances for a qualitatively new relationship with its GCC neighbors and questions surrounding the prospects for a new nuclear deal, GCC-US ties retain their overall, strategic value. Both sides have increasingly recognized this. Second, the GCC states will continue to invest in strengthening their own capacities in order to be more self-reliant and autonomous as far as pursuit and protection of their own national interests is concerned. The model for this is Israel, a close ally of the US but with a high degree of self-autonomy based on economic and technological development. Third, the region as a whole remains a volatile place where developments in other parts of the Middle East could quickly threaten stability throughout. A key challenge in the coming years will be to improve governance systems in the broader Middle East to cope with the mounting challenges of economic and social development, food security, the energy transition, climate change and building up health resilience. To be able to start on this road, the emphasis on de-escalation and greater stability must continue to be prioritized.



Dr. Mustafa Alani

The Regional Security Environment

The year 2021-2022 witnessed a number of incidents and security changes that will continue to have a tangible impact on the Gulf region's stability and security. The fight against the COVID 19 pandemic has been the international community's top priority over the past two years. On this front, most Gulf countries have been able to avert the dangers of the pandemic. In fact, the GCC states are among the world's most successful countries in dealing with and controlling its aftermath, and mitigating its economic, financial, and social effects.

Yet, other security burdens remain. While the internal security situation has been calm and stable in the GCC countries, external security pressures have been threatening these countries' security and stability. The below outlines those key security-strategic issues faced by the leadership of the Gulf region with an assessment of the negative or positive impact as well as the political position of the GCC countries.

At the forefront, the ongoing war in Yemen and the international efforts to curb Iran's nuclear ambitions pose the biggest strategic threats facing the Gulf region. In the Yemen case, the increased frequency of air strikes against Saudi and UAE cities by the Houthis remains a serious issue facing the decision-makers of these countries, and it also affects their relations with key Western allies such as the United States. In addition, other issues have emerged, such as the Russian invasion of Ukraine and subsequent crisis, which due to the fact that they are highly sensitive internationally, have challenged the GCC states from adopting a unified position.

Yemen truce agreement announced

From the beginning of the military operations to liberate Yemen from the Houthi takeover in March 2015 until the beginning of 2022, the war in Yemen witnessed multiple and repeated attempts to reach a ceasefire. Some attempts were co-sponsored by UN and regional mediators, while others were undertaken by Yemeni parties internally. Overall, all of

these attempts to stop the military operations proved short-lived and unfruitful. Seven years of military operations, the failed attempts of reaching a ceasefire or a political settlement, have instead aggravated the humanitarian crisis and turned the military conflict into a war of attrition between the conflicting sides, without the possibility of either achieving a clear-cut military victory.

The continuity of the Yemeni political, military, and humanitarian situation has become unacceptable on the regional or international level. In response, the GCC presented a new ceasefire initiative in Yemen in early 2022 in the hope of starting a constructive political dialogue that would at least pause the bitter conflict and allow time for finding a more permanent solution.

With the intervention and support of the UN, the conflict parties agreed to stop military operations and declare a truce, which came into force on April 2nd, 2022, for a renewable period of two months. The armistice agreement stated: "Recognizing the urgent need to de-escalate violence and to address humanitarian and economic needs, the parties will implement a two-month Truce, starting 02 April 2022 and ending 02 June 2022, with the possibility of extension. The purpose of the Truce is to provide a conducive environment for a peaceful settlement of the conflict. It is not a pause to be used by the parties to regroup and resume military operations."

It further included the following elements:

1. A halt to all offensive ground, aerial, and maritime military operations, inside and outside of Yemen, and a freeze in current military positions on the ground.
2. The entry of 18 fuel ships during the truce period to the ports of Hodeida.
3. Two commercial flights per week in and out of Sanaa Airport during the two-month period to the Hashemite Kingdom of Jordan and the Arab Republic of Egypt.



4. Following its coming into effect, the UN Special Envoy will invite the parties to a meeting to agree on opening roads in Taiz and other governorates to facilitate the movement of civilian men, women, and children, benefiting from the atmosphere of the truce.
5. Engagement of the parties with the Special Envoy on proposals for the next steps towards ending the war.
6. The arrangements are temporary in nature and do not constitute a precedent.

The armistice agreement lacked an independent monitoring and verification mechanism, and precise positioning of the belligerent parties. It can therefore not be considered a detailed, comprehensive agreement, with an integrated monitoring mechanism. However, the text of the armistice agreement reads as follows: “The parties will appoint authorized focal points to work with OSESGY (Office of the Special Envoy of the Secretary-General for Yemen) on all elements, including military aspects, to support adherence and respect for the Truce. While there will be no independent monitoring, OSESGY will support the coordination required by the parties to help implement the Truce.” The main objective of halting the conflict is to reach a consensual political settlement that ensures Yemeni security and stability, under a pluralistic political system, which fairly represents all political factions of Yemen.

In late May 2022, the UN envoy managed to secure the extension of the agreement for an additional two months until the beginning of August. At this stage, it is too early to predict whether the Houthi will commit to resolutions to stop the military conflict, as such decisions are associated with strategic interest and Iranian scores. In the meantime, the UN has begun to press forward with suggestions that the truce or temporary ceasefire should be upgraded into a specified permanent ceasefire agreement, in order to stop military operations completely. This path, however, should be weighed carefully in terms of its long-term implications. For example, if the Yemeni parties fail to reach a political settlement acceptable to all parties in the conflict, there is a distinct possibility that a permanent ceasefire line could turn into a dividing line in Yemen. This would occur not on legal or constitutional grounds, but on the basis of a fait accompli situation.

The Ukraine war and the search for a balanced Gulf position

The Russian invasion of Ukraine and the subsequent Ukraine crisis does not affect Gulf security directly; it is essentially a European crisis, despite its major global dimensions. It

should therefore not come as a surprise that the Arab Gulf states and most other Arab countries have adopted a largely unbiased and balanced position towards both sides to the conflict.

The position of the GCC states must be understood in the larger context. When the Russian military invasion of Ukraine started on February 24th, 2022, US-GCC relations were undergoing a period of reassessment, in particular as far as US-Saudi, and to some extent UAE-US relations are concerned. On the Gulf side, there was a particular sense of dissatisfaction with President Biden’s (and former President Trump’s) lax policies on Iran’s aggression in the region, including Iran’s expansion into Yemen through the Houthi group, and its solid and massive support for the Houthi militias in Yemen.

In the meantime, the Ukraine crisis underlined the strategic importance of the oil-producing Gulf states. The misconception that oil was merely a strategic commodity was corrected by the Ukraine crisis which quickly restored the importance of oil as a political weapon. In turn, those Gulf states with additional oil production capacity, such as Saudi Arabia and UAE, quickly found themselves under pressure to compensate the world market for the Russian oil now subject to Western sanctions. Yet, these countries decided to resist US-Western demands for significantly increasing their oil production (by more than 2 million barrels per day), and instead chose to abide by previous commitments made under the OPEC+ framework, which set specific oil production limits for all producing countries, including Russia. The Gulf states adopted this position to protect their own interests, not to favor the Russian position. For the moment, there is a general Gulf interest in maintaining relatively high oil prices given that the numerous years of low prices had a negative impact on the budgets of the countries and their projects and development plans. Overall, Russia received assurances from the GCC countries that they will not comply with the sanctions imposed on it by Western countries after its invasion of Ukraine.

Politically, the GCC states have no rationale to explicitly stand against Russia, although they openly condemned the use of force and voiced their support respect the Ukraine’s sovereignty and independence. The statement on the Ukraine crisis issued by the foreign ministers of the GCC Member States on June 2nd, 2022 outlining the countries’ position by the following four points:

1. The Council of Ministers emphasized that the GCC position on the Russian-Ukrainian crisis is based on the stipulations of the International Law and the Charter of the United Nations. Their position maintains the international order based on respect



for sovereignty, territorial integrity, and political independence of States, which do not interfere in their internal affairs or use force or threats.

2. The Council of Ministers stressed its support for mediation to resolve the crisis between Russia and Ukraine through attempts to reach a ceasefire, resolving the crisis politically, establishing political dialogue, and settling the conflict through negotiations.
3. The Council of Ministers highlighted the humanitarian and relief assistance provided by the GCC countries to Ukraine.
4. The Council of Ministers provided their support for all efforts to facilitate the export of grain, and all food and humanitarian items from Ukraine to contribute to food security for the affected countries.

The GCC position should be seen as balanced and neutral position and should therefore not, in any way, be interpreted as pro-Russian. The Council clearly and explicitly condemned the Russian invasion of the independent and sovereign State of Ukraine as outlined in point 1 above. By emphasizing these principles, the GCC countries have classified Russia's conduct towards Ukraine as illegal and as being non-compliant with international law and UN principles. Nevertheless, the GCC states also politically want to avoid direct involvement in a European, or any other international conflict that does not directly concern these countries.

The GCC position can also be seen as a way to protest against existing US policies toward the region, and in particular, the way the US has been dealing with respective Gulf concerns over the past few years. From the Gulf perspective, this has been characterized by negligence, lack of seriousness and inaction. The Ukrainian crisis thus provided an opportunity to protest against the US approach and to emphasize that the principle of mutual interests must be respected in order to sustain any strategic alliance or partnership.

The possible collapse of Iran's 2015 nuclear deal

The GCC countries did not participate in the 2015 Joint Comprehensive Plan of Action (JCPOA), and they were not consulted or informed of the content of the agreement reached by P5+1 (namely China, France, Russia, the United Kingdom, and the United States; plus Germany). As a result and when the agreement on the JCPOA was first announced in 2015, the GCC states found that the agreement's clauses failed to meet even their lowest security requirements.

Given that the year 2015 witnessed the beginning of the war in Yemen, the expansion and deepening of Iranian influence

in Iraq, as well as the Iranian intense military involvement in the Syrian conflict, it became essential from a GCC perspective that any agreement could not be limited to the nuclear issue only and must consider Iran's overall regional policy. It is these policies that constitute a risk and threat to all countries in the region, but notably the Arab Gulf states. Instead, the international negotiators yielded to Iran's demands including having exclusive negotiations of the nuclear file only as well as imposing no restrictions on Iran's developing ballistic missiles or the transfer of these missiles to militias throughout the region. It has been a consistent Iranian strategy to establish armed ideological militias in Arab countries associated with the Islamic Revolutionary Guard Corps, control the decision-making process through these militias, and employ sectarianism in order to support a policy of expansion and interference to back up Iranian regional influence.

While Western pressure increased on the GCC states to declare their support for the agreement, the most that these countries could agree to was lower their declarations of opposition to the agreement. Overall, the GCC states were simply not convinced that the quality and effectiveness of the agreement would achieve its claimed goal of preventing Iran from developing and acquiring a military nuclear capability. Instead, they viewed the agreement as weak and non-comprehensive and unable to limit Iran's nuclear ambitions.

During the summer of 2015, the political and security environment in the Gulf region did not allow the GCC countries to go against the flow and insist on rejecting or opposing an international agreement that received the support and blessing of all major countries, including the traditional allies of the Gulf states. In addition, there continued to also exist the sensitivity in appearing to support Israel's strong opposition to the agreement.

With the incoming US Biden administration, the chance increased that the Iran nuclear deal could be revived following the Trump administration withdrawal from the agreement in 2018. While negotiations appear to have come close to a conclusion in early 2022, the process has stalled with the real prospects that the agreement may collapse completely.

For any lasting agreement, the position of the GCC countries must be provided for. On the nuclear issues, the Arab Gulf states would be the first victims of Iran's success in developing a nuclear weapon capability for both geographic and historical reasons. Iran's possession of military nuclear program would fundamentally alter the traditional power balance in the region. At the same time, the GCC states



want to settle Iran's nuclear issue via a political agreement, not through military action as the latter involves unknown humanitarian, economic and political consequences.

Simultaneously, the GCC states reject the international position of solely focusing on the nuclear file as other Iranian actions, particularly its interference in the internal affairs of the countries of the region, is viewed as equally dangerous to regional security and stability. Iran's strategy of establishing and backing ideological armed militias with weapons, money, media and political guidance constitutes one of the biggest threats to regional and international security. Through this means, Iran imposes indirect control over a number of countries in the Arab world, including establishing militias that act as a state within a state by managing to seize power or control the decision-making process as witnessed in Lebanon, Syria, Iraq, and Yemen. This policy does not serve the short or long-term interests of regional stability.

The objective therefore is to reach an effective agreement that will ensure the complete end all of Iran's nuclear ambitions and ensure its inability to develop or acquire nuclear weapons at all. Ideally, what the GCC envisions is the international community reaching either a modified nuclear agreement, or a brand new one, which avoids the weaknesses of the 2015 deal and eliminates military confrontations, wars, and shadow wars.

For the moment, the GCC states remain disappointed with the stances of the major countries and the international community in general, which they argue does not given sufficient attention to the threats and risks of Iranian conduct. Instead by solely focusing on the issue of the Iranian nuclear file, it provides Iran with a free hand in exercising its policy of aggression, expansion, and intervention towards the countries of the whole region without any restrictions or necessary deterrent.

Houthi air strikes on Saudi Arabia and the United Arab Emirates

In January 2022, UAE witnessed a series of air strikes with ballistic and winged missiles, as well as drones: The Houthi in Yemen claimed responsibility for these attacks under the codename "Hurricane Yemen." It was the first time that the UAE's territory faced this kind of aggression. Over the past five years, Saudi Arabia's territory, cities and some vital installations have been victims of repeated air aggression by Houthi elements and Iran as a supporter. However, the attacks on the UAE were unprecedented. It represented an important escalation in the nature and level of the Yemeni conflict, and underscored Iran's intentions to expand the conflict throughout the Arabian Peninsula. In fact, the

air strikes represent an indirect Iranian war on the GCC states. There exists even the possibility that some of these attacks were launched directly from the Iranian territory and subsequently camouflaged as Houthi attacks, coming geographically from Yemen.

From a general Arab Gulf perspective, the Houthis are a mere tool for implementing the orders and directions adopted by the Islamic Revolutionary Guard Corps. In spite of the fact that the Houthi leadership is present in Sana'a, the capital of Yemen, and claims the presence of an authority, government and political and military entity, this leadership is not viewed as the decision-maker, especially when it comes to the strategic decision within the Yemeni conflict. Such decisions, including escalating the confrontation with Saudi Arabia and UAE, are completely subject to Iran's strategic calculations.

The weapons used in the attacks are Iranian-made and smuggled in large quantities to the Houthis through Iranian networks. In almost all cases, these weapons cannot be used or launched without the technical support from Islamic Revolutionary Guard Corps elements within the Houthi group. The IRGC make the decision how to use the weapons, when to use them, and which sites re targeted in the attacks. The Houthi role is simply to help carry out the attacks and claim responsibility for them afterwards.

The international community's position on these attacks is puzzling for the GCC states, as one is well aware that the Houthi attacks on the countries of the region are launched using advanced Iranian smuggled weapons (ballistic and cruise missiles). UN Investigation committees have referred to and confirmed this issue. In addition, the UN Security Council resolutions according to Chapter 7 of the 2015 UN Charter banned and prohibited the supply of arms to the Houthi group and committed all member states to abide by the resolution. Yet, in response, the GCC states, particularly those targeted in the attacks, have faced a weak and lax international position towards both the source of the weapons (Iran) and the party claiming to have committed the aggression (the Houthis).

Conclusion

The overall security situation in the Gulf region in 2022 is marked by uncertainty. The region is faced with several security challenges and the coming months are highly unpredictable.

The situation in Yemen is critical, as the issue remains far from resolved and an unstable cease-fire is adding to the sensitivity of the conflict. There seems to be a gap between the demands and objectives of all stakeholders, making it





all the more difficult to find a political solution to the Yemen conflict. In addition, the Iranian factor in the equation is also making the situation more complicated.

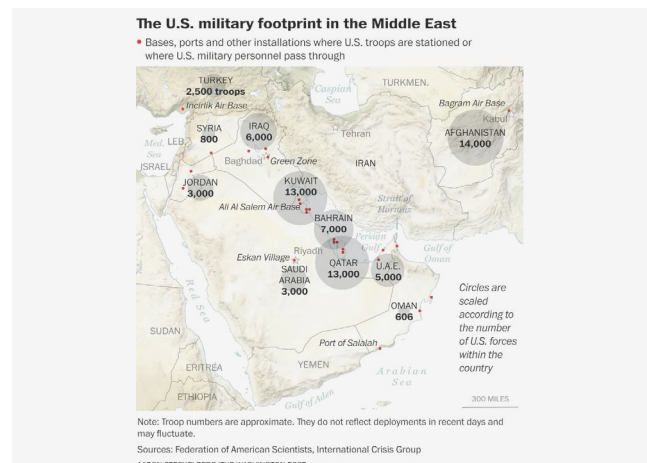
The conflict in Yemen will remain a key source of regional instability and a threat to the Gulf's security. The targeting of Saudi cities and other countries using drones and missiles reflects the Iranian regional strategy. As long as the international community continues to ignore the Iranian factor in the unstable and troublesome Arab countries, Tehran will continue with its aggression and expansionist agenda in the region.

There is also an uncertainty over the Iranian nuclear issue. The international community will face a serious challenge if the current diplomatic efforts fail to check Iran's nuclear ambitions. There is a need to control the possible acceleration of Iranian efforts to develop and acquire a nuclear weapon. In case of the failure of all non-military options, it would be logical to inevitably use military options, as the last and only resort to prevent Iran from acquiring nuclear capability to ensure regional stability. Such a development would entail risks and challenges. Military action to destroy Iran's nuclear capabilities may trigger a war in the region putting the security and economic stability of the Gulf countries at risk.

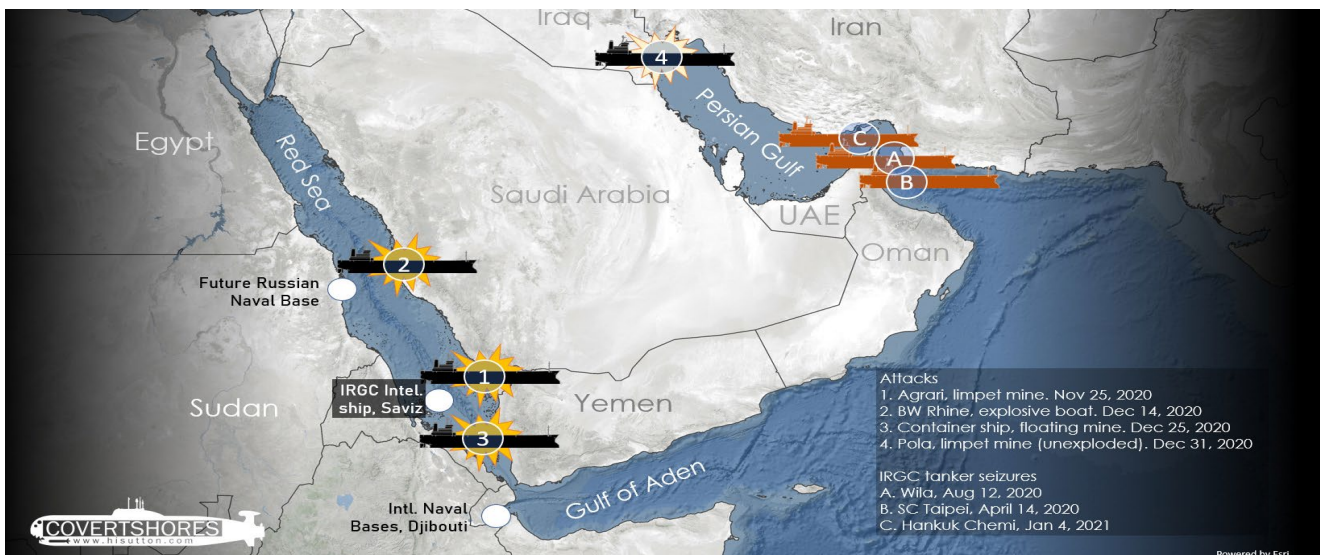
Finally, one can safely claim that the GCC countries do not want to change their balanced and neutral position on the Russia-Ukraine conflict. However, global developments may force the GCC countries to abandon their balanced positions.



Source: [AlJazeera](#)

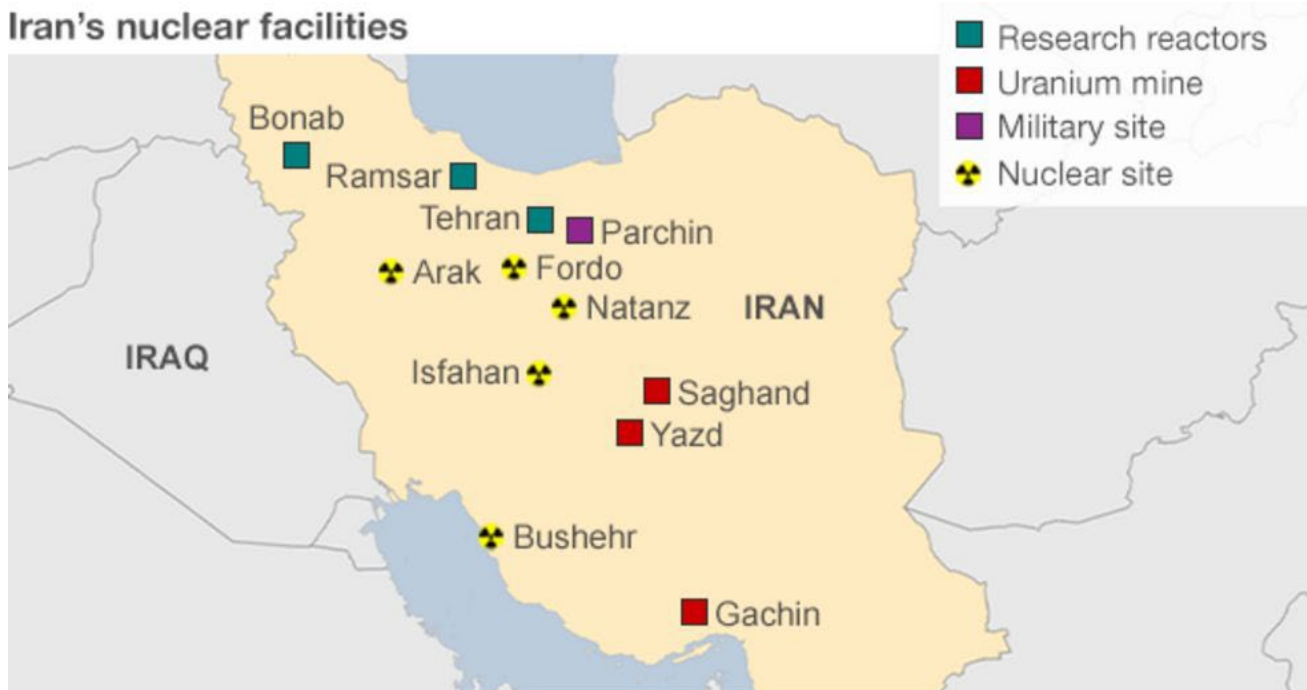


Source: [The Washington Post](#)



Source: [USNI News](#)

Iran's nuclear facilities



Source: New Scientist/ Global Security

Source: [BBC](#)

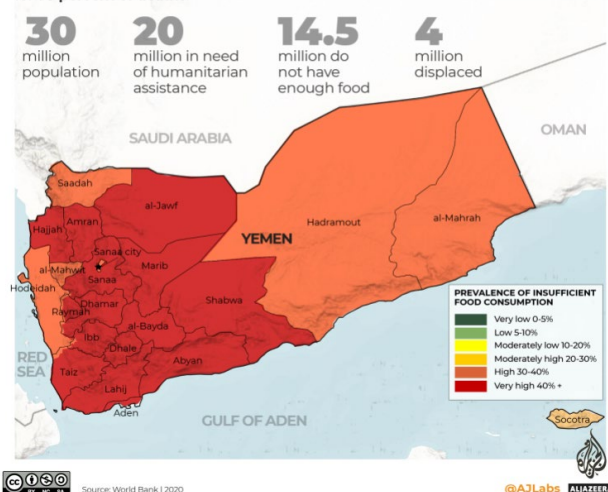


Source: [Fanack](#)

YEMEN

Humanitarian situation

The UN has estimated the **war has killed 377,000 people** by the end of 2021, both directly and indirectly through hunger and disease. **Children account for 70 percent of deaths.**

Source: [AlJazeera](#)



Dr. John Sfakianakis

The Gulf Economies Amid Changing Global Realities

Gulf economies are the biggest beneficiaries of the recent rally in oil prices. Despite all their attempts to diversify their economies away from oil, their dependence on revenues from oil and its derivatives has become greater than ever. If we account for oil, plastics, and chemicals, around 90 percent of exports are hydrocarbon related for Saudi Arabia, the UAE, Qatar, and Kuwait. It is difficult to predict the future of oil prices but many analysts believe the ongoing rally will not last long and they see it as the last super cycle in commodities prices. The Gulf countries have also awoken to the realities of an emerging global economy that is sensitive to climate change and focus on decarbonization. The path to a decarbonized future is not easy and it will take more time to adjust our global supply chains of minerals and technology gaps. As the global economy is trying to change course, the Gulf economies will also have to find new sources of revenue or at least change their existing economic structures to make them more productive and less hydrocarbon intensive.

Challenges

The ongoing Ukraine war also poses several challenges to the Gulf economies. The Gulf oil exporters may face improving economic prospects due to high hydrocarbon prices, but average households will feel the impact of higher import prices and rising inflation compounded with concerns about an impending global recession. Due to these factors, a rise in global food prices is also likely to increase food insecurity in the region. Tourism, already badly hit by the coronavirus disease (COVID-19) pandemic, may yet again suffer from the conflict. The pandemic has yet to end as the world is battling with a resurgence of coronavirus variants. However, the Gulf countries are an exception to many others as almost all GCC countries, except for Oman, have outperformed their peers in getting their respective populations vaccinated. Even Oman is also not far behind its peers. The GCC economies have prioritized vaccinations as the means to keep travel and tourism sectors' activities afloat. The Gulf economies purchased vaccines at scale

and have maintained a large stock of doses ready to be administered.

Economic recovery

The region's economic recovery remains positive but the war in Ukraine, tightening of the global monetary policies, rising food prices, and threats of a recession could alter the economic prospects of the Gulf. The Middle East and North Africa (MENA) region has only 6 percent of the world's total population while accounting for over 20 percent of the world's acutely food insecure people (Belhaj 2022). Despite the economic robustness of the Gulf economies, their well-being will be affected by the deepening crisis and slower growth experienced in oil-importing economies, especially countries such as Egypt, Jordan, Lebanon, Tunisia, and Morocco.

Due to increasing debt, rising food prices and headline inflation, falling tourist receipts, and rising energy prices, Egypt had to seek economic assistance from the Gulf countries. Although the structure of assistance is based on asset investments either via capital markets or direct firm acquisitions, it's still a financial exposure of the Gulf. In the event of lower oil revenues, the Gulf economies will be less capable to front such investments.

Despite a positive outlook, the Gulf economies will not remain unscathed by the Russian-Ukraine conflict due to rising food prices and inflation. For example, Saudi Arabia's net food import is as much as 2.2 percent of its gross domestic product, and for Kuwait, the figure is more than 3.8 percent, and 2.6 percent for Oman. The supply of wheat and its pricing is the cause of concern for all Gulf countries, as well as the rest of the MENA region. However, the overall impact will largely depend on the direct effects of price increases, attenuated by any government subsidy programs.

Never say never again but it looks more possible than probable that this could be the world's last oil rally. The Gulf oil exporters are benefiting from higher energy prices through higher export receipts, improving the current account and fiscal balances. Fuel exports play a hugely



important role in Gulf economies. However, the long-term expectation of oil prices remains low, constrained by the long-term shift away from oil, which has been accentuated by the Ukraine war and the global energy crisis. Thus, the long-term challenges of declines in oil revenues remain the most crucial downside risk for the Gulf economies.

Trade balances in oil-exporting countries will continue to improve, as they are the beneficiaries of higher oil prices. For Gulf countries with lower subsidies (Saudi Arabia and the UAE), the rise in food and energy prices may lead to a low burden on public expenditures but a greater proportion of households will experience exogenous price pressures.

In response to the rising inflation, monetary policy in major large economies such as the US and the EU could be tightened faster than previously expected. Rising interest rates and more difficult access to credit could cause capital outflows and financial instability in many countries, especially those with elevated debt levels. Bahrain has the highest public debt among the GCC countries, increasing to 123 percent of the GDP amid small improvements in the fiscal deficit.

Inflation for the GCC should remain subdued compared to the double-digit inflation in oil-importing countries such as Egypt, Lebanon, Tunisia, and Jordan. The only exception to the rule is Iran, which would maintain its hyperinflation trend of more than 50 percent in official inflation.

Lower inflation compared to the rest

The GCC countries are likely to maintain relatively lower inflation pressures of around 4 percent for Qatar to around 3.5 percent for Saudi Arabia and Kuwait and around 2-3 percent for the UAE, Bahrain, and Oman. If inflation numbers remain around the above forecast, the GCC does not seem to run into double-digit inflation in the late 2000s or during periods of war as it did in the 1990s and 2003 right after the invasion of Iraq.

Both foreign and domestic factors influence the inflationary processes in the GCC. External factors play a dominant role given the dependence of the GCC economies on imports and foreign labor to meet domestic demand for tradable and non-tradable. In the long run, the main driving force for inflation in the GCC is trading partners' inflation. The experience of the last two decades indicates that it would be a temporary deviation, reflecting supply constraints in food and other commodities. However, unlike previous inflation periods, the rise of the US dollar is helping moderate import inflation pressures. Since the Gulf economies have a direct peg to the US dollar or indirectly pegged to it, it makes the cost of capital increasingly more expensive. Higher borrowing costs for consumers and private businesses

make it more challenging for all Gulf economies as they are trying to diversify away from oil. It also remains to be seen how rising oil prices may reduce the pressure for reforms as oil revenues rise, thereby enhancing fiscal space to raise subsidies.

The private sector recovery in the GCC is strong due to higher confidence from the oil rally. As in the past, business confidence declines with falling oil prices. The Purchasing Managers' Index (PMI) provides monthly data that tracks changes in economic activity in the private sector. A PMI value above 50 indicates an expansion, while a value below 50 indicates a contraction on a month-to-month basis. There is a continuous expansion in economic activity in the GCC countries including Saudi Arabia, the UAE, and Qatar since early 2021 while developing economies such as Egypt and Lebanon have been deteriorating each month instead of recovering from previous contractions. For the UAE, the non-oil PMI reached a more than two-year high by the end of 2021, reflecting continuous expansion during the Expo 2020 event.

Risks

A prolonged war in Ukraine will inevitably continue to place downward pressure on oil importers (increasing food prices, trade disruptions, fiscal pressures, and lower tourist receipts) and by extension the Gulf economies. The likelihood of a global recession will also increase in the event of a prolonged war eventually leading to lower oil prices.

Food inflation and food insecurity will impact all economies in the region. The risk is increased by the lack of security of supply of major agricultural staples such as grains of all types for both human and animal consumption. Ramping up domestic agricultural production is nearly impossible as arable land in the Gulf is scarce.

Social unrest risks are low for the Gulf economies but oil importers in the Middle East are exposed to numerous risks due to the surge in food and energy prices, lower growth and employment potential, and fiscal difficulties.

According to calculations by the International Monetary Fund, if the US Federal Reserve were to tighten more than expected under the baseline by 100 basis points, this would reduce portfolio inflows to the region further by about \$6 billion in 2022 and increase the interest expected burden by 2024. Moreover, if the increase in global rates is associated with heightened volatility, the impact on portfolio inflows would multiply, particularly for oil importers and countries with weaker fundamentals.



A more serious risk is a deeper slowdown in China. The Gulf oil exporters are dependent on demand from Asia with China commanding the largest portion. Saudi Arabia exports more than 25 percent of its crude to China, followed by Kuwait at around 23 percent and the UAE at 20 percent. A deeper economic slowdown in China would impact demand for Gulf oil.

Saudi Arabia

With the impact of the war keeping oil prices elevated and considerably above previous forecasts over the medium term, Saudi Arabia's fiscal and external buffers will be reinforced. Limited direct trade and financial links with Russia and Ukraine, including negligible exposure through Saudi Arabia's sovereign wealth fund (despite around \$2 billion worth of direct investments), further limits the impact on the Saudi economy. Continued implementation of the ambitious structural reform agenda under Vision 2030 is essential to diversify the Kingdom's economy and boost growth. Boosting further private sector investment would require careful calibration of the various elements envisaged under Vision 2030.

The UAE

Strong reform efforts are underway with the ambitious UAE 2050 Strategy. Recent reforms to promote private sector growth and development are important to strengthen non-oil growth, boost productivity, and attract foreign investment. Going forward, careful prioritization and sequencing of reforms and enhancing collaboration across individual emirates are central to ensuring sustainable and inclusive economic growth. The economic recovery is gaining momentum, supported by the UAE's early and strong health response, continued supportive macroeconomic policies, and rebound in tourism and domestic activities.

Qatar

Economic recovery is gaining strength on the back of rebounding domestic demand, higher hydrocarbon prices, and the preparation for the 2022 FIFA World Cup. Real GDP growth is thus expected to accelerate in 2022. The North Field LNG expansion project will support growth prospects and further strengthen fiscal and external positions over the medium term. A balanced and growth-friendly consolidation strategy could help to achieve the dual objectives of intergenerational equity and diversification. The strategy would call for diversifying revenues and accelerating the implementation of the value-added tax (VAT), enhancing current spending efficiency, and reorienting spending to promote productivity, economic diversification, and a greener economy.

Kuwait

Non-oil GDP growth is estimated at 3.4 percent in 2021 and is projected to rise slightly to 3.5 percent in 2022, as domestic economic activity gradually recovers along with the global environment. Despite the recent surge in omicron cases, economic activities have broadly continued thus far due to less stringent mobility restrictions. Passing the public debt law is essential for the issuance of government debt and to support orderly fiscal operations. The draft debt law currently before parliament envisages a debt ceiling of 60 percent of the GDP, which allows for room for additional borrowing as the size of the economy expands and appears appropriate. Oil wealth redistribution to citizens is currently achieved via guaranteed public sector jobs with above-market salaries, and wage subsidies to Kuwaitis working in the private sector, which in the long term are not sustainable.

Oman

Higher oil prices and fiscal consolidation have improved fiscal and external positions. The fiscal balance is expected to improve to a surplus in 2022. Alongside, central government debt is expected to decline substantially from about 63 percent of GDP in 2021 to 45 percent of GDP in 2022. International reserves held at the CBO increased to \$19.7 billion in 2021. Uncertainties and downside risks continue to cloud the outlook. Downside risks stem particularly from uncertainty about the war in Ukraine and its impact on the global economy, tighter-than-expected global financial conditions, increased inflationary pressures from higher global food and energy prices, more persistent disruption in global supply chains, and pressures to spend the hydrocarbon windfall. Upside risks to the outlook could come from higher-than-expected hydrocarbon windfall and accelerated implementation of structural reforms under Vision 2040.

Bahrain

The current oil price outlook provides an opportunity to proceed with ambitious reforms under favorable macroeconomic and financing conditions and deliver a sizable medium-term fiscal consolidation that reduces reliance on oil revenue and puts debt on a firm downward path. With the economic recovery and higher oil prices, the state budget deficit has narrowed. Government debt declined slightly to 129 percent of the GDP in 2021 from 130 percent of the GDP in 2020. The current account improved markedly and posted a surplus of 6.7 percent of the GDP in 2021, after a deficit of -9.3 percent of the GDP in 2020. The current oil price outlook provides an opportunity to proceed with ambitious reforms under favorable macroeconomic and financing conditions and deliver a sizable medium-term fiscal consolidation that reduces reliance on oil revenue and puts debt on a firm downward path.


Table 2. GCC: Selected Economic Indicators
GCC: Selected Economic Indicators¹

	2017	2018	2019	2020	Proj.	
					2021	2022
Real GDP Growth	-0.2	2.0	1.0	-4.8	2.5	4.2
<i>(Annual change; percent)</i>						
Bahrain	4.3	1.7	2.6	-5.1	2.4	3.1
Kuwait	-4.7	2.4	-0.6	-8.9	0.9	4.3
Oman	0.3	0.9	-0.8	-2.8	2.5	2.9
Qatar	-1.5	1.2	0.8	-3.6	1.9	4.0
Saudi Arabia	-0.7	2.4	0.3	-4.1	2.8	4.8
United Arab Emirates	2.4	1.2	3.4	-6.1	2.2	3.0
Real Non-oil GDP Growth	2.1	1.7	2.7	-3.9	3.8	3.4
<i>(Annual change; percent)</i>						
Bahrain	5.5	2.4	2.0	-5.5	3.0	3.7
Kuwait	1.8	2.9	-1.1	-7.5	3.0	3.5
Oman	2.4	-1.6	-2.8	-3.9	1.5	2.3
Qatar	-1.0	2.2	2.4	-4.5	2.0	4.7
Saudi Arabia	1.3	2.2	3.3	-2.3	4.7	3.6
United Arab Emirates	4.8	0.7	3.8	-6.2	3.2	2.8
Consumer Price Inflation	0.2	2.2	-1.5	1.2	2.8	2.4
<i>(Annual average; percent)</i>						
Bahrain	1.4	2.1	1.0	-2.3	1.0	2.7
Kuwait	1.5	0.6	1.1	2.1	3.2	3.0
Oman	1.6	0.9	0.1	-0.9	3.0	2.7
Qatar	0.4	0.3	-0.7	-2.7	2.5	3.2
Saudi Arabia	-0.8	2.5	-2.1	3.4	3.2	2.2
United Arab Emirates	2.0	3.1	-1.9	-2.1	0.6	2.2
General Gov. Overall Fiscal Balance	-5.5	-1.5	-1.5	-8.8	-1.8	-0.4
<i>(Percent of GDP)</i>						
Bahrain ²	-14.0	-11.8	-9.0	-17.9	-8.0	-8.0
Kuwait ²	6.3	9.2	5.0	-8.3	-1.5	1.0
Oman ³	-12.0	-7.7	-5.6	-18.7	-2.6	1.1
Qatar ³	-2.5	5.9	4.9	1.3	2.8	5.7
Saudi Arabia ²	-9.2	-5.9	-4.5	-11.3	-3.1	-1.8
United Arab Emirates ⁴	-1.7	1.9	0.6	-5.6	-0.5	-0.2
Current Account Balance	2.8	8.6	5.8	-0.4	6.0	6.3
<i>(Percent of GDP)</i>						
Bahrain	-4.1	-6.5	-2.1	-9.3	-2.9	-2.9
Kuwait	8.0	14.4	16.3	16.7	15.5	13.3
Oman	-15.6	-5.4	-5.5	-13.7	-5.8	-0.9
Qatar	4.0	9.1	2.4	-2.4	8.2	11.6
Saudi Arabia	1.5	9.2	4.8	-2.8	3.9	3.8
United Arab Emirates	7.1	9.6	8.5	3.1	9.7	9.4

Sources: National authorities; and IMF staff estimates and projections.

¹ GCC aggregates in the form of growth rates or shares of GDP are weighted by GDP valued at purchasing power parities

² Central government.

³ Central government and estimated net income of sovereign wealth funds.

⁴ Federal government and emirates.



GCC 6, Trade with World

Total Goods: Trade flows and balance

Source IMF

Period	Imports		Exports		Balance		Total trade	
	Value Mio €	% Growth	Value Mio €	% Growth	Value Mio €	% Growth	Value Mio €	% Growth
2011	273,416		591,260		317,843		864,676	
2012	361,697	32.3	727,098	23.0	365,401	15.0	1,088,795	25.9
2013	387,981	7.3	670,927	-7.7	282,946	-22.6	1,058,909	-2.7
2014	397,886	2.6	634,380	-5.5	236,494	-16.4	1,032,266	-2.5
2015	454,205	14.2	456,113	-28.1	1,907	-99.2	910,318	-11.8
2016	405,182	-10.8	396,873	-13.0	-8,309	-535.6	802,054	-11.9
2017	372,275	-8.1	434,219	9.4	61,944	-845.5	806,494	0.6
2018	343,396	-7.8	551,355	27.0	207,959	235.7	894,752	10.9
2019	402,420	17.2	540,103	-2.0	137,684	-33.8	942,523	5.3
2020	352,638	-12.4	392,596	-27.3	39,958	-71.0	745,234	-20.9
2021	408,561	15.9	576,732	46.9	168,170	320.9	985,293	32.2

Total Goods: Top trading partners 2021

Source IMF

Imports			Exports			Total trade		
Partner	Value Mio €	% World	Partner	Value Mio €	% World	Partner	Value Mio €	% World
World	408,561	100.0	World	576,732	100.0	World	985,293	100.0
1 China	72,089	17.6	1 China	93,525	16.2	1 China	165,614	16.8
2 EU27	70,803	17.3	2 India	67,699	11.7	2 EU27	108,574	11.0
3 USA	34,222	8.4	3 Japan	57,262	9.9	3 India	95,053	9.6
4 India	27,354	6.7	4 South Korea	38,352	6.7	4 Japan	73,779	7.5
5 Japan	16,517	4.0	5 EU27	37,771	6.5	5 USA	54,293	5.5
6 United Kingdom	10,924	2.7	6 USA	20,071	3.5	6 South Korea	46,461	4.7
7 Guinea	8,284	2.0	7 Singapore	18,298	3.2	7 Singapore	21,613	2.2
8 South Korea	8,109	2.0	8 Thailand	15,149	2.6	8 Thailand	20,745	2.1
9 Vietnam	7,596	1.9	9 Pakistan	11,244	2.0	9 United Kingdom	17,460	1.8
10 Egypt	6,977	1.7	10 Egypt	10,122	1.8	10 Egypt	17,100	1.7
2 EU27	70,803	17.3	5 EU27	37,771	6.5	2 EU27	108,574	11.0

World trade: excluding intra-region trade

Top partners: excluding region member states

% Growth: relative variation between current and previous period

Source: [European Commission - Directorate-General for Trade](#)

Exports of goods and services (% of GDP) - Saudi Arabia, United Arab Emirates, Bahrain, Kuwait, Qatar, Oman

World Bank national accounts data, and OECD National Accounts data files.

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Imports of goods and services (% of GDP) - Saudi Arabia, United Arab Emirates, Bahrain, Kuwait, Qatar

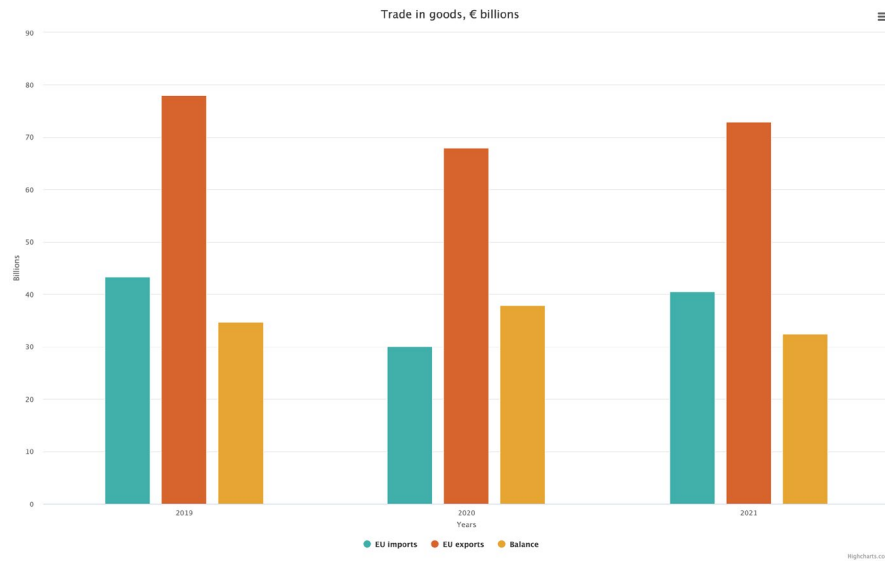
World Bank national accounts data, and OECD National Accounts data files.

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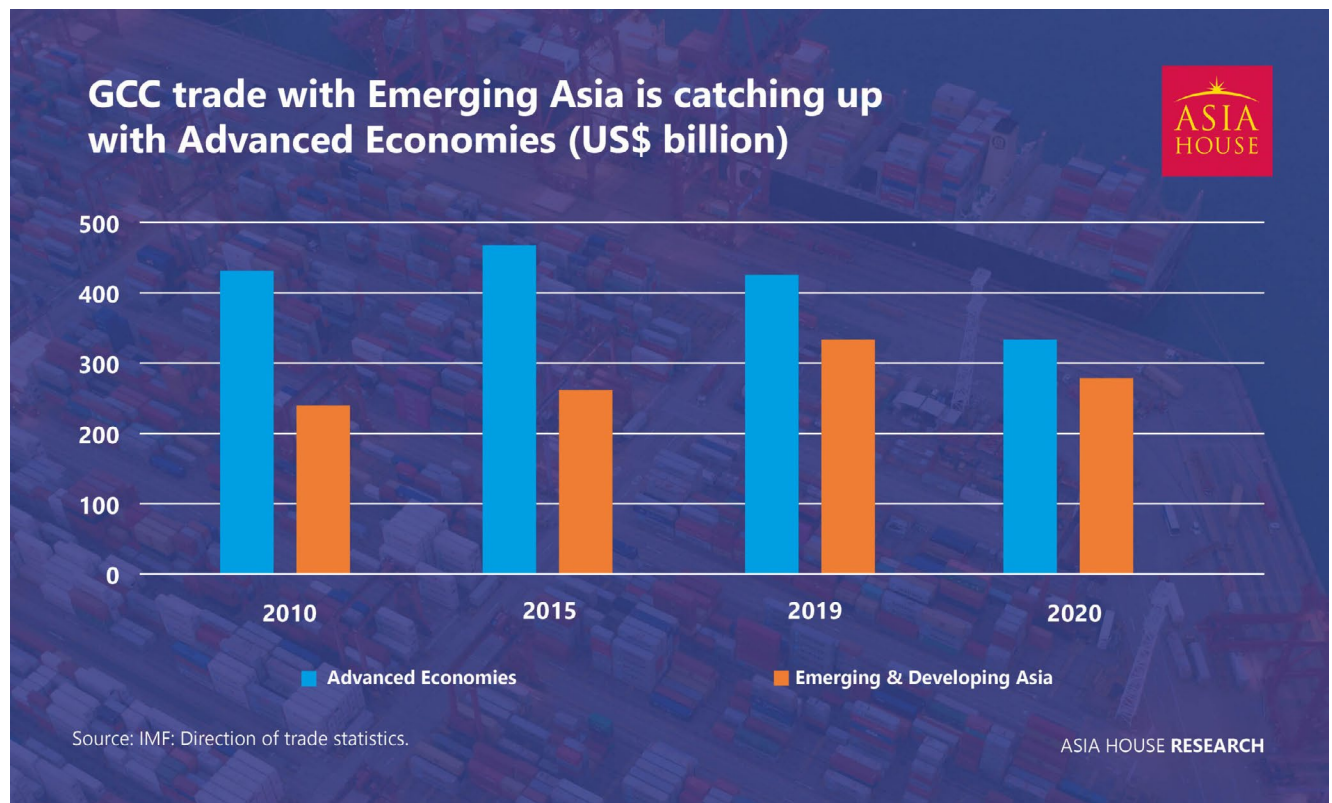
Source: [World Bank](#)



GCC & EU Trade



Source: [European Commission](#)



Source: [BRINK News](#)





Prof. Giacomo Luciani

Energy and the Gulf in 2022: The Gulf at Crossroads

The fast-evolving situation in the global energy sector has driven countries in the Gulf Cooperation Council to a crossroads, where they need to devise a collective and individual roadmap for the future. Three main factors are shaping the global energy sector and ultimately have a profound impact on the GCC. The first is the growing realization that decarbonization must be radically accelerated as pledged at COP26 in Glasgow and reiterated by the Intergovernmental Panel on Climate Change in its 6th report published in March. The second is the rising energy costs across the board – affecting not just oil and gas but also coal, other metals, and carbon prices under the EU Emissions Trading System – following a strong recovery in demand post-COVID-19.

Last but not the least, the Russian invasion of Ukraine has led to a further spike in oil and gas prices and a fundamental redefinition of energy security. It heralds a period of intense politicization of energy relations. The combination of the above factors has completely changed the global energy outlook.

The most potent factor affecting the global energy outlook is the Russia-Ukraine war but that does not mean the other two factors are less important. The impact of the war is likely to be long-lasting and the other two factors i.e. decarbonization and soaring energy prices are closely intertwined with the war and are bound to play key roles in defining the position of the Gulf countries.

The Russian aggression on Ukraine came as a surprise to almost all experts, politicians, and citizens alike – including in Russia itself. For decades, the world has moved in the direction of globalization, almost unanimously supported by the expectation that close economic relations would not only increase global economic efficiency and growth but also consolidate peaceful relations. The idea has been that trade and human contacts that come with it would

eventually allow a convergence of political regimes, notably in the direction of universal democratic governance. The collapse of the Soviet Union led Francis Fukuyama to proclaim “the end of history,” and properly opened the door to globalization without boundaries.

However, the Ukraine war proved the theory to be a dangerous delusion. An important fact must not be ignored that economic interdependence limits the freedom of political action and has been especially crippling for liberal democracies. The current geopolitical situation followed a succession of several other events, including the failure of the Arab Spring, the Russian intervention in Syria, growing Iranian influence across the region, the occupation of Crimea, a spate of assassinations of political opponents on the part of the Russian and other regimes, and active interference in the domestic politics of liberal democracies through financial and political support given to populist and disruptive political elements and the spreading of disinformation through fake news.

In international relations, change does not happen smoothly. Disequilibria and tensions accumulate, and may not be visible for a long time – until one day the level of stress leads to discrete, disruptive change. As the Russian action against Ukraine came as a surprise to the world, the reaction of the US and the EU, which was widely expected to be paralyzed by internal dissension, was no less a surprise to the Russian leadership. The Russian invasion set in motion a process of progressively dismantling all economic relations, including the complete, or almost complete, decoupling of EU-Russian energy ties. The total ban on imports of coal was immediate, the end to European imports of Russian oil will be 90 percent complete by the end of the year, and the declared objective of the European Commission is to reduce imports of Russian gas by two-thirds by the end of 2022.



The latter goal may not be achievable in full because of long-term contracts whose cancellation would lead to arbitration and loss of reputation, but the direction is clear and irreversible. The EU is actively moving to diversify its supplies of oil and gas, creating an opportunity but also a threat to the GCC economies.

The process of running down imports of oil and gas from Russia implies that the EU must find alternatives. These can be alternative sources (i.e. decreased reliance on oil and gas), reduced consumption and increased efficiency, or, finally, diversification of suppliers. The European Commission has stressed the need for accelerating the energy transition, i.e. reducing reliance on fossil fuels. But in the short term, there is only so much that can be achieved by adding solar and wind capacity. In any case, renewable sources are used almost exclusively for power generation, and can to some extent substitute for gas; but oil is predominantly used for mobility, and the process of electrifying transportation will take time. Consumption can be compressed with extraordinary measures and is in any case declining in the face of very high prices of all forms of energy. Hence, in the short term, the emphasis is inevitably in the direction of finding alternative suppliers, and the Gulf countries offer an obvious alternative.

In this context, the US and the EU have been annoyed by the stance taken by the GCC countries in refusing to condemn Russian aggression. So far, the request to increase oil production to set the stage for a decrease in oil prices has not solicited a positive response from the GCC. Although the Organization of the Petroleum Exporting Countries (OPEC) meeting of June 2 concluded with the announcement of an acceleration of the pace of production increases (from the planned 400,000 to 650,000 barrels per day, an increase of 250,000 bpd, to which the market reacted with an increase, rather than a decrease, in prices), it seems clear that Saudi Arabia and the UAE are not willing to take action that would undermine the cooperation they have established with Russia in the OPEC+ context since 2016.

In fact, since the middle of 2021, we see once again that the OPEC is effective in imposing a floor to oil prices through cuts to production and exports, but incapable of acting in a timely fashion to prevent prices from increasing excessively. High oil prices are undoubtedly convenient for the Gulf countries in the short term, but in the medium term translate into increased production from non-OPEC sources, and demand destruction. This is a sequence that has been seen several times in the past and seems bound to be repeated. The potential for increased production from countries not belonging to OPEC (or ready to cheat on quotas) is systematically underestimated.

In the past years, growing awareness about the dangers of climate change has led to pressure on the international oil companies to limit investment in the development of new oil and gas discoveries, concentrate on quick-return projects, and return value to shareholders. This mantra has led to underinvestment in the sector and, in turn, has set the stage for the increase in oil prices that immediately followed the recovery from the pandemic-induced economic recession. It is clear that a strategy based on choking supply while demand continues to grow necessarily translates into higher prices, and benefits countries that have abundant and cheap reserves. When the International Energy Agency published its “Net Zero by 2050” report, where it is asserted that in the net-zero scenario no new fields need to be developed to meet a decreasing demand for oil, the implication was that dependence on “legacy” producers would inevitably increase. Besides the fact that the net-zero scenario is not a realistic representation of the reality, the implication of a growing dependence on OPEC, Russia, and a dwindling number of oil producers seemed politically unacceptable even before the Russian aggression on Ukraine, and all the more so now that this has happened.

Today, it is clear that additional investment is needed in developing resources in politically reliable countries, which means in the US first and foremost, then in the Americas in general, and in Africa. Even Maduro’s Venezuela is being considered, because that regime is certainly a disaster for the country, but not a threat to the rest of the world. There is very considerable potential for increasing production from non-conventional as well as conventional deposits in the Americas and Africa. It is not clear that the Gulf countries belong to the list.

At the same time, demand destruction will play out in member states of the Organization for Economic Cooperation and Development (OECD). This is not solely related to the growing number of electric vehicles, but also the increasing promotion of public transportation and discouragement of automobiles in city centers, and regulation to encourage the substitution of heating based on oil with heat pumps accompanied by better insulation of buildings. There is a very strong popular backing for measures that go in the direction of reducing emissions and preventing global warming, and the perception that dependency on oil imported from authoritarian countries is politically undesirable encourages the adoption of more stringent environmental policies.

The Gulf countries do not seem seriously worried by the prospects of increased competition from non-OPEC oil or demand destruction: They are confident that their markets in the South and East Asia will continue to grow, and therefore,



they are increasingly looking to the East. There, they find the dynamic markets of India and China, both countries that are also supporting Russia. Hence a triangle of common interests is formed, in which India and China are convenient economic partners for the Gulf, Russia and the major Gulf producers cooperate in the context of OPEC+, and China and India support Russia.

At the time of writing, it is expected that President Joe Biden will visit several countries in the Middle East, including Saudi Arabia, and meet Crown Prince Mohammad bin Salman. Expectations concerning possible outcomes from this visit are low. It is extremely unlikely that this may lead to genuine improvement in relations, unless there is a serious change of tack on the part of the Kingdom and the UAE on several issues, with oil production and prices high on the list.

On the gas front, the difficult uncoupling of the EU-Russia gas trade constitutes an opportunity, especially for Qatar. Negotiations aimed at increasing Qatari liquefied natural gas exports toward Europe in the short run and even more so as soon as the expansion program currently underway will make additional capacity available, have been conducted by the German government in particular, but are said to be difficult. It should be recalled that Qatar Energy (which, within Europe, has been exporting LNG primarily to the UK and Italy) was under investigation by the European Commission until just a few days before the Russian invasion of Ukraine, because of the company's insistence on long-term (20-year) gas contracts and the inclusion of clauses aimed at preventing or limiting the resale of LNG within the EU internal market, in breach of EU law. The sudden termination of the investigation came after Saad Al-Kaabi, Qatar's energy minister, had publicly declared that Europe needed to "give a clear signal" about whether "they want more investment in gas and additional supply from Qatar, or not."

These problems are resurfacing in negotiations with potential German buyers RWE and Uniper under the aegis of the German government. The latter is opposed to signing a 20-year import contract, not only because Brussels has been in general more favorable to shorter contracts, but also because the stated German strategy is that reliance on gas must drastically be reduced before 20 years are passed.

Furthermore, seemingly Qatar insists on destination clauses, i.e. on a pledge that gas imported by the German utilities would not be resold in other European countries: This is not only illegal under EU law but also unenforceable, because RWE and Uniper are wholesale operators and any retail party that they might be selling to (in what is necessarily an

arms-length transaction because of obligatory unbundling between wholesale and retail operators) would be able to sell on to any other party in any other European country.

Finally, Qatar seemingly also insists on prices being indexed to oil rather than one of the major European gas hubs (such as the TTF in the Netherlands). This is the same position that Gazprom was forced to abandon through arbitration 10 years ago when a major gap opened between oil-indexed and hub-discovered gas prices (at the time, in no small part because Qatari sales on the hubs depressed prices). By insisting on oil indexation (based on the argument that this is still accepted by Asian customers) Qatar is putting itself in a position that would be indefensible in court if oil-indexed prices were to climb significantly above hub-discovered ones. In short, Qatar is not showing a lot of flexibility, thus further encouraging European gas importers to concentrate their efforts on the US and Africa.

The drive toward decarbonization will be equally important in shaping future global energy relations. Commitments to reach net-zero emissions by 2050 or later have been made by a large number of countries. It is possible, or even likely, that these commitments will not be fully respected, but the direction of change is unmistakable. The GCC countries must make visible progress to reduce the carbon footprint of their energy consumption and production to preserve their comparative advantage as energy providers.

Progressively, the position of the GCC countries in international fora has changed very substantially, from resistance and denial to proactive participation. The range and importance of investment projects in renewable energy have considerably increased, and Saudi Arabia and the UAE have been active in launching projects for exporting blue or green hydrogen and its derivatives, like ammonia. The Saudi promotion of the concept of a circular carbon economy has been well received internationally. However, the pace of implementation remains much too slow to give full credibility to the image of the GCC as fully engaged in decarbonization.

While undoubtedly progress is being made in the deployment of solar (mainly utility-scale photovoltaic) and nuclear (in the UAE), what appears to be especially lagging is progress in CCUS projects. Carbon capture and sequestration or reuse is the core of the circular carbon economy narrative, and conditions for it in the GCC are among the most favorable in the world, yet no large-scale project has been announced yet.



Before the end of 2022, the EU is expected to make a final decision about the implementation of a Carbon Border Adjustment Mechanism (CBAM), which will impose a price for carbon emitted on imports of key energy-intensive semi-finished products. Albeit initially restricted to a few product lines, and probably opposed by all countries that do not enforce a price on carbon emissions equivalent to that determined by the European ETS, the launch of the CBAM will progressively limit access to the European market for all producers from countries that are decarbonization laggards. Thus, although the UAE is aiming at becoming an exporter of zero-carbon aluminum (EGA's CelestAl) or green/blue ammonia, and Oman and Saudi Arabia aim at becoming exporters of green hydrogen, it may not be sufficient to create zero-carbon value chains within the respective economies if an overall decarbonization process is not taking place in parallel.

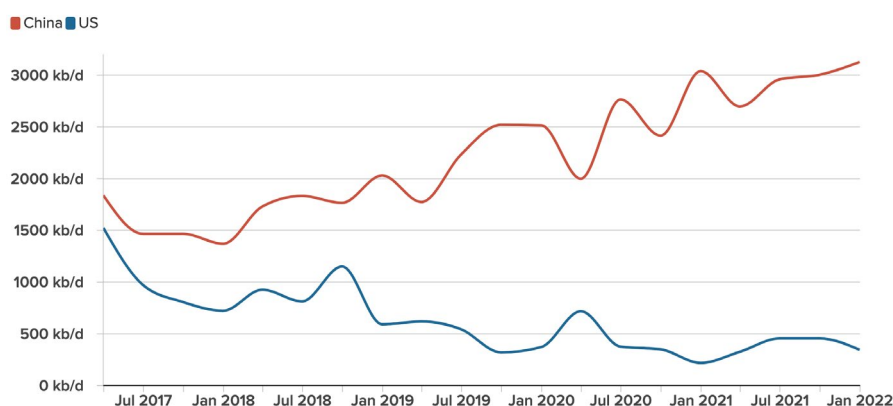
The energy crossroads that the GCC faces are one between maintaining tight supplies and high prices, and one of full utilization of capacity to bring prices down. The choice has obvious political implications and is not just a matter of subjective discount rate.

Maintaining a central role in the international energy system also requires serious engagement in the process of global decarbonization. The world needs a very large increase in investment in energy, and the GCC countries need to take upon themselves a burden commensurate with their large role as energy providers, rather than to their relatively small populations. On the plus side, they have the advantage of enjoying significant discretion in the allocation of their oil revenue, and of the investment projects that they fund with it. Yet, some reallocation of resources will be necessary, from ventures that have no strong development rationale to projects that may promise lower returns in the immediate but are needed to survive in the future.

GCC Oil Exports to the US and China

Quantities are in '000 barrels/day

Atlantic Council
GEOECONOMICS CENTER



Source: Bloomberg, US Energy Information Administration, Author's Calculations.

Source: [Atlantic Council](#)

Oil Price Development, 2012-2022 & Oil Production Projections

	2007	2008	2009	2010	2015	2020
GCC crude oil production total, 000 b/d	15877.2	15742.2	15752.6	15009.7	18691.9	24115.3
% of world demand	18.4	18.4	18.7	17.6	20.2	24.4
World oil demand	86.1	85.8	84.4	85.5	92.7	98.8
World call on OPEC	38.4	39.0	36.6	37.0	41.8	46.7

Source: International Energy Agency, EIU long-term forecasts

© The Economist Intelligence Unit Limited 2009

Source: [Economist Intelligence Unit - The GCC in 2020 Outlook for the Gulf and the Global Economy](#)



Crude Oil WTI (USD/Bbl)



source: tradingeconomics.com

Source: [Trading Economics](https://tradingeconomics.com)



Dr. Mohammed Raouf

The GCC Countries' Journey to Net Zero

This policy brief covers the issue of climate change and environment in relation to the Gulf Cooperation Council (GCC) countries, which include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. It briefly mentions the major environmental challenges and developments in the GCC countries in recent years especially in 2021 and diagnoses for 2022 environmental issues and policies. It focuses mainly on the GCC starting its journey to net zero through the analysis of 1) Climate change strategies 2) Circular economy 3) Energy transition 4) Green mobility 5) Impacts of Russia-Ukraine war on the GCC.

Introduction

The GCC countries represent a unique growth model, where oil and gas revenues enabled an exceptionally accelerated development process in all aspects of life. The GCC economies are still driven primarily by the oil and gas sector that contributes about 40 percent to their gross domestic product^[1].

As economies grow, traffic, waste, greenhouse gas emissions also increase and often result in the deterioration of the natural ecosystem. The management and use of natural resources as well as chemical, hazardous wastes and greenhouse gases (GHG) emissions have not kept pace with economic development in the GCC.

The environmental challenges in the GCC countries can be classified into two main categories: First, a multitude of “traditional” environmental challenges, such as desertification, biodiversity loss, pollution in marine and coastal areas, air pollution, and water scarcity. During the past few years, an additional set of environmental problems has arisen, especially those related to construction and demolition debris and climate change.

While much attention is paid to the region’s political economy, far less is paid to climate change and other

environment-related issues. Environmental concerns in the region are often disassociated with what is perceived as more urgent state politics, and only come into full view through the lens of a weather/climate crisis and/or foreign investment opportunity.

However, in the last few years, there has been a strategic shift in the GCC policies and actions when it comes to energy transition, green economy and climate change. The shift is driven by the political will to ensure an effective recovery from the COVID-19 pandemic and create a more inclusive, sustainable and resilient region.

Country-wise climate change strategies

In the Middle East and North Africa region, temperature is already increasing by 1.1 °C and it is predicted that by the end of this century it will rise between 2.7°C and 5°C. Expected climate change in the GCC countries will result in severe rainfalls and seawater intrusion. If we exceed 2°C many parts of the Gulf region will become inhabitable due to severe heat and increased sea level.

Precipitation trends are also on the decline with some exceptions such as in Oman (2) where the intensity and volume of precipitation is likely to increase.

The last decade witnessed an increase in environmental awareness and policies across the GCC countries. Since Qatar hosted the climate talks in 2012, there has been a visible change in the positions of some of the major oil exporters in terms of recognizing the vulnerability of their economic models and seizing opportunities to invest in infrastructure for a more sustainable future.

Catastrophic events such as Jeddah floods (2021) and the tropical storm Shaheen that hit the Omani coastline (October 2021) forced the Gulf governments to speed up the development of climate strategies and initiatives.

Awareness about climate change and environmental issue is increase very fast in the region and all stakeholders are becoming interested in these issues thanks to official interest





to move toward a low carbon economy. This is very clear from 2030s, 2040s visions of various countries and from the recent initiatives such as the “Saudi Green” and the “Middle East Green” initiatives.

Since 2015, most countries in the region have ratified the Paris Agreement and submitted Nationally Determined Contributions (NDCs). The years 2022 and 2023, will see environmental policies taking the center stage with Egypt and the UAE hosting COP27 and COP28, respectively. This will help to ensure that the fight against climate change becomes a cornerstone of policymaking in the Middle East and the GCC and will push forward climate and energy transition from fossil fuels to clean energy in the region. In addition, the region will host the first-ever carbon-neutral FIFA World Cup to be held in Qatar in November 2022.

As a result, the UAE, Saudi Arabia and Bahrain announced commitments to achieve net zero by 2050, 2060 and 2060, respectively.

Kingdom of Saudi Arabia

In October 2021, Saudi Arabia enhanced its commitment to climate action within its own borders when it updated its Paris Agreement pledge and announced net-zero targets for 2060.

However, its updated Paris Agreement pledge is explicitly based on a scenario with substantial fossil fuel exports and has a “get out clause” if international climate change policies negatively affect these exports. Shortly before the Saudi government released its updated emissions pledge, the national oil company Saudi Aramco announced it would increase oil production capacity during this decade.

According to Climate Action Tracker (CAT), Saudi Arabia’s emissions are expected to increase in the coming years but to stabilize in the second half of this decade. Saudi Arabia’s national emissions have recently decreased after peaking in 2015, partly due to a decrease in oil consumption in the electricity sector and, more recently, due to the economic impacts of the COVID-19 pandemic and the related global decline in oil consumption.

The United Arab Emirates

The UAE was the first country in the region to ratify the Paris Agreement and is now the least dependent on oil for government revenues. The UAE announced a net-zero initiative by 2050 to begin with \$163 billion investments.

The plan is still in its infancy, and some of it is ill defined, but the direction is clear. It has promised to be 50 percent reliant on renewables and nuclear energies for its electricity

by 2050. The Abu Dhabi National Oil Company has said it will source 100 percent of its grid power from nuclear and solar energies. The Mohammed bin Rashid Al-Maktoum Solar Park is expected to become the largest and lowest-cost single-site solar park in the world, with a planned production capacity of up to 5,000MW.

The UAE has issued a 2017- 2050 National Climate Plan and submitted its NDCs in 2016 and updated NDCs in December 2020. The update includes the UAE’s first emissions reduction target for 2030, which was a clean energy target for 2021. The updated NDCs aim for a 23.5 percent decrease in emissions below business as usual (BAU) in 2030. This would translate to an emissions level of 246 MtCO₂e, excluding land use, land-use change, and forestry (LULUCF)^[2].

Other policies include the development of the rail and public transportation networks, emissions performance standards for cars, various energy efficiency measures and better waste management practices.

In May 2020, the UAE completed the first unit of its 2.4 GW coal-fired power plant. The construction of new coal-fired generation is inconsistent with the need to phase out coal from electricity production in the Middle East by 2034 in order to limit warming to 1.5°C.

It is worth mentioning that following the two units of Barakah Nuclear Power Plant becoming operational as of April 2022, the total electricity produced by units 1 and 2 is now 2,800 MW and the UAE is halfway down its goal of providing 25 percent of its electricity needs through clean electricity while rapidly decarbonizing its power sector. It is also closer to reaching its net zero initiative by 2050.

Qatar

Qatar launched a national climate change action plan aimed at achieving a 25 percent reduction in greenhouse gas emissions by 2030. The plan also envisioned reducing “carbon intensity” of its liquefied natural gas facilities by 25 percent by the same year^[3].

Qatar is the world’s largest producer of liquefied natural gas and aims to expand LNG production to 127 million tons annually by 2027 claiming that gas production helps combat climate change globally because it can help the world shift from high-polluting fuels like oil and coal to renewable energies. The country pledged to intensify efforts at carbon capture and storage at its gas production facilities.



Kuwait

Kuwait has pledged to reduce greenhouse gas emissions by 7.4 percent by 2035, a target that falls far short of the 45 percent reduction needed to meet the Paris Agreement's goal of limiting global warming to 1.5C by 2030^[4].

In the field of renewable energy, Kuwait announced its keenness to meet 15 percent of the local energy demand from renewable sources by 2030. Since the announcement in 2012, there has not been an effective assignment toward the goal. The country's annual total energy generation from renewable technology systems is currently less than 1 percent. Furthermore, current indications imply that Kuwait will not reach the renewable energy target by 2030^[5].

Kuwait's Port Authority (KPA) has approved plans for a new development specifically designed to attract and cater for the needs of electric vehicle (EV) manufacturers. The so-called "EV City" will be the first of its kind throughout the Middle East. The project is in line with Kuwait's Vision 2035, a plan for economic diversification, and to reinforce the country's position as a financial and commercial hub^[6].

Bahrain

Bahrain is set to cut emissions by 30 percent by 2035 and reach its net-zero emission target by 2060. Reducing emissions through investment in renewable energy is the central feature of the Bahraini plan^[7].

Bahrain is making efforts to integrate more renewable energy in its energy mix, and aims to achieve 10 percent of electricity generation from renewable energy sources by 2035. Bahrain has made a major step forward in energy efficiency by adopting the country's first National Energy Efficiency Action Plan.

In April 2022, Bahrain's Electricity and Water Authority inaugurated the first electric cars charging station in the Atrium Mall in Saar with plans to set up similar station across the country^[8].

Oman

Oman's upstream oil and gas sector is evaluating a target of zero emissions by 2050, according to its Second Nationally Determined Contribution (NDC) report. The strategy's major components include a substantial investment in renewable and alternative energy sources and a commitment to achieve Zero Routine Flaring by 2030.

In July 2021, Oman submitted its second NDC to the Paris Agreement on climate change. In the NDC, it pledged to reduce its GHG emissions by 7 percent relative to a business-as-usual (BAU) scenario by 2030. Oman's first NDC, from 2015, had contained a 2 percent GHG emissions reduction target, based on a different BAU scenario.

1) Circular carbon economy

All GCC countries announced plans and initiatives for green/ circular economy as part of their economic visions. Investment in various sectors in relation to circular economy is announced day after day. For instance, in January 2021, the UAE approved its circular economy policy, which is a comprehensive framework for determining the country's approach to achieving sustainable governance and the ideal use of natural resources, by adopting consumption and production methods that ensure the quality of life for current and future generations.

When Saudi Arabia hosted the G20 virtual summit in 2020, it promoted what it calls a "circular carbon economy" to reduce emissions from oil and gas operations. This, however, only addresses a fraction of relevant emissions in Saudi Arabia and globally, as most emissions related to oil and gas come from fuel combustion rather than extraction and processing.

The Kingdom's current diversification plans away from heavy economic dependency on oil revenues do not adequately address scenarios in which global oil consumption significantly declines in the coming decades, in line with what is required to meet the objectives of the Paris Agreement. This is part of the Saudi and the Middle East green initiatives

Green Middle East

In October 2021, Saudi Arabia opted for a more sustainable future with the launch of the "Saudi Green" and "the Middle East Green" initiatives. The initiatives are set to apply a number of ambitious programs that will reduce carbon emissions by 60 percent in the region. The initiatives also aim to reduce carbon emissions by more than 10 percent of global contributions and plant 50 billion trees in the world's biggest afforestation project. The Kingdom also allocated more than \$180 billion to implement the Saudi Green Initiative for the benefit of humanity as a whole.

Saudi Arabia announced it aims to plant 450 million trees by 2030 — with a long-term target of 10 billion trees, and collaborative efforts to plant 50 billion trees in the Middle East. If Saudi Arabia plans to heavily rely mainly on an increased forest sink, then emissions in other sectors, such as energy and transport, could increase significantly. The



2060 net-zero target does not specify the extent to which it would rely on the forestry and land use emissions sink.

Green mobility

The mobility sector has undergone a paradigm shift during the past few years and one key reason for that is the arrival of electric vehicles. Electrification represents an opportunity to accelerate the decarbonization of the transport sector and reach net-zero targets in the GCC countries.

The adoption of EVs in GCC and globally can result in a significant reduction in pollution as well as lower nitrogen dioxide levels.

Transportation accounts for around one-fourth of global CO₂ emissions, most of which come from passenger vehicles (Ritchie, 2020). Reducing emissions from transportation can provide health benefits by improving air quality.

Sustainable transport and EVs are central to tackling several Sustainable Development Goals (SDGs), including SDG 3 (Good health and well-being), SDG 7 (Affordable and clean energy), SDG 11 (Sustainable Cities and Communities), and SDG 13 (Climate Action).

The adoption of EVs could potentially “increase the share of renewables in the energy mix indirectly (target 7.2), and contribute to reducing air pollution and related health impacts (target 3.9)” (IISD, 2017).

There are still barriers to entry for EVs, such as a lack of awareness about the total cost of owning an EV, the price of initial purchase and the availability of infrastructure. Still the GCC countries, like most other countries of the world, do not have sufficient infrastructure to support a green mobility economy and it remains inaccessible for most to purchase an EV.

The transportation industry plays a critical role in the economy, accounting for 10.4 percent of GDP. The UAE’s transportation sector contributes 5.4 percent of the country’s GDP.

Despite the fact that the governments of Saudi Arabia and the UAE are heavily investing in the realization of 30 percent EVs by 2030, many more efforts are required to meet the target.

United Arab Emirates

The UAE’s transportation sector accounts for 22 percent of the country’s total GHG emissions. It prompted authorities to choose an alternative clean mode of transportation in the

form of EVs to satisfy their GHG emission reduction targets set by the Kyoto Protocol and COP21 Paris agreement.

Dubai, in particular, aims to “become the city with the lowest carbon footprint in the world by 2050,” in which sustainable transportation will play a big part (DEWA, 2020). One aspect of this is the Dubai Green Mobility Initiative, which aims to increase the government procurement of hybrid vehicles and EVs in Dubai. The Dubai Clean Energy Strategy 2050 seeks to electrify 75 percent of Dubai’s vehicles by 2050.

DEWA has imposed a flat rate for charging infrastructure, resulting in EV clustering during peak hours and lower consumer involvement in vehicle-to-grid projects. DEWA has set a flat rate of 29 fils/kWh for commercial customers, with the billing cost waived for non-commercial customers.

To reap maximum benefits from road transport electrification, the hourly time-of-use (TOU) rate is required; otherwise, the road to a reduction in environmental pollution by EVs may result in grid overburdening. It could potentially lead to a worst-case scenario in which non-renewables are used to meet EV power requirements. Dubai has set a goal of having 10 percent of its vehicles be electric or hybrid by 2030.

Saudi Arabia

Saudi Arabia’s transportation sector relies heavily on oil. This is due to the fact that the transportation sector accounts for over 25 percent of the total oil consumption in Saudi Arabia. As a result, if the Kingdom is able to replace the major strength of Internal Combustion Engine (ICE) vehicles with EVs, encouraging benefits in terms of GHG emissions cut might be predicted.

In the last few years, just a few charging stations have been installed in Saudi Arabia. In the Kingdom, a total of 13 charging stations have been installed, each with 13 connectors, the majority of which are Schuko (EU Plug).

The hourly time-of-use fee is required to encourage EV owners to participate in vehicle-to-grid operations and load shifting during peak hours. Otherwise, due to a lack of financial incentive provided by a flat price, EVs may cluster at charging infrastructure during peak hours and may not feed power into the grid. Instead of drafting specific TOU charging pricing for EV charging, ordinary energy tariffs have been used to assist EV owners at charging stations in Saudi Arabia.

The clean energy transition

The GCC region is also blessed with many natural resources such as its location, which makes sunshine available almost year round and abundant wind resources in some areas.



All these resources position the region as a hot spot for renewable energy production and export.

The UAE seeks to reduce GHG emissions for a long-term future by producing 24 percent of the electricity using renewable energy sources. The UAE government wants to achieve these goals by establishing KPIs to track progress toward its objectives, as well as launching various efforts to cut GHG emissions.

Other policies and strategies that underpin the 2030 target are: the government of the UAE lists renewable and nuclear energy as important components to reach the net zero targets. This includes the UAE's National Energy Strategy 2050, which aims for 50 percent of renewable and nuclear energy in installed electric capacity by 2050, while substantially reducing final electricity demand. This strategy also includes 12 percent of coal and 38 percent of natural gas-based capacity, which is inconsistent with the need to reach net zero CO₂ emissions globally by 2050.

Saudi Arabia is investing in new areas in order to reduce risk to its economy. The government has opted to choose renewable energy, carbon capture and utilization, gas use in the energy mix, efficient energy production and methane recovery, and flare minimization as part of its economic diversification strategy.

Since 2013, the Saudi government has announced various renewable energy targets, but implementation is still lacking. The latest target aims for 50 percent of electricity to be generated with renewable energy and 50 percent with natural gas by 2030 — a target that is also confirmed in the updated Vision 2030. It could, however, also lead to substantial investments in natural gas, which also needs to be phased out in Paris-compatible pathways.

In Oman, interim targets set by the sultanate include the deployment of renewable energy and the deepening of energy efficiency actions, which are the 2030 carbon control plan pillars. Additionally, the country's National Energy Strategy has set a target to derive 20 percent of electricity from renewables by 2027. To achieve this, it will need to develop at least 2.66 GW of renewables by then. The plan relies mainly on photovoltaic solar, accounting for about 79 percent of the capacity, with the remaining coming from wind farms. It is worth mentioning that, currently most of the electricity in Oman is generated by burning crude oil (65 percent) and natural gas (35 percent)^[9].

Appendix 1 shows some of these commitments from countries across the GCC region.

Russia-Ukraine War

There are four key areas where the GCC countries will be affected by a large-scale confrontation between Russia and Ukraine:

1. **Energy:** Due to the expected interruptions in global energy flows; oil and gas producers like GCC countries, can help mitigate some of the effects and also increase their revenues. This to be offset by rises in subsidy costs to cover higher food and energy prices. In general, this however have a negative impact on clean energy plans in the GCC because when oil price is high, and if more money flows into investment into the oil and gas sector to expand production and exporting facilities as many countries are reverting to the GCC countries for additional supplies to compensate for Russian supplies. This is definitely disincentive for clean energy plans and investments. On the other hand, this war resulted in increase of awareness and focus on the energy independence has and will have a more positive impact on the transition to low and zero-emission transport among other clean energy pathways to help countries decrease their dependence on energy exports and accordingly achieve their energy security.
2. **Food security:** Due to possible disruptions of agricultural trade and grain production in the Black Sea basin, global food supply is likely to be affected. Ukraine and Russia accounted for 26 percent of global wheat exports in 2021-22, and also export corn, barley, and seed oils to global food markets.
3. **Foreign workers:** Increased number of foreign workers looking for work and residence in GCC countries.
4. **Pollution:** Setting oil and gas infrastructure on fire generates noxious gases and results in oil spills that can harm both civilians and ecosystems. Biodiversity loss and pollution is a global problem affecting all countries. Needless to say, the hazards related to possible destruction to nuclear industry in Ukraine.

Conclusion:

In the recent few years, perhaps after 2016, there has been a strategic shift in GCC countries policies and actions when it comes to the energy transition, green economy, and climate change along with the aim to effectively recover from the impacts of the COVID-19 pandemic and create a more inclusive, sustainable and resilient countries and meet Paris Agreement goals as well as achieving economic goals envisaged in their respective visions for future.





The GCC countries in the recent years have taken serious steps in their journey to net-zero targets to meet Paris Agreement goal and realize their sustainable development objectives. There is definitely a change in the thinking, plans and actions toward more proactive climate role. There is a great potential for harnessing international momentum on climate change action including taking practical steps on emissions reductions and “circular economy” transitioning also considering development needs.

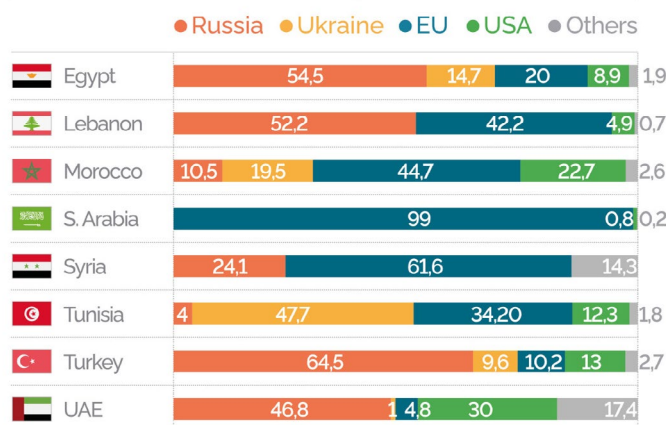
The GCC countries see climate change as an opportunity to diversify their respective economies, attract more local and foreign investment and create jobs.

Still, there is a need for additional efforts to incorporate climate commitments and actions in domestic expenditure and tax policies from the GCC governments. Planned green bonds in Saudi Arabia in 2022 could be one of the financial solutions.

Economic instruments such as carbon pricing are one potential for GCC policy to be implemented through a tax or emissions trading scheme, carbon pricing is one of the key weapons in the policy arsenal to reduce energy consumption, direct energy generation towards cleaner sources and improve energy efficiency.

Where does the MENA region buy its wheat from?

Wheat imports by origin, in percentage (2019)

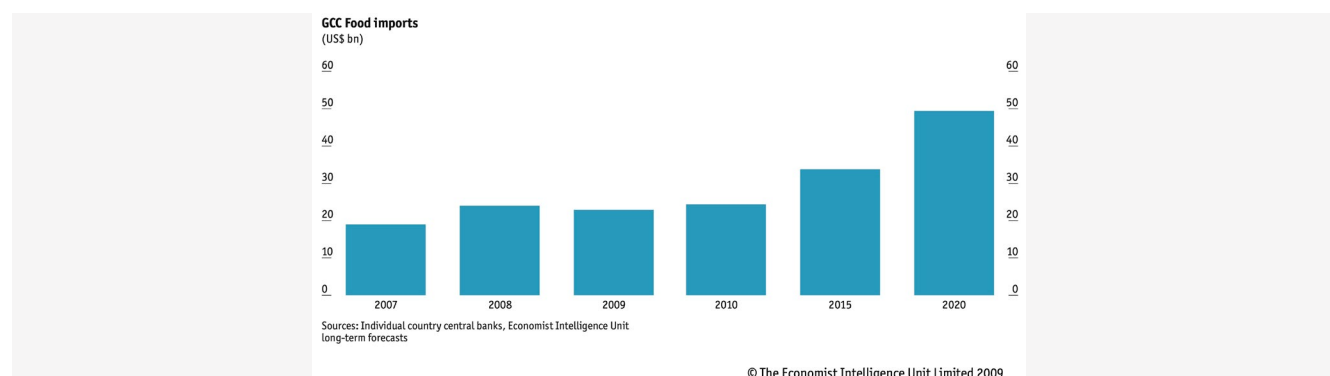


Source: Observatory of Economic Complexity

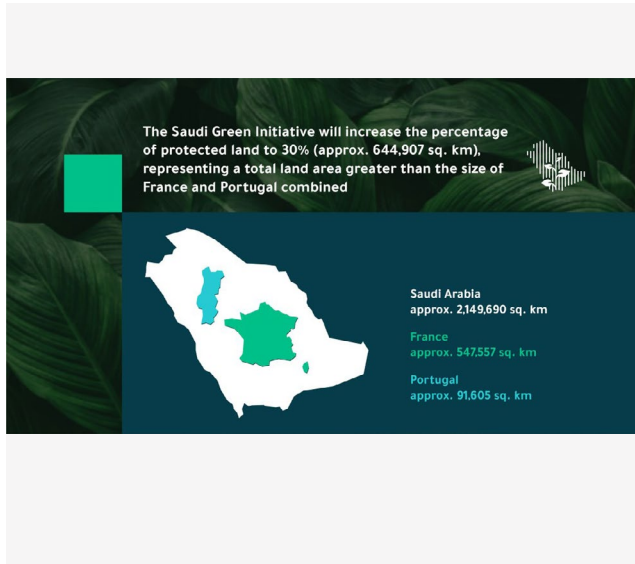
ISPI

Source: [ISPI](#)

Wheat Import Dependency of Middle East Countries & GCC

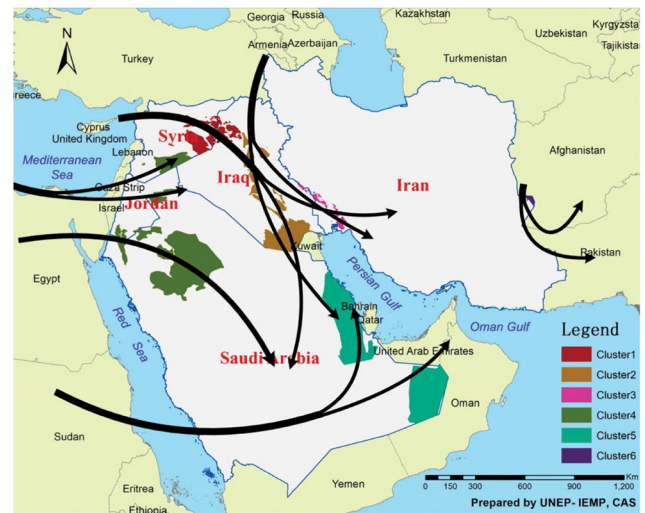


Source: [Economist Intelligence Unit - The GCC in 2020 Outlook for the Gulf and the Global Economy](#)



Source: [Saudi Green Initiative](#)

FIGURE 4: SAND AND DUST STORMS PATH AND SOURCE CLUSTERS IN MENA



Source: Cao et al., 2015.

Source: <https://documents1.worldbank.org/curated/en/483941576489819272/pdf/SAND-AND-DUST-STORMS-IN-THE-MIDDLE-EAST-AND-NORTH-AFRICA-MENA-REGION-SOURCES-COSTS-AND-SOLUTIONS.pdf>

WATER STRESS

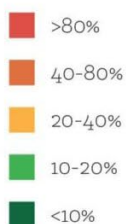
IN MIDDLE EAST AND NORTH AFRICA



PROMOTED BY:



WATER WITHDRAWALS AS A PROPORTION OF SURFACE WATER AVAILABILITY



ANNUAL AVERAGE
WATER
AVAILABILITY



1,200 m³
per person

WATER
AVAILABILITY
BY 2025



500 m³
per person

Source: World Bank

#MED2019

Source: <https://med.ispionline.it/the-consequences-of-climate-change-in-the-mena-region/>





Appendix 1

Country	Challenges	Target	Progress As of 2021
KSA	<p>Energy consumption levels are projected to increase by three times by 2030 (El-Huni, 2020).</p> <p>Ranked 15th globally for its GHG emissions (IHS Markit, 2021).</p>	<p><u>Vision 2030</u>: aims to diversify the energy mix used in electricity production, increasing the share of natural gas and renewable energy sources to approx. 50% by 2030 and reduce the use of liquid fuel.</p> <p><u>Saudi Green Initiative targets</u>: to reduce 130 million mt a year of carbon emissions.</p>	<p>Saudi Arabia committed to Net Zero by 2060 (on 24 October 2021).</p> <p>Diversification away from oil-based economy is occurring, albeit, at a slow pace.</p> <p>Government plans to tender around 9.5GW of solar and wind capacities by 2023 (Tamimi & Co., 2020).</p> <p>Supreme Committee for Energy Mix Affairs for Electricity Production and Enabling Renewable Energy formed in 2020.</p> <p>Reduced electricity subsidies by 61% from 2010 to 2019 (CEBC, 2021).</p>
UAE	<p>High oil dependency.</p> <p>Limited competition in energy market.</p> <p>Disparity between emirates, in terms of rate of progression.</p>	<p>Set a long-term target to decrease carbon footprint by 70% by 2050 and increase its share in clean energy by 50%.</p> <p><u>First GCC country to announce commitment to Net Zero by 2050.</u></p> <p><u>Energy Strategy 2050</u>: to increase consumption efficiency of individuals and corporates by 40%.</p>	<p>Largest portfolio of renewables in the GCC region.</p> <p>Issued most green issuances in the MENA region.</p> <p><u>EV Green Charger Initiative launched by Dubai Electricity and Water Authority (DEWA)</u>: provides a network of electric vehicle chargers across Dubai.</p> <p><u>Dubai Carbon Abatement Strategy</u>: to reduce 16% of carbon emissions by 2021. Dubai has surpassed the targets of this strategy two years ahead of its time by reducing 22% of carbon emissions in 2019.</p> <p>UAE set to release green hydrogen initiative in 2022.</p> <p>Reduced electricity subsidies by 90% from 2010 to 2019 (CEBC, 2021).</p>



Oman	<p>Densely populated urban centers that increase energy consumption levels.</p> <p>Economic development immensely driven by oil and gas, makes it difficult to further the clean energy transition.</p>	<p>Renewable energy to account for over 30% of its total energy mix by 2030 (ICLG, 2021).</p> <p><u>Pledged to reduce GHG emissions by 7% by 2030.</u></p> <p><u>Vision 2040</u>: strategy to diversify economy away from fossil fuels and invest in renewables.</p> <p>Goal to reduce oil's share of GDP – which reached 39% in 2017 - 8.4% in 2040 (UNFCCC, 2021).</p>	<p>After 30+ years of no changes to electricity tariffs, in January 2017, Oman applied a cost-reflective tariff (CRT) on the largest industrial, government, and commercial customers that consume greater than 150 MWh of electricity per year (impacting approximately 10,000 customers) (CEBC, 2021).</p> <p>Plans to establish a centralized national agency to drive energy efficiency and energy conservation (Oman Observer, 2021).</p>
Kuwait	<p>Economic development fully driven by oil and gas, makes it difficult to further the clean energy transition.</p>	<p>Reduction of greenhouse gas emissions 7.4% by 2035.</p> <p>A target of 15% of the local energy demand from renewable sources by 2030</p>	<p>Limited progress.</p> <p>New initiative to establish EV city for EV manufacturing.</p>
Bahrain	<p>Economic Diversification challenges as limited resources, land and population.</p>	<p>Cut emissions by 30 percent by 2035 and reach its net-zero emission target by 2060.</p>	<p>Limited progress.</p> <p>In April 2022 inauguration of the first electric cars charging station.</p>
Qatar	<p>Fully dependent on natural Gas for economic Development.</p>	<p>A 25% reduction in greenhouse gas emissions by 2030.</p>	<p>Promotion of on Natural Gas a transit energy source.</p>





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