# 2015: A Perfect Storm?

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## Introduction

The New Year has started with the appalling and traumatic atrocities in Paris and these acts, and their wider context, give an indication of what may be a dominant security issue of 2015 – the developing war in Iraq and Syria with its escalating Western involvement. The escalating Boko Haram insurgency in Nigeria may also be far more widely recognised as a major security issue, and the Sahel and Libya are becoming increasingly interconnected. The Ukraine crisis also has the capacity to escalate once again.

On some of the wider issues with which these briefings have been concerned there are also major developments. The year will end shortly after the key Paris COP 21 UN Climate Change Conference negotiations and the progress made recently in Lima, coupled with undoubted changes in climate and progress in renewable energy, storage and conservation systems, all point to the potential for a positive year. Economic factors, though, will interrelate with environment and security, not least in relation to two elements – continued marginalisation and austerity, and the relative collapse of oil prices.

## Security

The end of the year saw a considerable increase in Western involvement in the war against Islamic State in Iraq and Syria. In the five months from early August there were over 3,200 air strikes using close to 6,000 munitions and hitting just under 2,000 targets. The intensity was much higher than any time in Afghanistan in the last five years and involves the United States, France, the UK, Australia, Canada and other European and regional powers.

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By early January there were indications that the advance of Islamic Front had slowed but was continuing in some parts of Iraq and Syria. It follows that there will almost certainly be a substantial increase in Western forces in the war, especially as it is likely to take at least a year for the Iraqi Army to be retrained and re-equipped.

However brutal and extreme the Islamic State may be, it is easy for its propagandists to present this as yet one more example of a "Crusader" assault on Islam, along with the previous interventions in Afghanistan, Iraq, Yemen, Pakistan, Somalia, Libya and Mali. This potent message is also aided by the continuing problems of marginalisation and youth unemployment right across the Middle East and the migrant peripheries of Western European cities like Paris. Moreover, the Gaza War has had a much more substantial effect on regional opinion, at least on the street rather than in elite circles, and this, too, adds to the power of the extreme propagandists, a "Crusader/Zionist plot" being a favoured message.

There are some more positive elements, with the new Abadi government in Baghdad beginning the process of countering the marginalisation of Iraq's Sunni minority. The state of US-Iranian relations also remains far better than two years ago, raising the prospect of further progress towards a nuclear deal in July. Furthermore, the Obama administration may have decided on military action against Islamic State but this is at a lower level, so far, than would have been the case with another administration. France's President Hollande has called for a mature response to the *Charlie Hebdo*murders rather than an immediate military escalation in Mali and Iraq.

Even so, the prevailing response from Western states is still primarily focused on military solutions and there is little prospect of this changing in the coming

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year. Unless there are the beginnings of such a change, we will end the year having entered the fifteenth year of the War on Terror with over half a million people killed and injured so far, over eight million displaced and extreme Islamist movements still expanding in several countries, mostly notably Syria, Iraq and Nigeria.

## Environment

In December the most recent meetings of the UN Framework Convention on Climate Change (UNFCCC) took place in Lima. Although it was not billed as the key meeting – that will be in Paris next December – the 20th Conference of the Parties (COP 20) meeting in Lima was still significant in that there was agreement on paper for all countries to be committed to targets for carbon reduction. COP 21 in Paris will be the key occasion for concluding this and there is some cautious optimism that something can be achieved. Drawbacks include the negative attitudes of some key countries, most notably Canada and Russia. Both are major fossil carbon exporters that may also stand to gain in the short term as Arctic warming opens up new territories for exploitation.

Against this, some leading emerging economies are now more positive. China, especially, is conscious of the risks to its own economy from the direct impact of climate disruption across Eastern Asia. Furthermore, the Obama administration is using its diplomatic influence to encourage China and India to play more significant roles in the negotiations. While it continues to promote renewable energy at home, the Obama administration is limited in the domestic environment by the Republican control of Congress, whereas a foreign policy drive such as this could well form the basis for a valued legacy of Obama’s second term.

What is also evident is that progress towards more efficient renewable energy technologies and more effective energy storage is accelerating. The crucial stage of grid parity (electricity from renewables that is as cheap as from fossil carbon) is already being reached in some regions for wind and solar power, and the rate of scaling up of large scale energy storage systems, including batteries, has surprised many analysts. Furthermore, the latest data on weather (what might be called "short-term climate") shows that 2014 was an exceptionally warm year in many parts of the world and perhaps globally.

While it is unlikely that COP 21 in December will achieve targets realistically required for the move towards ultra-low carbon economies, if a new norm is established it will aid the development of a political environment in which such economies are accepted as the necessary eventual state.

## The World Economy and the Oil Market

World-wide economic growth remained low at 3.3% in 2014 with IMF predictions of 3.8% for 2015, but much of this is predicated on relatively rapid growth continuing in China and India and an increase across much of sub-Saharan Africa. By contrast, much of Europe, especially the southern region, remains close to recession, with particular concern over the high levels of youth unemployment in many countries. European austerity is continuing to provide a boost for populist protest parties of the right and left, with the former campaigning strongly on an anti-immigration theme even as the numbers of people desperate to get to Western Europe continue to grow. Across the Middle East, educated but marginalised peoples in those countries without a substantial oil or gas income remain in an environment of struggle, with the ever present risk that some, especially young men, see the attraction of radical and violent alternatives.

All of these problems seem set to continue. Six years after the 2007-08 financial crisis there also remains little in the way of effective transnational financial regulation even if some national systems have been strengthened. Because of this, the risk of further sudden financial crises remains, but what is difficult to do is to factor in the marked decrease in oil prices. The indications are that, while this may not be a long-term change, it is likely to extend at least through the coming year. This has many implications:

- Well-established large scale oil and gas exporting states with small populations, as well as a few bigger ones like Saudi Arabia, typically have substantial sovereign wealth funds and can survive short-term price declines without great concern.

- Those with large populations, though, and those dependent on subsidies from carbon-rich countries, such as Egypt and Jordan, both face the prospect of economic retrenchment, one of the first changes likely to be a decrease in food and petrol subsidies, directly affecting poorer sectors of society and leading to increased resentment.

- Major industrial and pre-industrial fossil carbon importers may gain in the short-term from low oil prices, but if they are also seeking to develop their own fossil reserves there may not be the finance available to do so if such reserves are intrinsically uneconomic when prices are low.

- There is a risk that low oil and gas prices lasting longer than a year will discourage investment in renewables.

- Low prices may also discourage investment in new fossil carbon extraction such as tar sands and deep offshore reserves in difficult waters.

One key element arising from this is that a serious lack of investment in new fossil carbon exploitation may result in a “pendulum market” with sudden increases in prices as political, environmental or other factors suddenly impact on availability. Such a pendulum market risks considerable uncertainty in a world financial system that typically operates primarily for short-term gain and is still not subject to adequate transnational regulation.

Perhaps most significant of all is the potential knock-on effect of energy market volatility on the global financial system. The very rapid growth of the shale gas and oil industries in the United States has transformed its energy status but has strong elements of speculative financing and is heavily dependent on high gas and oil prices. If prices remain low for more than a few months, heavy financial losses could have a wide economic impact, with even the risk of market instability akin to the 2007-08 crisis.

On its own this should cause concern, but it comes at a time when there is political uncertainty and instability in many larger countries critically dependent on oil and gas revenues, including Iraq, Venezuela, Algeria and Nigeria, as well as Putin’s Russia. Like Russia, Iran faces the double challenge of dwindling oil and gas revenues and international economic sanctions. Increasing pressure on Tehran seems to be one of the driving motivations for Saudi Arabia, as the dominant world and OPEC producer, to force a sustained depression in oil prices. This may improve prospects for a historic deal on Iran’s nuclear programme or, less likely, for peace processes in the proxy wars of Syria or Ukraine. But such pressure could equally precipitate a more aggressive backlash.

One of the most traumatic periods in recent world history was 1973-74 when Gaddafi’s nationalisation of the Libyan oil industry was followed by failed OPEC negotiations with transnational oil companies leading to unilateral action on oil prices by the Arab members of OPEC during October's Yom Kippur/Ramadan War. The result was a massive and sustained increase in world oil prices, a "perfect storm" with profound long-term economic consequences. At the time the coincidence of circumstances meant that what happened was almost entirely unexpected. The same might be true more than forty years later.

## Conclusion

Although there may be a real chance of progress on the key climate change issue this year, there is little evidence of any recognition of the impact of austerity and economic marginalisation, this being the area where there is a great need for innovative approaches. Moreover, it comes at a time of serious uncertainty in the world energy market, especially for gas and oil, with the risk of this being exacerbated by political instability. In relation to security, the Middle East remains the primary focus and here, too, there is an urgent need for a thorough re-thinking on Western approaches to security, a priority for organisations such as Oxford Research Group in the coming months.

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### About the Briefing

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