



# Russia in the Middle East: Energy Forever?

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## Summary

The Middle East and North Africa (MENA) is an obvious target region for Russian energy diplomacy. Unlike Western European states, Russia has never had an imperial presence in the region. During the Cold War, the Soviet Union pursued the policy of supporting Arab socialist movements under the flag of Communist ideology and served as a counter-balance to the United States' influence in the region. Hence, bereft of the burden of an imperialist state and by untangling political concerns from its commercial interests, Russia has embarked on a pivot to the energy industry of the MENA region. Russia's goals can be summarized as:

- Find new markets for its oil and gas.
- Attract investment for an economy whose capital from the West has dried up from sanctions.
- Work with other energy exporters to stabilize international oil prices.
- Undermine Europe's efforts to diversify its natural gas supplies.
- Help Russia deliver more oil and gas to Asia.

A conducive geopolitical environment, coupled with plummeting oil prices, has eased the Kremlin's efforts to build bilateral energy relations with the regional powers. Russia's presence in the region is nascent but quickly growing. But, will Russia be able to maintain its presence in the region? Will Russia or Saudi Arabia be interested in cooperation to extend the volume-cut deal now and in the future? All of it will depend on a number of factors. The resilience of the American shale industry to the low oil price environment as well as the future of the Iran nuclear deal will be among the most significant elements influencing Russia's future in the region. What will happen by 2025 to Russia's energy policy of the Middle East is of critical importance in terms of meeting vision with the reality of energy politics and economics.

## Introduction

Russia's foreign policy agenda includes regaining its role as a center of power and persuading other countries that the West's influence is declining.<sup>1</sup> Moscow perceives the West as the main threat to its national security. A plethora of Russian security and foreign policy documents either imply or say straight-out that the unipolar world is over and Russia deserves a more significant role in a new world order.<sup>2</sup> And energy diplomacy is an integral element of this assertive foreign policy Russia has been pursuing in global affairs.

Energy policy will continue to be a major player in global geopolitics. International trade has soared the past 50 years, and energy supplies have been the major element of that growth. At the same time, the glut in the oil and natural gas markets is expected to increase the global share of oil supplied by low-cost producers such as the Middle East and Russia. By 2025, the Middle East, Russia and Australia will be the largest exporters of gas, whereas the share of the Middle East the Organization of the Petroleum Exporting Countries (OPEC), Russia and the United States in global liquids supply will increase to 60 percent, from 56 percent in 2015.<sup>3</sup> The Middle East will also account for a considerable share in demand growth for natural gas, along with China and the US.<sup>4</sup>

As the largest producer of crude oil (including condensate) and the second-largest producer of natural gas in the world, Russia's economy is highly dependent on hydrocarbon exports.<sup>5</sup> Oil and gas revenues constituted more than one-third of its federal budget during the last two years. The economy of Russia has been faltering because of sanctions the West imposed in 2014 for Moscow's seizure of Crimea and for sparking and fueling the war in eastern Ukraine, and because of a global drop in energy prices. Although Russian monetary policy has helped generate a marginal recovery, the Russian Central Bank governor has warned that without a major economic overhaul, the country's gross domestic product (GDP) will grow at less than 2 percent a year, even if oil prices jump to \$100 a barrel.<sup>6</sup> Economic experts inside and outside Russia know that the state budget's dependence on oil and gas revenues obliges the Kremlin to embrace policies that guarantee maximizing energy income. Given that energy constitutes about half of all Russian exports, stabilizing volatile oil prices is one of the important challenges of Kremlin energy diplomacy.

Furthermore, energy is indispensable to the growth of the world's two most populated countries, China and India. Most of the projected 28 percent increase in global energy consumption over the next 25 years is expected to come from developing countries. In fact, forecasts suggest that China and India will account for more than half of the world's increase in energy consumption through 2040.<sup>7</sup>

Competition to develop additional oil and gas supplies will become fiercer due to inhospitable locations or complicated geologies in regions such as the Arctic Ocean, the North Sea, and the pre-salt reserves of Brazil. Therefore, countries with ready access to large-scale and low-cost reserves, including Russia, the United States and the oil-producing states of the Middle East, will lead the supply growth during the upcoming decade. These countries will assert their competitive advantage to capture the largest share of the global oil-production market. In recent years, the oil glut triggered a plunge in oil prices from well over \$100 per barrel, down to the mid-\$50s, causing shocks to the economies of oil- and gas-exporting countries. It also shifted the power to control supply and prices from OPEC to non-OPEC countries for the first time. An important consequence

has been that OPEC producers have had to rethink both their domestic and foreign policies.

The shale (“fracking”) revolution, a key contributor to the current oil and gas glut, has so far been largely confined to the United States. This fact has led to even fiercer competition for conventional oil sources. As the world’s largest oil producer and second-largest gas producer, Russia knows it can use its influence on energy supply and prices as a geopolitical instrument. So it is important to understand Russia’s key security perceptions and foreign policy objectives.

They include:

- Perpetuating the notion of a multipolar world.
- Proving the Kremlin’s contention that Russia can play an indispensable role in resolving regional and global problems—the idea that “You break it, we will fix it.”
- Continuing to compete for scarce global resources, especially oil and gas.
- Striving to develop new export markets, particularly if/after the West lifts the economic sanctions it imposed on Russia for the latter’s heavy role in triggering the Ukraine crisis.
- Looking for financial support from countries outside the West to counter the impact of the sanctions.
- Continuing to support Russia’s state-owned oil and gas companies’ pursuit of resource replenishment.
- Trying to prevent China from using its Silk Road project to increase its economic and geopolitical clout in Europe.

In addition to flexing its military muscle in Ukraine, Syria and other places, Russia has been exercising its energy muscle to achieve foreign policy goals. The world was shocked at how ruthless Russia could be in using energy as a weapon when it cut off gas to Western Europe in the dead of winter during a gas-pricing dispute with Ukraine a decade ago. The cut-off was intended to prod Europe into forcing Ukraine to capitulate in the dispute. However, Europe saw this as Russia engaging in energy blackmail, compelling it to take steps to reduce its dependence on oil and gas, both in the short term and particularly over the long haul.

Moscow has never apologized to Europe about the heavy-handedness, but it has adjusted its energy policies to the new reality of an oil and gas glut. The adjustments are aimed at maintaining and increasing its oil and gas customer base—since most of its state budget comes from petroleum exports. The new approaches include deepening energy relations with other countries and working with international organizations such as OPEC to help shape energy policy that can help Russia achieve foreign policy goals. An overarching goal is to maintain or expand its energy markets in neighboring Western Europe and China, two of the world’s largest oil and gas consumers. By doing so, Russia appears to believe it will stabilize its economy, maximize its budget revenues and continue to re-establish itself as a global power.

### **Why the Middle East?**

The Middle East is among the largest proven crude oil and natural gas rich regions of the world.

According to current estimates, 81.5 percent of the world's proven crude oil reserves are located in OPEC member countries, with the bulk of OPEC oil reserves in the Middle East, amounting to 65.5 percent of the OPEC total.<sup>8</sup> Once US shale oil plateaus in the late 2020s and the share of non-OPEC production decreases, the market will become increasingly reliant on the Middle East.<sup>9</sup>

Russia's leaders believe the country's re-ascendancy depends on countering the United States and its European allies in every strategically important part of the world. The MENA is crucial to Russian energy diplomacy for several reasons:

- The countries in the region have more than half of the world's oil and gas reserves.
- They sit on strategic sea-lanes that can move their oil and gas.
- They are close to one of the world's biggest energy markets: Europe.
- Two of Russia's biggest competitors are in the region—Saudi Arabia for oil and Qatar for natural gas.
- The region is Russia's biggest competitor for the lucrative Asian market, particularly China and India.

Russia is pursuing energy diplomacy in the region through bilateral relations with individual countries or international organizations like OPEC and the Gas Exporting Countries Forum (GECF). Collaborating with organizations that have a major impact on global energy markets, especially OPEC, is driven by several factors. For one thing, the Kremlin blames the oil price collapse on a concerted US effort to prevent Russian economic growth. Russian leaders remember all too well that the collapse of oil prices in the late 1980s played a key role in the collapse of the Soviet economy, which in turn led to the disintegration of the Soviet Union. They do not want to see a repeat of this in Russia itself. President Vladimir Putin, who decried the Soviet Union's collapse as the greatest "catastrophe" of the 20<sup>th</sup> century, has been vehement about safeguarding the Russian Federation from a similar fate. Working with OPEC and similar organizations, the Kremlin believes, could help boost oil prices, thus shoring up the Russian economy.

Because the fall in oil prices has been rooted in a surge in US shale oil production, Moscow sees the shale revolution as a US government-directed conspiracy to weaken Russia's security, not a consequence of the normal market cycles of supply and demand, Moscow has decided that one way to bring oil prices back up and maximize budget revenues is to work with former rivals in the MENA. Russia also believes that working with these countries can help it protect its share of the prime European oil and gas market.

Energy diplomacy methods and tactics that the Russians are employing in the MENA include:

- Partnering in oil and gas exploration and development projects.
- Taking part in energy transportation infrastructure projects, such as oil shipping terminals.
- Signing bilateral energy and foreign-policy agreements with Saudi Arabia, Qatar, Iran and other energy-rich countries in the area.
- Working with OPEC and the GECF on energy price-bolstering mechanisms.
- Using a combination of Russia's and the region's energy export potential as a bargaining chip in relations with the West.

Russia sees the MENA region as its main competitor in the energy markets. The two share geographical proximity to the European continent, and both have access to the maritime routes used to deliver oil and gas to the lucrative Asian market. Russia is competing with Saudi Arabia to supply oil to Europe and China, whereas Qatar and Algeria are its main regional rivals in supplying gas to Europe.

Participating in exploration and development as well as transportation-infrastructure projects in the region will help Russia influence the area's petroleum-product delivery decisions to Russia's traditional delivery markets. The strategy is also aimed at undermining the European Union's energy supply diversification efforts, which have accelerated since Russia invaded Crimea. Despite EU efforts to thwart Gazprom's dominance in its import portfolio, the Russian gas giant has, in fact, managed to increase supplies to Europe by 8.7 percent in 2017.<sup>10</sup> Indeed, Russia supplied a record amount of gas to Europe in 2017 through its state-owned Gazprom, which has been able to avoid Western sanctions. It has traditionally supplied the lion's share of Europe-bound oil and gas through Ukraine, but Moscow and Kyiv had a falling out over prices between 2005 and 2010, which affected Russian gas supplies to Europe. At one point in the dispute, Russia actually cut off gas flowing through Ukrainian pipelines to the continent.

The crisis prompted the European Union to pass legislation and adopt administrative policies to diminish its dependence on Russian energy, especially gas. The Europeans' focus was on alternative supply options such as the Southern Gas Corridor pipeline, new energy-supply connections in Central and Eastern Europe that skirted the Ukrainian pipeline network, and the construction of liquefied natural gas (LNG) terminals on its coasts.

Russia is aware, of course, that the EU is trying to further diversify its energy transit routes and sources of supply. In response, it is building pipelines to Europe that skirt the Ukrainian network—"Nord Stream 2" and "Turk Stream"—to try to maintain its stranglehold on the European market, particularly in the east. And it is taking part in Middle Eastern and North African projects to diversify its export capabilities. This includes participating in the development of the "Zohr" gas field off Egypt and buying oil from Libya and Kurdistan.

Russia believes that putting itself in position to influence decisions on the supply of MENA energy to Europe will make it harder for the continent to weaken the geopolitical influence that Moscow can exert there. This surround-the-continent tactic not only gives Russia an additional bargaining chip in its foreign policy dialogue with the EU but also enables Moscow to create schisms in Trans-Atlantic alliance in respect to energy security policies of the continent.

Russia sees Central Asia and Azerbaijan as competitors in Southeastern Europe and the Mediterranean region. Kazakhstan delivers most of its oil to Europe and beyond through pipelines that run across Russia to the Black Sea. A country with one of the world's biggest gas reserves, Turkmenistan, is eager to send more of it to Europe, but also lacks a pipeline that bypasses Russia. Both landlocked countries support the West's idea of a Trans-Caspian Pipeline that would feed their oil and/or gas to an existing pipeline in Azerbaijan that skirts Russia. By helping MENA producers send more oil and gas to Europe's Mediterranean region, Russia makes the idea of pipelines connecting areas outside the region and Europe less feasible.

A combination of the price-battering oil and gas glut along with Western sanctions over the Crimean annexation and the Kremlin's support for an insurgency in eastern Ukraine left Russia with little choice but to turn toward China and other places in Asia to try to maintain its energy export income. It is also sending LNG to parts of the Middle East. In addition to the Middle East being a place where Russian energy companies can access upstream and midstream energy projects, it sees the area as a place to obtain funding for its oil and gas projects now that sanctions have dried up funding from the West.

Russia also believes that working with MENA countries and energy organizations will not only help it bring stability to global energy markets but also protect its market share in the Far East. A number of factors have contributed to the growing rapprochement between Russia and countries in the region. They include the devastating impact that low oil prices have had on the budgets of oil-exporting Gulf countries, repercussions of the Arab Revolutions for the MENA states and Russia's military success in Syria. A key message that Russia is trying to convey by repositioning itself in the area is that it is indispensable to resolving both regional conflicts and global conflicts with regional components. Meanwhile, it sees its growing geopolitical role in the region as a springboard to increasing its economic activity in Europe and the Far East as well as short-circuiting China's plan to increase its economic clout in Europe through the Silk Road program.

## **Russia in North Africa**

Traditionally, Moscow has perceived North Africa as an area of rivalry with the United States. And the intensification of Russian engagement in the energy sectors of Algeria, Libya and Egypt is an integral part of its multidimensional global energy diplomacy strategy. Rebuilding its superpower status in the region, utilizing its political privilege gained through assertive relations with state leaders or contenders for power (as in Libya), along with gaining leverage to influence decisions about oil and gas supplies to the European continent are only a fraction of Russia's policy objectives in North Africa.

## **Russia and Libya**

The power struggle in Libya between the UN-backed Government of National Accord (GNA) and The Libyan National Army (LNA) has divided the country into two camps. Criticized for allowing the coalition forces to overthrow Muammar Qaddafi, the Russian leadership has decided to act carefully in choosing sides in Libya's ongoing internal conflict. Russia maintains a pragmatic approach toward both camps by projecting itself as a broker between Libya's rival camps rather than supporting any of them exclusively. Thus, Moscow is playing a wait-and-see game in order to reap the maximum political and economic benefit from the conflict.

From a tactical standpoint, Russia seeks to strengthen its positions in the Mediterranean basin. By gaining ground in a future Libyan government, Russia aims to expand its influence over southern Europe—a major customer for North African oil exports—thus equipping Moscow with additional bargaining tools in its relentless energy dialogues with the EU. Moreover, by continuing its “glorious fight” against international terrorism in Libya, Russia aims to reassert itself as a global

player capable of resolving conflicts in the region, as it did in Syria.

From an economic standpoint, the Russian leadership is looking for ways to compensate for the losses it faced following the overthrow of Qaddafi. Russia expects to make \$150 million from construction projects, \$3 billion from railway construction, \$4 billion from arms sales, and up to \$3.5 billion from energy deals in Libya.<sup>11</sup>

By being actively involved in Libyan politics and commercial projects, Russia not only substantiates one of its central narratives of becoming a regional and potentially globally important actor, but also lays the groundwork for undermining competitors of Russian oil and gas companies. Increased production from Central Asia and China's expanding influence in the Middle East obliges Russia to take measures to protect its market share in European and Far Eastern oil and gas markets.

Financial, economic and security concerns that have divided Libya since the toppling of Qaddafi in 2011 continue to plague Libya. This turmoil has had negative repercussions on Libyan petroleum exports: Years of violent conflict cost the country \$126 billion in lost oil revenues.<sup>12</sup> In 2017, Libya has managed to surpass one million barrels a day for the first time in four years.<sup>13</sup> Libya is currently exempt from the volume-cut deal negotiated by Russia and Saudi Arabia, but attempts to rebound production to pre-war levels are weakened by constant conflicts among tribal leaders, by blockaders, and as a result of the whims of competing political factions and militias.

Before the Libyan revolution, Russian companies such as Gazprom, Lukoil and Tatneft were actively engaged in energy projects in the country. Notably, Gazprom had concluded a partnership with German Wintershall to develop Libyan gas fields, while Tatneft signed a contract with Libyan National Oil Company to develop several offshore oil fields on the Libyan continental shelf.<sup>14</sup> Gazpromneft also signed a production sharing agreement with an Eni-led consortium in 2011.<sup>15</sup> But the implementation of those deals was deferred by the ongoing conflict. Russian officials have so far adhered to the position that the parties to the above agreements are still committed to the contractual obligations signed before the overthrow of Qaddafi. But the Libyan side has yet to express its adherence to the same premise.

In their engagement in Libya, Russian companies are deploying similar, albeit risky, methods to those already successfully tested in other politically unstable resource-rich countries. Early entrance into risky markets is important for Russian companies to expand their activities in regions where Western companies are hesitant to operate. Illustratively, Russian oil giant Rosneft has signed a deal to purchase oil from Libya's National Oil Corp. As part of a yearlong contract, the Russian firm is using a long-term prepayment model for this oil-purchase deal, signed in February 2017.<sup>16</sup> This model has already been successfully deployed in Iraqi Kurdistan and Venezuela. The model distributes the risks between producers and consumers, while Rosneft takes advantage of its access to state money.

## **Algeria**

Russia is also trying to carve out a larger presence in Algeria's oil and gas sectors. Algeria, the

second-largest gas supplier to the European market, is perceived as a main threat to Russian natural gas interests on the southern shores of the continent.<sup>17</sup> Algeria is vitally important for the EU, which considers the country one of the most viable alternatives to Russian natural gas dominance on the continent. Thus, it is in the interest of pragmatic Russian leadership to have a presence in Algeria, especially in the country's gas industry, to gain leverage over decisions pertaining to future supplies to the European market. Rosneft and Gazprom already have a presence in Algeria, although both of them would be happy to expand further in the Algerian market.<sup>18</sup> Russia's efforts to capture stronger positions in lucrative Algerian market were hindered by equally ambitious Gulf States who are also interested in building presence in Algeria. Russia particularly faces Qatar as a main competitor in Algerian gas market due the latter's active penetration to the Algerian market.

## **Egypt**

Egypt's market liberalization efforts were jump-started by the reform program agreed with the International Monetary Fund (IMF).<sup>19</sup> Those reforms have opened the door for oil and gas companies to enter the Egyptian market. In particular, by enhancing the flexibility of its gas sector, Egypt now competes with Turkey and Greece to become a major gas hub on Europe's doorstep.<sup>20</sup> Natural gas field discoveries in the Eastern Mediterranean basin, coupled with market liberalization, have only served to bolster Egypt's gas hub aspirations. Notably, a new law enables foreign companies to use Egypt's import and distribution facilities to trade in natural gas.<sup>21</sup> Increasing production from domestic fields and the presence of two largely idle liquefaction plants at Idku and Damietta could enable Egypt to import gas from Israel and Cyprus and export it to Europe and Asia.<sup>22</sup> With increasing domestic production as well as the deployment of renewable and nuclear energy sources for electricity production, Egypt could develop a gas surplus in 2018<sup>23</sup>. Moreover, Egyptian exports could reach at least 20 billion cubic meters (bcm) per year by 2035.<sup>24</sup>

In August 2017, Rosneft delivered its first cargo shipment of liquefied natural gas (129,000 tons) to Egypt. It was reported earlier that Rosneft would supply ten consignments of LNG to Egypt with a total volume of 600,000 tons, and deliveries would be carried out from May to October 2017.<sup>25</sup>

In October 2017, Rosneft acquired the right to export gas to Egypt by purchasing 30 percent of the Eni-operated Zohr field of Egypt. By acquiring shares in the Zohr field, Rosneft has become a participant in exploiting Egypt's largest deep-water gas field. Rosneft CEO Igor Sechin assessed the acquisition as an opportunity to reinforce his company's position in this "promising and strategic region."<sup>26</sup>

Russia acknowledges that the gas market is globalizing and that it will ultimately be impossible to dominate this new market environment by deploying conventional energy diplomacy methods. Hence Russian energy diplomacy is putting increasing emphasis on acquisitions of oil and gas assets in geographically well-positioned locations and diversifying its own gas exports to these regions, including Egypt. The goal for Russia is to become a formidable actor amid growing competition for global energy resources, as well as to obtain access to energy markets and control over transport arteries.

By gaining influence over directing Libyan oil and Egyptian gas supplies to Europe, Russia is trying to undermine Western-backed diversification projects designed to bring Central Asian and Azerbaijani oil and gas supplies to the European market. And by contributing to increasing supplies from Libyan oil fields as well as by bringing more Kirkuk oil to Ceyhan (Turkish Mediterranean port where Azerbaijani oil is delivered), Russia seeks to muscle out supplies from Kazakhstan and, especially, light oil from Azerbaijan shipped to the Mediterranean basin. Moreover, Moscow's activities in North Africa will make any proposed Trans-Caspian oil pipeline project less economically feasible. Similarly, by becoming a formidable player in a future Egyptian gas hub, Russia is undermining the economic rationale for a potential future expansion of the Southern Gas Corridor.

The only alternative pipeline project to supply natural gas to Europe currently under construction is the Southern Gas Corridor (SGC) project, which will strategically deliver gas to traditionally Russian-dominated markets in Southeastern Europe. At its widest, the SGC's designed throughput capacity is 16 bcm per year, which is almost one-tenth of the annual Russian supply to Europe. However, by adding additional pumping stations, the operator could easily double the throughput capacity of the SGC pipeline network. This technical flexibility of the pipeline enables the SGC to potentially bring additional volumes from Central Asia, the Eastern Mediterranean or Northern Iraq. By obtaining control over the direction of additional volumes of Europe-bound natural gas from Northern Africa and the Mediterranean basin, Russia is pursuing the goal of making the expansion of the Southern Gas Corridor and the realization of proposed Trans-Caspian pipeline projects economically less feasible.

## **Saudi Arabia**

The parameters of energy relations between Russia and Saudi Arabia are, in broad terms, defined by the following factors:

- The race for market share in Asian markets.
- Mutual interest in stabilizing energy commodity prices (oil prices).
- Potential Saudi Arabian investments in the Russian economy.
- LNG exports to Saudi Arabia.

### *The Race for Market Share*

As the two largest oil exporters in the world, Russia and Saudi Arabia are natural competitors. However, in addition to competing to capture the largest share of the global oil market, Moscow and Riyadh are also positioned in opposing camps in the Syrian conflict. Furthermore, Russia has cozy relations with Saudi Arabia's biggest regional foe—Iran. Nevertheless, Moscow and Riyadh have managed to put aside their differences and are currently pursuing a pragmatic approach to economic cooperation. The desperate need to stabilize oil prices and to break the resilience of the US domestic shale oil industry has drawn these traditional competitors into a productive collaboration.

In addition to Syria, oil was the most important agenda item during Saudi King Salman bin

Abdulaziz Al Saud's trip to Moscow in 2017—the first such visit by a reigning Saudi monarch since the collapse of the Soviet Union. According to Russian Energy Minister Alexander Novak, the two sides signed deals worth \$3 billion, following the visits of King Salman and the subsequent visit of Saudi Energy Minister Khalid al-Falih to Moscow in the second half of 2017.<sup>27</sup> The agreements included Memorandum of Understandings (MoU) on the construction of a \$1.1 billion petrochemical plant in Saudi Arabia by Russian firm Sibur, the establishment of a joint \$1 billion investment fund for energy and technology development, as well as an agreement between Saudi Aramco and Gazpromneft on drilling technology.<sup>28</sup> Unconfirmed reports also pointed to apparent talks regarding investment by Saudi Arabia in the largest oil-drilling contractor of Russia, Eurasia Drilling Co., and Novatek's proposed Arctic LNG 2 project.<sup>29</sup>

Russia is interested in selling LNG to Saudi Arabia. On December 8, 2017, Saudi Energy Minister al-Falih attended a ceremony dedicated to the first loading of liquefied natural gas from Russia's Yamal LNG project in the Arctic. President Putin's message to Minister al-Falih's government was straightforward: "Buy our gas, you will save your oil." On this issue, the two countries' interests are complementary: The Kingdom is interested in decreasing the dependence of its domestic power sector on crude oil, while Russia is desperately searching for markets for its LNG volumes.<sup>30</sup>

### **The Russia-OPEC Deal**

The Russian state budget's dependence on oil and gas revenues obliges the Kremlin to embrace policies that maximize the income from energy exports. Since energy constitutes about half of all Russian exports, stabilizing volatile oil prices is one of the most important challenges of Kremlin energy diplomacy. Saudi Arabia has now also abandoned generous production levels. That policy was aimed at keeping prices low to hammer shale oil companies, whose costs were higher than traditional producers. But shale producers displayed unexpected resilience by improving their technology and efficiency so they could remain profitable even when oil prices were low. This meant that production-volume cuts were inevitable. And with these cuts came shifts in oil exporters' foreign policies. Notably, OPEC and non-OPEC exporters, led by Saudi Arabia and Russia, decided, on November 30, 2017, to extend a volume-cut deal for another nine months.<sup>31</sup> Russia has been instrumental in achieving the deal and then successfully extending despite hesitation demonstrated by parts of the leadership in Moscow. An important lesson from the negotiating process is that Saudi Arabia can no longer single-handedly dictate global oil price policy. The Saudis needed Russian support to achieve the cut they wanted. This development leaves the Kingdom vulnerable to the Kremlin's whims. Thus, Russia has gained formidable leverage by making its major competitor dependent on Russian energy diplomacy through international institutions. Moreover, Moscow's new ability to influence international production cut deals, and thus oil prices, is likely alarming for Riyadh. The Kremlin has become the power behind OPEC's command. Saudi Arabia had to face the new reality that without Russia the deal would collapse.

### **Qatar**

Qatar is currently the world's largest LNG exporter and the second-largest gas exporter after Russia.<sup>32</sup> Although the LNG market is currently oversupplied due to new volumes from the United States, Australia and West Africa, according to the consulting firm McKinsey & Company, this oversupply will continue merely until 2022–2025.<sup>33</sup>

Economic cooperation between Qatar and Russia started with the visit of Emir of Qatar Tamim bin Hamad Al Thani to Moscow in February 2016.<sup>34</sup> What started with routine intergovernmental agreements and mutual declaration of intentions to bolster political and economic cooperation soon yielded concrete results. In the beginning of December, the consortium of Qatar's sovereign wealth fund and commodities trader Glencore purchased 19.5 percent of shares in Rosneft for \$11.3 billion.<sup>35</sup> At that point, the Russian state, which owns 50 percent of Rosneft, was still struggling to narrow its budget gap resulting from low oil prices. Thus, the deal came as a relief for the Russian leadership. The shares purchase by the Qatari sovereign wealth fund also carried political connotations. By selling almost 20 percent of a state-owned oil company to an international consortium, Russia demonstrated that its companies could still conclude deals with foreign partners despite Western sanctions. In fact, Glencore and Qatar's sovereign wealth fund became the first investors in a Russian oil company following the passage of economic sanctions by the US and the EU. In September 2017, the consortium sold 14.2 percent of the Rosneft shares purchased year earlier to China Energy Company Limited (CEFC).<sup>36</sup>

Besides cultivating bilateral relations with Qatar, Russia is also trying to use the Gas Exporting Countries Forum as a platform for tightening cooperation with its major Middle Eastern natural gas rival. During their meeting in Moscow, both Russian President Vladimir Putin and Qatari Emir Hamad Al Thani emphasized the need to strengthen the coordination between the two states within the framework of the Forum, which was established in Tehran, but is currently headquartered in Doha and chaired by the representative of Russia. Although not as effective as its oil-sector analogue, the GECF, through its members, own 67 percent of the world's gas reserves and supplies 42 percent of global consumption.<sup>37</sup> By building coordination within the framework of the GECF, Russia is seeking to avoid conflicts with one of its main competitors and aims to divide up the international natural gas market based on mutually agreed mechanisms.

## **Iraq**

Russian oil and gas companies actively participated in a re-division of Iraqi oil reserves following the toppling of Saddam Hussein. In 2009, Lukoil became a shareholder in West Qurna-2, one of the largest oil fields in the world.<sup>38</sup> Gazprom affiliate Gazpromneft also won the contract as a part of a larger consortium to develop Badra field, located in eastern Iraq. Moreover, Gazpromneft holds a participating interest in several blocks located in Kurdistan region.<sup>39</sup> Rosneft's engagement in Iraq's oil industry started with the acquisition of the controlling stake of another Russian oil company, Bashneft, which had previously secured the right to operate inside Iraq. Importantly, Rosneft agreed to take control of Iraqi Kurdistan's main oil pipeline during the political crisis triggered by the Kurdish vote for independence, held in September 2017.<sup>40</sup> Rosneft's investment in the project was expected to be around \$1.8 billion on top of \$1.2 billion already lent to Kurdistan in the first of months of 2017.<sup>41</sup> Kurdistan is planning to repay the loan with future oil sales. Northern Iraqi oil volumes are important for Rosneft from a tactical standpoint. Along with

cementing Russia's economic and political presence in northern Iraq, oil from the Kurdistan region could be supplied to German refineries owned by the company. By investing in production increases in Kurdistan and pledging to increase the throughput capacity of the Erbil pipeline, Rosneft will be able to deliver oil volumes from Kurdistan region to its refineries in Germany. By doing so, Rosneft will be able to divert its Ural's blend volumes to Asian markets in order to capture more share vacated by Saudi Arabia as a result of the Russian-OPEC volume-cut deal.

## Syria

Syria is not a major oil and natural gas producer, although it does have considerable gas reserves (240 bcm). However, plans to develop these fields, either independently or in joint cooperation with foreign investors, were thwarted by the internal war.<sup>42</sup>

At the moment, Syria is more important as a potential energy transit country. Both Russia and Iran have shown interest in Syria's transit capacity before the civil war broke. Gazprom is engaged in several infrastructure and refining projects in Syria via its subsidiary Stroytransgaz. In 2008, this firm, controlled by Gennadiy Timchenko, started talks with the Ministry of Oil of Iraq and Iraq's North Oil Company regarding the renovation of the major oil pipeline connecting Kirkuk to the Syrian port of Banias.<sup>43</sup> Stroytransgaz also completed a stretch of The Arab Pipeline from the Jordanian border to the Homs in Syria.<sup>44</sup>

In 2009, Syrian President Bashar al-Assad rejected the proposal of Qatar to lay a gas pipeline from to its North Field to Turkey and to the EU citing its long-standing friendly relations with Russia and Gazprom.<sup>45</sup> In 2010, Gazprom reiterated its interest in participating in development of the Syrian oil and gas industry. Sergei Prikhodko, then an assistant to the president of the Russian Federation, made a statement in support of Gazprom's efforts to participate in a gas pipeline project connecting Syria to Lebanon.<sup>46</sup> And in July 2011, the governments of Iran, Iraq and Syria signed a pipeline deal to bring natural gas from the South Pars field to Damascus, via Iraq.<sup>47</sup> However, the ongoing civil war obstructed the implementation of these projects. Russian upstream company Soyuzneftegas, run by Yuri Shafrannik, the former energy minister of Russia, signed the first ever offshore oil deal in the Mediterranean basin in the Syrian sector, in December 2013, but later abandoned plans to develop this project.<sup>48</sup>

In February 2015, Gazprom CEO Alexander Miller met with the Syrian ambassador to Moscow in order to discuss cooperation in the oil and gas industry.<sup>49</sup> Additionally, the CEO of Gazprom's subsidiary Stroytransgaz visited Damascus in September to meet with Prime Minister of Syria Wael Nader al-Halki to reinstate his company's activities in Syria.<sup>50</sup> Syrian Foreign Minister Walid Muallem stated in November 2015 that Syria is hoping to see not merely Russian military vessels but also offshore drilling platforms. Soyuzneftegaz reinstated the construction of North Gas Processing Plant, nearby Raqqa, in December 2017, following the liberation of the city from the Islamic State.<sup>51</sup>

It is still far from clear how the political map of war-torn Syria will ultimately be shaped. The country's importance as a transit route connecting the energy-rich Gulf region with Mediterranean ports and Turkey will be a key element of this process. By providing political and military support

to al-Assad, Russia not only aims to reopen Syrian markets to Russian energy companies, but also attempts to become an indispensable player in pipeline geopolitics within the region.

## **Conclusion**

A number of cataclysms have enveloped the MENA in the past decade. The Arab Spring revolts against a number of regimes in the region began in 2010. They led to several overthrows and civil wars that continue in some countries. Terrorist groups, such as the Islamic State, which emerged from the ruins of failed states, worsened the tumult. Seizing on the opportunity to fill the vacuum created by the United States' largely non-interventionist foreign policy in the region over the past few years, the Kremlin sent military forces to try to shore up the area's security. Its success in Syria in particular helped Moscow institute the active energy diplomacy it is pursuing there now.

Moscow has embarked on a more vigorous foreign policy in the region to:

- Find new markets for its oil and gas.
- Attract investment for an economy whose capital from the West has dried up because of sanctions.
- Work with other energy exporters to stabilize international oil prices.
- Undermine Europe's efforts to diversify its natural gas supplies.
- Help Russia deliver more oil and gas to Asia.

Disagreements between traditional allies in the region have helped Russia become a player there. By building economic ties with its energy rivals in the area, and working with international organizations such as OPEC to pursue its goal, the Kremlin is doing what it has always excelled at: divide and conquer. Russia has tried to use its energy diplomacy in MENA both to bring the region to its area of influence and to drive a wedge between the United States and its traditional allies, especially in Gulf region.

In its more muscular role in the MENA, Russia has been putting pragmatic energy policies above political differences. A key question is whether it can continue cooperating with regional energy players while disregarding its geopolitical differences with them. In other words, how sustainable will Russia's energy diplomacy in the region be? And how will international oil prices affect Russia's relations with energy-exporting countries in the area over the long term?

The United States has become far less dependent on oil imports and even less dependent on Middle Eastern oil than just a decade ago. But the global nature of energy markets exposes the US economy to oil and gas price fluctuations. Both a recent explosion at a natural gas terminal in Baumgarten, Austria, and China's decision to slash its coal production roiled global energy markets, underscoring how interdependent they are. Washington must ensure that Russia does not outmaneuver it to increase its influence over global energy policy, and thus prices. This means the United States must keep a close eye on relations between its most important allies in the Gulf as well as its rival Russia. Gulf countries, especially Saudi Arabia and Qatar, will remain among the world's biggest energy exporters for many decades to come. And American oil companies are still major oil and gas producers in the region. The United States needs to keep lines of communication

with Middle Eastern oil producers given region's indispensability to global energy industry. Russia is keen to further expand its energy cooperation in MENA region to prevent volatility in energy commodity markets in order to maximize revenues gained from the exports of hydrocarbons.

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