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Market Comment

CLARMOND

Combustible Sheikhdoms

In the second half of a two-part Market Comment we look at the Ottoman Empire's energy assets and how they, in turn, led to the 400 year old empire's final reckoning. As we now approach another transition point in our current energy source we can equally anticipate fissures appearing in the modern energy sheikhdoms.

'OIL MANIAC' TO HIS NAVAL PEERS but 'God-father of Oil' to Marcus Samuel, founder of Shell, Admiral Sir John Arbuthnot 'Jacky' Fisher started his career in 1854 as a naval cadet on the wooden HMS Victory, the wind powered flagship of Lord Nelson. He left the stage sixty years later as First Sea Lord of a navy of steel hulls and oil propulsion. He wrote in 1901 that "oil fuel will absolutely revolutionise naval strategy" and to that end, Full Speed Jacky demanded the fleet convert from coal to oil; he was convinced that war with industrial Germany was coming. But the other Admirals demurred, why move from dependable Welsh coal to oil, a fuel the Royal Navy did not have access to?

Enter First Lord of the Admiralty Winston Churchill. Cajoled, harangued, and educated by Jacky, in April 1912, Churchill took the 'fateful plunge' to build 'the supreme ships of the Navy, only fed by oil'. Technological improvements and efficiencies combined with the threat of a global rival had forced a change in fuel.

An Empire without Oil

But the Admirals were right, there was no oil in the Empire, Britain's industrial revolution had been powered by coal; the only two British companies in the oil business were the mighty Shell and the puny Anglo-Persian Oil Company. Who could provide the Navy a secure supply? In a charged Parliamentary

debate in June 1914, the government took a 51% stake in Anglo-Persian, which ultimately became BP.

In the same month the Ottoman Empire signed the Mesopotamian oil concession with the Turkish Petroleum Company. This was a joint venture between Anglo-Persian, Shell, Deutsche Bank, and the infamous Armenian oil-man Calouste Gulbenkian.

The Ottoman Empire, crippled with debt, had now unknowingly given away its most significant asset; its fate was sealed with the hunt for oil, the prize of the Great War. The secret Sykes-Picot agreement carved up these riches but left them under British control. However, the Americans wanted access to the concession. Therefore the 'Red Line Agreement' was put in place which allowed the Americans in, but everyone had to work together on concessions or not at all. This left the two British companies with the Kirkuk and Persian fields (31 billion barrels) but ironically removed them from the enormous fields of Burgan in Kuwait (60 billion barrels) and Ghawar in the Saudi sheikhdom (100 billion barrels). These latter two fields were discovered by non-red-line US companies, Gulf Oil and SoCal (Chevron) and it is upon these fields that our age of abundance is built.

Transitions, transitions

It took a war to expose the insolvent rot of the Ottoman Empire. Its dismemberment gave birth to the six



Energy visionaries

energy sheikhdoms of the current Gulf Cooperation Council; all but one of these is oil dependent. These six sheikhdoms are now facing global technological advancements that are driving an energy transition.

Today low carbon-emitting fuels are needed, making gas the main contender. And, as if on cue, Shell is again leading the way with the recent £47bn purchase of British Gas. All that is now lacking is a war to expose the fragility of the six sheikhdoms; Yemen possibly? Lastly a transition-energy partner is required. Enter Iran, with the second largest known gas reserves in the world.

Transitions occur imperceptibly and then explosively. All those admirals that clung to Welsh coal would still find the coal safe in the Welsh valleys. In a similar vein a Saudi oil minister was attributed as saying 'the Stone Age did not end for lack of stone...the Oil Age will end long before the world runs out of oil.'

This new 'fateful plunge' has already been taken. Full Speed Jacky would be cheering. ■