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RUSSIA'S INTERESTS IN THE ARAB MASHREQ: ANALYZING THE FUTURE OF OIL AND GAS IN IRAQ AND SYRIA

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This working paper was prepared by the Russian International Affairs Council as part of the RIAC's project on «Conflicts in the Middle East: Tools and Strategies for Settlement». This paper is devoted to analyzing the situation in the oil and gas market in Iraq and Syria, as well as the energy policy of Russia in the Arab Mashreq region. The authors also analyze Iraq's oil prospects in the post-war period under sanctions against Iran. Special attention is paid to the Kurdish factor and the role the Kurds play in the future of energy in the region, the possibility of subregional integration in the Arab Mashreq and the increasing influence of Russian energy companies in regards to gas projects located in the Eastern Mediterranean.

The views and opinions of authors expressed herein do not necessarily state or reflect those of the Russian International Affairs Council.

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Introduction

The situation on the world oil market is historically important to Russia, just as it is to the West Asian and North African oil-producing countries. Despite the competition among these players, there still are opportunities for cooperation, which has been strengthening over the past several years due to the need for coordinated regulation of oil prices and joint market monitoring efforts. It would seem that now is the perfect time to analyse Russia's macro-regional oil and gas strategy.

The sanctions imposed on Iran significantly undermine the country's ability to conduct its economic operations openly. The reinstatement of the sanctions regime, from which eight countries were exempt for six months so that they could do business with Iran, put both Tehran and Baghdad in a very difficult situation (while Iraq was not among those eight states, the country did enjoy the temporary sanctions reprieve). Iran remains the key electricity exporter for Iraq. However, as the United States is working to replace Iranian oil on the world market, Iraq oil has been playing an increasingly important role. Seeing as Russian oil companies are among the key players in Iraq, Washington's efforts to weaken Tehran's influence could benefit Moscow at least for the near future and might even be advantageous for Russia–Iraq relations. That said, it appears that, under the current circumstances, Iraq will continue to be dependent on Iran.

The Energy Strategy of the Russian Federation until 2035 lists “coordinating activities with members of the Organization of the Petroleum Exporting Countries [OPEC], the Gas Exporting Countries Forum [GECF], etc. in order to increase the stability and predictability of the world oil and gas markets” among its proposed international relations measures. Russia is a permanent member of the GECF and, since 2008, has had observer status at OPEC. In late 2016, OPEC and a number of non-member oil-producing nations (under the OPEC+ regime), including Russia, agreed to reduce oil production in order to stabilize prices. Moscow seeks to develop systemic interaction with influential international organizations whose key members are the global energy-exporting countries of West Asia and North Africa. However, Russia's energy policy in that region should be considered in the context of Moscow's general foreign policy, with due regard for the prevailing realities and security threats.

Moscow took the terrorist threats that emerged in the region following the crises of statehood in West Asia, including the spread of the Islamic State (recognized by Russia as a terrorist organization in 2014), very seriously. The deterioration in the Syria–Iraq zone prompted Russia to take a number of stabilizing measures. In 2015, Moscow launched a military operation to combat terrorism in Syria and set up the joint Baghdad Operations Centre with the participation of Iran, Iraq and Syria. Since then, Moscow has been actively promoting the preservation and restoration of government institutions in the affected countries, primarily in Syria and Iraq. The intensification of Russia's foreign policy in the region resulted in the country being invited to join in on several oil, gas and infrastructure projects in the Mashreq.

Russia's Oil and Gas Policy in Iraq and Syria Amid the Sanctions Against Iran

Despite the broad media coverage of Russia's presence in Syria (since 2015 in particular), it is Iraq that should be considered one of the key countries for Moscow's Middle Eastern policy. Russia–Iraq cooperation in the oil and gas sector has a rich history and can be viewed as a special part of Russia's oil and gas strategy in the region. This much is evident from the fact that Russian and Iraqi officials maintain constant contact. At a meeting with Minister of Oil of Iraq Thamir Ghadhban on March 17, 2019, Minister of Energy of the Russian Federation Alexander Novak noted that “strong contacts have been formed between the ministries and corporations [of Russia and Iraq], providing a solid foundation for the development of cooperation between the two countries.”¹ Nevertheless, relations between Russia and the Mashreq states are continually influenced by the regional and international agendas. The withdrawal of the United States from the Joint Comprehensive Plan of Action (JCPOA) and the subsequent U.S. sanctions against Iran, an OPEC member state and influential regional actor, seriously affected the situation in the Mashreq and resulted in an escalation of regional tensions.

The seriousness of Moscow's approach to the Mashreq region is indicated by the fact that the economic recovery of the Syria–Iraq crisis zone is supervised by Deputy Prime Minister Yury Borisov, who had previously served as Deputy Minister of Defence. During the April 2019 meeting of the Russian–Iraq Intergovernmental Commission in Baghdad, Borisov paid special attention to the presence of Russian energy companies in the region. According to him, Lukoil has already invested some \$8 billion and, as per the current agreement, the figure could reach \$45 billion by 2035. Borisov noted that “the natural changes that have been occurring require a revision of the project parameters and negotiations with the Iraqi side.” Earlier, on March 29, President and CEO of Lukoil Vagit Alekperov met with Prime Minister of Iraq Adil Abdul-Mahdi. The federal government of Iraq assured Russia's largest private oil company that it could count on its support in accelerating the development of Block 10 at the Eridu oil field. Lukoil also announced that its production at the West Qurna-2 field in the south of Iraq had already exceeded 400,000 barrels per day, making the oil producer a reliable partner for Iraq. Borisov also recalled that the Russian companies Rosneft and Bashneft had signed an agreement on the exploration and production of minerals in Iraq in 2017: “The projects have only just been launched, but they have very good prospects.” On April 10, President of Iraq Barham Salih gave a positive assessment of Moscow's role in the development of oil and gas cooperation as part of the broader Iraq restoration efforts and called for closer ties with Russia.²

¹ Alexander Novak: The Oil and Gas Sector Remains Key to Russian–Iraqi Cooperation // Ministry of Energy of the Russian Federation Russian Energy Ministry. 17.03.2019. URL: <https://minenergo.gov.ru/node/14240>

² Ruslan Mamedov. Russia Consolidating its Position in Iraq Amid Anti-Iranian Sanctions // RIAC. 14.05.2019. URL: <https://russiaincouncil.ru/en/analytcs-and-comments/columns/ruslan-mamedov/russia-consolidating-its-position-in-iraq-amid-anti-iran-sanctions/>

The prospects for Syria's oil and gas sector, and Russia's participation in it, remain unclear. The latest developments, including the April 2019 fuel crisis, were caused by the U.S. ban on sea shipments of oil to Syria. The OFAC Advisory to the Maritime Petroleum Shipping Community issued on March 25, 2019³, reads: "United States sanctions regulations broadly prohibit trade and other transactions, subject to U.S. jurisdiction, with the Government of Syria, and has the authority to sanction entities or individuals who provide support to the Government of Syria – including those who deliver or finance petroleum shipments to the Government of Syria or government-owned entities, such as the U.S.-designated Syrian Company for Oil Transport or Baniyas Refinery Company." This ban has affected numerous Russian tankers that used to transport Iranian oil.

It is worth noting that the Syrian economy is also suffering from the increasingly harsher sanctions against Russia, but the sanctions against Iran are even more detrimental for Damascus. The April fuel crisis in Syria was caused, among other things, by the growing U.S. pressure on Iran, which meant that Iranian oil tankers could no longer stop at Syrian ports. In fact, Iranian oil exports to Syria had started to shrink back in November 2018, before Washington began targeting these schemes. Russian companies, including state-owned corporations, comply closely with the U.S. sanctions and do not seek to violate them for the benefit of Syria. Being put on the OFAC blacklist is fraught with very significant risks for them. Obviously, the Syrian market is not worth the trouble, especially given that the current contracts with Damascus are not going to bring any profit in the short, or even the medium term. Let us not forget that Syria has been borrowing from Iran as well. The country has economic potential of its own, but the key oil fields, such as Al-Omar, are out of Damascus's control – they are controlled by the Syrian Kurds and the United States. In general, the assessment and distribution of oil revenues should be considered in the context of a settlement between the Syrian Kurds and Damascus, with the former incorporated into a single Syrian political space.

On February 5, 2018, Minister of Energy of the Russian Federation Alexander Novak and Minister of Petroleum and Mineral Resources of Syria Ali Ghanem signed a roadmap for cooperation in the oil and gas sector under the auspices of the intergovernmental commission.⁴ Cooperation will involve the restoration and modernization of existing Syrian energy facilities and the construction of new ones, as well as onshore and offshore geological exploration projects.⁵ In July 2015, the Russian ministry announced that it had started exploratory work in Syria, mentioning the following key Russian companies: STG Engineering,

³ Sanctions Risks Related to Petroleum Shipments involving Iran and Syria // United States Department of the Treasury. 25.03.2019. URL: https://www.treasury.gov/resource-center/sanctions/Programs/Documents/syria_shipping_advisory_03252019.pdf

⁴ Alexander Novak Meets with Syrian Minister of Oil and Mineral Resources Ali Suleiman Ghanem // Ministry of Energy of the Russian Federation. 05.02.2018. URL: <https://minenergo.gov.ru/node/10492>

⁵ Alexander Novak's Meeting with Syrian Minister of Oil and Mineral Resources Ali Suleiman Ghanem // Ministry of Energy of the Russian Federation. 04.10.2018. URL: <https://minenergo.gov.ru/node/12595>

Zarubezhneft, Zarubezhgeologia and Technopromexport.⁶ There are no exact figures available for the volumes of gas reserves in Syrian territorial waters, but the recently discovered offshore gas fields in the eastern part of the Mediterranean (the Zohr field off the Egyptian coast, the Tamar and Leviathan off Israel, the Aphrodite field near Cyprus, etc., which hold a combined total of at least 3.8 trillion cubic metres of gas⁷) give reason to believe that the Syrian shelf may also hold major gas deposits. The Russian companies Rosneft and Novatek⁸ already participate in the development of gas fields in the Levantine Basin. According to the Syrian opposition publication *Enab Baladi*, “Russia has seized Syrian resources (its gas, oil and phosphates) under long-term contracts. It will continue to invest in Syrian gas fields for the next 10 to 15 years in exchange for 25 per cent of all gas extracted.”⁹

The 2009 Energy Strategy of the Russian Federation until 2020 reads that “Russia’s firm position in the global energy markets will not only ensure a stable income from the fuel and energy exports, but will significantly strengthen the country’s economic and political status in the world.” The document goes on to say that “the Middle Eastern, South American and African markets are of interest primarily as potential consumers of the services of Russian energy companies, and as importers of Russia’s energy technologies and equipment for their fuel and energy sectors.”

Russia’s Energy Security Doctrine lists “the emergence and escalation of armed conflicts on territories neighbouring Russia and its allies, or in other regions of the world, that can threaten the extraction, transportation or consumption of Russian energy resources, as well as restricting access to Russian technologies and the provision of energy services by Russian organizations” among the military and political threats to national energy security.¹⁰ The Mashreq is of particular importance in this context, as the armed conflicts and terrorist activity in Syria (an ally of Russia) and Iraq (one of Russia’s historical partners) threaten the prospects of the oil and gas industry, as well as the associated infrastructure and Russian participation in regional projects.

⁶ Russian Oil and Gas Companies Start Exploration on Syrian Shelf // RIA Novosti. 06.07.2018.
URL: <https://ria.ru/20180706/1524073960.html>

⁷ Anna Manafova. Is the Eastern Mediterranean a New Competitor for Russia on the European Gas Markets? // RIAC. 09.09.2016. URL: <https://russiancouncil.ru/en/analytcs-and-comments/analytcs/vostochnoe-sredizemnomore-novyj-konkurent-rossijskomu-gazu-v/>

⁸ Novatek to Search for Gas on the Lebanese Shelf // Vedomosti. 11.02.2018.
URL: <https://www.vedomosti.ru/business/articles/2018/02/12/750606-novatek-shelfe-livana>

⁹ Russia seeking to dominate Mediterranean gas (in Arabic. *روسيا في طريقها للهيمنة على غاز المتوسط*) // Enab Baladi. 13.01.2019. URL: <https://www.enabbaladi.net/archives/276168>

¹⁰ Russian Energy Security Doctrine // Ministry of Energy of the Russian Federation. 13.05.2019.
URL: <https://minenergo.gov.ru/node/14766>

Iraq's Post-ISIS Oil Prospects

Iran's Absence as a Boon for Baghdad

All the inevitable political problems aside, and speaking from the purely energy-related point of view, the U.S. sanctions against Iran have had a positive effect on the Iraqi oil and gas sector. These sanctions coincided with two other factors: the OPEC/OPEC+ agreements to scale back production (which hit heavy sour crude oil the hardest) and the International Maritime Organization's (IMO) new standard for sulphur content in marine fuels, under which the current limit of 3.5 per cent is to be reduced to 0.5 per cent from January 1, 2020. The stricter bunkering regulations play into the hands of countries producing light and low-sulphur crude oils and those whose refineries have serious refining depths.

The 2016 and 2018 OPEC/OPEC+ agreements similarly affected medium and heavy sour crude oil. Saudi Arabia has been primarily cutting back production of heavy crude grades,¹¹ as the discounts offered for these oils are the highest as compared to the Oman/Dubai monthly averages and stood at -\$5.8 per barrel on average for European customers in 2018. Russia is similarly reducing production at its West Siberian fields. It should also be noted that the more technologically advanced a refinery, the more profitable it is for the facility to process heavy crude oil. Because of these factors, the global demand for heavy sour crude oil has significantly increased.

Both Iran and Iraq mainly produce heavy sour crude oil, but the current favourable pricing situation only benefits Iraq. If we compare the pricing dynamics for Basrah Light, Iraq's primary crude grade, and Iranian Heavy (despite the different names, these two have nearly identical quality at 29.6° API gravity each; Basrah Light has greater sulphur content at 2.9 per cent to 2.2 per cent for Iranian Heavy¹²), neither grade demonstrated any particular dominant trends up until May 2018, when the United States announced the resumption of sanctions against Iran. However, since the summer of 2018, Basrah Light has been steadily priced higher than its Iranian rival (see Diagram 1), even though its sulphur content is higher.

It should also be noted that the introduction of U.S. sanctions against Venezuela on January 28, 2019, has additionally strengthened the commercial standing of Iraq in general, and its state oil trader SOMO in particular. Despite the undeniable decline in production observed over the past months and years, Venezuela still remains one of the world's key suppliers of heavy crude oils; the U.S. sanctions against the state-run company PDVSA will inevitably affect the volume of Venezuelan crude exports (primarily because a significant portion of oil produced in the Orinoco Basin needs to be diluted with light crude oil or gasoline fractions, which were traditionally supplied from the United States).

¹¹ OPEC's Usual Oil Cut Gambit Unlikely to Move the Needle // FT. URL: <https://www.ft.com/content/7ecc7720-0eb5-11e9-a3aa-118c761d2745>

¹² Iranian Heavy Crude Oil // NIOC International Affairs. 25.02.2017. URL: <https://www.nioc-intl.com/NEW-PDF/SUMMER/GeneralData-IranianHeavy-New.pdf>

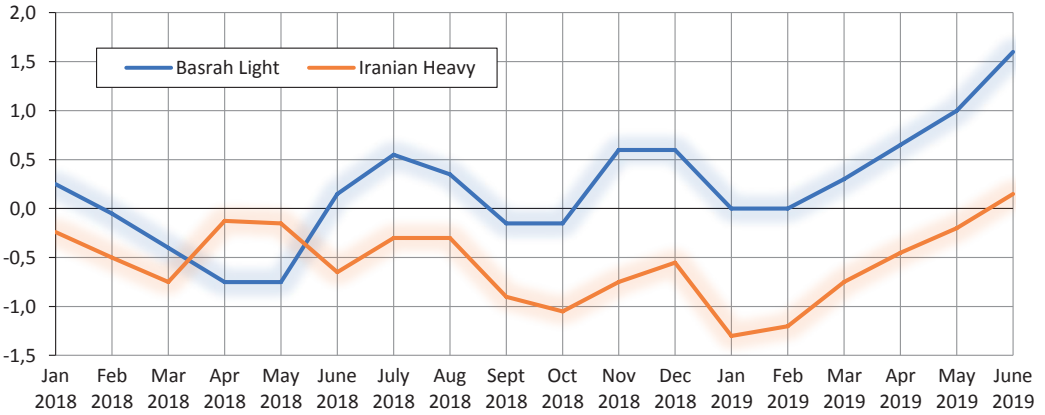


Diagram 1. Official Basrah Light and Iranian Heavy prices (IRT Oman/Dubai averages)

Sources: NIOC, SOMO

This favourable situation is influencing Iraq’s energy policy. Just as is the case with the majority of Middle Eastern states, SOMO bases its pricing policy on the monthly Official Selling Prices (OSPs), whose figures are tied to different price benchmarks, such as the Oman/Dubai monthly averages for exports to Asia and Dated Brent for exports to Europe. As mentioned above, Iraq has, substantially raised prices for its two major crude grades, Basrah Light and Basrah Heavy (see Diagram 2), over the past few months.

However, along with an increase in potential profits, Iraq has introduced stricter conditions for buyers of its crude oils. Nowadays, virtually every long-term supply contract for Basrah Light and Basrah Heavy contains a clause on the destination of shipments. Up until the autumn of 2018, violations of this provision would be

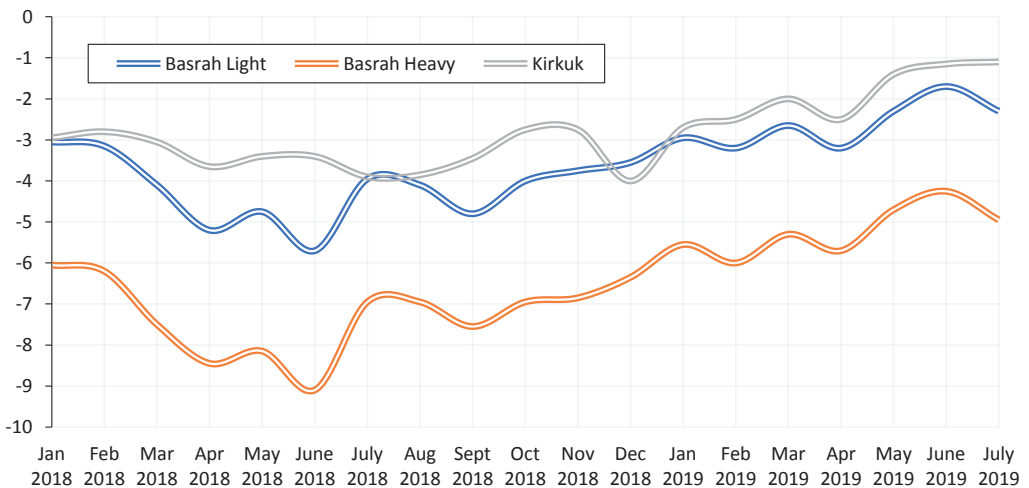


Diagram 2. Official Basrah Light and Basrah Heavy prices for Europe in 2018-2019

Source: SOMO

mostly overlooked. After letters were sent to violating companies in October and November 2018 warning that compliance with their contracts would be enforced more stringently in the future, trade of Iraqi oil on the European spot markets all but stopped.¹³ Iraq, for its part, introduced a new practice regarding the sale of its oil: in recent months, SOMO has repeatedly announced spot tenders for Iraqi crude oils.

The tenders cover all three major Iraqi crude grades: Basrah Light, Basrah Heavy and Kirkuk (the latter is shipped from the Turkish port of Ceyhan). The advantage of the tender system for Baghdad is that it effectively forces interested customers to pay a premium on the official selling price. In most cases, the premium amounts to at least \$1 per barrel, bringing the end price up to the world exchange level for the given crude grade.¹⁴ This gives Iraq reason to be optimistic about the future, and Baghdad has again started to voice its ambitions about reaching production levels of 7 million barrels per day, for the first time ever.¹⁵

Kurdistan Oil as a Stability Factor

Developments outside Iraq, including the gradual international isolation of Iran and the introduction of U.S. sanctions against Venezuela, have certainly had a positive effect on the development of the Iraqi energy sector, but Baghdad still to resolve a number of domestic issues before it can reach a new level. The most difficult and particularly politicized issue is the resolution of the Kurdistan problem, which has escalated against the backdrop of the Kurdish Peshmerga's successful fight against ISIS forces. Before the conflict erupted in 2014, Kirkuk and the surrounding territories were under Baghdad's control. These areas were, however, fairly quickly liberated by the Peshmerga forces, and Kirkuk crude exports were subsequently supplied through the Kurdistan Regional Government rather than the SOMO state export monopoly.

The power of the Kurdistan authorities did not last long: after the political elites in Erbil called a referendum on September 25, 2017, military forces of the central government captured Kirkuk and regained control over the region's key oil production facilities at the Bai Hassan and Avana oil fields.¹⁶ Significant volumes of oil (about 275,000 barrels per day) were thus effectively removed from the world markets since there was no agreement with the Kurdistan authorities on the use of the pipeline running to the port of Ceyhan.¹⁷ Iraq, which still uses oil to generate electricity, utilized these volumes for domestic needs.

¹³ Spot Demand for Iraqi Crude Fades as SOMO Cracks Down on Resales // S&P Global. 06.11.2018.

URL: <https://www.spglobal.com/platts/en/market-insights/latest-news/oil/110618-spot-demand-for-iraqi-crude-fades-as-somo-cracks-down-on-resales>

¹⁴ Iraq's SOMO Offers Rare, Prompt Basrah Light Cargo Amid Resale Restrictions // S&P Global. 12.12.2018.

URL: <https://www.spglobal.com/platts/en/market-insights/latest-news/oil/121218-iraqs-somo-offers-rare-prompt-basrah-light-cargo-amid-resale-restrictions>

¹⁵ New Iraqi National Oil Company Aims to Produce 7 Million bpd: Oil Minister // Reuters. 20.10.2018.

URL: <https://www.reuters.com/article/us-iraq-oil-minister/new-iraqi-national-oil-company-aims-to-produce-7-million-bpd-oil-minister-idUSKCN1MU0TW>

¹⁶ How Will the Battle of Kirkuk Affect the Oil Market? // Vesti. Economics. 17.10.2017.

URL: <https://www.vestifinance.ru/articles/92534>

¹⁷ Iraq Restarts Kirkuk Crude Flows through KRG Pipeline // Argus Media. 16.11.2018.

URL: <https://www.argusmedia.com/en/news/1794182-iraq-restarts-kirkuk-crude-flows-through-krp-pipeline>

Strange as it may seem, the entry into force of the second wave of U.S. sanctions against Iran on November 4, 2018, contributed to a partial settlement of the Iraq–Kurdistan conflict. The U.S. government, just like the Russian authorities, actively lobbied for the speedy normalization of relations between Erbil and Baghdad and the restoration of full oil supplies through Ceyhan. The root cause of Washington's political pressure comes down to Iran: Washington has spent months reassuring Western countries that the sanctions against Iran will not lead to an increase in oil prices. To avoid this scenario, the White House had to involve virtually all the major reserve capacities of the global energy sector. This included negotiating with Saudi Arabia and releasing Kirkuk oil to the global market.

Unlike the United States, Russia's primary interests are of an economic nature. In 2017, during a period of complete unpredictability after the capture of Kirkuk and prior to the referendum, a new axis of energy cooperation began to emerge between Russia and Iraqi Kurdistan. First, in February 2017, a contract was signed with Russia's Rosneft for the purchase of Kurdish oil.¹⁸ An agreement on cooperation regarding production, infrastructure and logistics was signed at the same time. Then, in October 2017, the government of the Kurdistan Region allowed Rosneft to carry out exploratory work covering five blocks within its territory under a production-sharing agreement.¹⁹

The contract was estimated at \$400 million, which, given the fact that Rosneft holds 80 per cent of the shares in all five projects, is the operator of the works being carried out and has combined recoverable reserves of 670 million barrels, it is a pretty good deal for the Russian company.²⁰ The parties did not specify the production blocks contracted but, seeing as Rosneft subsequently registered five subsidiaries in Singapore, whose names coincide with the names cities in Iraqi Kurdistan (Batil, Darato, Qasrok, Zawita and Harir-Bejil), it is possible to more or less accurately determine where exactly in Kurdistan exploration will be carried out.²¹ If any promising deposits are identified, full-scale development of the blocks could begin by 2021.

Rosneft's direct participation in infrastructure projects is even more promising. The first step in this direction was the announcement of plans to build the Kurdistan Region gas pipeline, which is designed to connect Iraq's resource base with consumers in Turkey and Europe.²² According to Rosneft, the pipeline will have a throughput of 30 billion cubic metres per year, or about three times the combined total of all gas produced annually in Iraq (the figure stood at 10.4 billion

¹⁸ Rosneft and the Kurdistan Regional Government of Iraq Signed an Offtake Contract // Rosneft. 21.02.2017.
URL: <https://www.rosneft.com/press/releases/item/185769/>

¹⁹ Rosneft and the Government of the Kurdish Autonomous Region of Iraq Agree on Cooperation at Five Production Blocks // Rosneft. 18.10.2017. URL: <https://www.rosneft.com/press/releases/item/188125/>

²⁰ Ibid.

²¹ Viktor Katona. The Energy Giant Taking Over Kurdistan // OilPrice.com. 27.03.2018.
URL: <https://oilprice.com/Energy/General/The-Energy-Giant-Taking-Over-Kurdistan.html>

²² Rosneft Develops Projects in Iraqi Kurdistan // Rosneft. 18.09.2017.
URL: <https://www.rosneft.com/press/releases/item/187711/>

metres in 2017, see Diagram 3). Of this volume, Kurdistan contributes about 4 billion cubic metres per year.²³

The fact that Rosneft managed to secure such an ambitious gas project in the Middle East is unprecedented in several ways. To begin with, the Kurdistan gas pipeline is the first Russian project to build a trunk gas pipeline in a foreign country in which the Russian side is not represented by Gazprom, which still holds the monopoly on Russian pipeline gas exports. Second, the format of Rosneft's participation is noteworthy: the company will implement the project under the Build-Own-Operate-Transfer (BOOT) scheme, i.e., the role of the regional government (or of the central government of Iraq in Baghdad) will be restricted to that of a regulator.

The launch of the pipeline project was originally planned for 2019, with the first export deliveries to Turkey expected to take place in 2020. This timeline appears overly optimistic, primarily due to the underdeveloped resource base. Iraq currently burns most of its associated gas – up to 15 billion cubic metres per year, according to World Bank Group estimates. This means that gas supplies from Iraq itself through the Kurdish infrastructure are unlikely, despite the availability of gas resources. Kurdistan has a number of promising fields on its territory whose gas presence often exceeds expectations, but very few of these are ready for development and political differences further stave off production prospects.²⁴

The two most promising gas projects in Kurdistan are run by the Turkish company *Genel Energy*. With combined reserves of 418 billion cubic metres, and a potential peak production level of 7.2 billion cubic metres per year in the case of the Bina Bawi field and 5.2 billion cubic metres for the Miran field, Kurdistan can provide at least a third of Iraq's total gas exports. Turkey, whose demand for

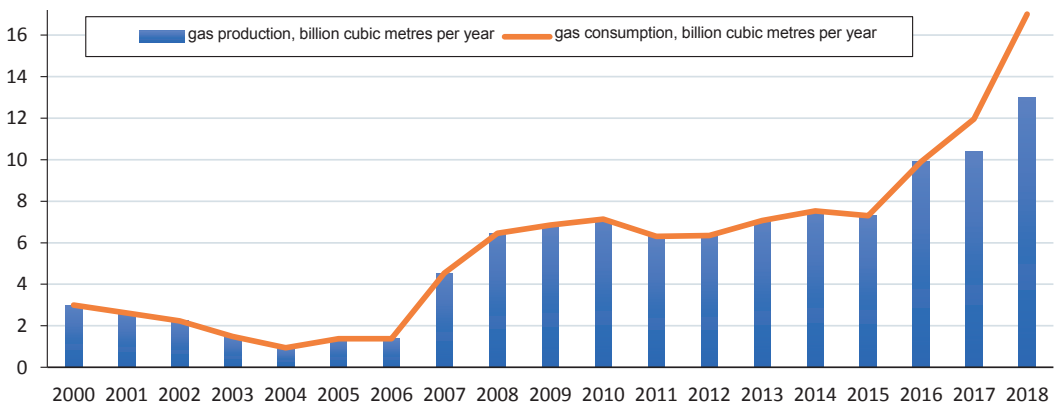


Diagram 3. Gas Production and Consumption in Iraq in 2000–2018

Source: BP Statistical Survey

²³ Viktor Katona. Russia's Kurdish Pipeline Gamble // OilPrice.com. 20.09.2017.
URL: <https://oilprice.com/Geopolitics/International/Russias-Kurdish-Pipeline-Gamble.html>

²⁴ Bina Bawi and Miran West Gas Resource Update // Genel Energy plc. 19.01.2018.
URL: <https://genelenergy.com/media/2172/genel-energy-miran-and-bina-bawi-gas-resource-update-final.pdf>

natural gas is growing at an average of 5 per cent per year, may well take Kurdish gas, especially since this possibility has already been discussed on a number of occasions but was effectively thwarted due to the outbreak of war in Iraq.²⁵ Ankara has a diverse list of gas exporters (Russia, Azerbaijan, Iran and Qatar, thanks to four LNG terminals on its territory²⁶), and gas supplies from Kurdistan would allow it to optimize its portfolio (for example, Turkey could get rid of the relatively expensive Iranian gas, especially on the back of the U.S. sanctions).

However, even these significant investments are eclipsed by Rosneft's purchase of a 60-per cent share in the Taq Taq Faysh-Khabur–Ceyhan gas pipeline.²⁷ This is the only remaining oil transportation link between Iraq and the Mediterranean after militants blew up the Baghdad-controlled Kirkuk–Ceyhan oil pipeline in 2014.²⁸ With an initial throughput of approximately 650,000 barrels per day, the pipeline was upgraded to raise it to 1 million barrels per day by the end of 2018. According to Rosneft reports, the company allocated \$1.8 billion in 2018 to support the project in the form of long-term advances.²⁹

Given the scope and far-reaching nature of Rosneft's investments in Kurdistan's energy sector, it is perhaps not surprising that the Ministry of Oil of Iraq deemed the aforementioned transactions "illegal," pointing out that only arrangements with the central government of the country were legally binding.³⁰ Although the future of Rosneft's investments is still unpredictable, there are a number of indications that the problem may be resolved in a manner that benefits Russia. First of all, Iraq is largely dependent on Russian capital, and several Russian companies are developing its natural reserves at the same time.

Gazprom Neft is involved in oil production in Iraqi Kurdistan at the Garmian and Shakal blocks, while simultaneously developing the Badra oil field in eastern Iraq.³¹ Lukoil is developing Iraq's second-largest oil field, West Qurna-2, and in 2017, it discovered the largest oil field of the last 20 years, Eridu.³² The second phase of development of West Qurna-2 will become a key driver of oil production growth in Iraq over the next six to seven years (the plan is to bring production up

²⁵ Exclusive: Turkey, Iraqi Kurdistan Ink Landmark Energy Contracts // Reuters. 29.11.2013. URL: <https://www.reuters.com/article/us-turkey-iraq-oil/exclusive-turkey-iraqi-kurdistan-ink-landmark-energy-contracts-idUSBRE9AS0BO20131129>

²⁶ Turkey's Fourth LNG Import Terminal Starts Operations in Dörtyol // GIGNL. 07.02.2018. URL: <https://giiignl.org/news/turkeys-fourth-lng-import-terminal-starts-operations-dortyol>

²⁷ Rosneft and Kurdistan Regional Government Announce the Entry of Rosneft into an Infrastructure Project in the Kurdistan Autonomous Region // Rosneft. 19.10.2017. URL: <https://www.rosneft.com/press/releases/item/188147/>

²⁸ Iraq Orders Repair of Kirkuk–Ceyhan Pipeline, Increasing Pressure on Kurdistan // FT. URL: <https://www.ft.com/content/e186a4a5-0a2c-35aa-acb8-55c9e8da10d0>

²⁹ Rosneft Makes Serious Investments into Kurdistan's Export Oil Pipeline // Teknoblog. 05.02.2019. URL: <https://teknoblog.ru/2019/02/05/96642>

³⁰ Iraq Says Rosneft's Deal with Iraqi Kurdistan Authorities is Illegal // RBC. 19.10.2017. URL: <https://www.rbc.ru/politics/19/10/2017/59e87e579a7947a5b4f3161a>

³¹ Gazprom Neft develops the Badra field in eastern Iraq and is engaged in geological exploration in Iraq's Kurdistan Region // Gazprom. URL: <http://www.gazprom.com/about/production/projects/deposits/iraq/>

³² Lukoil to start production at Iraq's newest massive discovery in 2021 // S&P Global. 10.10.2018. URL: <https://www.spglobal.com/platts/en/market-insights/latest-news/oil/101018-lukoil-to-start-production-at-iraqs-newest-massive-discovery-in-2021>

**RUSSIA'S INTERESTS IN THE ARAB MASHREQ:
ANALYZING THE FUTURE OF OIL AND GAS IN IRAQ AND SYRIA**

from the current 400,000 barrels per day to 800,000 barrels per day by 2025).³³ Therefore, it is in Iraq's best interests to avoid antagonizing Russian companies if it wants to maintain the stability of its oil and gas sector.

It should be noted that there are a number of signals coming from the Iraqi government indicating that an amicable agreement on the future status of Russian investments in the country in general, and in Kurdistan in particular, is still possible. In November 2018, after a 13-month hiatus caused by the capture of Kirkuk by government troops, exports of Kirkuk oil were relaunched via the Kurdistan oil pipeline (60 per cent of which is owned by Rosneft).³⁴ Even though Baghdad was pushed to make this step by the United States, SOMO would not have done this if it had any fundamental objections. As a result, exports of Kirkuk crude oil from the disputed territories adjacent to the city of the same name increased by almost 100,000 barrels per day (see Diagram 4), that is, by about a third of the original volumes.

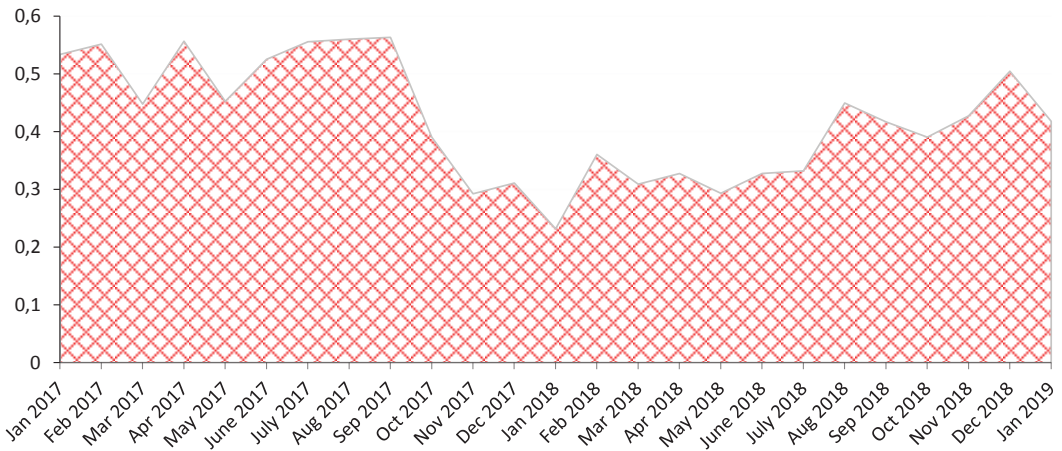


Diagram 4. Kirkuk Oil Exports via Ceyhan Port in 2017–2019

Source: Viktor Katona's data

It would appear that it is only a matter of time before we see an increase in the volume of Iraqi oil exported through the Kurdistan pipeline. In 2018, the pipeline's throughput capacity was increased from 650,000 barrels per day to 1 million barrels per day thanks to the construction of an oil pumping station in the city of Al-Shikhan, so extra technical capabilities are already in place. However, there is still no comprehensive political settlement in sight. Despite the \$6 billion in additional oil export revenues (with the 2018 national budget figure as the reference), the Baghdad political elites are not prepared to share with Kurdistan: in the draft state budget for 2019, the region was once again allocated just 12 per cent of the total oil and gas profit (in the pre-war years, Kurdistan received 17 per cent as a matter of course).

³³ West Qurna-2 // Lukoil. URL: <http://www.lukoil.ru/Business/Upstream/Overseas/WestQurna-2>

³⁴ Iraq Restarts Kirkuk Crude Flows through KRG Pipeline // Argus Media. 16.11.2018. URL: <https://www.argusmedia.com/en/news/1794182-iraq-restarts-kirkuk-crude-flows-through-krp-pipeline>

Despite the difficulties of negotiating in such an explosive region, there is a very real chance that an agreement will be reached. In view of the rather precarious position of the Adil Abdul-Mahdi government, it would be beneficial for the Iraqi central authorities to bury the hatchet with the Kurds, as the threat coming from the Saraya al-Salam bloc led by Muqtada al-Sadr that won the 2018 election, is much more real for the current establishment. No wonder, therefore, that four ethnic Kurds got seats in the new government, including Minister of Finance Fuad Hussein.³⁵ Finding a compromise will not be easy, but it is quite possible given the current situation in the country and the region, and would benefit all parties.

Basra Province in the Crosshairs

The relatively small province of Basra is the centre of Iraq's oil industry: some 75 per cent of the country's oil is produced there.³⁶ The Basra Province is more important than ever for strengthening Iraqi statehood, as its oil revenues are key to rebuilding the country and serve as the basis for developing new production projects in the region. A number of major local projects are expected to massively expand the scale of oil production in Iraq, something that could not have been achieved until now for one reason or another. The Rumaila, West Qurna-1, West Qurna-2 and Zubair oil fields will be able to increase production by 1.8 million barrels per day in the Basra Province alone, and to 5 million barrels per day (see Diagram 5, in comparison to the national production level) if their operators – BP, ExxonMobil, Lukoil and ENI – are not put under administrative pressure.³⁷

Historically, all of Iraq's oil business has been divided among nine oil companies depending on their geographic situation and field of activity: exploration (Iraqi Oil Exploration Company), drilling (Iraqi Drilling Company), shipping (Iraqi Oil Tankers Company) and production (North Oil Company, Midland Oil Company, Basra Oil Company, Dhi Qar Oil Company and Maysan Oil Company). The Basra Oil Company, better known under the acronym BOC, was the most serious government-run oil enterprise until the 2018 reform, which merged all these entities into a single national oil corporation³⁸ headed by Minister of Oil Jabbar Alluabi.

This centralization of the oil industry is aimed at solving a number of issues. First, the Ministry of Oil will now be able to concentrate exclusively on regulatory and legislative functions, without the distraction of excessively monitoring production. Second, a uniform oil and gas policy will be an advantage in resolving the Kurdish issue. Third, the national oil company will have a broader range of instruments in the event that any structural problems that require substantial resources arise. In

³⁵ Kurds to Get Four Ministerial Posts in New Iraqi Government, Kurdish MP Reveals Posts // Kurdistan 24. 24.10.2018.
URL: <http://www.kurdistan24.net/en/news/d9ce180e-a6b5-4596-a4d3-d4996c11044a>

³⁶ Iraq's Basra Oil Head Says Plans to hike Crude Output Will Require New Pipelines // S&P Global. 10.10.2018.
URL: <https://www.spglobal.com/platts/en/market-insights/latest-news/oil/101018-iraqs-basra-oil-head-says-plans-to-hike-crude-output-will-require-new-pipelines>

³⁷ Ibid.

³⁸ Iraq Transfers Ownership of Nine State Oil Companies to New National Oil Company // Reuters. 18.10.2018.
URL: <https://www.reuters.com/article/us-iraq-oil/iraq-transfers-ownership-of-nine-state-oil-companies-to-new-national-oil-company-idUSKCN1MS27E>

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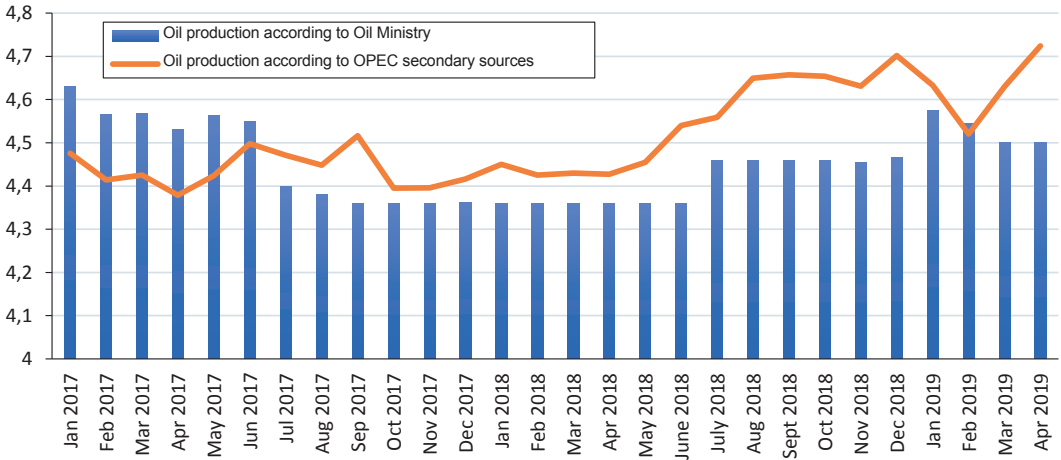


Diagram 5. Iraq Oil Production in 2017–2019 (million barrels per day)

Source: OPEC

fact, structural problems are inevitable given Iraq’s geography. All its seaports, that is, all the export terminals, are situated in the Basra Province. And if they are blocked, the country will lose all access to foreign markets.

The Basra Province is also one of the regions in Iraq in which protests can break out instantly and for any reason, such as disruptions in electricity supply (as was the case in the summer and autumn of 2018). Iraq has always had infamously unreliable utility services, and electricity disruptions are something the entire country is used to living with, including Baghdad. However, in the course of the fight against ISIS, the already shabby power infrastructure was hit so badly that the gap between the demand and supply of electricity rose to 45 per cent. The Ministry of Energy estimates that approximately \$100 billion will be required to bring the country’s power grids back into working order.

It would appear that importing electricity from Iran could be a fairly feasible way of overcoming this difficult situation (over the past 10 years, Iraq’s energy demand has been growing at 6 per cent per year). Iran has been faced with trade restrictions and other sanctions for several years now, so an opportunity to export gas to a neighbouring country without using U.S. dollars and without the involvement of third parties should be very attractive for Tehran. In addition, importing Iranian electricity would be much cheaper for Iraq than using its own resources (primarily oil) for power generation purposes.³⁹ It is worth noting that blackouts are not the only potential trigger of protests: growing unemployment and the poor quality of government services (especially when it comes to water supply⁴⁰) might also prompt people to take to the streets.

³⁹ With the current oil prices, Iran could save between \$15 and \$20 on each barrel of oil used for power generation if it imports Iranian electricity under the following formula: price in dollars per MMBtu = 0.1088* Brent price in dollars per barrel + \$0.08.

⁴⁰ Iraq Protests Threaten Country’s Oil Production, Ports // Oil & Gas 360. 10.09.2018.
URL: <https://www.oilandgas360.com/iraq-protests-threaten-countrys-oil-production-ports/>

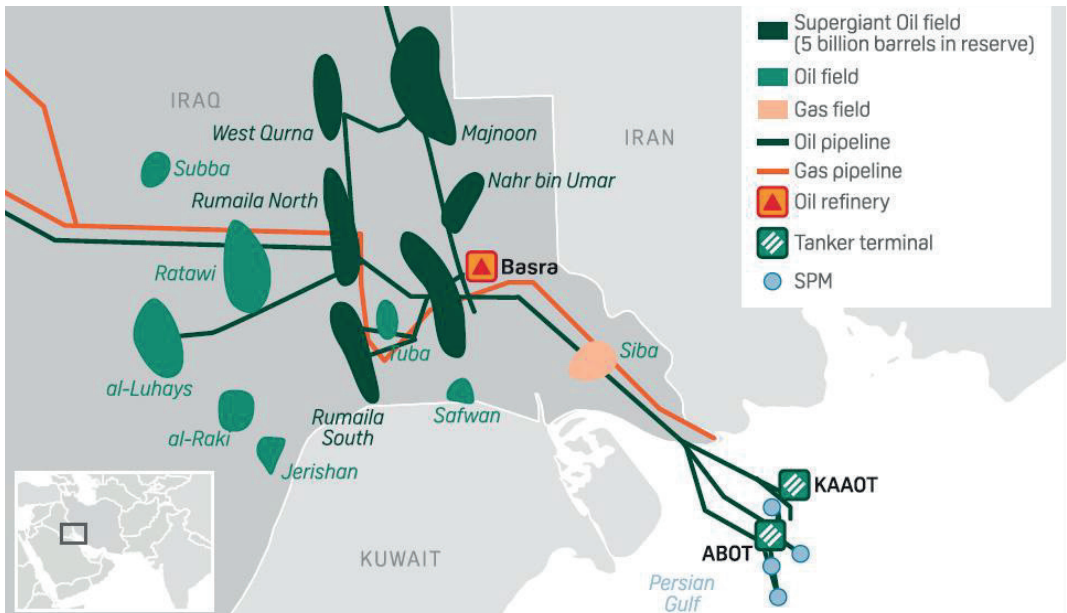


Diagram 6. Key Components of Iraq's Oil Infrastructure

As we have already mentioned, peace in the Basra Province is critical to expanding Iraq's infrastructural capacity. For several years now, the Ministry of Oil has been mulling the idea of modernizing the country's two main export terminals of Khor al-Amaya (KAAOT) and Al Basra (ABOT), and is planning to lay three underwater pipelines to these terminals with a total throughput of 3 million barrels per day.⁴¹ In fact, KAAOT needs to be completely overhauled, having sat idle most of the time since 2017 due to malfunctioning piping systems, and ABOT has been operating to half of its design capacity.

The Basra Province will also be the starting point for the Basra–Aqaba oil pipeline, which is to connect Iraq with Jordan, the Persian Gulf and the Red Sea. The plan to lay the 1680-km pipeline has been discussed for several years.⁴² Its implementation was prevented first by the U.S. military intervention, and then by unfavourable conditions and the emergence of ISIS in Iraq. In February 2019, Jordan and Iraq officially launched a feasibility study of the project, but it is clear that both parties have the political will to implement it as soon as possible.⁴³ For Jordan, the pipeline will diversify its oil supplies: the country currently takes three-quarters of its oil imports from Saudi Arabia. Also, thanks to the significant discount that has been proposed initially at the Brent price minus \$16 per barrel), Jordan stands to get a serious economic benefit.

⁴¹ Iraq's Basra Oil Head Says Plans to Hike Crude Output Will Require New Pipelines // S&P Global. 10.10.2018. URL: <https://www.spglobal.com/platts/en/market-insights/latest-news/oil/101018-iraqs-basra-oil-head-says-plans-to-hike-crude-output-will-require-new-pipelines>

⁴² Jordan Approves Project to Build Oil Pipeline from Iraq // RIA Novosti. 08.12.2001. URL: <https://ria.ru/20011228/44732.html>

⁴³ Iraq, Jordan to Build Oil Pipeline // REPORT.AZ. 03.02.2019. URL: <https://report.az/ru/energetika/irak-i-iordaniya-budut-stroit-nefteprovod/>

Given the Basra–Aqaba pipeline's original design throughput capacity of 1 million barrels per day, we can calculate how much Iraqi oil will remain in Jordan and how much will be exported via the port of Aqaba. Jordan's only refinery, located in Zarqa, is capable of processing 105,000 barrels per day (once upgraded, its capacity will reach 120,000 barrels per day⁴⁴) and is effectively the only selling point for Iraqi pipeline oil.⁴⁵ Therefore, the main function of the pipeline for Iraq will be the diversification of oil supply routes in an attempt to avoid excessive dependence on the ABOT and KAAOT terminals.

It should be noted that the pipeline will be much more vulnerable to potential incidents involving dissatisfied citizens than the deep-sea oil terminals situated 30 kilometres offshore. The 2018 riots in Basra are a good example of what the crowd is capable of: although the rioters could not disrupt the ABOT and KAAOT operations, they managed to capture the coastal port of Umm Qasr.⁴⁶ Amid growing unemployment and poverty, residents of the southern regions increasingly perceive Iraq's oil wealth as a factor contributing to corruption in the highest echelons of political power and in the oil and gas circles, so maintaining calm and peace in the Basra Province is among the key objectives for the Iraqi government.

⁴⁴ Jordan Eyes New Refinery at Port of Aqaba as it Vies to Reduce Energy Imports // The National. 13.11.2018.
URL: <https://www.thenational.ae/business/energy/jordan-eyes-new-refinery-at-port-of-aqaba-as-it-vies-to-reduce-energy-imports-1.791291>

⁴⁵ Jordan Eyes Iraqi Crude for Expanded Refinery // Petroleum Economist. 14.02.2018. URL: <https://www.petroleum-economist.com/articles/midstream-downstream/pipelines/2018/jordan-eyes-iraqi-crude-for-expanded-refinery>

⁴⁶ Iraq Protests Threaten Country's Oil Production, Ports // Oil & Gas 360. 10.09.2018.
URL: <https://www.oilandgas360.com/iraq-protests-threaten-countrys-oil-production-ports/>

Who Will Get Syrian Oil?

Before the start of the Syrian conflict, the country, although never the region's leading oil and gas producer, nevertheless consistently provided for the energy needs of its own population, and even exported hydrocarbons to Europe. All the more shocking was the 50-fold drop in Syrian oil production between 2011 and 2016. As a result, Syria, formerly a competitor of Ecuador and Argentina in this respect, found itself producing roughly the same amount of oil as Portugal or Lithuania in 2017, approximately 8000 barrels per day. This was not because Syria had run out of oil, but rather because the country had come under the control of a total different set of political forces, primarily ISIS. At present, most of Syria's largest oil fields are controlled by the U.S.-backed Kurds representing the Syrian Democratic Forces.

Oil and gas entered Syria's economy relatively recently, less than 50 years ago. Even though the first exploration efforts were made back in the 1930s by the Iraq Petroleum Company, industrial production was not launched until the 1970s, during the rule of Hafez al-Assad. In the 1990s, the Syrian government invited foreign oil and gas companies to sign production-sharing agreements with the Syrian Petroleum Company. As a result, by 2002, oil production in the country had reached an all-time high of 33.7 million tonnes (677,000 barrels per day). Production dropped to 19–20 million tonnes in the second half of the 2000s due to the natural wear and tear of the infrastructure, but the most devastating blow to Syria's energy sector was dealt by the civil war, which has been raging for eight years now. Nevertheless, the country still holds reserves that have been explored but are not being developed. The country has proven reserves of 2.5 billion barrels of oil and 241 billion cubic metres of gas.⁴⁷

First Capture It

At present, part of Syria's oil infrastructure remains out of the control of Bashar al-Assad's government forces. The government has the largest refineries, which are situated in the city of Homs and in Baniyas near the Mediterranean coast. The combined pre-war refining capacity of the two government-controlled oil refineries stood at approximately 250,000 barrels per day, but the figure has since shrunk at least by half following the fierce battles of Homs in 2017.⁴⁸ In addition to the conventional refineries, ISIS used a number of mobile refining installations to avoid damage from airstrikes. In addition, there were several hundred primitive oil distillation tanks throughout Syria in which oil would be burnt to create basic petroleum products.

Russian airstrikes delivered since the start of the military operation in Syria have forced ISIS to change its behaviour with regard to oil trade. Unlike in Iraq, the

⁴⁷ Syria. Overview // Energy Information Administration (EIA). 24.06.2015.
URL: <https://www.eia.gov/beta/international/analysis.php?iso=SYR>

⁴⁸ Almohamad H., Dittmann A. Oil in Syria between Terrorism and Dictatorship [Social Sciences]. Giessen, Germany, 17.05.2016. URL: <http://www.mdpi.com/2076-0760/5/2/20/pdf>

Western coalition in Syria limited its operations to attacks on oil wells, whereas Russian military aviation, even according to the *Financial Times*, would deliver direct strikes on ISIS petrol trucks and tanks, effectively denying the organization the possibility of trading in petrol products across most of Syrian territory.⁴⁹As a result, the main flow of oil produced by ISIS was redirected to refineries in the Deir ez-Zor Province or to Iraq. However, some contradictions still remained: for example, gas processed at ISIS-controlled processing plants would often end up in territories controlled by the Syrian government.⁵⁰

The events of 2018 demonstrated that ISIS's control over the Syrian energy system was gradually weakening. In January 2016, Kurdish People's Protection Units (YPG) captured the Al Jabsa oil field. For several months following the liberation of Palmyra in late March 2016, the Syrian national oil company made attempts to launch small projects near the city of Tadmur (the Syrian government had prevented ISIS from capturing this strategic point, which allowed it to increase oil production significantly, since there was no need for negotiations with militants). In addition to material damage to its energy infrastructure, ISIS gradually lost its most qualified leaders: in August 2016, the Kurdish forces eliminated Sami Al-Jabouri, the so-called "Minister of Oil" of ISIS.⁵¹

While the Syrian government controlled less than a third of the oil fields, special efforts were made to maintain control over the gas fields, since natural gas is the primary source of electricity generation in the country. Prior to the conflict, 90 per cent of all gas produced in Syria would be used to generate electricity. The government urgently needed to consolidate the territories around Palmyra and Tadmur, since Palmyra is the transit hub for natural gas, which is supplied mainly to the western regions of Syria. The outskirts of Palmyra hold the greatest amounts of gas in all of Syria; even now, as the war still rages, their production potential stands at about 10 million cubic metres per day (nearly a third of the pre-war volumes).⁵² Holding the region under control was extremely important for the Syrian army, both from the point of view of the military and from the point of view of energy.

Then Restore It

The Syrian government has yet to conduct a series of successful military campaigns or negotiations on the ground to restore full control over the country's energy infrastructure. Syria's pre-war oil production was based primarily on the oil fields in the Deir ez-Zor Province, along the Euphrates River. These fields are now situated deep in ISIS-controlled territory, and regaining control over them will require a complete victory over the Islamists.

⁴⁹ Inside Isis Inc: The journey of a barrel of oil // FT. 29.02.2016.
URL: <https://ft.com/sites/2015/isis-oil/>

⁵⁰ ISIS Inc: Syria's "Mafia-Style" Gas Deals with Jihadis // FT. 15.10.2015.
URL: <https://www.ft.com/content/92f4e036-6b69-11e5-aca9-d87542bf8673>

⁵¹ Senior ISIS Leader Killed in Joint Kurdish-U.S. Commando Operation on Iraq-Syria Border // Rudaw. 11.08.2016.
URL: <https://www.rudaw.net/english/middleeast/iraq/110820162>

⁵² The War Over Syria's Gas Fields // Carnegie. 08.06.2015.
URL: <https://carnegie-mec.org/diwan/60316>

The restoration of Syria and its energy sector is believed to be beyond the physical capabilities of the Syrian authorities. Back in 2015, the IMF estimated the cost of these efforts at \$27 billion, but the intensification of hostilities in 2015–2016, and more targeted strikes to eliminate ISIS infrastructure, have since pushed the figure up to \$35–40 billion, or more than half the country's pre-war GDP.⁵³ Oil and gas revenues will pale in comparison to the pre-war sums (in 2010, Syria's oil and gas sector accounted for some 12 per cent of the country's GDP⁵⁴). The IMF estimates that, against the background of a 64-per cent drop in GDP in 2011–2016, that share did not exceed 3.5 per cent.⁵⁵

Since it is unrealistic for Syria to restore its oil and gas infrastructure on its own, Damascus will have to attract foreign companies on terms that are better than those offered by other Middle Eastern countries. Before the start of the civil war, a number of international oil and gas companies operated in the country, including Shell, Total, Croatia's INA and Russia's Tatneft. The latter has found itself in a particularly difficult situation, since the planned commissioning of its Qishma oil field coincided with the outbreak of the war, and the field was captured by ISIS in 2014. It was assumed that even if the field were liberated, the degree of infrastructural damage would probably be too high to resume operations there, even though Tatneft did not formally announce that it was pulling out of the project.⁵⁶

In September 2011, the European Union followed the U.S. example in introducing a blanket ban on the import and transportation of Syrian oil.⁵⁷ It is worth noting that 90–95 per cent of all Syrian oil exports were destined for Europe, primarily Germany, Italy and France.⁵⁸ However, given the current insignificant production levels and domestic energy shortages, it is highly unlikely that Syria sees oil exports as a priority. Nevertheless, the U.S. and EU sanctions limit the ability of the Syrian authorities to attract foreign companies to do business in the country. For example, INA's assets have largely been recaptured from ISIS, and the ownership rights still belong to the Croatian company, but the sanctions prevent it from returning to Syria.⁵⁹ It should also be noted that in 2013, the European Union lifted the sanctions from the Syrian opposition, which caused certain complications due to insufficient delimitation between the groups fighting in Syria.

⁵³ Gobat J., Kostial K. Syria's Conflict Economy // International Monetary Fund. 06. 2016.
URL: <https://www.imf.org/external/pubs/ft/wp/2016/wp16123.pdf>

⁵⁴ Ibid.

⁵⁵ Devarajan S., Mottaghi L., Do Q.T., Jellil M. A., Hisou O., Shaban R., Chaal-Dabi I., Lenoble N. Syria: Reconstruction for Peace [MENA Economic Monitor]. 04. 2016. URL: <http://documents.worldbank.org/curated/en/777291467993169903/pdf/104577-WP-PUBLIC-4-12-16-MEM-SPRING-2016-FINAL-FINAL.pdf>

⁵⁶ Tatneft Still Planning to Resume Operations in Syria, Libya // RIA Novosti. 06.06.2016.
URL: <https://ria.ru/20160606/1443626318.html>

⁵⁷ Syria Sanctions: EU Follows U.S. Ban on Oil Imports, and Expands List of Designated Persons // Holman Fenwick Willan. 09. 2011. URL: <http://www.hfw.com/Syria-Sanctions-EU-Follows-US-Ban>

⁵⁸ Almohamad H., Dittmann A. Oil in Syria between Terrorism and Dictatorship [Social Sciences]. Giessen, Germany, 17.05.2016.

⁵⁹ Milekic S. Croatia's INA Weighs Call to Return to Syria // Balkan Insight. Zagreb. 18.04.2016.
URL: <https://balkaninsight.com/2016/04/18/croatian-energy-company-closely-monitors-syria-s-situation-04-15-2016/>

It is unlikely that, if Bashar al-Assad or his allies manage to consolidate the country, Western companies will get oil and gas production concessions. Even if some Western enterprises manifest an interest, the U.S. and EU sanctions will prevent them from regaining their production rights in Syria. The Syrian authorities have already invited Russia to take a closer look at the country's Mediterranean shelf, which, Damascus believes, is as rich in hydrocarbons as the Israeli and Egyptian territorial waters situated a little to the south.⁶⁰ At the moment, however, the main objective is to free Syria from all illegitimate groups. Only after this has been done will it be possible to talk seriously about the future of Syrian oil and gas.

⁶⁰ Damascus Wants Russia to Develop Syrian Oil // RT. 26.11.2015.
URL: <https://www.rt.com/business/323568-syria-russia-oil-deposit/>

Conclusions and Recommendations

The Energy Strategy of the Russian Federation until 2035 prioritizes the modernization of the country's energy infrastructure. Introducing sustainable development principles will be in line with the strategy's provision on "social and environmental responsibility, utilization and development of human capital for purposes of innovative development and energy efficiency ... [in] managing energy companies and in the state regulation of the development of the energy sector."⁶¹ This means that Russia will accumulate potential and gain experience in modernizing the relevant infrastructure, which could then be exported to the Mashreq and to the broader region of West Asia, much to Russia's benefit.

In the medium term, Russia should formulate a uniform policy regarding the construction of oil and gas facilities in Syria and Iraq. This requires drawing up an inventory of such projects and running a preliminary analysis of how profitable sub-regional energy integration within the Mashreq could be for Russian companies, given the costs that will invariably arise during the implementation of the strategy. Let us not forget that the Russian company Stroytransgaz planned to build an oil pipeline from Kirkuk through Iraqi and Syrian territory to Syrian ports (the Kirkuk–Baniyas pipeline was destroyed by U.S. air raids during the 2003 invasion of Iraq⁶²), and had the capabilities to do it. Security remains a key issue and requires political settlement and agreements with the tribes of the Jazira Region, as well as with the Kurds. Russia should generally be more aware of the inter-ethnic, inter-religious and inter-tribal relations in the Mashreq. The situation in the east of Syria and in the west of Iraq can be resolved through agreements with key business people who have gained and built their capital throughout the crisis. Given interest from external actors, identifying such figures will not take long (their names are known both in Damascus and in Baghdad). In addition, Moscow needs to consider the possibility of involving emigre Syrian businessmen in the post-war reconstruction of the country (informal venues in European capital cities could, under Russia's supervision, bring the capital at the disposal of the Syrian diaspora back to the country). A platform for strengthening Russia's role in these processes is already in place in the form of close contacts and working relations with all the nations in the region; the presence of a military base on the Mediterranean coast; the transfer of the ports of Tripoli (Lebanon) and Tartus (Syria) to the control of the Russian companies Rosneft and Stroytransgaz, respectively; additional Russian investments in the Iraqi oil and gas industry (to reach about \$40 billion by 2025); participation in gas projects in the Levantine Basin; and Russia's projects to build the El Dabaa (Egypt) and Akkuyu (Turkey) nuclear power plants. All these could be used by Russia for various purposes, including to support Russian companies in the region (and to support the country's interests in the context of Syrian restoration).

⁶¹ The Energy Strategy of the Russian Federation until 2035 (Main Provisions) // Analytical centre under the Russian government. URL: <http://ac.gov.ru/files/content/1578/11-02-14-energostrategy-2035-pdf.pdf>

⁶² Stroytransgaz in Talks with Iraq on Restoration of Oil Pipeline // RIA Novosti. 06.12.2007. URL: <https://ria.ru/20071226/94254578.html>

It is advisable for Russia to participate in as many gas projects in the Levantine Basin as possible (conditional on the technical capabilities of Russian companies). Russia could be the key operator of the Mediterranean/Levantine Stream in the European Union. This would also allow Russia to maintain a key position in the regulation of European gas prices. For the regional countries, Russia's participation would mean the security of these projects. Taking into account the fact that gas from the Levantine Basin can guarantee special benefits only through joint development efforts, Russia could act as a key partner and even a mediator in any disputes that may arise.

The absence of a "fair broker" in the Eastern Mediterranean increases the risks of new regional conflicts and problems. The "bloc" mentality of individual countries when it comes to hydrocarbon production and gas transportation, long-standing conflicts (like Cyprus) and the lack of diplomatic contacts between certain countries of the region (for example, between Turkey and Egypt and between Turkey and Syria) only breed distrust and undermine security in the region. The commitment of the countries in the Eastern Mediterranean to resolving economic cooperation issues through dialogue, with the involvement of an independent actor capable of taking everyone's interests into account and finding solutions, would create a platform for building mutual confidence and even lead to the development of collective security components (just like the European Coal and Steel Community played a part in the founding of the OSCE, so an Eastern Mediterranean gas association could contribute to sub-regional integration and security). In view of the United States' interests and role in the region, this issue could be put on the U.S.–Russia bilateral agenda in order to achieve the most secure and acceptable inclusive results. It is advisable for Russia to maintain contacts and enter projects with all the countries in the Eastern Mediterranean, including Turkey, which currently finds itself in an awkward situation, in order to derive greater benefits for itself. Should massive oil and gas fields be found on the Syrian shelf, such an approach would only strengthen Russia's positions.

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