

The Middle East in Transition

**Social, Ethnic & Religious Challenges
to the Current Regional Order
and
Implications for Global Energy**

Presentation to the Anthem Financial Club

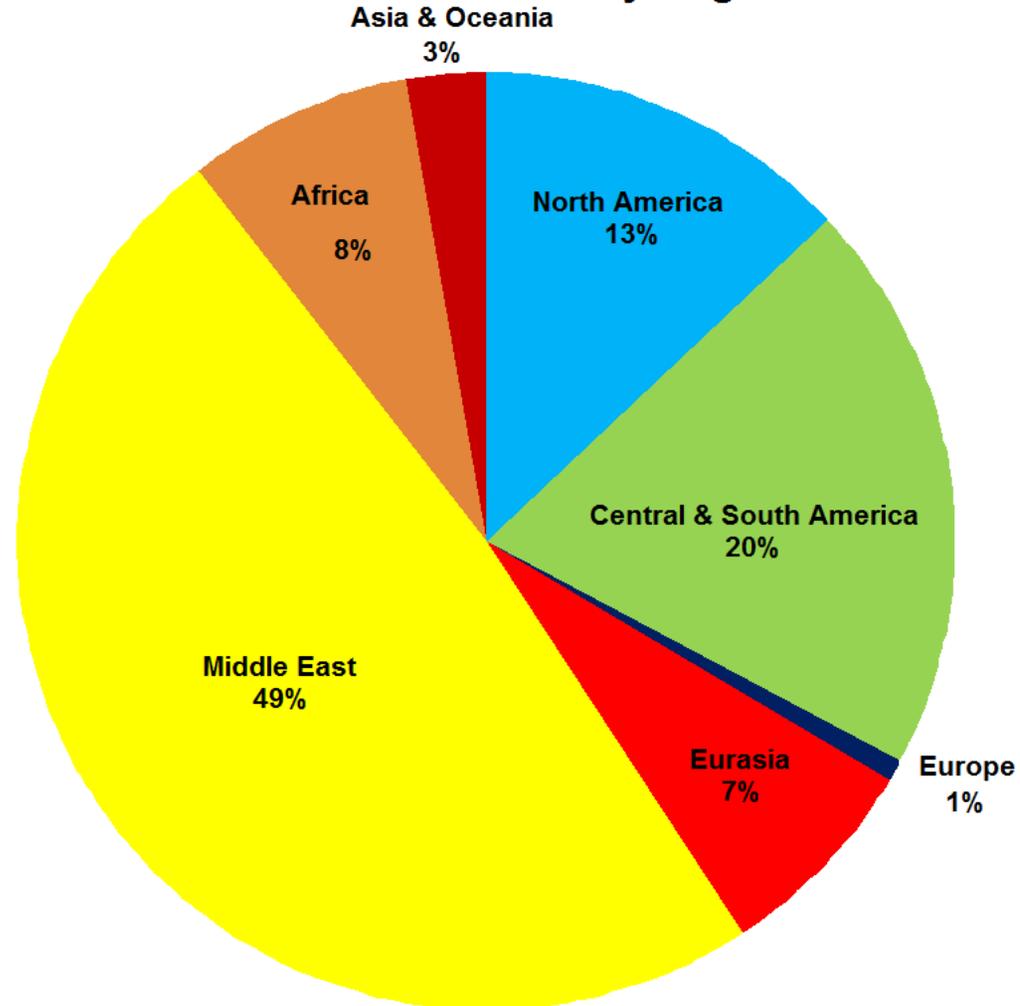
12 November 2014

Northern Africa and the Middle East



The Crucial Middle East

World Oil Reserves by Region

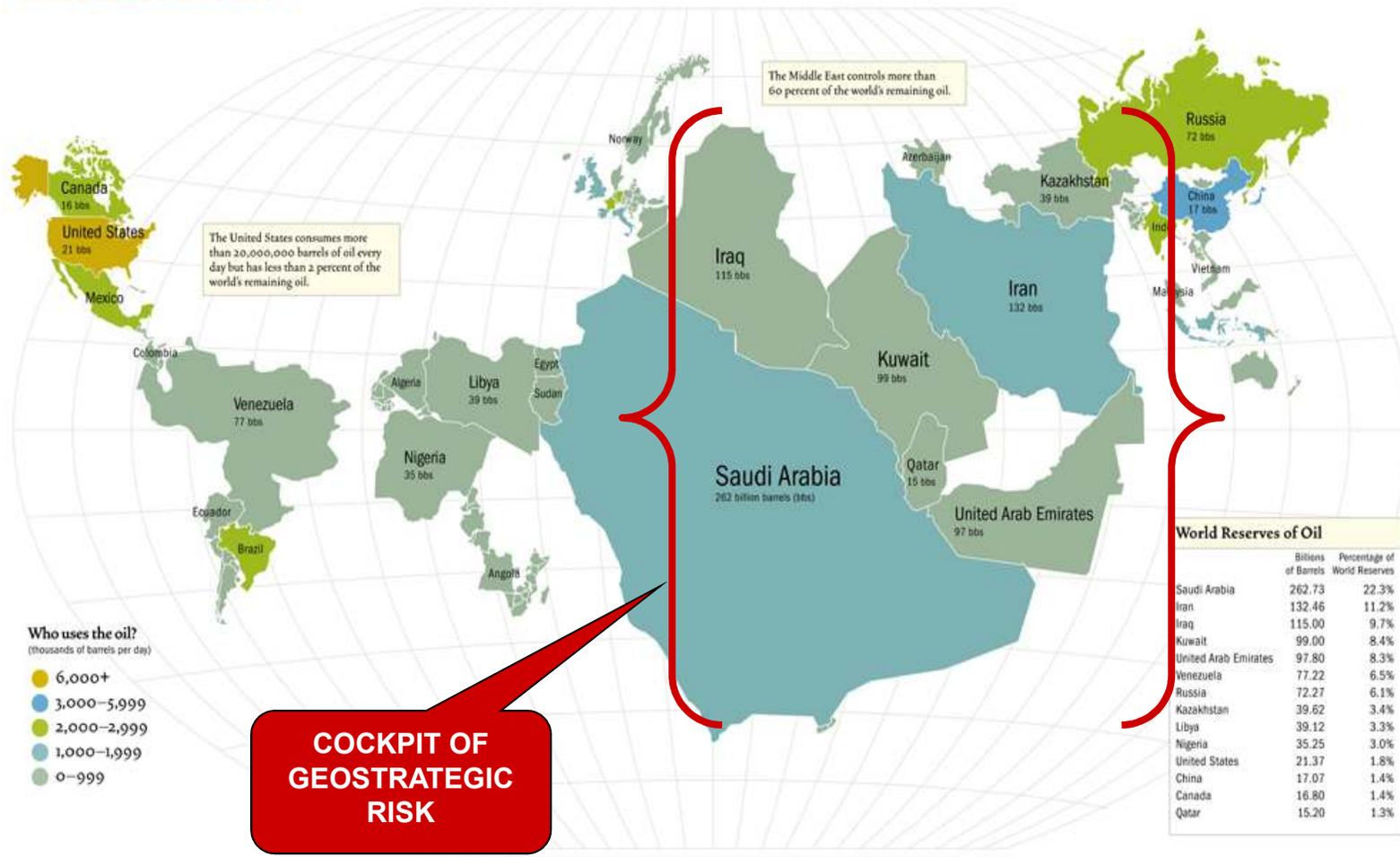


Data source: US Energy Information Administration (2013)

Reserves are the estimated quantities of crude oil, which are, with reasonable certainty to be recoverable

Half of All Global Oil Reserves Are in the Middle East

Who has the oil?



**COCKPIT OF
GEOSTRATEGIC
RISK**

The Social Challenge

§ Demography in the Globalization Age.

Challenges of overpopulation, underemployment, freedom deficits (of expression, of movement, of political action) are exacerbated by the vivid awareness via the www and social media of how the rest of the world is faring

§ The meaning of The Arab Spring

Demand for social justice, accountability and an end to police-state despotism
Direct challenge to the legitimacy of the ruler and his power structure

Fragility of the Social Compact Unveiled

§ De-legitimizing the post-WWI state system

States erected by Colonial Powers with borders that suited their interests and encompassed population groups with few ties that bind

Demography as Destiny I

The population growth rate in the Middle East is among the highest in the world

- § During 1990-2008 the growth rate was higher than in India or China.
- § In the 17 Middle East countries population growth during 1990-2008 was 108.7 million persons and 44% growth.
- § In comparison population in India increased from 1990 to 2008 with 290 million (34%), China 92 million (17%) and European Union 26 million (5%).

Source: OECD/World Bank

Demography as Destiny II

Rampant Unemployment & Underemployment

- According to a 2012 report by the IMF, the average annual output per worker in the Middle East and North Africa region is lower than that of most regions of the world.
- The economic growth rate in 2013 proved too low to generate sufficient employment opportunities for a fast growing population, and unemployment remained the highest in the world.

Demography as Destiny

III

Purpose Well-Being: people liking what they do each day and being motivated to achieve their goal

Purpose Well-Being, by Region

	Thriving (%)
World	18
Americas	37
Europe	22
Former Soviet Union	18
Sub-Saharan Africa	15
Asia	13
Middle East and North Africa	13

Source: Gallup-Healthways Global Well-Being Index.

Based on surveys conducted in 135 countries and areas in 2013. Percentages rounded to the nearest whole number.

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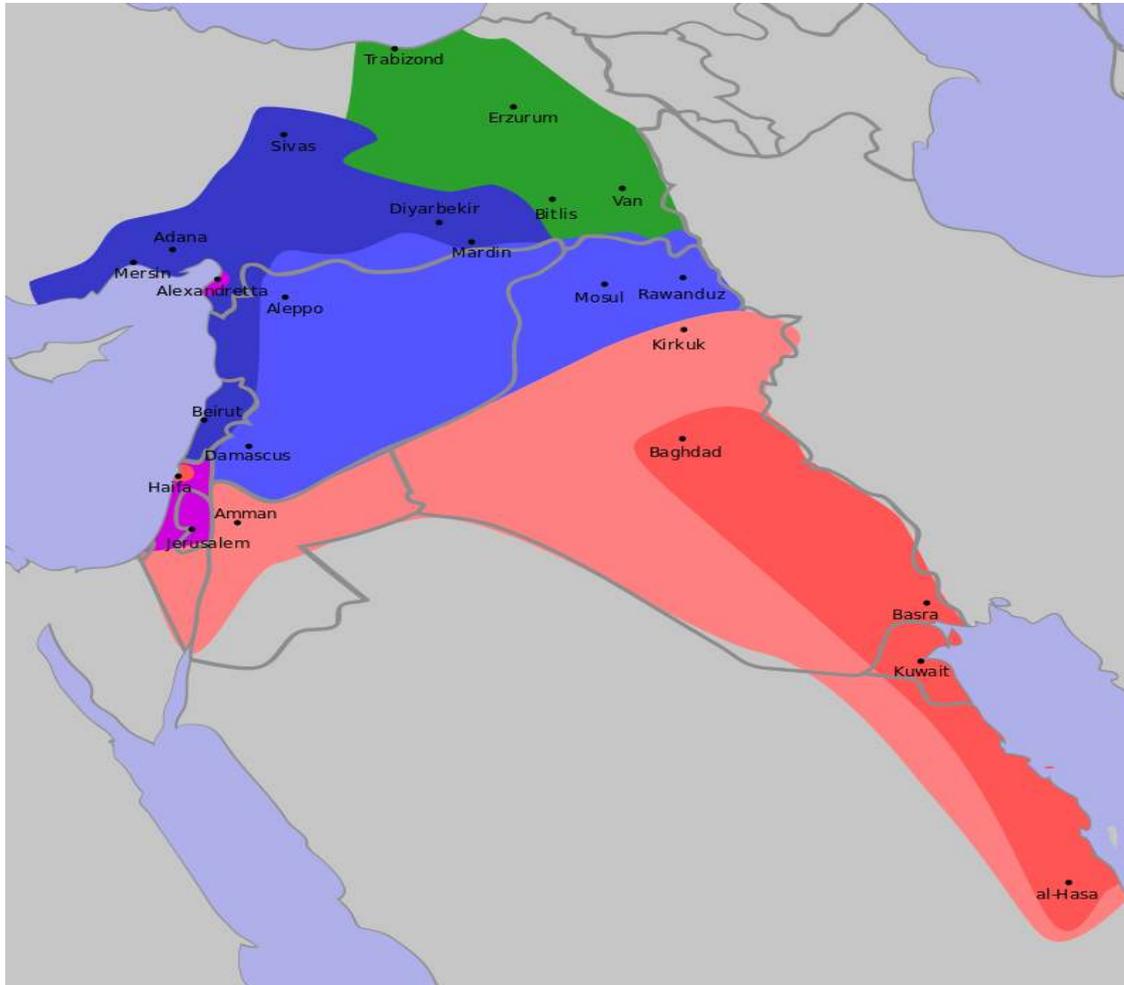
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The 1916 Sykes-Picot Agreement



1917 Balfour Declaration



Foreign Office,
November 2nd, 1917.

Dear Lord Rothschild,

I have much pleasure in conveying to you, on behalf of His Majesty's Government, the following declaration of sympathy with Jewish Zionist aspirations which has been submitted to, and approved by, the Cabinet

'His Majesty's Government view with favour the establishment in Palestine of a national home for the Jewish people, and will use their best endeavours to facilitate the achievement of this object, it being clearly understood that nothing shall be done which may prejudice the civil and religious rights of existing non-Jewish communities in Palestine, or the rights and political status enjoyed by Jews in any other country'

I should be grateful if you would bring this declaration to the knowledge of the Zionist Federation.

Y. inc.
Arthur Balfour

The Ethnic Challenge

The Rise of the Kurds

“The largest ethnic group without a country”

§ Affecting Iraq, Syria, Turkey, Iran:

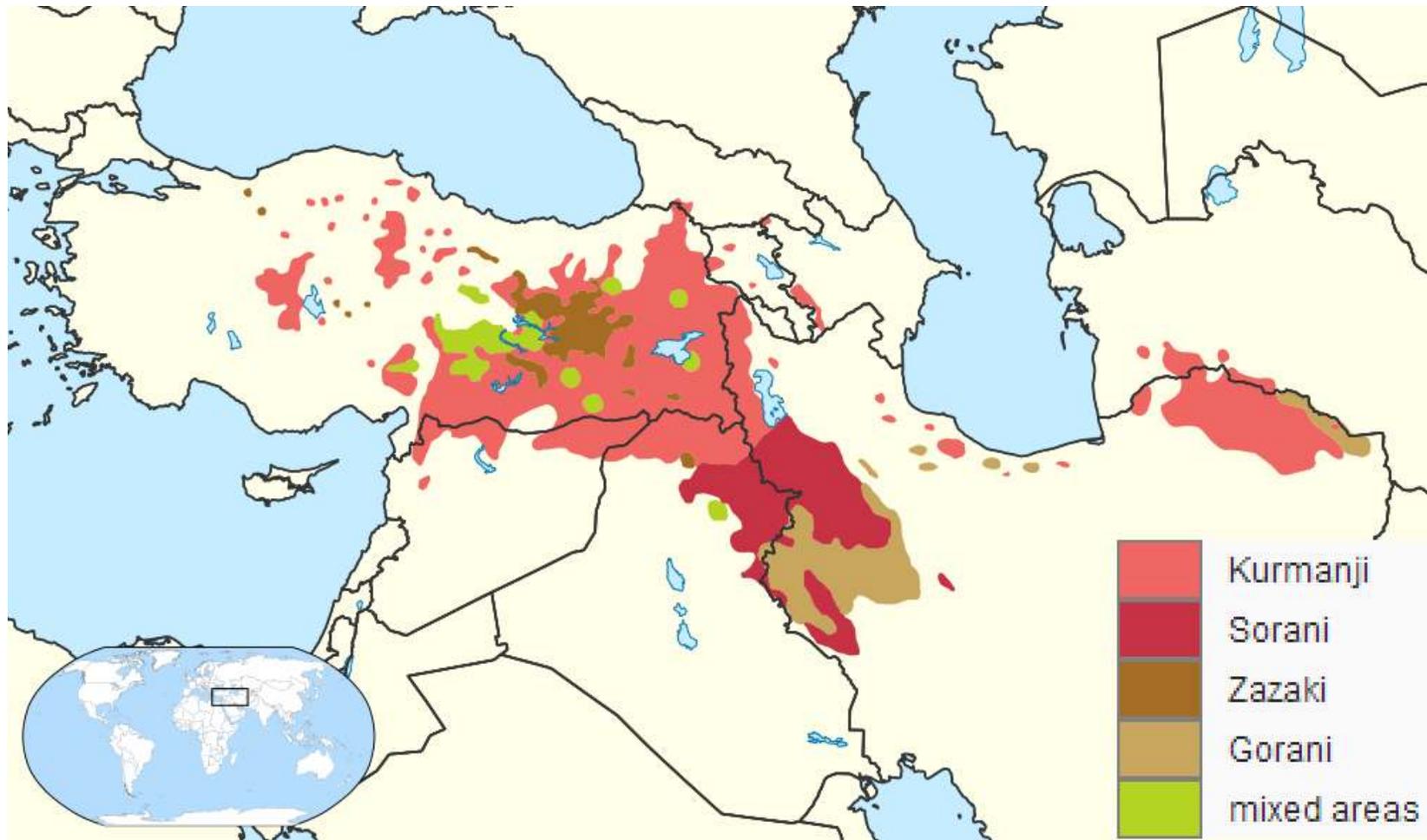
§ 14-15 Million in Turkey

§ 7-8 million in Iran

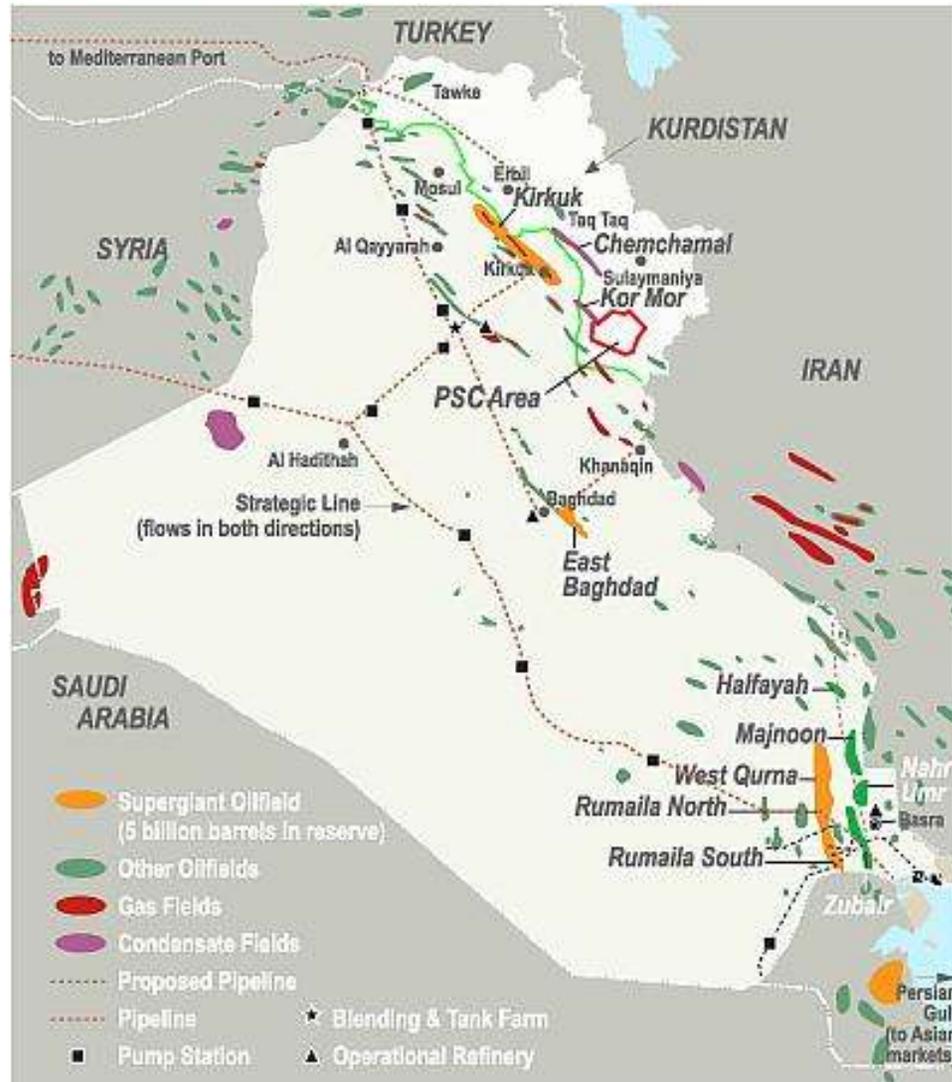
§ 5-6 million in Iraq

§ 1.5 million in Syria

Kurdish Areas of the Middle East



Kurdish Area's Oil Wealth



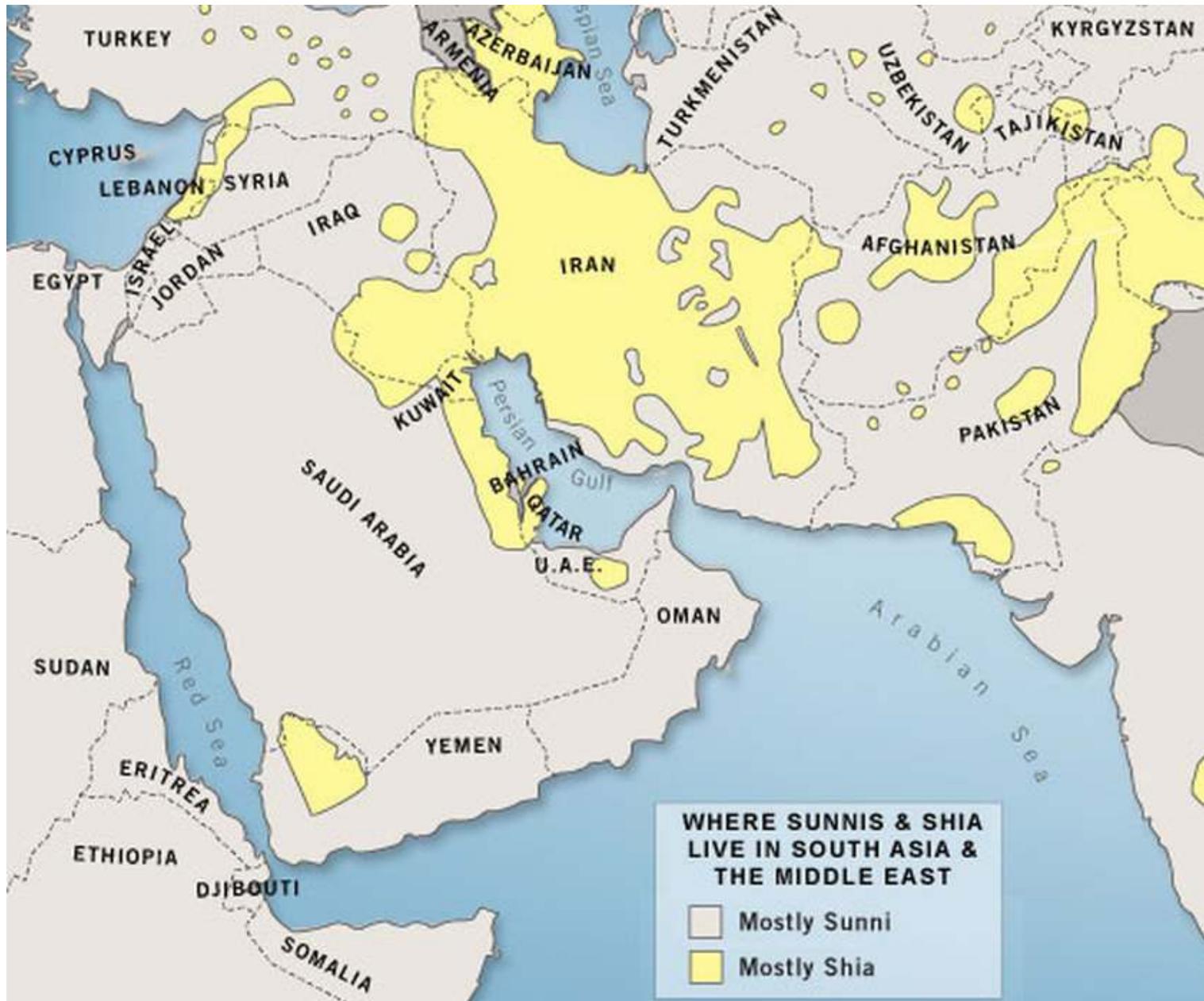
The Religious Challenge

THREE CONVERGING STREAMS

§ **The Rise of Shi'a Islam**

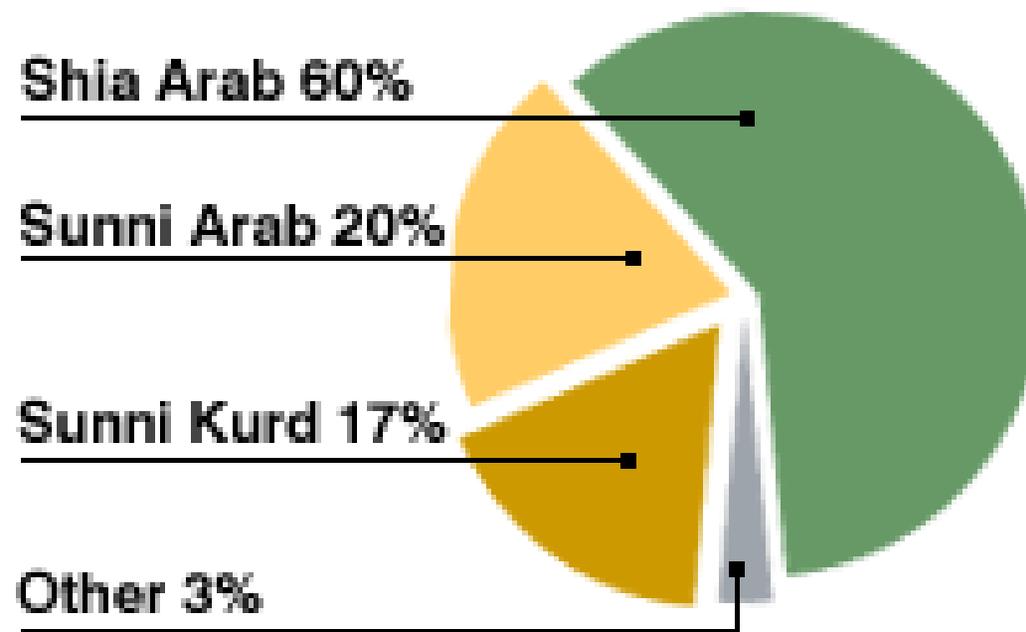
§ **The Emergence of 'Political Islam'**

§ **The Resurrection of Militant Jihadi
Salafism**

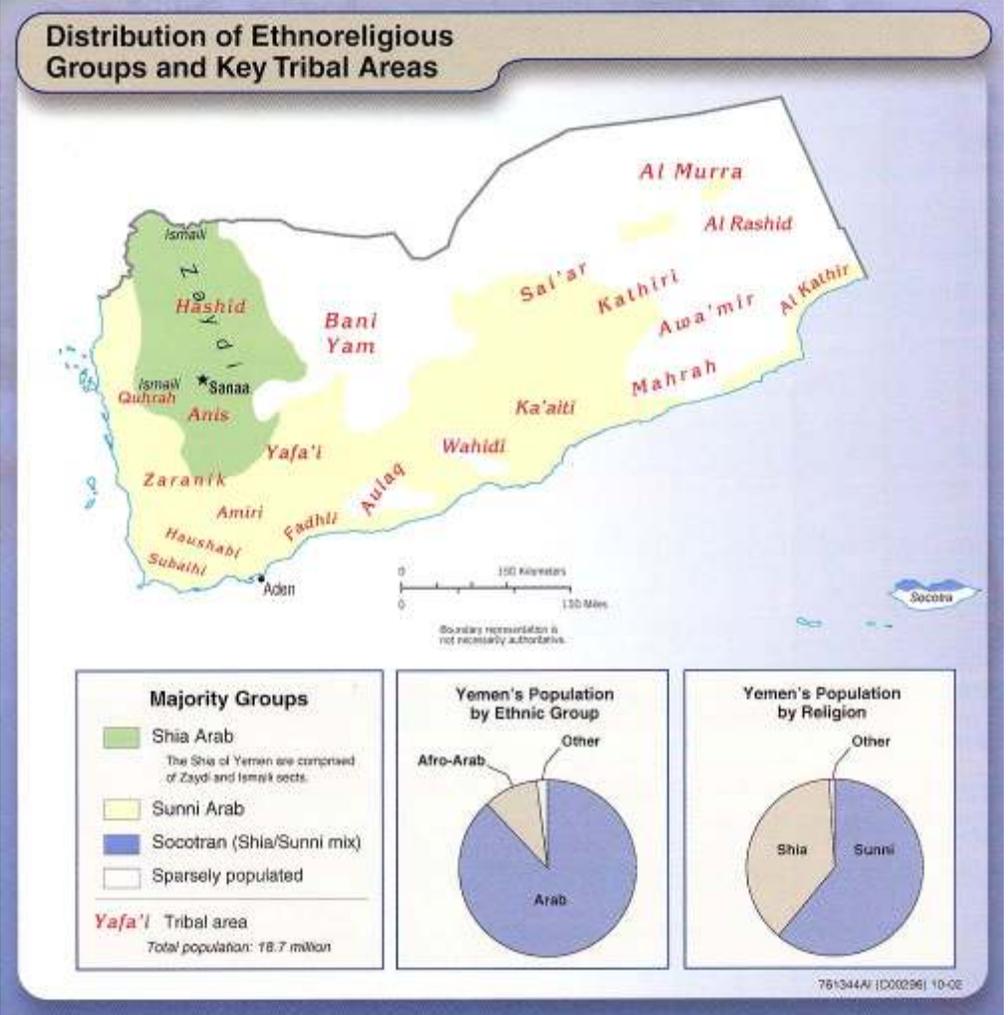


Iraq

IRAQ'S RELIGIOUS GROUPS



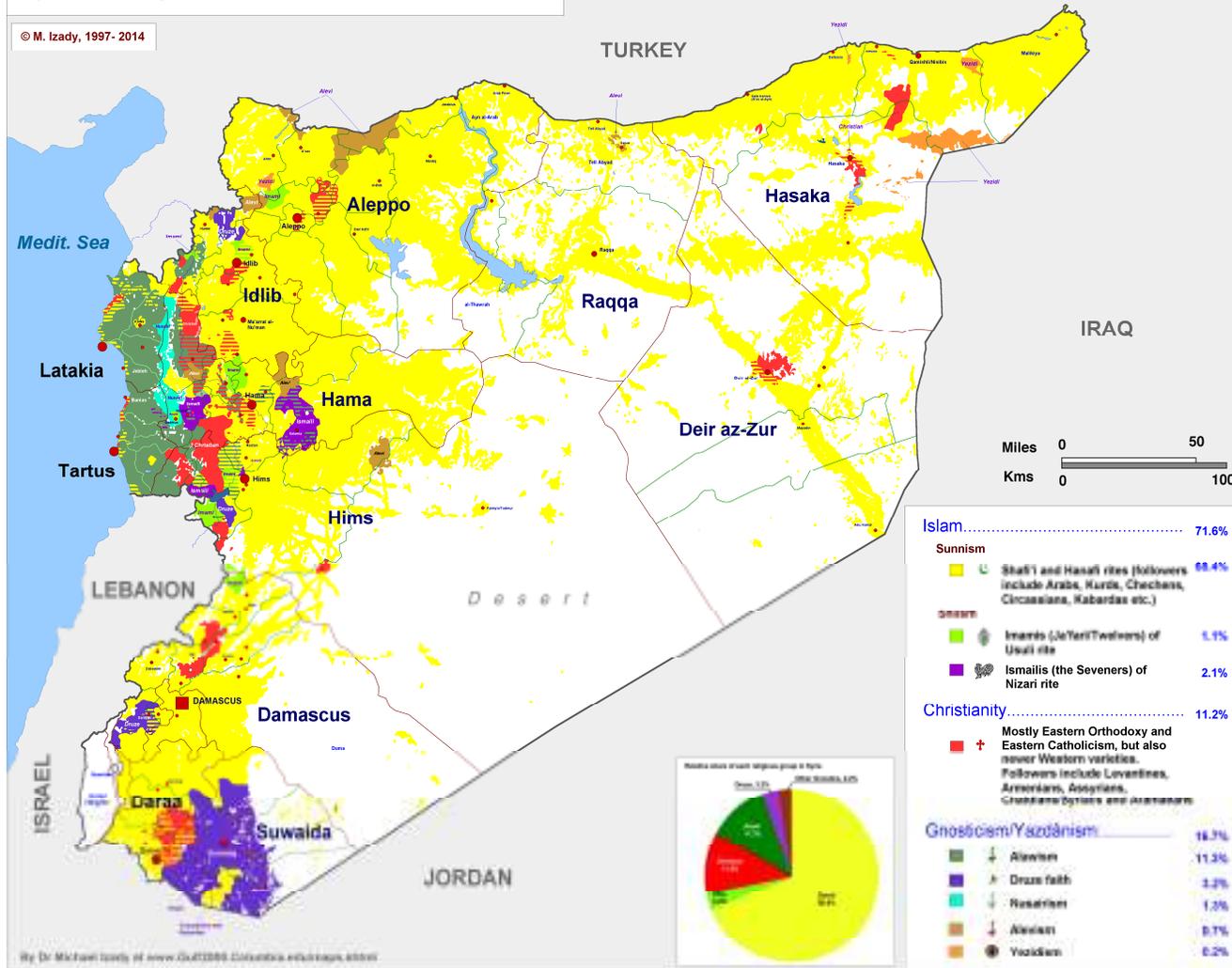
Yemen



Syria

Syria: Religious Composition (summary)

© M. Izady, 1997- 2014



By Dr. Michael Izady of www.GulfCentre.com/syria.html

Version 1

The Religious Challenge

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§ The Rise of Shi'a Islam

§ **The Emergence of 'Political Islam'**

§ The Resurrection of Militant Jihadi
Salafism

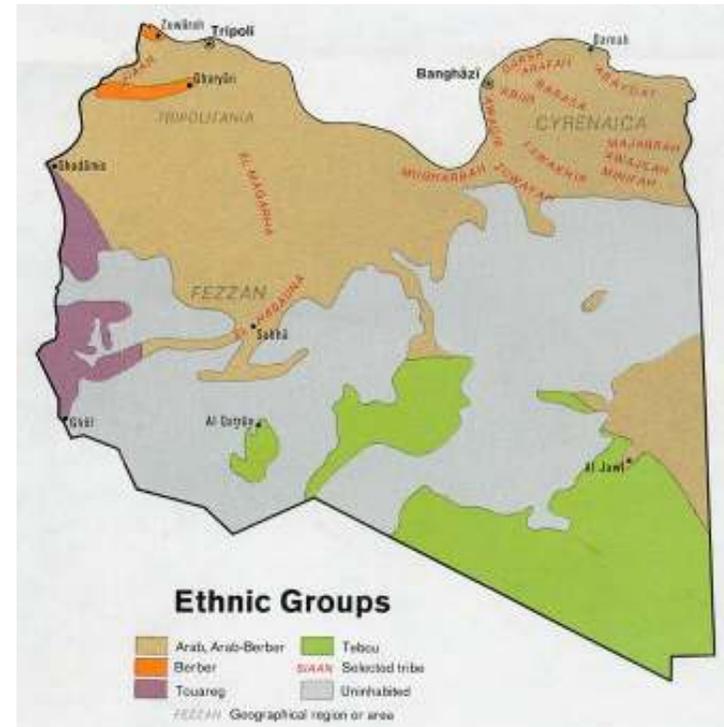
The Muslim Brotherhood

- § Mother Lode of Political Islam, founded in 1924.
- § Key Principle: “Islam is Creed and state, book and sword, and a way of life.”
- § Method: 4th of 8: “Political Activism: By putting political programs for ‘Islamizing’ government in different countries (after realistic studies), and establishing these programs in convenient ways that do not conflict with Islam”
- § Main Objectives: “1: Building the Muslim individual . . .3: Building the Muslim society. 4: Building the Muslim State. 5: Building the Khilafa (basically a shape of unity between the Muslim states); 6. Mastering the world with Islam.

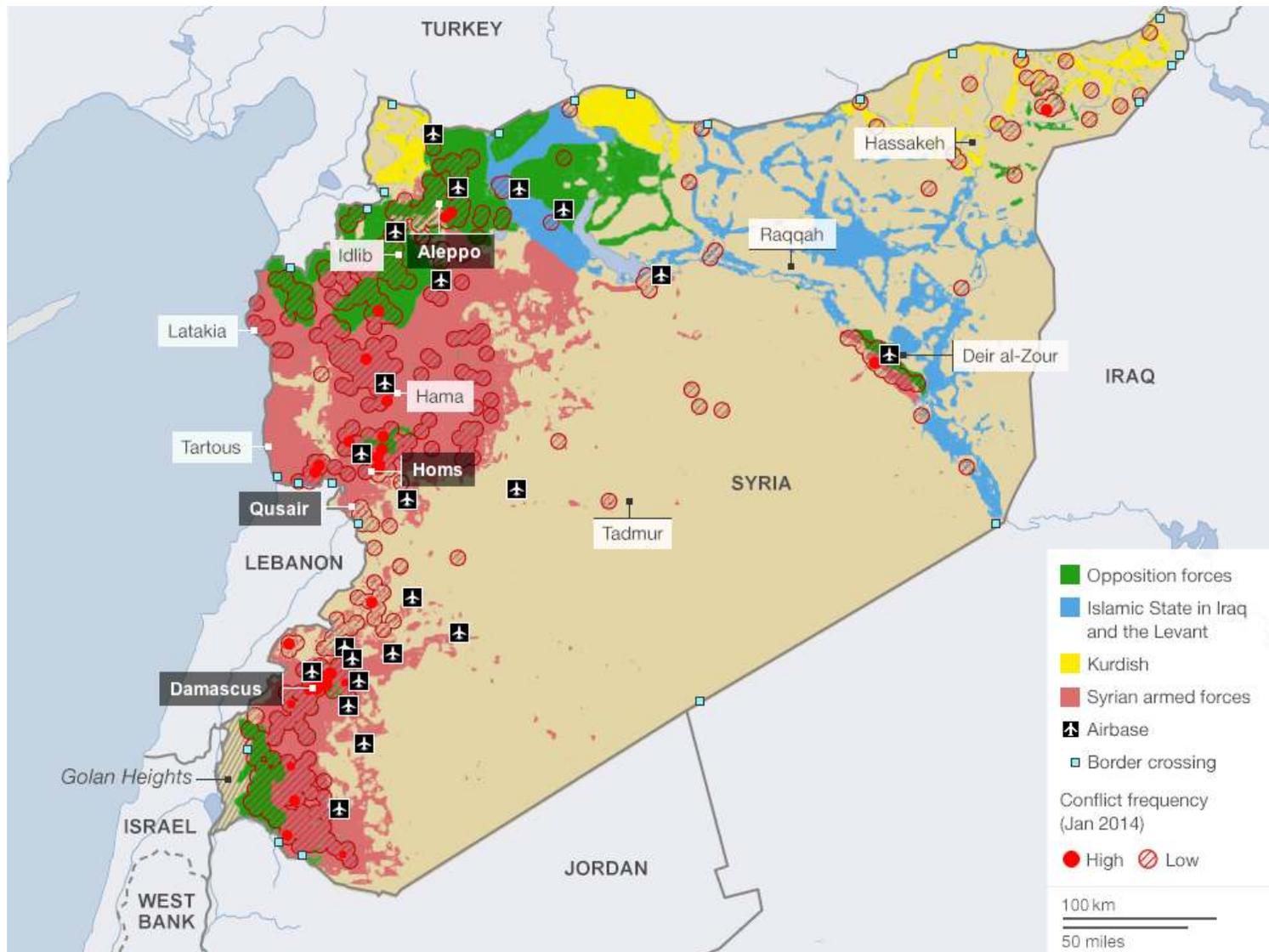
Islamists Hijack the Arab Spring

- § Tunisia: Islamist Ennahda Party led the first coalition government under Rachid Ghannouchi, legalized Salafi jihadi parties and lost popularity and power.
- § Egypt: The MB wins presidential elections under Mohammed Mursi, who proceeds to introduce Islamist measures that lead to a military coup that ousts him
- § Libya: Islamists gain power in several areas and civil war ensues, threatening to split the country.
- § Syria: Islamists prominent in resistance to Assad regime.

Libya



Syria's Civil War



The Religious Challenge

THREE CONVERGING STREAMS

§ The Rise of Shi'a Islam

§ The Emergence of 'Political Islam'

§ **The Resurrection of Militant Jihadi Salafism**

Islamic Jihadi Terrorism Poses a Unique Challenge

It is unlike any other type of terrorism the world has seen in modern times

- § Leaders and followers view their struggle as a **RELIGIOUS WAR**
- § They define their goals in **ZERO-SUM TERMS**
- § They define their battlefield as **GLOBAL** in scope
- § They are **TRUE BELIEVERS**

Salafis Defined

salaf = ancestors

- ◆ **Who are the *Salaf al-Salih*. . . . The Righteous Ancestors?**
 - ◆ The Prophet Muhammad and his Companions, including the first four Caliphs who succeeded him.

Relevant Time Period: 610 – 661 a.d.

- ◆ **The only acceptable sources of religion are the Koran, and the words and conduct [*Sunna*] of the Prophet and his Companions**
 - ◆ Rejection of last 13 centuries of evolution in Muslim thought

- ◆ **A Salafi: One who adheres to the Koran and the *Sunna* as understood and practiced collectively by the Righteous Ancestors**
 - ◆ Literal interpretation of the Koran, and strict observance of rituals
 - ◆ Rejection of rulings and methods of traditional schools of law

Salafi Theology

- § Provides doctrinal underpinnings for all radical jihadi groups.
- § As a revivalist movement, it defines the condition of the global Islamic community in modern times as one of existential crisis
- § The perceived cause of this crisis is the subjugation of the Muslim world by non-Islamic Powers who have divided it, colonized it, are culturally perverting it, and continue to control its oil wealth and other resources with the help of tyrannical puppet rulers.
- § Blames the Muslims themselves and their “corrupt deviations” from the purity of ancestral beliefs for the weakness of the Islamic World in confronting other civilizations.
- § Posits the restoration of an Islamic Order as the only solution.
- § Legitimizes lethal violence against enemies, while defining the enemy in purely religious terms.

Salafism is a Growing Movement

Estimated Number of Salafis 1970:

4 – 6 million

Estimated Number of Salafis 2004:

35 – 50 million

Estimated Number of Salafis 2014:

50 – 70 million

- ◆ Key Drivers:
 - ◆ **Saudi Global Da'wa Movement since 1970's**
 - ◆ **Soviet Defeat in Afghanistan by Mujahidin**
 - ◆ **Vastly expanded U.S./Western presence in the Muslim World after 9/11**

Not All Salafis are Jihadis

3 Main Categories

§ **Traditionalist Purists**

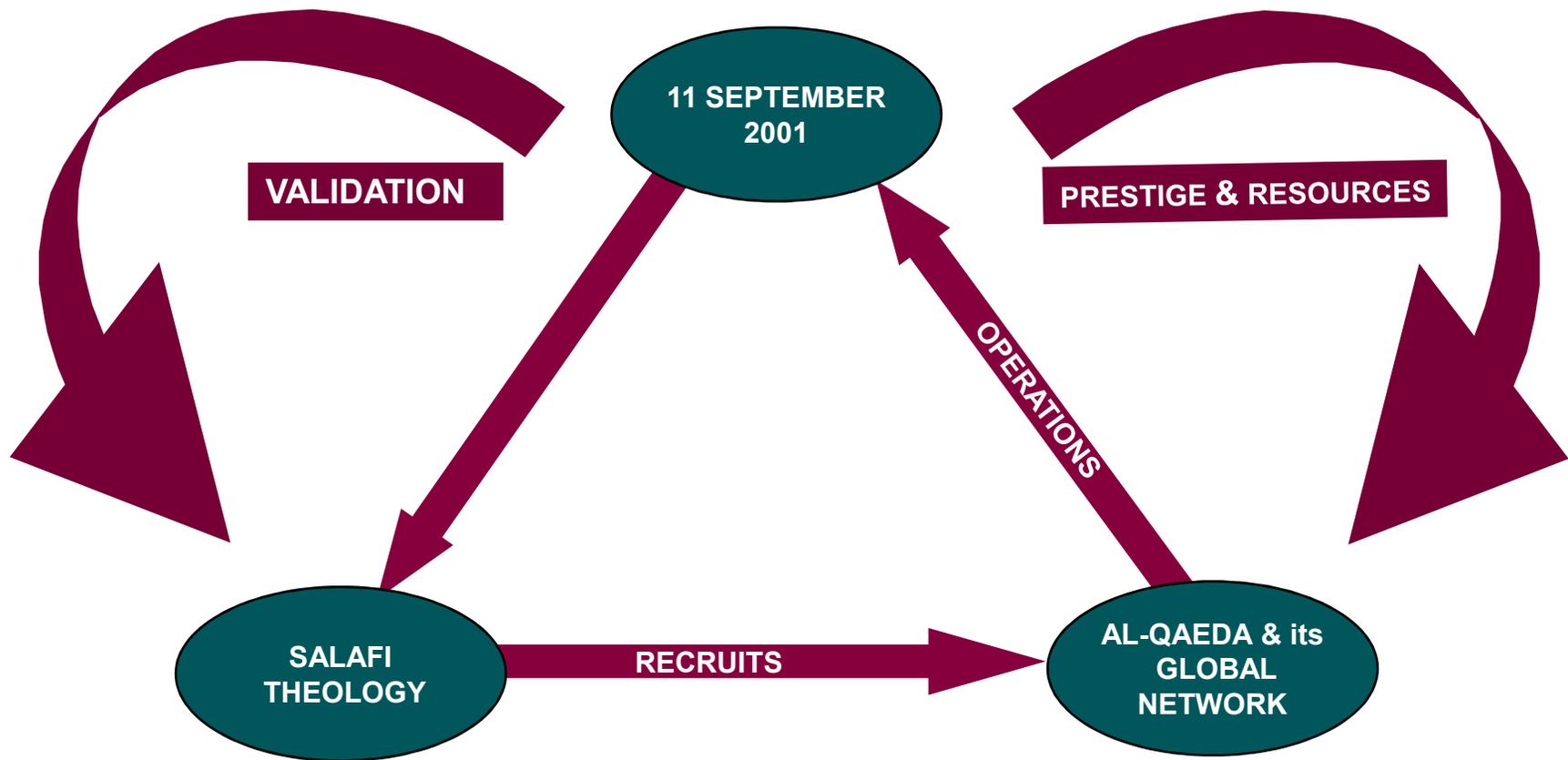
Politically quietist by doctrine, includes most Salafis
Senior scholars & clerics, often government
functionaries

§ **Activist Reformers**

Openly critical of Muslims rulers, but shun violence

§ **Jihadis**

Al-Qaeda



Current Main Jihadi Organizations (partial)

- Al Qa'ida and formal Affiliates
 - Khorasan Cell (Syria-based; led by Muhsin Al-Fadhli))
- The Taliban
- Egyptian Islamic Gama'a
- Egyptian Islamic Jihad
- Ansar Bait al-Maqdis
- Jabhat al-Nusra
- Jama'a Islamiyya
- Lashkar-e-Taiba
- Ash-Shabab
- Boko Haram

Jihadi Terrorism After Bin-Laden

- § Usama Bin Laden's death has severely damaged Al-Qaeda but not the ideology that animates the movement, which continues to spread
- § **Organizationally**, decentralization of authority has rendered the threat of terrorism against Western targets more diffuse in its tactics and perpetrators, though it may have diminished the menace of a 9/11-scale attack.
- § **Strategically**, the focus of the global terrorist movement has shifted toward the 'near enemy' within the Muslim world.
- § **Tactically**, against the West, the emerging model is one of 'leaderless jihad.'

“THE MOST DANGEROUS TERRORIST YOU HAVE NEVER HEARD OF”^{CNN}

Abu Mus’ab Al-Suri

Key Strategist for the Al-Qaeda Network after Bin Laden

- § Mustafa Setmariam Nassar
- § Senior activist within Syrian Muslim Brotherhood in late '70s-early '80s; later senior liaison to UBL/Al-Qaeda Central, & key cell organizer in Western Europe
- § Captured by Pakistani Intelligence in Quetta in Oct 2005 and turned over to the US, which in turn turned him over to Syria—freed by Assad in late 2011, current whereabouts unknown.
- § Author of highly influential 1600 page manual: The Call to Global Islamic Resistance



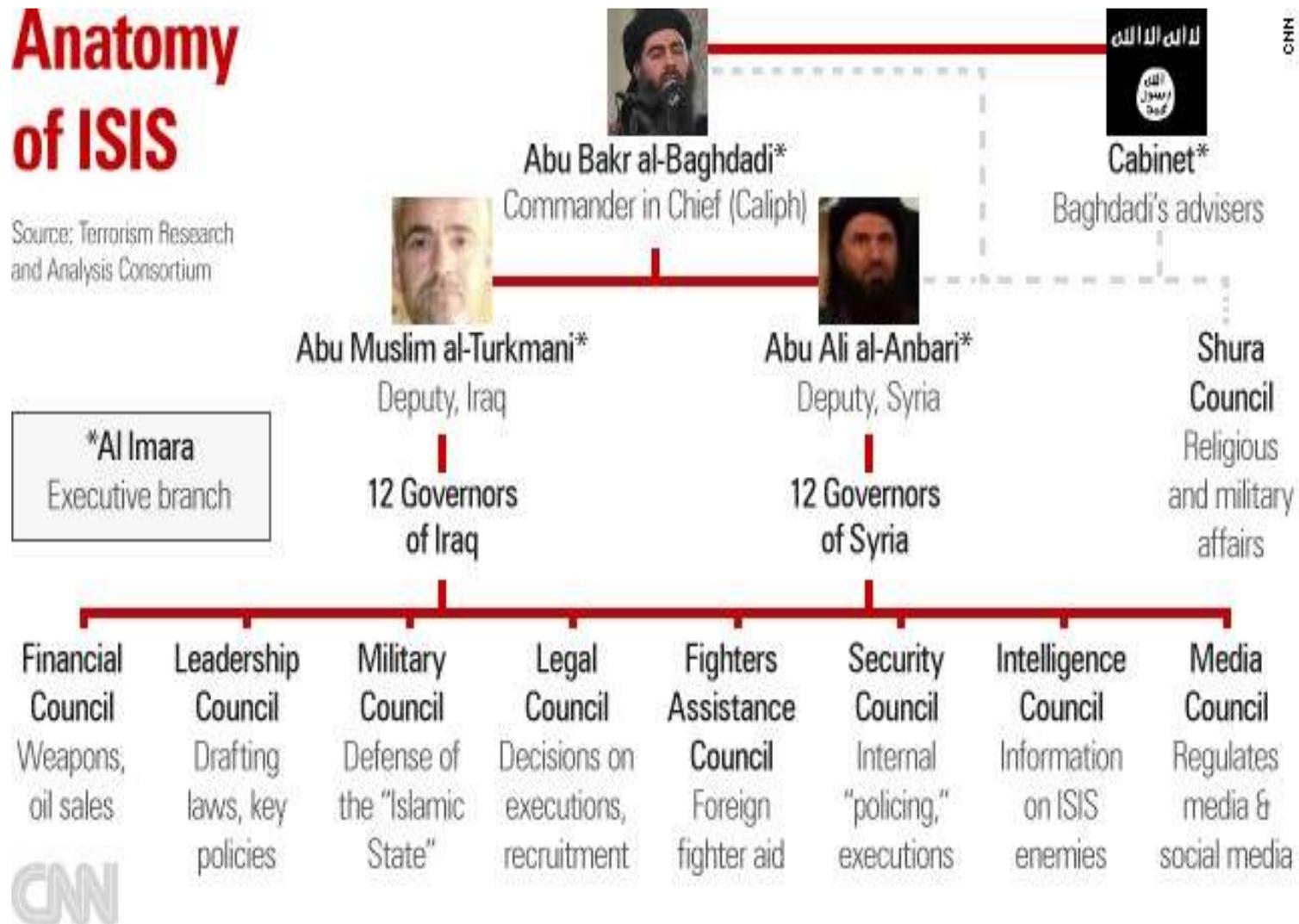
Abu Mus'ab Al-Suri

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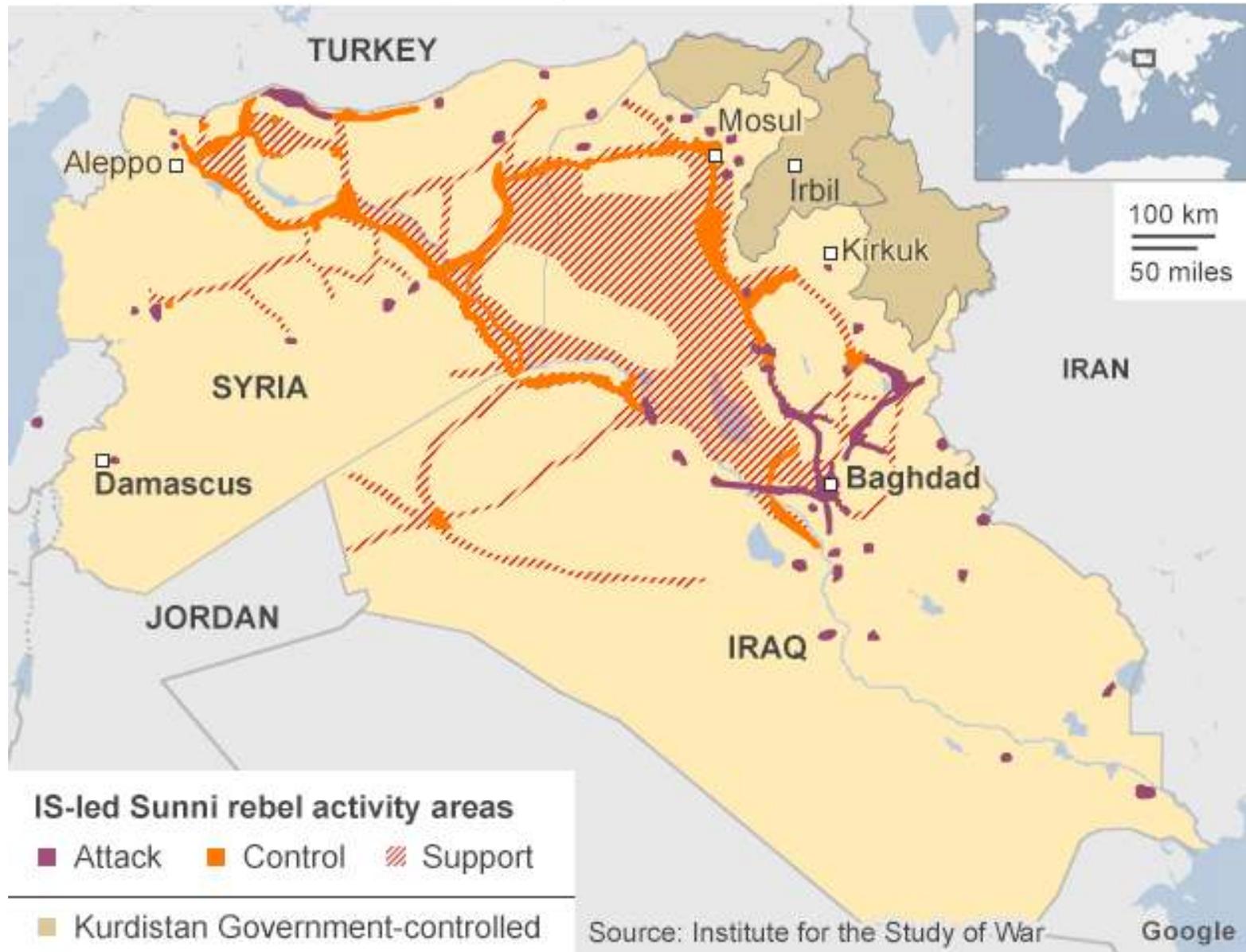
- Highly critical of Bin Laden's exclusive focus on tight organization, large-scale attacks, and concentration on the 'far enemy'.
- Jihadis should not spare rulers of Islamic countries—the 'near enemy'
- Stressed vulnerability of large structured organizations to Western military countermeasures.
- "Leaderless Jihad": traveling army based on mobile, nomadic, flexible cells operating independently of one another.
- Relentless campaign of uncoordinated acts of mass violence, up to and including WMD—the Lone Wolf model
- Major inspiration to Anwar Al-Awlaki in Yemen
 - o Time Square bomber Faysal Zhahzad
 - o Maj Nidal Hassan killing of 13 army personnel in Forth Hood
 - o Christmas Airplane bomber Umar Farouk Abdulmutallab

Anatomy of ISIS

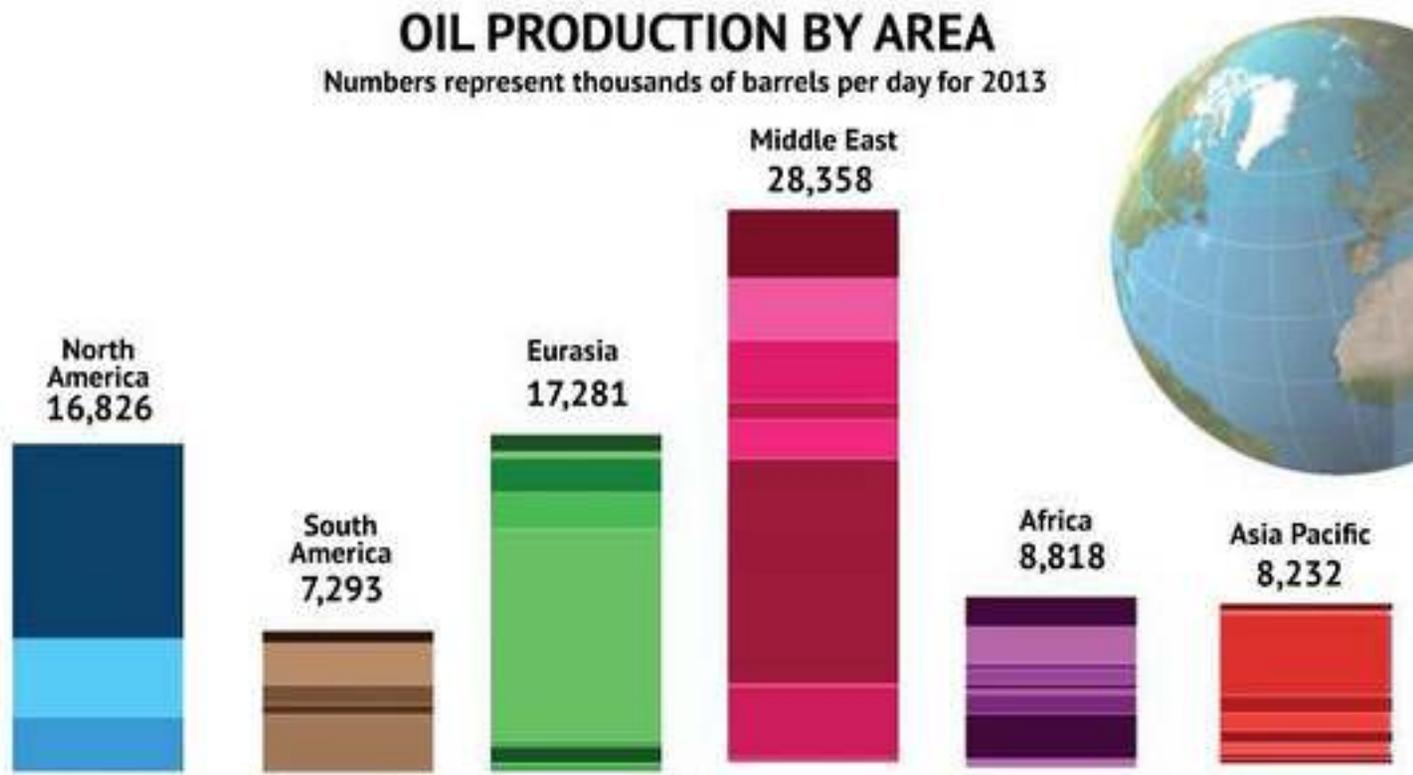
Source: Terrorism Research and Analysis Consortium



Areas under IS control in Iraq and Syria



The Upward Trend in Global Oil Prices



Source: BP Statistical Review of World Energy 2014

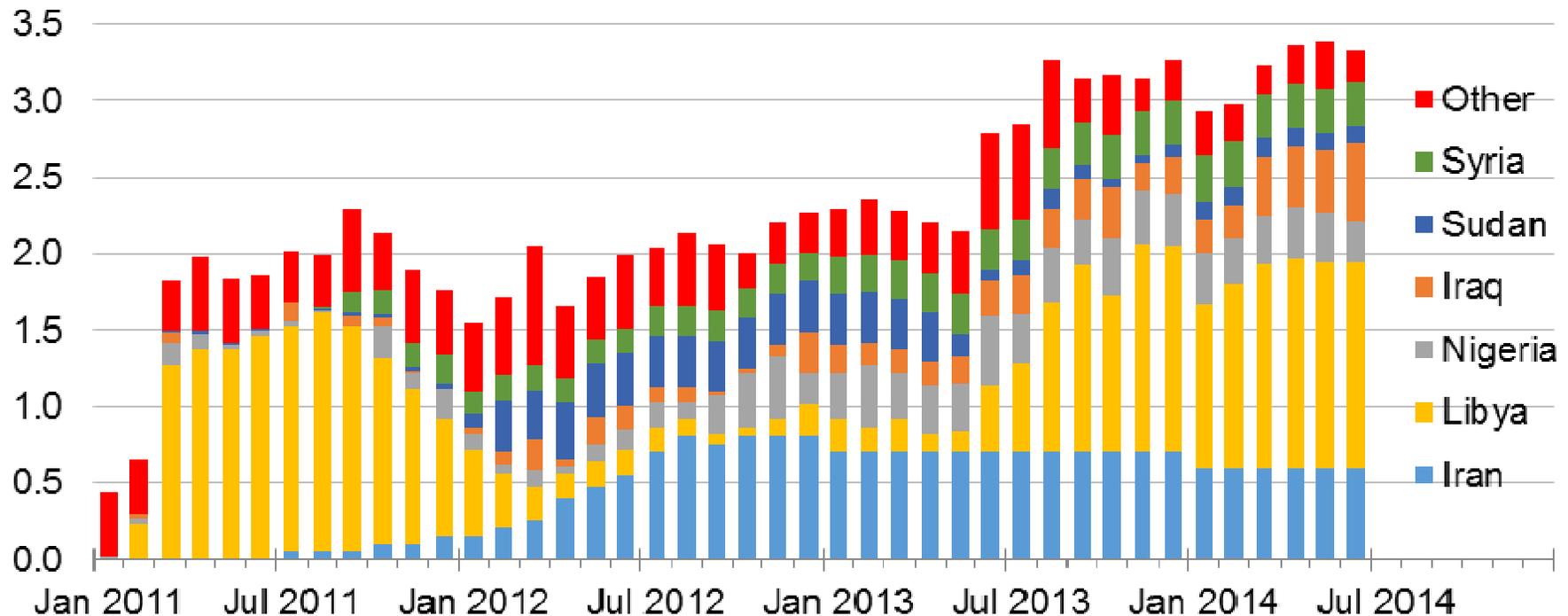
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Impact of Geopolitics on OPEC Production

Estimated Historical Unplanned OPEC Crude Oil Production Outages



million barrels per day



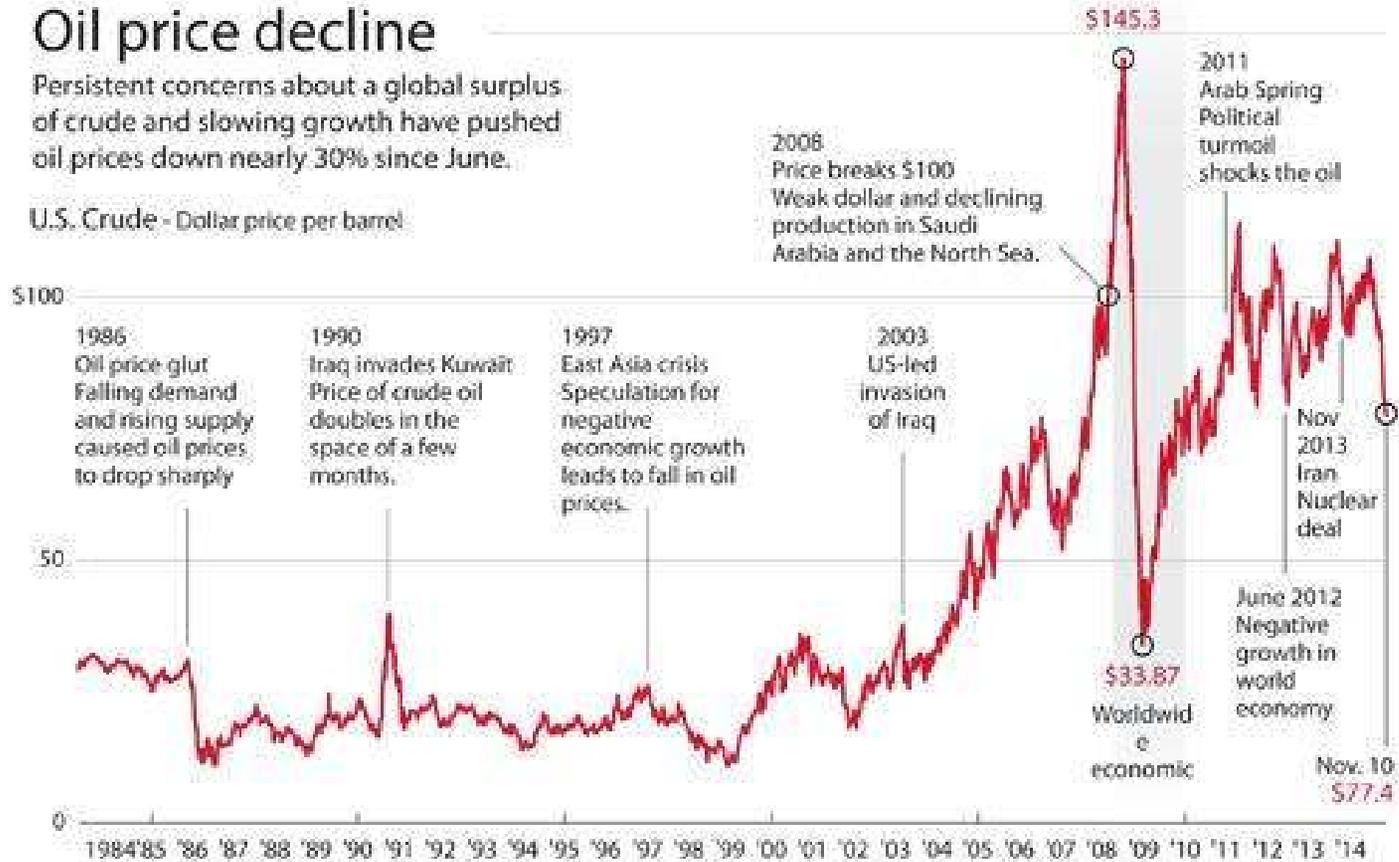
Source: Short-Term Energy Outlook, July 2014.

The Current Drop in Global Oil Prices: countertrend and short-lived

Oil price decline

Persistent concerns about a global surplus of crude and slowing growth have pushed oil prices down nearly 30% since June.

U.S. Crude - Dollar price per barrel



Source: Reuters

C. Inon, 11/11/2014

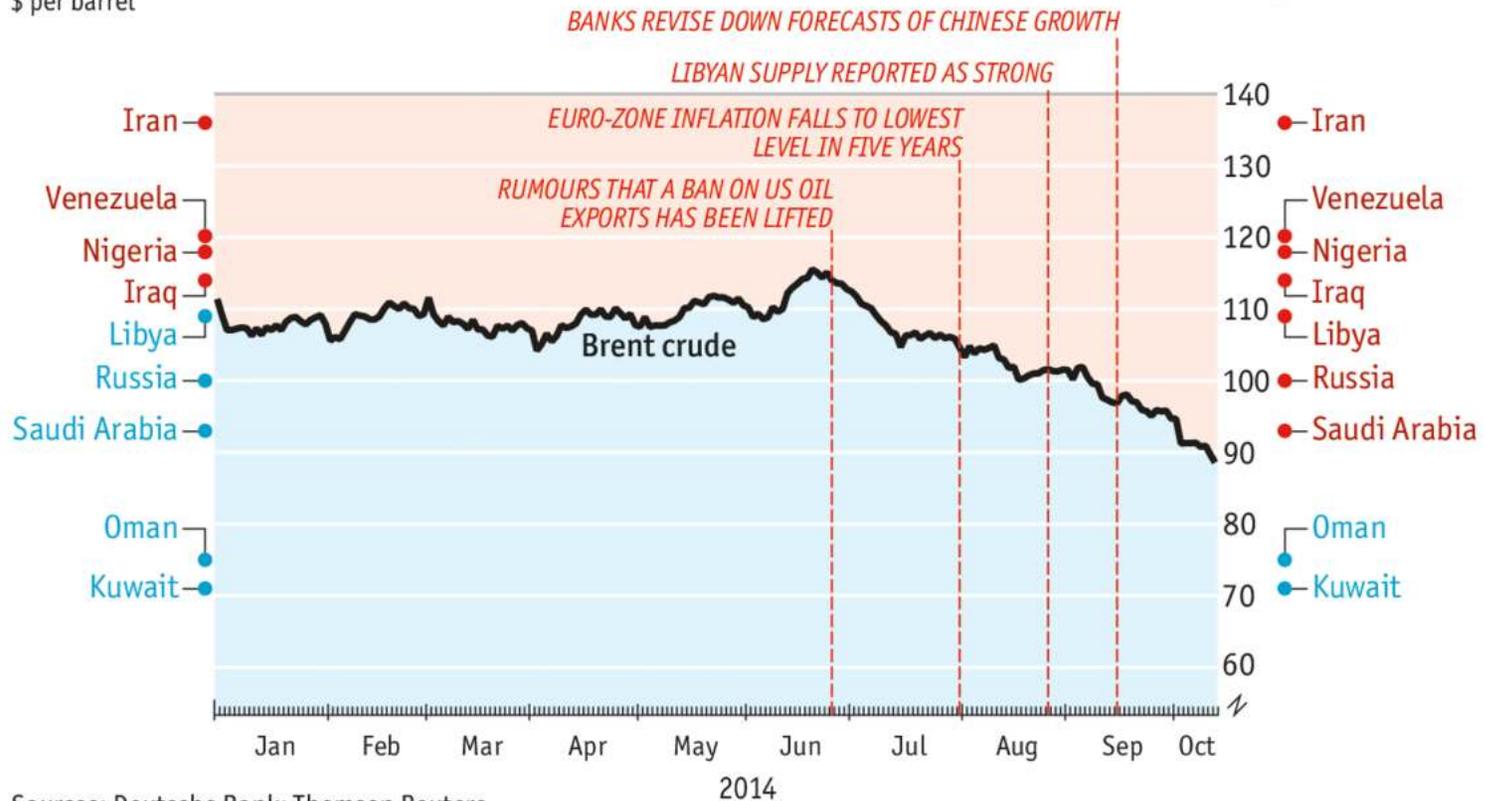
REUTERS

Current Oil Price Unsustainable for OPEC

Breakeven prices

Oil price at which national budget breaks even from income and taxes
\$ per barrel

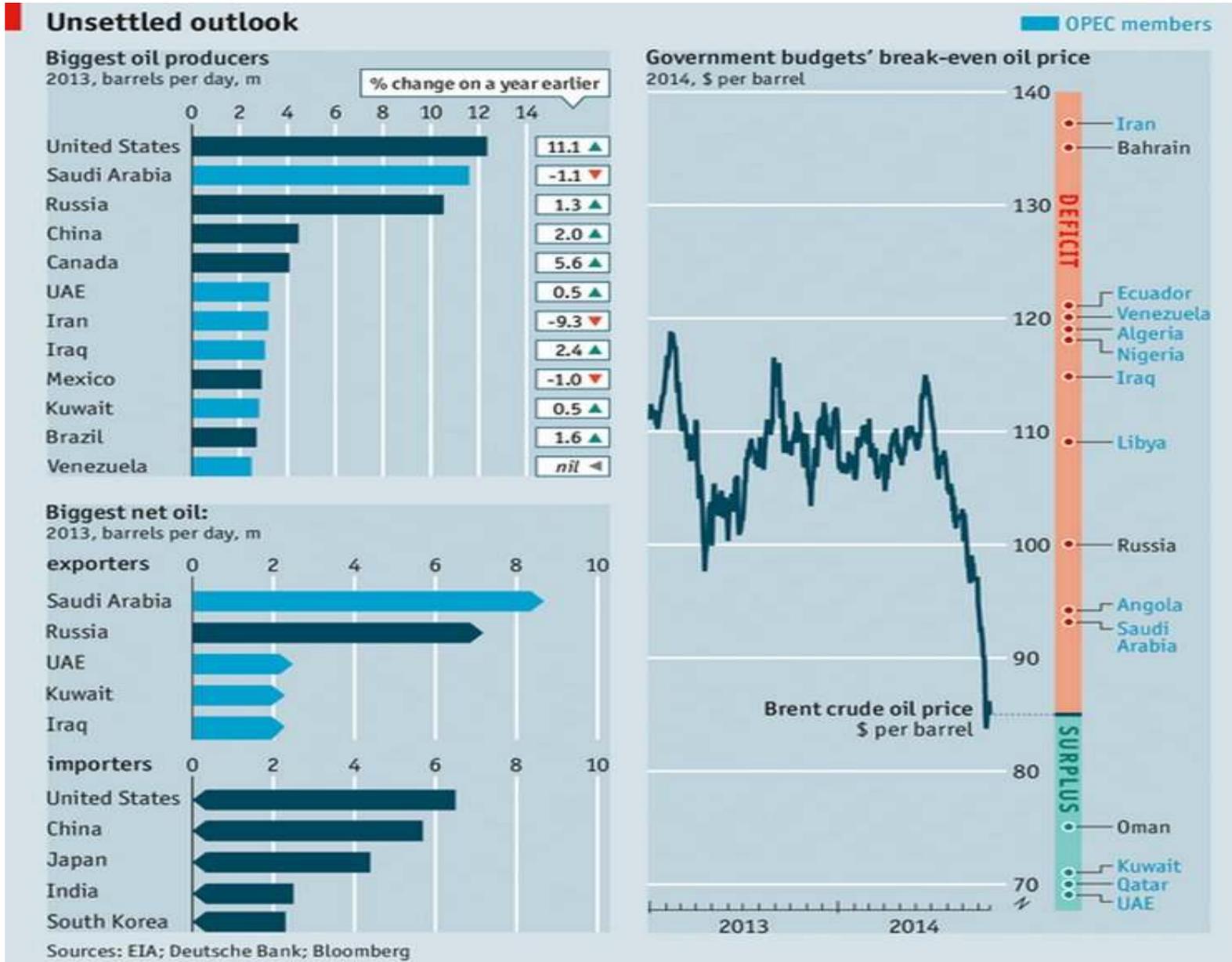
Budget: ● deficit
● surplus



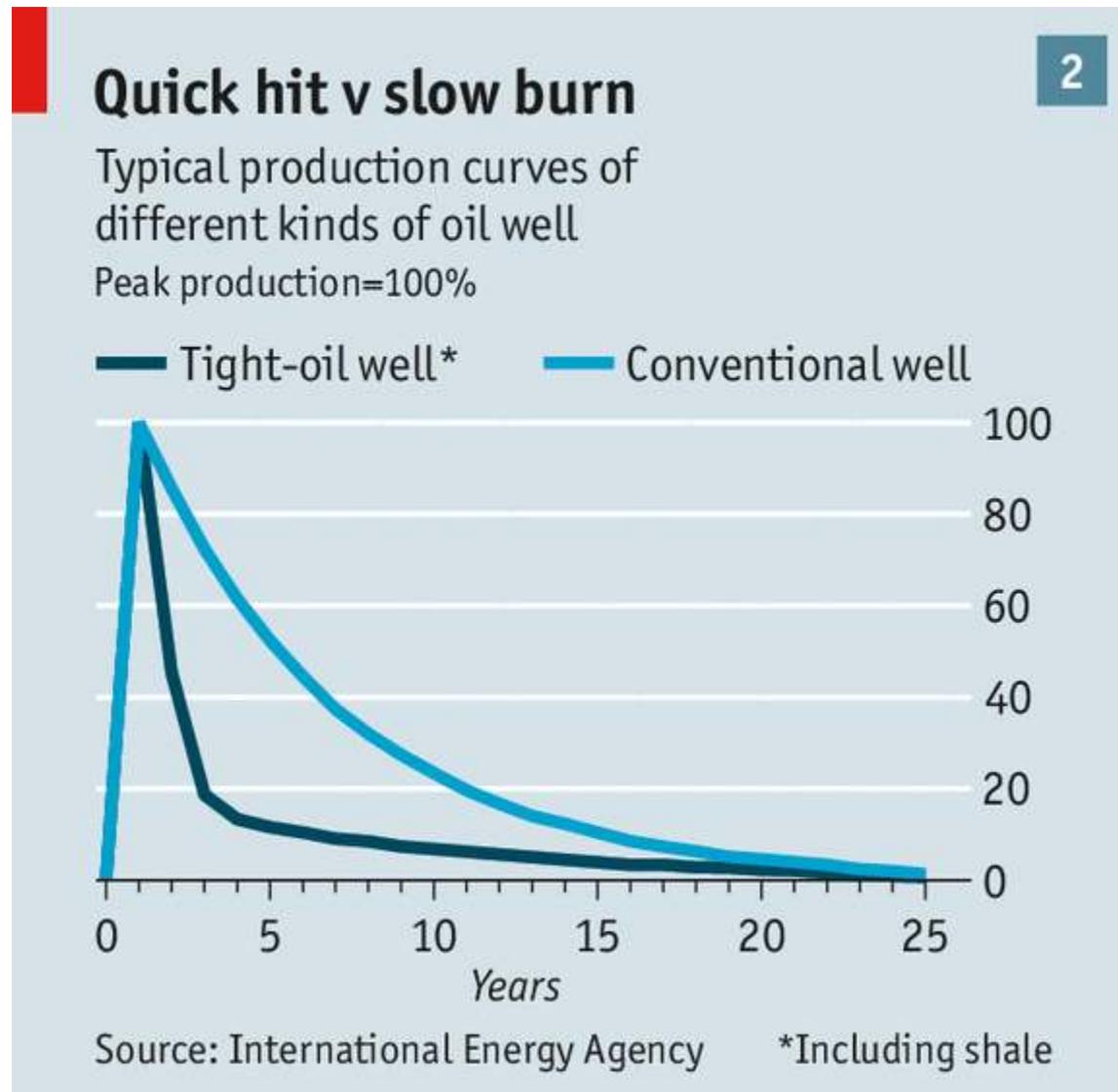
Sources: Deutsche Bank; Thomson Reuters

Economist.com/graphicdetail

Minimal Impact of US Production Growth



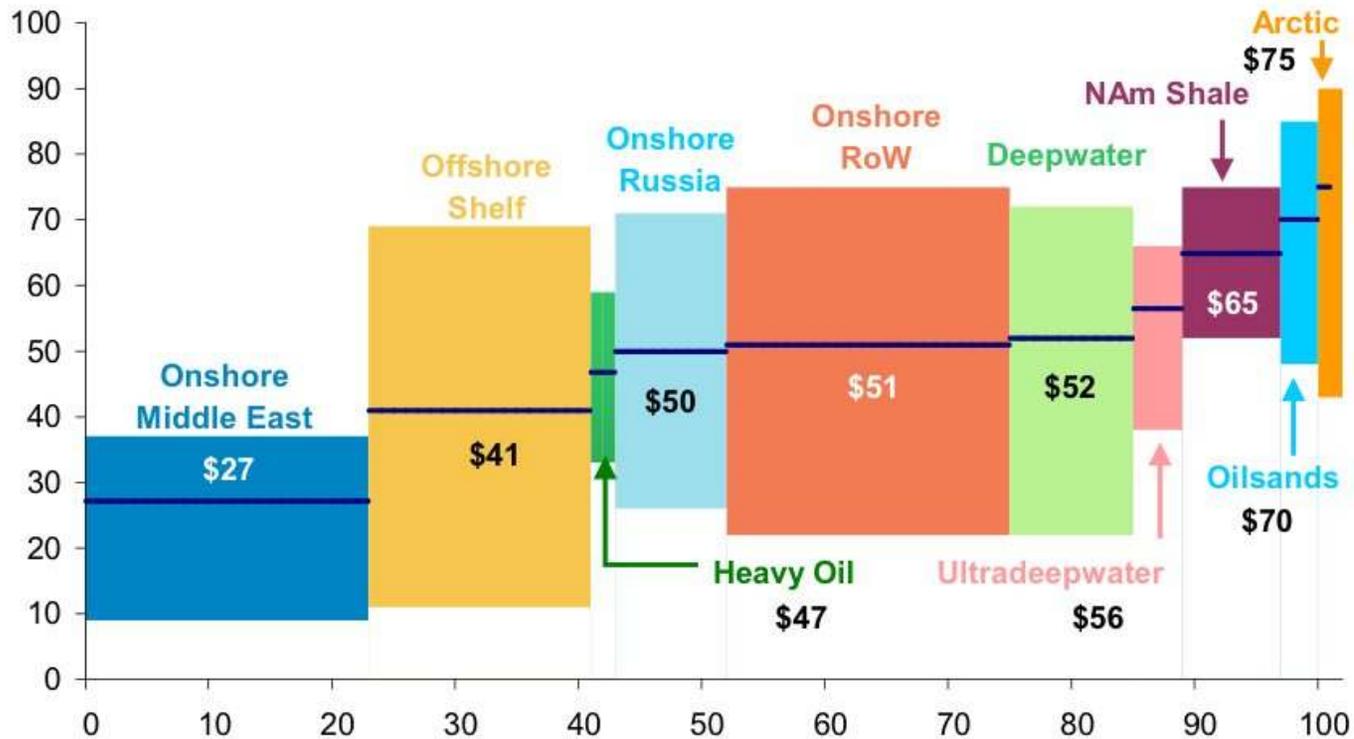
Shale & Fracking Do Not Lead to Cheaper Oil



All New Oil & Gas Expensive

Crude Cost of Production Rises as Demand Grows

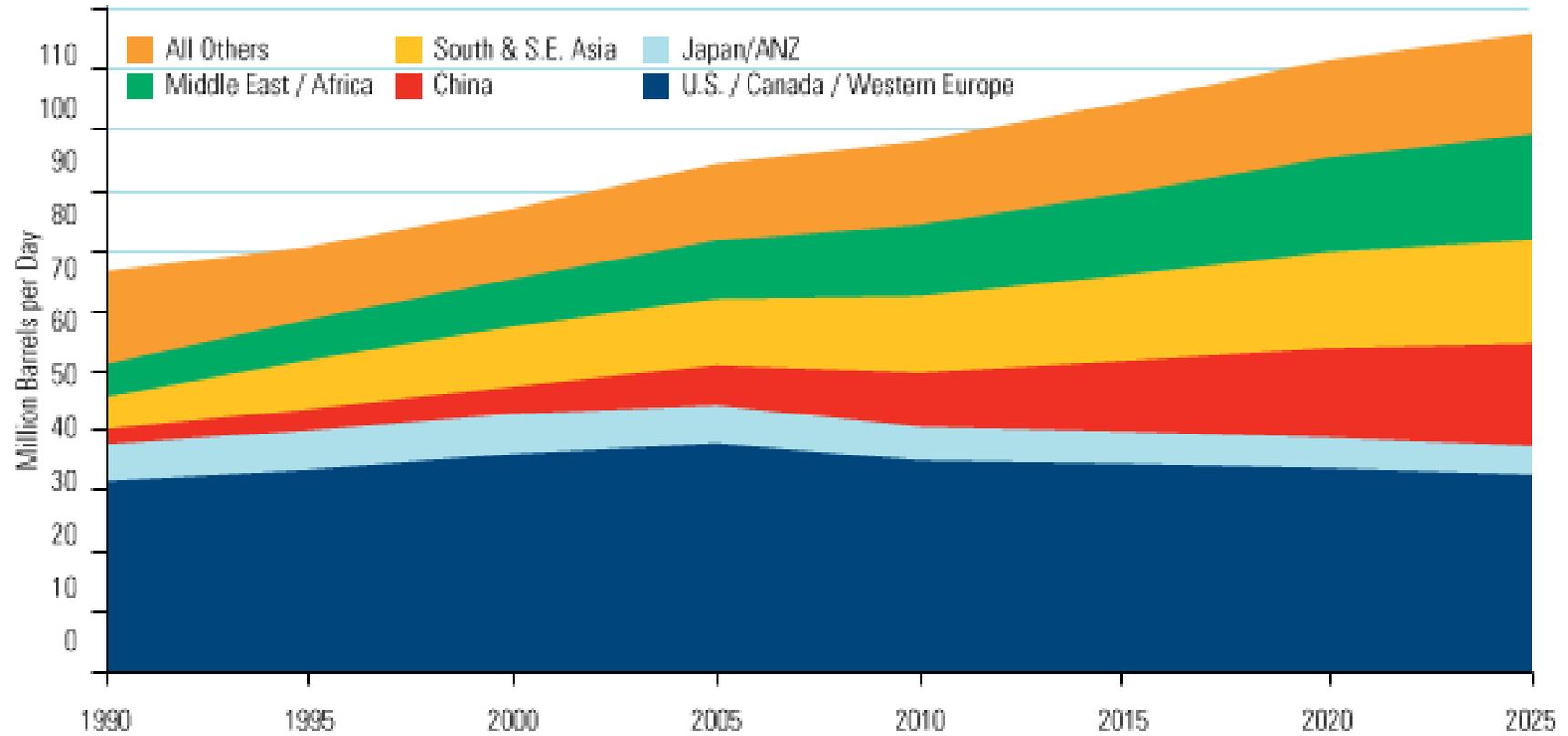
(x-axis: total liquids production; y-axis: avg Brent-equivalent breakeven price*, \$/bbl)



Source: Rystad Energy, Morgan Stanley Commodity Research estimates

World Oil Demand Trend

World Oil Demand 1990-2025



Source: PIRA

The Global Energy Strategic Advantage Fund

Manager

Globicom Advisory Services, LLC

Paul Jabber, Ph.D.

Managing Partner

Why Energy? Why Now?

- § Equity prices in the Oil & Gas sector have been driven down by the Great Recession and its lingering effects on the US and European economies. GESAF investors will reap substantial benefits as sustained global growth resumes.
- § Oil that can be extracted at low cost is almost extinct outside of the volatile Middle East. As the global economy recovers, the growing supply/demand imbalance will place continuing **upward pressure on prices** for the foreseeable future.
- § **Global economic distress is producing turbulent social and political conditions** in various key energy producers in the Middle East, Asia, Africa and Latin America. Chances of **disruption to oil supplies due to military confrontations** in or near the vital Persian Gulf region are increasing. Since national oil companies now control the vast majority of the world's oil reserves, produce most of the world's crude, and own much of the oil & gas infrastructure, the **domestic political context in key supplier countries** becomes critical for the future global energy supply/demand balance.
- § Close monitoring of geostrategic and political risks is becoming ever more essential to successful investing. This is a core competency of GESAF's portfolio manager, and **offers a competitive advantage**.

Investment Strategy

- § GESAF is a directional, discretionary, fund investing exclusively in **large-capitalization companies in the Oil & Gas industry**, the single most vital sector for the maintenance of modern industrial society and the day-to-day continuity of the global economy.
- § This sector is particularly **vulnerable to events that affect the stability of the global geopolitical context**, with immediate impact on production, transportation and pricing of oil and gas. the Fund's core strategy therefore aims to

generate excess returns (alpha) by anticipating (a) shifts in the valuations of markets and individual securities due to economic, political, or military events, and (b) changes in global macroeconomic trends and inter-regional imbalances.

Fund Administration

Administrator: Nottingham Investment Administration

Prime Broker: ConvergEx Group

Clearing & Custody: J.P. Morgan Clearing Corp.

Legal Advisor: Malik Dwyer LLC

Auditor: M.D. Hall & Co.

IRA Investing: Advanta IRA Administration, LLC

The Global Energy Strategic Advantage Fund

For more information and a subscription package
contact:

Globicom Advisory Services, LLC.

646-234-7260

pjabber@globicom.com