

Bahrain an opportunity or threat for Iran or the OECD?



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Version 1.1

March 2011 (Published June 2011)

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(classification: P/Public)

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3 Is the conventional view accurate?

The conventional view holds that the events in Bahrain were a once in a generation opportunity for Iran to increase its regional power. However, the Persian Gulf Cooperation Councils (PGCC) intervention in Bahrain has significantly undermined Iran's growing regional influence, and the opportunity has passed.

4 Threats to global food and energy security

Less well known are the vulnerabilities of the PGCC. The PGCC is dependent on food imports from the Organisation for Economic Co-operation and Development (OECD), and OECD food production is dependent on direct and indirect cheap oil imports from the PGCC. As cheap oil becomes increasingly scarce the stability of the major oil importing countries of the OECD will be threatened. As a result food prices may increase much faster than oil prices. This could pose major food security challenges for the PGCC, which could threaten the stability of the PGCC, which in turn threatens the stability of the majority of the worlds remaining cheap oil exports. As a result a vicious global cycle of energy and food insecurity may develop.

5 The rise and fall of the power of Iran, self sufficient in oil and food.

Initially Iran's fortunes may be expected to rise considerably as its neighbours begin to struggle with increasingly severe food and water security issues. This article explains how these advantages may become significant vulnerabilities.

6 Is the conventional view accurate?

The conventional view is summarised by George Freidman of Stratfor's analysis in his recent interview with Jim Paplava on the Financial Sense News Network regarding the next ten years. His analysis is as always based on an extrapolation of certain assumptions.

According to this standard view Iran is now disadvantaged by the recent deployment to Bahrain of Persian Gulf Cooperation Council (PGCC) forces. Iran does not possess the capability to provide significant logistic or military support to the civilian population of Bahrain; therefore any pro-democracy forces will likely be suppressed by the PGCC's military intervention. Unfortunately the assumptions in the conventional view often fail to cover certain underlying structural challenges now increasingly being confronted by the world.

7 Does the PGCC have hidden vulnerabilities?

In broad strokes we see several global issues emerging. Firstly, oil runs like blood through the veins of the global economy, with cheap, high Energy Return On

Invested (EROI) oil critical to the existence of modern civilisation. As cheap to produce, High EROI oil becomes increasingly scarce the oil profits which are critically dependent on the difference between the cost of production and its sale collapse. On current trends we see a catastrophic exponential fall in the available supply and export of high EROI liquid fuels over the next decade. With US and North American high EROI oil production almost disappearing over the next decade. The same is true throughout almost the entire OECD.

8 The dependence of food production on oil

In the developed world, for every calorie of food produced, almost twenty calories of fossil fuel are consumed. The main grain exporters depend on intensive use of fertilizer and industrial mechanisation to grow, process and distribute their food exports. For example in the UK up to 80% of wheat yields are as a direct result of the use of fertilizer and pesticides. In addition fuel is used in machinery to sow, dry, process and transport the final product. As a result we expect that global grain exports which are predominantly sourced from the oil importing OECD countries will be significantly constrained by a reduction in the export of cheap (High EROI) oil from the PGCC.

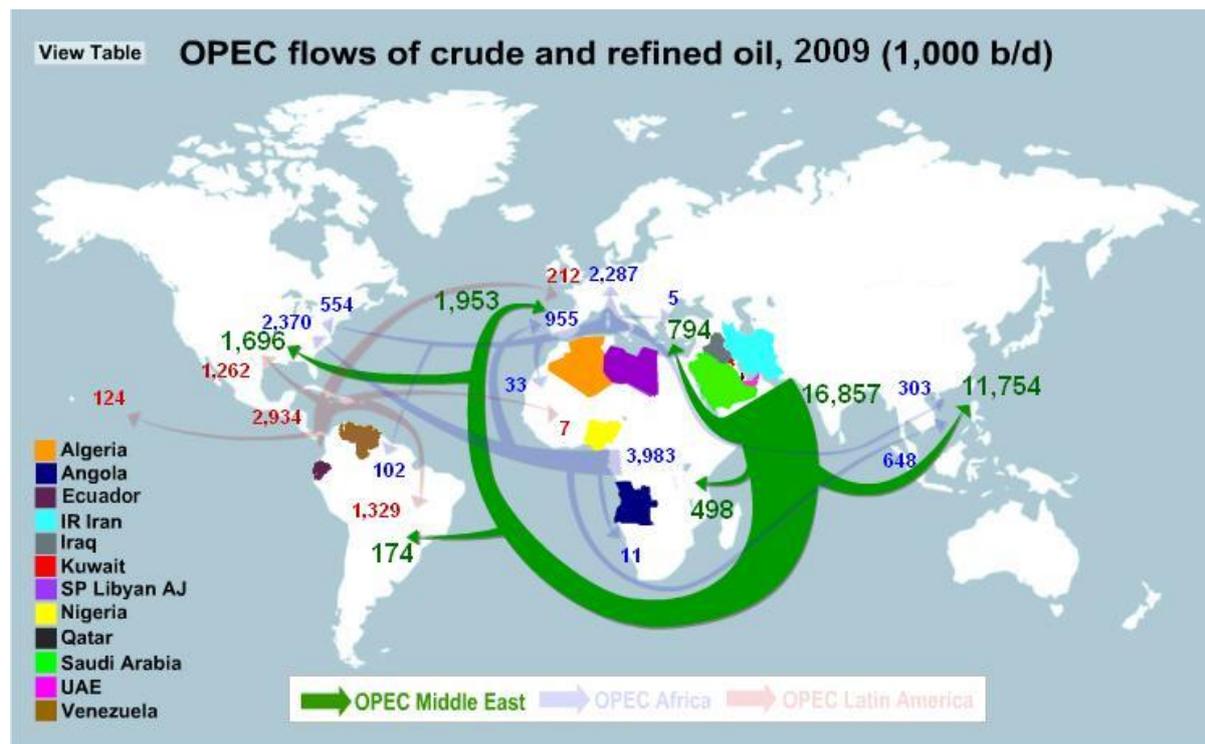
9 Cheap oil, cheap food

Over the last century cheap oil has allowed cheap fertilizers and mechanisation to create a vast increase in the supply of cheap grains. These large grain surpluses have caused the price of grain to fall sixteen fold relative to the price of oil over the last half century.

10 The emerging food security challenges of the PGCC

Since current global grain production and exports are very large and the PGCC only consumes a small percentage of global grain exports, the PGCC only needs to export a small percentage of their oil to pay for grain imports from the OECD. Grains are so cheap that the PGCC only use a tiny percentage of their oil exports to pay for food from the OECD and sends approximately 80% of their oil to Asia (China, South Korea, Japan etc.).

Figure 1 OPEC Oil flows



However due to the coming collapse in the production of cheap (High EROI) oil global grain exports may be constrained. As a result the PGCC may become critically dependent on food imports from the oil importing OECD countries over the next decade. This brings us back to Bahrain and the food security challenges of the PGCC.

11 Costly oil expensive food

As cheap to produce oil (High EROI) become scarce, the oil profits which are critically dependent on the difference between the cost of production and its sale collapse exponentially. As oil prices rise the cost of producing food using expensive oil and gas also rises, however the price of food may be rising much faster than the price of oil. This is why the rich OPEC oil exporting countries may not always be able to pay for enough food imports to keep their populations from unrest. It may be that in the short term the inability of rich oil exporting countries to efficiently distribute wealth to the lower income end of national populations during times of high food price inflation may be a significant issue. Longer term, constraints and shocks in the exports and distribution of food and fertiliser may be the primary underlying concern. However the symptoms may manifest themselves as economic and geopolitical shocks.

12 Water Insecurity

The PGCC's structural deficiency in fresh water and food is extreme. At its worst certain PGCC countries may only be able to feed 10% of their population by 2020. This is due to a combination of depletion of ancient water aquifers and the potential for a sudden collapse in global grain exports. On current trends time is most defiantly not on the side of the PGCC or the OECD. Quite the contrary on current trends both groups are facing the risk of an exponential collapse of their energy, food, economic, military, industrial and technological systems.

13 Lack of insight

Given that these challenges are driven primarily by a collapse in high EROI energy sources and the solutions to the problem are so simple we suspect they have yet to discover the obvious solutions. This lack of insight is inferred from the lack of appropriate action.

Just as if we came across a man who had doused himself in petrol and was playing with matches, we could infer two things. Either he did not understand that there was a simple solution to his problem or he had a psychological disorder which prevented him from acting on the knowledge.

In reading and listening to reports and the media we see little or no understanding of the underlying issues. Of the simple solutions to the specific existential threats there is not the slightest hint in even the most advanced specialised publications.

14 The contrast with "Iran"

Now let us contrast this with "Iran". I will explain the reasons for the quotes later. The OECD has blessed Iran with sanctions, which have allowed Iran to become self sufficient in food, water, fertilizer, energy, mineral and industrial production. Iran's relative isolation has allowed it to become self sufficient in most respects. Recent increased sanctions and the forced reduction in domestic subsidies have only served to increase Iran's self sufficiency and resilience. Given the developing global constraints in food, energy and finance Iran has ironically become much strengthened by sanctions. Without the assistance of OECD "sanctions" it is hard to imagine that the Iranian government could have created a better long term outcome for the country by design.

Global events over the last few decades which may at first appeared to have been detrimental to Iran can now in hindsight be seen to have been a fundamental change in its fortunes for the better. If over the next decade the OECD and PGCC collapse while Iran develops into a major world power it will in large part have been due to OECD and PGCC "assistance" through sanctions.

15 The Iranian Cultural Region

Earlier I used the term "Iran". By this I am referring to a phenomenon that is only now beginning to be more widely understood. Namely that there is a wider "Iranian cultural region" which is much larger than the current borders of Iran. The Iranian government and other governments are well aware of this. In many respects "Iran" may more accurately be considered a loose confederation of states who feel a common cultural and linguistic bond. Not unlike the original States of America before the American civil war.

Many of these component States of "Iran" were formally part of Persia. Now it is important to understand that the "Persian Empire" was not very imperial in the Roman Sense. This was due to the limitations of the central authority, since communications and logistics were constrained by the vastness of its size and the limitations of technology. Due to the limitations of the central authority Persia could only effectively rule by the implicit and to some extent the explicit consent of the various states.

The decline of Persia led to it being dismembered and fragmented into many parts. These parts are like the magnetized Parts of a jigsaw. It takes constant effort on the part of outside powers to hold the "Iranian cultural region" fragmented. As excess energy and resources are drained from these outside powers it may become a physical impossibility to hold these states apart. What we now call Iran is just a central core of a much larger hidden entity.

However it should be noted that within this context "consent" is an essential component. Both Iran and these other states are joined by shared borders and cultural attraction. Although ultimate reintegration may be inevitable the extent to which Iran and her adversaries are able to set aspirations and win the battle of ideas will accelerate or postpone the final outcome.

16 Time is not on the side of the US, OECD or the PGCC

In the big picture, given the above and the rapid declines in global resources, time is not on the side of the US, OECD or the PGCC.

The situation is most problematic for the Saharan countries of the Persian Gulf, due to their structural food and water security challenges. For example Saudi Arabia is abandoning grain production by 2016 due to water scarcity issues. This agricultural year 2010-2011 due to droughts and other problems there has been significant constraints in global exports of wheat. During this time Iran exported 2.5 million metric tonnes of wheat, making it one of the world's major wheat exporters of 2010. To cope with food challenges the UAE as well as many regional countries imported Iranian wheat. With some parts of the UAE having only 48 hours of emergency water supplies they hope to directly import fresh water from Iran.

The PGCC's severe and growing hidden structural dependencies on Iran makes it difficult to envisage that Iran need do anything but sit back and let events unfold.

What ever the current outcome in Bahrain and elsewhere, in the medium to longer term these countries must either agree an accommodation and mutual cooperation over food and water security with Iran or manage a greater than 90% decline in population over the coming decades.

17 The true challenge for Iran

The true challenge for Iran is the risk that the OECD and PGCC will rapidly and catastrophically collapse. A collapse far more rapid and severe than that suffered by the Soviet Union. As a self sufficient island of stability Iran would be a magnet for tens of millions of starving refugees fleeing the PGCC. With such long and exposed borders close to the PGCC, Iran may be unable to prevent being pushed to breaking point and suffering societal collapse by the flood of starving refugees. The last time Iran faced such a severe threat was during the Mongol invasions. The Mongols and the Turkmen who carried out the invasion were acting under population pressure.

Iran maybe trying to destabilise the PGCC not realising that this represents an existential threat to itself as well as the OECD and PGCC. The OECD and PGCC are trying to destabilise Iran not realising that it is their only hope for survival. There is an old saying "Be careful what you wish for, you may just get it".

18 Proprietary research

As always the devil is in the details. It is in the details that interesting and counter intuitive insights are discovered.

Our proprietary research investigates the interaction of challenges presented by the rapid hidden decline in net oil production (Energy Return On Invested EROI) of global oil and constraints this places on economies, world trade, food production, geopolitics and the strategic balance.

One would hope that governments and their advisors would be busy carrying out their own confidential analysis regarding this subject. However our own proprietary analysis would suggest that this is either not the case or that senior decision makers have decided to take actions which have a high likelihood of being extremely counterproductive despite knowing of better alternatives.

From our own experience we believe that the former is more likely to be the true situation. There is a great deal of interest at the highest levels of certain governments for valuable insights in these increasing uncertain times.

Our analysis based on the above (with two significant assumptions) indicates a different picture to that described by Stratfor.

As always the devil is in the details, our research into the complex interconnection of critical factors often uncovers unexpected counter intuitive results. The issues that we are witnessing now are not the beginning of the end but rather just the end of the beginning of a process that will over the coming decade transform the world as we know it.

19 The inner edge of the zero survival point

The inner edge of the zero survival point for the OECD and the PGCC may arrive in the 2012-2014 time frames with an additional 3-5 years for the second and third tier countries of China, Russia, and Iran etc. It is certainly hoped that both the US, OECD, regional groups and Iran are able to come to a mutually supportive arrangement.

20 Recommendations

CGSA has developed an initial starting point of potential strategies (Phoenix Recovery Plan) that if commenced immediately, may among other things be able to mitigate and in time reverse the decline in production of high EROI liquid fuels and additionally secure global grain exports.

Given the velocity and magnitude of emerging challenges the Phoenix Recovery Plan (PRP) is amongst one of the handful of remaining options that may mitigate and reverse depletion effects.

However like all plans the PRP has certain limitations. Its greatest limitation is its extreme sensitivity to the point in time at which action is taken. The solutions become exponential less effective the longer PRP implementation is delayed. Unfortunately even if PRP project funding and support is received CGSA will need a minimum of one year to develop the theoretical framework, publish research papers and begin prototype projects in collaboration with government and industry.

The alternative to implementing the PRP may be an exponential decline in available net energy, which may potentially represent an existential threat to modern human civilization.

Please note: This analysis was correct before recent events in the Middle East, North Africa and Japan. These recent events may have further shortened the time available to implement mitigation strategies.

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