

Russia and the Persian Gulf: Trade, Energy, and Interdependence

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This article examines changes in Russia's diplomatic, trade, and energy relations in the Persian Gulf over time. Our data suggest that Russia's profile in the Persian Gulf is rising in the post-Cold War period. While Russian-Gulf state trade has not reached high levels, trade and energy cooperation have increased significantly. These changes do not mean that Russia has jettisoned strategic interests in the Middle East writ large — as its support of Syria, or to some extent Iran, may indicate — or that it no longer seeks to balance against Washington. But it appears that in the mix of its foreign policy motivations, trade and commerce with Arab Gulf states matter much more now than they did in the past. Should such ties continue to strengthen, they may give Russia greater reason to cooperate with Arab Gulf states on contentious regional issues.

Russia has experienced a difficult transition in the post-Cold War period, and the nature and course of this transition remains critical to world politics. During this transition, Russia's global foreign policy appears to be shifting more toward meeting economic goals. In particular, our data suggest that such a shift is in play regarding Russia's foreign policy position in the Persian Gulf. While Russian trade with the Gulf states has not reached high levels, trade is on an upward trajectory and energy cooperation is increasing. *In toto*, this suggests increasing Russian economic interdependence with regional states and an enhanced Russian economic position in the region.

These changes do not mean that Russia has jettisoned strategic interests in the region — as its support of Bashar al-Asad's regime in Syria may indicate — or that it no longer seeks to act as a balance against Washington. Rather, in the mix of Russia's foreign policy motivations, it appears that trade and commerce have increased significantly in importance.

Although Russia also has serious economic interests in Iran, the case is nonetheless unpredictable given the Iranian nuclear crisis with global powers. At the same time, Russia's growing commercial interests with GCC states and Iraq may give it some reason to hedge its support of Iran in order to better protect future potential with the Gulf Arab states that strongly oppose Iran's nuclear aspirations. Concurrently, Russia's political interests in Syria may produce the opposite effect and hurt Moscow's relations with key Arab states.

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In this article, we first discuss some signs of a shift in Russian thinking. We then focus our attention on sketching changes in Russia's diplomatic, trade, and energy relations in the Persian Gulf, and conclude by elaborating upon what these changes mean for regional and global relations and stability.

RUSSIA'S SHIFTING MIX OF MOTIVATIONS

While this article does not focus on Russia's global foreign policy, signs of change amid continuity appear to be afoot. As Russian Foreign Minister Sergey Lavrov noted in 2011, "Archaic perceptions from a bygone era about the struggle for spheres of influence, about reliance upon the power factor in politics and about the imposition of one's own standards on others still hold sway. We continue to strongly resist such tendencies."¹

Statements by Russian leaders have been laced increasingly with ideas about the importance of globalization, joining the World Trade Organization (WTO), economic development, and even pursuing soft power. Vladimir Putin set a goal of doubling gross domestic product (GDP) within a decade when he first became president in 2000.² (The goal was not met). In his view, "It is not only quantitative economic parameters which are important for Russia now, but also qualitative ones, and a sustainable economic development."³ In former president Dmitry Medvedev's view, Russia's modernization was not proceeding fast enough given that there was "absolutely no alternative to modernization of the economic or political system."⁴

Putin refocused attention on economic growth in 2011 in his speech at the First Social Business Forum in Moscow,⁵ and then again as the reelected president in October 2012 during the "Russia Calling!" investment forum.⁶ Recognizing that raw materials cannot serve as the only engine of growth, Putin has repeatedly promised an expansion and diversification of foreign trade and industry, stressing that "Russia certainly needs modern technology and private investment in development."⁷ In April 2012, Putin reiterated his targets — including improving Russia's position in the World

1. "Russian Foreign Minister Sergey Lavrov Interview to Interfax News Agency, December 26, 2011," *Ministry of Foreign Affairs of the Russian Federation*, December 26, 2011, http://www.mid.ru/bdcomp/brp_4.nsf/e78a48070f128a7b43256999005bcbb3/dfd0fa30cdd8b49844257973004a91ec.

2. "Crisis Prevented Russia from Doubling GDP as Promised - Putin," *RIA Novosti*, June 1, 2011, <http://en.rian.ru/russia/20110601/164365815.html>.

3. "Vladimir Putin: Seichas Dlia Rossii Vazhen ne Kolichestvennyi, a Kachestvennyi Rost Ekonomiki" ["Vladimir Putin: Qualitative, Not Quantitative Growth is Important for Russia"], *Rossiiskaya Gazeta*, June 1, 2011, <http://www.rg.ru/2011/06/01/vvp-anons.html>.

4. "Russia's Medvedev Sees No Alternative to Modernization," *RIA Novosti*, September 10, 2010, <http://en.rian.ru/russia/20100910/160543812.html>.

5. "Putin: 'Cherez 10 Let RF Voidet v Piatorku Krupneishikh Ekonomik Mira'" ["Putin: 'After 10 years, Russia Will Become the Fifth Largest Economy in the World'"], *Golos Rossii*, May 26, 2011, <http://rus.ru/rv/2011/05/26/50848043.html>.

6. Alexander Kilyakov, "Russia's President Promises a New Model for Economic Growth," *Russia Beyond the Headlines*, October 8, 2012, http://rbth.ru/articles/2012/10/08/russias_president_promises_a_new_model_for_economic_growth_18919.html.

7. Ivan Krylov, "Vladimir Putin: V Ekonomike Rossiia Stavit Pered Soboi Ambitsioznye Tseli" ["Vladimir Putin: Russia's Economy Has Set Itself Ambitious Goals"], *Russkiy Mir Foundation*, May 26, 2011, <http://www.russkiymir.ru/russkiymir/ru/news/common/news19086.html>.

Bank's Ease of Doing Business Index by 100 places by 2018, from its ranking at 120.⁸ Despite being critically aware of the need for reform, Medvedev admitted that, in the short term, Russia's concern to maintain its revenues from energy will be still critical.⁹ Medvedev stressed that "nostalgia should not guide our foreign policy, and strategic long term goal of modernizing Russia," adding that the modernization and building a new economy "are only possible if we use the intellectual resources of post-industrial society,"¹⁰ in the goal of making Russia a "modern country."¹¹

RUSSIA'S EVOLVING POSITION IN THE PERSIAN GULF

The evolution of Russia's position in the region is characterized by a major expansion in the diplomatic, trade, and energy relations especially in the last decade. We will proceed to identify these changes in the following sections of this article.

DIPLOMATIC INTERACTION

It is worthwhile to offer a brief account of Moscow's diplomatic successes in the region. They were facilitated initially by Mikhail Gorbachev's foreign policy of greater liberalization, and were aided by the withdrawal of Soviet forces from Muslim Afghanistan in 1989; Moscow's stand against Iraq's invasion of Kuwait in 1990; and the demise of the Soviet Union in 1991. Moscow lacked diplomatic relations with Saudi Arabia, Bahrain, the United Arab Emirates, Qatar, and Oman during most the Cold War.¹² Kuwait was the only Arab state with which Moscow has maintained diplomatic relations since 1963, given Cold War tensions. Most of the others followed in the 1980s, and Saudi Arabia in 1991.

In the post-Cold War era, and particularly in the last decade, Russia has dramatically expanded its links with Saudi Arabia. In 1991, Saudi Arabia provided Moscow with \$2.5 billion in assistance; this, however, was not followed up with more investment in the 1990s as had been expected.¹³ Relations improved further after 9/11, when US-Saudi relations reached an all-time low.

8. Neil Buckley, "Economy: Oil Dependency Remains a Fundamental Weakness," *Financial Times*, June 20, 2012, <http://www.ft.com/intl/cms/s/0/438712b2-b497-11e1-bb2e-00144feabdc0.html#axzz2NAPiiV3V>.

9. For transcript of the speech, see, "Meeting of Commission for Modernisation and Technological Development of Russia's Economy, *President of Russia*, September 26, 2011, <http://eng.kremlin.ru/transcripts/2857>.

10. "Rossiia, Vpered! Stat'ia Dmitriia Medvedeva" ["Forward, Russia! Article by Dmitry Medvedev"], *President of Russia*, September 10, 2009, <http://kremlin.ru/news/5413>.

11. "Dmitrii Medvedev: Rossiia Cherez 10 Let Dolzhna Stat' Sil'nym Gosudarstvom," ["Dmitry Medvedev: Russia in 10 Years to Become a Strong State"], *Rossiiskaya Gazeta*, June 20, 2011, <http://www.rg.ru/2011/06/20/rossiya-anons.html>.

12. Marat Terterov, "New Partnerships and Realignment in the Evolving International System: Contemporary Relations between Russia, the CIS and the Gulf," in Marat Terterov, ed., *Russian and CIS Relations with the Gulf Region: Current Trends in Political and Economic Dynamics* (Dubai: Gulf Research Center, 2009), p. 14.

13. Andrej Kreutz, *Russia in the Middle East: Friend or Foe?* (Westport, CT: Greenwood Publishing Group, Inc., 2007), p. 127.

The relationship particularly intensified after 2003 when then-Crown Prince 'Abdullah visited Moscow, becoming the most senior Saudi official to visit Russia since the Kingdom was proclaimed in 1932. In 2005, Russia became an observer at the Organization of the Islamic Conference, and in 2006, formed a Russia-Islamic World Strategic Vision Group.¹⁴ Medvedev repeatedly stated that Russian-Saudi relations are "gaining ever greater dynamics, reflecting cooperation at all levels."¹⁵ In April 2006, Lavrov praised intensive dialogue with Saudi Arabia and indicated Moscow's interest in the "development and deepening of mutually beneficial cooperation in various spheres, especially the economy."¹⁶

Closer ties between Russia and the Gulf Cooperation Council (GCC) were particularly underscored by Putin's inaugural tour of Saudi Arabia, Qatar, and Jordan in February 2007 — the first-ever trip by a Russian or Soviet head of state to the Gulf. The visit helped Moscow consolidate its already improving relations with the Gulf states.¹⁷ During his visit, Putin brought along the leader of the predominantly Muslim region of Tatarstan, Mintimir Shaimiev, who received from King 'Abdullah the King Faisal International Award for Service to Islam. The two sides resolved to increase bilateral cooperation in the energy sector as well as in economic, commercial, cultural, scientific, technological, and transport sectors.¹⁸ They also concluded several business contracts and aimed to remove obstacles to greater Saudi-Russian trade. Putin's visit was followed by King 'Abdullah's first visit to Moscow as the Saudi monarch in November of the same year.¹⁹ Prince Bandar bin Sultan visited Moscow in 2007, touching off a major rise in high-level visits since then.

In July 2008, Medvedev evaluated Russian-Saudi relations as developing dynamically: "We can see this in trade-economic relations, in cultural ties, and in other fields of cooperation."²⁰ Saudi Arabia's Foreign Minister Saud Al Faisal visited the Kremlin in March 2011 and conveyed King 'Abdullah's personal message, "to advance and develop relations of friendship and cooperation in all spheres between Saudi Arabia and Russia."²¹

Russia's diplomatic relations with the other Gulf states have similarly expanded. Officials from Russia and the United Arab Emirates (UAE) have maintained frequent visits since 1992. In 2007, Putin visited the UAE — the first such high-level visit in their bilateral relations²² — launching subsequent visits that generated cooperation in

14. Mark A. Smith, "Russia and the Persian Gulf: The Deepening of Moscow's Middle East Policy," *Conflict Studies Research Centre: Middle East Series* (August 2007), [www.da.mod.uk/colleges/arag/document-listings/.../07\(25\)MAS.pdf](http://www.da.mod.uk/colleges/arag/document-listings/.../07(25)MAS.pdf).

15. "Russian President Tells Visiting Saudi Prince Bilateral Relations Improving," *BBC Monitoring*, July 14, 2008, available at: <http://search.proquest.com/docview/460467910>.

16. ITAR-TASS, "Russian Foreign Minister Starts Visit to Saudi Arabia," *BBC Monitoring*, May 21, 2006, accessed via Factiva, document #BBCSUP0020060521e251000rt.

17. Terterov, "New Partnerships and Realignment in the Evolving International System," p. 16.

18. Mariam Al Hakeem, "Putin Starts 'Historic' Riyadh Visit Today," *Gulf News*, February 11, 2007, <http://gulfnews.com/news/gulf/saudi-arabia/putin-starts-historic-riyadh-visit-today-1.160739>.

19. Marat Terterov, "Russian Relations to the Gulf Region in a Changing Geopolitical Environment," *Central European Journal of International & Security Studies*, Vol. 3, No. 1 (May 2009), p. 158.

20. "Russian President Tells Visiting Saudi Prince Bilateral Relations Improving," *BBC Monitoring*.

21. Interfax, "Saudi Arabian Minister Conveys King's Message to Russian President," *Russia & CIS Business and Financial Newswire*, March 25, 2011, available at: <http://business.highbeam.com/407705/article-1G1-252466139/saudi-arabian-minister-conveys-king-message-russian>.

22. Abbas Al Lawati, "Putin's Visit to the UAE Marks Special Relationship," *Gulf News*, September 10, 2007, <http://gulfnews.com/news/gulf/uae/government/putin-s-visit-to-the-uae-marks-special-relationship-1.200390>.

space, culture, science, education, and media. The Russian news agency RIAN, the TV channel *Rusiya al-Yawm*, the *Russian Radio* station, and the Russian monthly newspaper in Arabic *Anba' Musku* opened bureaus in the UAE.

In 2010, the emir of Qatar visited Russia; and Medvedev awarded the Order of Friendship to the Kuwaiti deputy minister of *awqaf* and Islamic affairs. Also in 2008, Russia signed a Memorandum of Understanding on cooperation in the peaceful use of atomic energy with Kuwait and Qatar.

Russia and Bahrain signed a declaration on furthering development of friendly relations in 2008. The same year marked the first official visit in the history by the king of Bahrain, Hamad bin 'Isa Al Khalifa, to Russia, following myriad lower-level visits. In February 2008, Lavrov praised "the expansion of mutually beneficial cooperation in trade, economic and business spheres and development of cultural and educational ties" with Bahrain.²³

November 2011 inaugurated the first ever GCC-Russian strategic dialogue in which the two sides explored security and political issues as well as areas of a strategic importance such as trade, investment, technology, and intercultural and interfaith dialogue.²⁴ Such relations would have been nearly unthinkable in the 1980s.

The evolution of Russian-Iraqi relations has been tortuous. During the Cold War, Baghdad had been Moscow's main ally in the region and their cooperation was close and multifaceted, as reflected in the 1972 Treaty of Friendship and Cooperation. Although Moscow remained Iraq's ally during the 1990s when Iraq was isolated under UN sanctions, its position in Iraq decreased in the post-Soviet era. During the 1990's, Russia moved away from Iraq in an effort to maintain good relations with the GCC and the West. In the first Gulf War in 1990–91, Russia joined the US-led alliance against Iraq,²⁵ albeit reluctantly. Through the 1990s however, Russia supported Saddam Husayn diplomatically by advocating for the lifting of the oil embargo and other economic sanctions imposed against Iraq after the war, hoping to win lucrative contracts in Iraq's energy sector.

Although Russian political and economic influence in Iraq rapidly declined after the US-led invasion in 2003, Russia sought to improve relations with the new Iraqi authorities, partly in order to protect Russia's economic contracts and interests. To facilitate new diplomatic relations, Moscow agreed to write off 80% of the Iraqi debt to Russia, which in 2007 amounted to \$13 billion, though Putin added that "we assume that the interests of our companies will be taken into account."²⁶ In April 2009, Prime Minister Nuri al-Maliki became the first Iraqi leader to visit Russia since 1981.²⁷ Bilateral ties were enhanced by Lavrov's visit to Baghdad in May 2011.²⁸

23. ITAR-TASS, "Russian FM Is in Bahrain to Discuss Bilateral Ties & Persian Gulf," February 19, 2009, accessed via Factiva, document #TASS000020090219e52j000ji.

24. "Summary of Remarks by Russian Foreign Minister Sergey Lavrov at the First Ministerial Meeting of the Strategic Dialogue between Russia and the Cooperation Council for the Arab States of the Gulf," *Embassy of the Russian Federation in Canada*, November 7, 2011, <http://www.rusembassy.ca/ru/node/624>.

25. Steve A. Yetiv, *Explaining Foreign Policy: U.S. Decision-Making and the Persian Gulf Wars* (Baltimore: Johns Hopkins University Press, 2011).

26. "Russia CIS Diplomatic Panorama," Interfax, December 8, 2004, quoted in Andrej Kreutz, "Russian Relations with Iran and Iraq," in Marat Terterov, ed., *Russian and CIS Relations with the Gulf Region: Current Trends in Political and Economic Dynamics* (Dubai: Gulf Research Center, 2009), p. 106.

27. "Prime Minister Vladimir Putin Met the Prime Minister of Iraq, Nouri al-Maliki," *Government of the Russian Federation*, April 10, 2009, <http://premier.gov.ru/eng/events/news/3855/>.

28. "O Vizite Ministra Inostrannykh Del Rossii S.V.Lavrova v Irak" ["The Visit of Russian Foreign Minister S.V. Lavrov to Iraq"] [*Continued on next page*]

Moscow lacked diplomatic relations with Iran prior to its 1979 revolution; even after the revolution, Iran rebuffed Moscow's attempts at gaining a foothold in the country. However, that changed particularly in the past decade. The Treaty on Principles of Relations and Principles of Cooperation, signed on March 12, 2001, helped to facilitate political relations. In the past decade, Iran has come close to Russia's position on a number of regional and international issues, such as the desirability of a multipolar world order, the strengthening of the UN role in international affairs, the settlement of the Afghan and Iraqi crises, and the stabilization of Central Asia and the Caucasus. As will be discussed in the conclusions, the two states also have serious differences, especially regarding Iran's nuclear program.

RUSSIAN-GULF STATE TRADE

Improved diplomatic relations between Russia and the Gulf states facilitated unprecedentedly high trade volumes and collaboration in the energy sector. Reflecting the strategy outlined by Medvedev in the 2008, the Foreign Policy Concept of the Russian Federation states that with countries of this region, "which is of strategic importance to Russia's national interests — priority attention will be paid to developing mutually beneficial economic cooperation, in particular in the energy sector."²⁹

In November 2008, during a Dubai conference on "Presentation of Investments in Russia," Deputy Foreign Minister Aleksandr Saltanov stressed that investment cooperation is "the most promising sphere in Russia's relations with countries of the Persian Gulf."³⁰ According to the Russian Foreign Ministry's official spokesman Aleksandr Lukashevich, "The development of collaboration with the Persian Gulf countries will facilitate the promotion of our interests, including our business interests, in the Islamic world and the attraction of its financial resources into the Russian economy."³¹ As the graph below demonstrates, trade between Russia and the Persian Gulf countries declined in 2008–2009 due to the global financial crisis but has since recovered.

Iran and Iraq

As Graph 1 suggests, Iran has been Russia's main trading partner in the Persian Gulf. The two countries share a multibillion-dollar trade relationship, and Russia developed the Bushehr nuclear power plant with a price tag of \$1.2 billion.³² Russia has been

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Minister Sergey Lavrov in Iraq], *Ministry of Foreign Affairs of the Russian Federation*, May 10, 2011, <http://www.mid.ru/bdomp/ns-rasia.nsf/1083b7937ae580ae432569e7004199c2/c32577ca00174586c325788d00229c90>.

29. "The Foreign Policy Concept of the Russian Federation," *President of Russia*, July 12, 2008, <http://archive.kremlin.ru/eng/text/docs/2008/07/204750.shtml>.

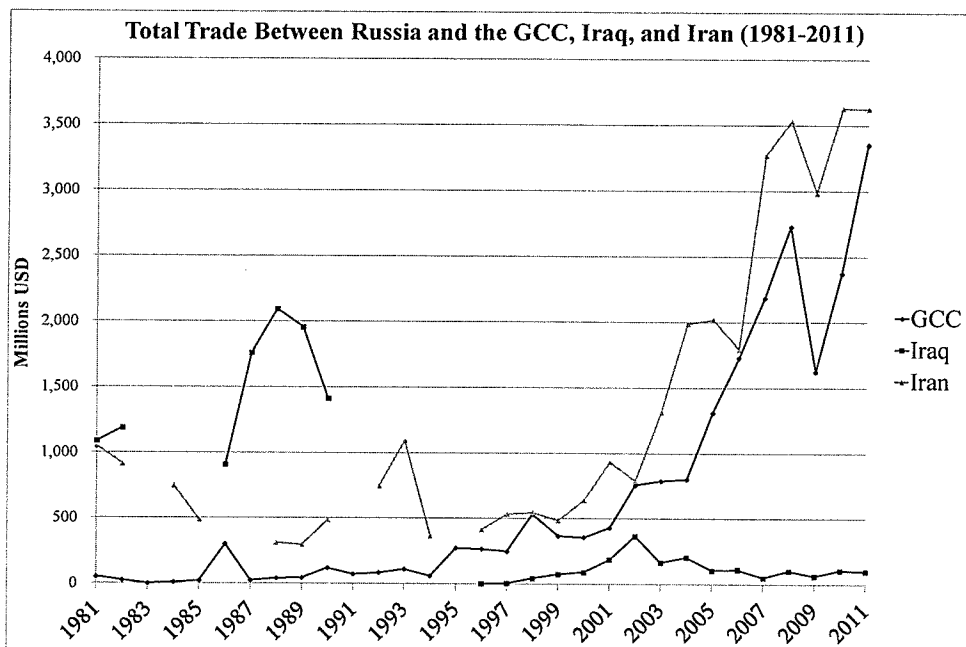
30. ITAS-TASS, "Investments is Promising Sphere in Ties with Persian Gulf States," November 10, 2008, accessed via Factiva, document #TASS000020081110e4ba0020c.

31. Vladislav Vorobyev, "Minister Attends First Meeting of Russia-Gulf Cooperation Council Dialogue," *Rossiiskaya Gazeta*, November 2, 2011, available at: <http://www.accessmylibrary.com/article-1G1-271649942/minister-attends-first-meeting.html>.

32. Alex Rodriguez, "Iran Gets Nuclear Fuel From Russia," *Chicago Tribune*, December 18, 2007, http://articles.chicagotribune.com/2007-12-18/news/0712170921_1_enrichment-nuclear-fuel-nuclear-weapon.

reluctant to stop this cooperation, despite Western pressure, partly because it recognizes that other countries might usurp its role in Iran, and because engaging Iran may increase Moscow's chances of winning nuclear power contracts from Third World countries.³³

Graph 1.



Source: Authors' calculations for data in the years 1981-82 are drawn from Foreign Trade Statistics Yearbooks of the USSR, Various Issues (Moscow: Ministry of Foreign Trade of the USSR). The rest of the data are drawn from UN Commodity Trade Statistics Database, Various Issues (New York: United Nations), and UN International Trade Statistics Yearbooks, Various Issues (New York: United Nations).

During the Cold War and until the 2003 American invasion, Russia's economic ties with Iraq had been greater than its ties with any other Arab country in the region. Between 1998 and 1999, Russian companies procured the highest volume of civil goods delivered to Iraq, amounting to \$500 million; in 2000, all of Iraq's orders from Russia exceeded \$20 billion.³⁴ According to Russian Deputy Foreign Minister Saltanov, in 2001, Russia and Iraq signed contracts worth more than \$1.85 billion and "Iraq secured its position as Russia's leading partner in the Arab World, with a turnover of goods with that country accounting for 60% of that with all Arab countries."³⁵ Since the 2003 invasion, trade between Russia and Iraq has rapidly deteriorated.

33. Nabi Abdullaev, "Putin Talks Arms, Nuclear Power in Gulf Visit," *Defense News*, February 19, 2007, available at <http://harp.gamer.com/harpforum/lofiversion/index.php?t1285.html>.

34. Kreutz, *Russia in the Middle East*, p. 90.

35. Kreutz, *Russia in the Middle East*, p. 94.

Saudi Arabia

Economic ties with Saudi Arabia constitute a relatively recent development. Prior to the 1990s, trade between Russia and Saudi Arabia was virtually nonexistent.³⁶ As Graph 1 suggests, it was only from the mid-1990s onward that the two countries expanded their economic ties: over the ten-year period of 1996–2006, the total trade turnover between the two countries increased by almost 500% from \$160 million to \$714 million. Following Putin's visit to the Kingdom in 2007, the total trade result increased even more dramatically, making the past several years the best in the history of Saudi-Russian trade relations.

The Russian-Saudi Business Council, established in 2002, serves regularly as a platform to strengthen the contacts between business circles of both countries. For instance, in October 2009, Russia held a business forum and an exhibition in Saudi Arabia entitled "Russia and the Kingdom of Saudi Arabia: New Prospects for Trade and Economic Cooperation" and hosted the second exhibition "Arabia-EXPO" in April 2010,³⁷ in which real opportunities for further development of bilateral cooperation were identified in the energy sector, construction industry, innovations, commerce, and investment projects.³⁸ In March 2011, the Council organized a third exhibition, "Week of Russian Business in Saudi Arabia," and the business forum that was attended by over 70 representatives of major Russian companies. In December 2009, Novaar Capital Management, a Saudi-led investment concern, created a joint venture with Ural Polar, a company owned by Russia's state institutions, to facilitate a major \$750 million investment in Russia's natural resource-rich Ural region.³⁹ However, the investment remains unrealized. Despite Russia's efforts and the Saudis' interest in many investment projects in Russia, there has been no major investment to date.⁴⁰ Saudi Arabia's ambassador to Russia, 'Ali Hasan Ja'far, reflected the broader view that mutual trade turnover worth several billion dollars "is not commensurate to the potentials of Russia and Saudi Arabia."⁴¹ For instance, the Saudi side acknowledged that their existing visa regime is a serious obstacle to business cooperation between the two countries.⁴²

While the general trend in the trade relations has clearly been upward, the relations have naturally experienced their ebbs and flows. More recently, in protest of

36. John Sfakianakis, "Saudi-Russian Trade Relations Deepen," *Arab News*, November 21, 2007, <http://www.arabnews.com/node/305906>.

37. Natalia Rybakova, "Russian-Arab Business Council to attract investments to Russia," Tatar-Inform Information Agency, June 10, 2009, <http://eng.tatar-inform.ru/news/2009/06/10/25536/>.

38. ITAR-TASS, "Saudi Arabia to Host Business Forum, Russia's Exhibition in October 2009," *BBC Monitoring*, June 3, 2009, accessed via Factiva, document #TASS000020090603e563002js.

39. "Saudi Company in Deal to Develop Russia's \$27.7 Billion Ural Project," *Saudi Gazette*, December 25, 2009, <http://www.saudigazette.com.sa/index.cfm?method=home.region&contentID=2009122558070>.

40. D.O. Biryukov, "Arabskie Investitsii v Rossiiskuiu Ekonomiku" ["Arab investments in Russian economy"], *Institut Blizhnego Vostoka*, May 27, 2011, <http://www.iimes.ru/rus/stat/2011/27-05-11b.htm>.

41. ITAR-TASS, "Russia, Saudi Arabia to Cooperate, Not to Compete – Ambassador," April 7, 2009, accessed via Factiva, document #RFCM000020070213e32d00008.

42. "Meeting of President of the Chamber of Commerce and Industry of the Russian Federation (RF CCI) Sergey Katyrin with Chairman of the Saudi Advisory (Shura) Council's Economic Affairs and Energy Committee Saleh Al-Shoaibi," *Chamber of Commerce and Industry of the Russian Federation*, July 19, 2011, http://webcache.googleusercontent.com/search?q=cache:2GGMlvP1VEgJ:www.tpprf.ru/en/news/ccinews/index.php%3Fid_12%3D34626+&cd=6&hl=en&ct=clnk&gl=us.

Moscow's support for the Syrian regime, a Saudi business tycoon revoked a series of oil and gas contracts with more than 20 Russian companies.⁴³ Similarly, in June 2012, two Saudi trade bodies refused to receive a Russian delegation for the same reason.

Qatar

The rise in diplomatic visits between Russia and Qatar also translated into increased economic cooperation, though the upward trend reflected in Graph 1 was certainly not linear. The mutual relationship had, in the words of the Russian ambassador to Qatar, "one of its most successful years in 2010,"⁴⁴ with visits by the Qatari emir, prime minister, and foreign minister to Russia, and sharp increases in trade and investment. In 2010, trade turnover increased to \$14.6 million from \$8.7 million in 2009. In 2010, the two sides also signed two agreements on Qatari investments amounting to \$500 million in exploration of polymetallic deposits in Russia's Yamalo-Nenets and Sverdlovsk regions. After the mutual visits, Qatar also declared in 2010 an intention to invest \$500 million in Russian real estate and \$10 million to build a shopping center in Astrakhan'.⁴⁵ The investment has been realized with Qatar Barwa Real Estate Company (BREC) and Gazprombank completing the formation of the real estate fund, starting off by giving it \$75 million each in January 2011. The fund represents the first collaboration between the two companies, with the CEO of Qatari Barwa noting the deal "reinforces the foundation for future successful endeavors" with Russia.⁴⁶ In January 2011, talks were still held on Qatar's potential investment in Russia's polymetallic deposit. In order to enhance economic, trade, and investment ties, Russia proposed in 2010 to establish the Joint Commission on Trade, Economic, and Technical Cooperation; the two countries also opened direct flights between Moscow and Doha in 2003.⁴⁷ Putin noted that mutual relations were "developing successfully," with "good prospects" in the future. For his part, the emir of Qatar said that he intended to discuss ways to increase trade and "to develop cooperation in other areas" during his visit in November 2010.⁴⁸ In January 2011, the Russian ambassador to Qatar, Vladimir Titorenko, pointed out that Russia and Qatar were working on 12 major projects "set to take the bilateral relations of [the] world's two largest gas-reserve holders to a new level."⁴⁹

43. Habib Toumi, "Saudi Tycoon Cancels Russia Contracts," *Gulf News*, July 28, 2012, <http://gulfnews.com/news/gulf/saudi-arabia/saudi-tycoon-cancels-russia-contracts-1.1054408>.

44. "Qatar, Russia Working on 12 Major Projects," *Gulf Times*, February 11, 2011, available at: <http://www.dohapress.com/portal/index.php/archive/57-all-local-news/7215-qatar-russia-working-on-12-major-projects-v15-7215>.

45. "Rossiisko-Katarskie Otnosheniia" ["Russian-Qatari Relations"], *Ministry of Foreign Affairs of the Russian Federation*, October 10, 2011, <http://www.mid.ru/bdomp/ns-rasia.nsf/1083b7937ae580ae432569e7004199c2/94f13cd0c77ed16e43256dd30029fec4>.

46. "Barwa Real Estate, Gazprombank Announce Closing of Russia Fund," *Peninsula*, January 3, 2011, http://webcache.googleusercontent.com/search?q=cache:sM4vh7yQV_8J:www.thepeninsulaqatar.com/business-news/137739-barwa-real-estate-gazprombank-announce-closing-of-russia-fund.html+&cd=1&hl=en&ct=clnk&gl=us.

47. "Qatar, Russia Working on 12 Major Projects," *Gulf Times*.

48. Interfax, "Russia's Putin, Emir of Qatar Willing to Discuss 'Sensitive' Cooperation," *BBC Monitoring*, November 2, 2010, <http://www.accessmylibrary.com/article-1G1-241174365/russia-putin-emir-qatar.html>.

49. "Qatar, Russia Working on 12 Major Projects," *Gulf Times*.

However, since November 2011, relations have deteriorated in light of the Doha International Airport incident, in which Titorenko, coming from a business trip in Jordan, was attacked by Qatari airport security guards who tried to grab his sealed valise with diplomatic mail⁵⁰ after he refused to send it through an X-ray inspection.⁵¹ Since an apology from Qatar did not follow the incident, Titorenko was recalled from Qatar. The incident occurred on the same day that Russia's Foreign Ministry criticized Qatar for supplying weapons to Libyan rebels in violation of a UN arms embargo.⁵² It is not clear how a new political context triggered by divergent views on the ongoing unrest in the Middle East, including Russia's veto in the UN Security Council on the Syrian crisis resolution, will affect future trade relations between the two countries.

UAE

The UAE is Russia's largest trade partner in the GCC, and the rising level of trade is clearly reflected in Graph 1. The two countries also signed several memoranda of understanding and in 2005 established a Russian-Emirates Business Council. In 2007, Putin visited the UAE in the first high-level visit of its kind. As with his other visits in the region, he was accompanied by an array of government and business elites.⁵³ The two delegations held a forum with the Russian and UAE Business Communities and a meeting of the Russian-UAE Business Council.⁵⁴ In March 2012, the Chamber of Commerce and Industry of Russia, in cooperation with the Council, hosted a forum called "Possibilities to Broaden Russian-Emirates Business Cooperation," aimed at drawing investments from Arab countries, primarily the UAE, to Russia.⁵⁵ In November 2010, Abu Dhabi's Mubadala Development Company, a state-owned investment fund, announced a \$100 million investment into Verno Capital's Russia-focused hedge funds concluding the first major commitment by a Persian Gulf sovereign wealth fund to Russia.⁵⁶ In September 2010, Russian state-owned Russian Technologies and Crescent also agreed to invest \$500 million in a joint investment fund to develop transportation projects in Russia.⁵⁷ The

50. ITAR-TASS, "Level of Russia-Qatar Diplomatic Relations Remains Low – Foreign Ministry," April 17, 2012, <http://pda.itar-tass.com/en/c154/395427.html>.

51. "Russia Downgrades Relations with Qatar over Attack on Ambassador," *RIA Novosti*, December 5, 2011, <http://en.rian.ru/russia/20111205/169361690.html>.

52. "Qatar vs Russia: When Size Does Not Matter," *RT*, December 6, 2011, <http://rt.com/news/qatar-russia-syria-usa-115/>.

53. "Rossiisko-Emiratskie Otnosheniya" ["Russian-Emirati Relations"], *Ministry of Foreign Affairs of the Russian Federation*, October 10, 2011, <http://www.mid.ru/bdcomp/ns-rasia.nsf/1083b7937ae580ae432569c7004199c2/ea9fc49475782a0a43256dd3002cc34b>.

54. Interfax, "Russia, UAE to Settle USSR Debt Issue, and To Sign Space Cooperation Agreement," September 9, 2007, accessed via NewsBank, document #58583879.

55. "The Russian Business Council Organizes the Round Table Special Transport for Oil and Gas Industry," *AMEinfo.com*, May 5, 2012, <http://www.ameinfo.com/russian-business-council-organizes-round-table-299380>.

56. Gregory L. White, "Abu Dhabi Fund Invests in Russia," *Wall Street Journal*, November 30, 2010, <http://online.wsj.com/article/SB10001424052748704679204575646704238896186.html>.

57. "Rosneft Joins UAE Gas Project as Russia Seeks Mideast Partners," *International Oil Daily*, June 8, 2010, <http://www.energyintel.com/Pages/ArticleSummary/673275/Rosneft-Joins-UAE-Gas-Project-as-Russia-Seeks-Mideast-Partners>.

fund was set up in April 2012 by Gultainer, the subsidiary of Crescent and the UAE's second largest ports operator. Gultainer also signed a \$275 million deal in September 2011 to co-develop and operate Russia's Baltic port of Ust'-Luga.⁵⁸ In recent years, particularly since 2008, Russian companies also gradually strengthened their position in the UAE market and opened offices there, with more than 350 joint ventures.⁵⁹

In the case of the UAE, Russia's efforts to realize trade potential between the two countries have been actualized. For instance, Andrey Andreyev, the Russian ambassador to the UAE, highlighted that, "In 2011 the trade turnover between Russia and the UAE reached [the record amount of] \$1.5 billion, while trade grew by 40 per cent within the first half of 2012 at \$1 billion in comparison with the same period in 2011."⁶⁰ Moreover, at the meeting organized by the Council in May 2012, Vladimir Kozhevnikov, the commercial counselor at the Russian embassy in the UAE, prized the Council's role "in bringing together businesses of Russia and the UAE in the variety of fields."⁶¹ This also suggests that the trade and diplomatic relations between the UAE and Russia have not been impeded in light of the ongoing unrest in the Middle East.

Kuwait

Trade relations with Kuwait also improved. In 2007, the two countries established the Russian-Kuwaiti Business Council aimed at developing large investment projects in Russia and Russian companies' participation in infrastructure development in the emirate. In 2009 and 2011, the first deputy chairman of the Central Bank of Russia, Aleksey Ulyukayev, and a delegation headed by CEO of Vnesheconombank, Vladimir Dmitriev, visited Kuwait.⁶² Also, in September 2011, the two countries held the first meeting of the Sub-Commission on Trade, Economic, Technical, Financial, and Investment Cooperation in Kuwait and agreed to hold on regular meetings of the Sub-Commission.⁶³

Bahrain

Russian trade with Bahrain spiked in recent years and then declined in 2008–2009 due to the global financial crisis. Regardless of this recent decline, trade has increased over time. In May 2007, Russia and Bahrain also set up the Russian-Bahraini Business Council. Both sides signed a plethora of bilateral agreements and memoranda ranging from agreements on trade, economic, and technical cooperation to a memorandum of understanding between the Russian Ministry of Culture and the Ministry of Culture and Information of

58. Reuters, "UAE's Gultainer Eyes Growth in Russia, Asia," *Arabian Business*, April 2, 2012, <http://www.arabianbusiness.com/uae-s-gultainer-eyes-growth-in-russia-asia-452338.html>.

59. "Russian-Emirati Relations," *Ministry of Foreign Affairs of the Russian Federation*.

60. Zaher Bitar, "UAE-Russia Trade Grows by 40% in 2012," *Gulf News*, November 8, 2012, <http://gulfnews.com/business/general/uae-russia-trade-grows-by-40-in-2012-1.1101859>.

61. "Russian Business Council Organizes the Round Table," *AMEinfo.com*.

62. "Rossisko-Kuveitskie Otnosheniya" ["Russian-Kuwaiti Relations"], *Ministry of Foreign Affairs of the Russian Federation*, October 10, 2011, <http://mid.ru/bdomp/ns-rasia.nsf/1083b7937ae580ae432569e7004199c2/d0ccb58c8a3beb7143256dd3002c1bca>.

63. "First Meeting of the Sub-Commission on Trade, Economic, Technical, Financial and Investment Cooperation was Held in El-Kuwait," *Ensaf*, September 12, 2011, <http://www.ensaf.ru/en/news/91.htm>.

Bahrain. In November 2008, a delegation of Bahraini authorities and business circles headed by the Bahraini minister of finance, Shaykh Ahmad bin Muhammad Al Khalifa, visited Moscow; that same year, Russian Vnesheconombank and the Bahrain Development Bank signed a memorandum of understanding, followed by other such bilateral agreements.⁶⁴

During Lavrov's visit to Bahrain in December 2008, he pointed out that, despite the expansion in their overall relations, the economic and investment ties between Russia and Bahrain, while promising, are still rather weak. In order to expand economic, trade, and investment ties with Bahrain, the deputy prime minister of Russia, Viktor Zubkov, established interdepartmental working groups comprising representatives of key Russian economic ministries in December 2009, and during his visit to Bahrain in January 2010, Zubkov gave the king of Bahrain a road map for enhanced cooperation in trade, investment, industry, mining, hydrocarbons, energy, space, finance, banking, high-tech, agriculture, military, and technical cooperation.⁶⁵

Oman

Russia has also developed unprecedented business ties with Oman. In the 1990s, the two countries signed many intergovernmental agreements establishing the legal basis for cooperation, including 1994 agreements on trade, economic and technical cooperation, and on cooperation between their chambers of commerce.⁶⁶ By December 2010, more than 20 Russian companies worked in the field of information security, exploration and production of oil and gas, shipbuilding, pipe manufacturing, and agricultural machinery in Oman.

ENERGY DEVELOPMENT AND INVESTMENT

Energy represents only a minor part of Russian trade with countries in the Persian Gulf. Thus, a stand-alone analysis of Russia's energy relations is in order, as they represent their own important component of Russia's interactions with the region. Russia's foreign policy toward the Persian Gulf region in the last decade has been increasingly driven by energy concerns and business potential. Oil-rich monarchies offer lucrative markets for Russia's goods and a source of badly needed investment. In 2008, Russia propagated, albeit unsuccessfully, a so-called "Big Gas Troika," an OPEC-style group composed of Iran, Qatar, and Russia to facilitate coordination in the gas sector. The combined share of oil and gas in Russia's GDP has gradually risen from 12.7% in 1999 to 31.6% by 2007, accounting for nearly 80% of Russia's exports.⁶⁷ Although Russian oil production has reached historic highs, many of its West Siberian oil fields that have accounted for the 50% increase in Russian oil production in

64. "Rossiisko-Bakhreinskie Otnosheniya" ["Russian-Bahraini Relations"], *Ministry of Foreign Affairs of the Russian Federation*, October 10, 2011, <http://www.mid.ru/ns-rasia.nsf/1083b7937ae580ae432569e7004199c2/b95c4427ca4cd48b43256dd300296d32?OpenDocument>.

65. ITAR-TASS, "Russian FM Is in Bahrain to Discuss Bilateral Ties & Persian Gulf."

66. "Rossisko-Omanskie Otnosheniya" ["Russian-Omani Relations"], *Ministry of Foreign Affairs of the Russian Federation*, October 10, 2011, <http://www.mid.ru/bdomp/ns-rasia.nsf/1083b7937ae580ae432569e7004199c2/c65be92ce0e0058443256dd3002d434c>.

67. According to the Institute of Economic Analysis, quoted in, "Russia's Economy: Smoke and Mirrors," *Economist*, February 28, 2008, <http://www.economist.com/node/10765120>.

the past decade have been substantially depleted.⁶⁸ Moscow estimates that \$600 billion must be invested in the oil industry through 2030 to maintain production in western Siberia and to develop eastern Siberia, the continental shelf of the Arctic Ocean, and Sakhalin.⁶⁹

The Russian oil company Lukoil has estimated that \$1 trillion would be needed over the next 20 years just to maintain Russian production at the level of ten million barrels per day.⁷⁰ Yet, attracting investment in Russia's re-nationalized energy industry has been a challenge, which makes the Persian Gulf's energy fields enticing because they are easier and cheaper to tap. Likewise, while opportunities for shale and tight oil exploration are plentiful in Russia, energy companies have not been eager to explore them due to production and mineral extraction taxes that swallow the equivalent of \$71 per barrel when oil trades for \$100.⁷¹

Russia also strives to maintain a close partnership with energy exporting countries, such as Qatar, to control possible competition within its dominant energy market in Europe. Since energy revenues fill the Kremlin's coffers and, in turn, help to sustain regime legitimacy, Russia also aims to coordinate on production with other producers and desirable oil price levels.

Russia has signed numerous bilateral contracts with the Persian Gulf states.⁷² In 2007, Lukoil expanded its oil presence in Iran and Gazprom signed oil and natural gas agreements which would allow it to invest directly in Iranian fields.⁷³ In 2009, Gazprom Neft, the oil branch of Gazprom, signed a memorandum of understanding with the National Iranian Oil Company (NIOC) to study the development of two Iranian oilfields, Azar and Shangleh.⁷⁴ Under the memorandum, Gazprom would participate in the development of the North Azadegan oilfield, the construction of an oil refinery in northern Iran, and the transportation of crude oil from the Caspian Sea to the Gulf of Oman from Neka to Jask (large port cities in Iran on the Caspian Sea and in the Gulf of Oman). Analysts say Gazprom Neft could earn as much as \$3 billion annually from the North Azadegan oilfield.⁷⁵

In July 2010, Iran and Russia discussed a roadmap for energy cooperation for the next 30 years. Collaboration would include developing oil fields in both countries, as well as oil and gas fields located elsewhere.

68. Dave Cohen, "Has Russia's Oil Production Peaked?" *Energy Bulletin*, April 23, 2008, <http://www.energybulletin.net/node/43184>.

69. Institute for Energy Strategy, *Energy Strategy of Russia: For the Period Up to 2030* (Moscow: Ministry of Energy, 2010), [http://www.energystrategy.ru/projects/docs/ES-2030_\(Eng\).pdf](http://www.energystrategy.ru/projects/docs/ES-2030_(Eng).pdf).

70. Leonard L. Coburn, "Russian Oil: A Long Term View," *IAEE Energy Forum*, Vol. 4, No. 3 (2010), <http://www.iaee.org/en/publications/newsletterdl.aspx?id=105>.

71. Joe Carroll, "Russia's Oil Lead Challenged as Taxes Strangle Drilling," *Bloomberg*, March 5, 2013, <http://www.bloomberg.com/news/2013-03-05/russia-s-oil-lead-challenged-as-taxes-strangle-drilling.html>.

72. Reuters, "Gazprom Neft Pursues Iran and Cuba Oil Projects to Expand Resource Base," *Gulf News*, June 30, 2010, <http://gulfnews.com/business/oil-gas/gazprom-neft-pursues-iran-and-cuba-oil-projects-to-expand-resource-base-1.648034>.

73. "LUKoil Set to Expand Oil and Gas Cooperation with Iran," *RIA Novosti*, December 13, 2007, <http://en.rian.ru/business/20071213/92262874.html>.

74. Interfax, "Interview with Boris Silbermint, Deputy CEO for Exploration and Production of Gazprom Neft," January 28, 2010, available at <http://pda.gazprom-neft.com/press-center/lib/3520/>.

75. ITAR-TASS, "Russia, Iran to Boost Energy Cooperation," October 15, 2008 accessed via Factiva, document #TASS000020081016e4af00083.

However, in March 2010, Lukoil abandoned the oil project in Iran with CEO Leonid Fedun indicating that “work on the oilfield was impossible until U.S. sanctions were lifted.”⁷⁶ Moreover, in October 2011, Gazprom Neft was forced out by Iran and replaced with a consortium of Iranian companies. Gazprom Neft indicated that besides the tightening of Western sanctions, the company did not like the terms Iran offered. According to Iran, the reason was procrastination over the memorandum of understanding signed in 2009.⁷⁷ In February 2012, Fedun stressed that “Russia has stable relations with Iran despite recent hiccups, but now Lukoil doesn’t have any contracts with Iran because of sanctions.”⁷⁸ In February 2013, however, Iran invited Russian companies to develop a number of its oil and gas fields, while also offering to make changes to legislation which would enable Russian companies to gain a stake in Iran’s extraction sites.⁷⁹

For their part, Russia and Iraq have elevated interaction in the energy area in the post-Saddam era, including the development of joint projects between Russia’s Rosneft and Crescent Petroleum in Iraq and throughout the Middle East. In April 2009, Prime Minister Nuri al-Maliki visited Russia, the first visit by an Iraqi leader to Russia since 1981. After the meeting, Gazprom Neft won a tender to develop the giant Basra oilfield in Iraq,⁸⁰ holding a 30% stake in the project. The implementation of the project is planned for 20 years with the possibility of a five-year extension. In September 2009, Russian energy minister Sergei Shmatko led a Russian delegation to Iraq to discuss longer-term cooperation in electric power and the energy sector. Shmatko and Prime Minister Maliki agreed to implement joint projects in the energy sector such as building the Kirkuk-Bayji gas pipeline and other strategic gas pipelines, with Russian companies also having opportunities to modernize the existing power plants and build new ones. According to Shmatko, the 2009 visit “opened a new page in energy cooperation between the two countries,” with the main task being to “create conditions for increased trade and diversifying forms of cooperation.”⁸¹

In 2009, Lukoil won a tender to develop Iraq’s West Qurna-2 oilfield, with a plan to invest \$4.5 billion. The development of the West Qurna-2 field in the province of Basra has a potential to position Lukoil among global giants. West Qurna is considered the world’s largest underdeveloped oilfield, holding 13 billion barrels of crude oil. The aim is to bring production to 1.8 million barrels per day. Lukoil has prepared to mobilize up to 15,000 specialists for Iraq’s oil and gas industry.⁸² In April 2012, Lukoil started production drilling and construction of an oil processing unit on the

76. “Russia’s LUKoil Says Iran Project Dropped over Sanctions,” *RIA Novosti*, March 24, 2010, <http://en.rian.ru/russia/20100324/158299099.html>.

77. “Gazprom Neft Forced Out of Iranian Project,” *Moscow Times*, October 11, 2011, <http://www.themoscowtimes.com/business/article/gazprom-neft-forced-out-of-iranian-project/445143.html#ixzz1uoPQoYwy>.

78. “Lukoil Executive: Iran Tension to Effect Long Term on Oil Market,” *RT*, February 3, 2012, <http://rt.com/business/news/lukoil-iran-oil-opinion-403/>.

79. “Iran Again Invites Russia to Join its Oil and Gas Projects,” *RT*, February 12, 2013, <http://rt.com/business/iran-russia-gas-oil-projects-029/>.

80. “Russia’s Gazprom Neft Signs Contract to Develop Iraqi Oil Field,” *RIA Novosti*, January 28, 2010, <http://en.rian.ru/business/20100128/157704059.html>.

81. ITAR-TASS, “Energy is One of Most Promising Russia-Iraq Cooperation Spheres — Shmatko,” September 11, 2009.

82. ITAR-TASS, “Energy is One of Most Promising Russia-Iraq Cooperation Spheres.”

field.⁸³ Lukoil holds 56.25% in the project with Norway's Statoil holding 18.75%. In March 2012, Statoil decided to transfer its stake to Lukoil.

In May 2011, Russian Foreign Minister Sergei Lavrov visited Baghdad to discuss cooperation in the energy sector and mentioned that "we are satisfied with the way cooperation in the oil sphere has been developing."⁸⁴ In June 2011, Iraq announced that it intends to expand contacts with Russian oil and gas companies, noting Russia's importance in the energy sphere. Gazprom Neft started drilling a second appraisal well in January 2012 at the Badra oilfield.⁸⁵

In addition to hydrocarbon projects contracted with the Iraqi central government, Russia has also eyed hydrocarbon riches in northern Iraq's autonomous Kurdistan region. This was demonstrated in February 2013, when Gazprom Neft announced the signing of a new production sharing agreement in Kurdistan, taking an 80% share of the Halabja Project, with the site's hydrocarbon reserves standing at around 90–100 million tons. The exploration of the site is planned to start in the fall of 2013 and is estimated to take seven years.⁸⁶ The contract is likely to cause friction with the central government in Baghdad, which claims to be the only authority to grant oil contracts and control oil exports in Iraq. In August 2012, the Iraqi Oil Ministry spokesman, 'Asim Jihad, warned that "sanctions will be applied against all international companies collaborating with the Kurdish autonomy [sic] without the permission of Baghdad, and Russian companies are no exception," further warning that Russia's oil company may lose its share in Iraq's oilfields.⁸⁷

Russia has also developed energy relations with Saudi Arabia. Leaders in both countries believe that enhanced energy relations should be a priority in bilateral relations.⁸⁸ In October 2002, at the first session of the Russian-Saudi Committee for Trading, Economic, and Scientific Cooperation, Russian energy minister Igor Yusufov stated that "Saudi Arabia was Russia's most important partner in the Middle East" and "offered his Saudi interlocutors the sale of Russian technologies in gas and oil extraction," among others.⁸⁹ This is despite the fact that the data on trade as well as the situation around Iran's nuclear ambitions suggest that Iran is far more important in terms of both trade and diplomacy. As a result of the 2003 visit, Russia and Saudi Arabia signed an international five-year cooperation agreement in the oil and gas sectors, solidifying plans for Saudi and Russian energy companies

83. "Iraq and Russia: LUKoil Starts Drilling at Iraq's West Qurna-2 Field," *Going Global East Meets West*, April 25, 2012, <http://goingglobaleastmeetswest.blogspot.com/2012/04/iraq-and-russia-lukoil-starts-drilling.html>.

84. Interfax, "Lavrov to Discuss Russia-Iraq Energy, Military-Technological Cooperation in Baghdad," May 10, 2011, <http://www.interfax.co.uk/russia-news/lavrov-to-discuss-russia-iraq-energy-military-technological-cooperation-in-baghdad/>.

85. "Gazprom Neft Starts Drilling Second Well at Badra," *Iraq Business News*, January 24, 2012, <http://www.iraq-businessnews.com/2012/01/24/gazprom-neft-starts-drilling-second-well-at-badra/>.

86. "Gazprom Enters New Project in Iraq's Kurdish Autonomous Region with 80 Percent Share," *Trend*, February 26, 2013, <http://en.trend.az/regions/met/iraq/2123962.html>.

87. Trend A. Taghiyeva, "Baghdad to Apply Sanctions Against Gazprom in Case of Its Cooperation with Kurdish Autonomy," *Journal of Turkish Weekly*, August 6, 2012, <http://www.turkishweekly.net/news/139753/baghdad-to-apply-sanctions-against-gazprom-in-case-of-its-cooperation-with-kurdish-autonomy.html>.

88. ITAR-TASS, "Russia, Saudi Arabia Should Strengthen Cooperation Amid Crisis – Sechin," December 16, 2008, accessed via Factiva, document #TASS000020081216e4cg0030d.

89. Kreutz, *Russia in the Middle East*, p. 131.

to cooperate across borders. Moscow's initial expectation of \$46 billion in joint investment projects to develop the Russian economy has not materialized. However, in January 2004, Lukoil was awarded a tender to develop several promising oil and gas fields, including the 11,200 square mile "Zone A" in natural gas field, in al-Rub' al-Khali.⁹⁰ Lukoil Overseas holds an 80% stake in Lukoil Saudi Arabia Energy (Luksar), with the remainder held by Saudi Aramco. However, in September 2010, Luksar relinquished 90% of its gas exploration block as it has struggled to find gas.⁹¹ In 2009, Russian Stroytransgaz completed two contracts for the construction of the 900 km "Shaybah-Abqaiq" water pipeline.⁹²

In June 2010, the two countries also discussed joint projects, including Saudi investment into the much needed renovation of Russia's electricity grid. However, it is not clear whether the actual investment has materialized. As demand for atomic energy booms, Russia has become an aggressive seller, intent on increasing its share of the nuclear fuel market. Only two days after the visit, Saudi Arabia's foreign minister, Saud Al Faisal, said that there were "no obstacles to cooperation between the two countries in all fields concerning the military and nuclear power."⁹³ In November 2010, Saudi Arabia held talks with Russia regarding an agreement on the peaceful development of nuclear energy; the kingdom plans to invest \$80 billion to boost capacity as a response to rising demand for electricity, which is expected to triple to 121,000 MW by 2032.⁹⁴ Thus far, Saudi Arabia has signed nuclear agreements only with France, Argentina, South Korea, and most recently, with China.⁹⁵

The UAE also plans to build its first nuclear reactor by 2017.⁹⁶ In terms of the energy partnership, Putin expressed that "On the face of it, it seems that we are rivals, but considering the world's growing demand for energy, that is not so."⁹⁷

The oil and natural gas sectors are some of the most promising directions of cooperation between Russia and the UAE. In 2010, Russia's biggest oil producer, state-controlled Rosneft, established its first Middle East presence as it entered a joint venture with the UAE's Crescent Petroleum to explore for gas in the emirate of Sharjah, marking the companies' first joint project under their broad and longer run strategic cooperation agreement. The two sides have already invested \$35 million into drilling and exploration activities.⁹⁸

90. "LUKOIL Overseas Holding Ltd: Corporate Report '09," *LUKOIL Oil Company: LUKOIL Overseas*, http://lucoil-overseas.com/upload/iblock/435/lo_09_eng.pdf, p. 51.

91. "Lukoil JV Gives up on Rub Al-Khali," *Oil & Gas News*, September 21, 2010, available at: <http://www.thefreelibrary.com/Lukoil+JV+gives+up+on+Rub+Al-Khali.-a0237565189>.

92. Russian-Saudi Relations, *Ministry of Foreign Affairs of the Russian Federation*, October 10, 2011, <http://mid.ru/bdomp/ns-rasia.nsf/1083b7937ae580ae432569e7004199c2/61cffe2e56c939e643256dd3002b95fd>.

93. Interfax, "Talking Power and Arms in Riyadh," February 12, 2007, accessed via NewsBank, document #54564215.

94. "Saudi Arabia, Russia in Talks over Nuclear Agreement," *Saudi Economic Survey*, November 8, 2010, available at: <http://www.thefreelibrary.com/Saudi+Arabia,+Russia+in+talks+over+nuclear+agreement.-a0241557379>.

95. Summer Said, "Saudi Arabia, China Sign Nuclear Cooperation Pact," *Wall Street Journal*, January 16, 2012, <http://online.wsj.com/article/SB10001424052970204468004577164742025285500.html>.

96. Said, "Saudi Arabia, China Sign Nuclear Cooperation Pact."

97. "Russia, Saudi Arabia Energy Partners, Not Rivals – Putin," *RIA Novosti*, February 12, 2007, <http://en.rian.ru/russia/20070212/60580105.html>.

98. Saifur Rahman, "Gas Vital to Middle East Economies," *Gulf News*, July 1, 2011, <http://gulfnews.com/business/oil-gas/gas-vital-to-middle-east-economies-1.830847>.

Gas production is expected to begin in 2013.⁹⁹ Rosneft expressed its intention to invest \$630 million in the joint venture,¹⁰⁰ though significant future investments would depend in part on Iraqi oil legislation that would protect investment outside the northern Kurdish region, and on Iraqi stability.

In April 2009, the Russian company Gazprom Geofizika and the Kuwaiti company Noor Financial Investment signed the agreement to establish two joint ventures to conduct exploration for hydrocarbons. Under the joint ventures, they plan to work in the market of Kuwait's neighboring states: Syria, Lebanon, and Iraq. In 2010, Kuwait also signed a preliminary deal with Russia to cooperate in establishing a nuclear power program.¹⁰¹ However, as a reaction to the nuclear disaster in Japan, Kuwait decided to abandon civilian nuclear power production in February 2012.¹⁰²

Meanwhile, in December 2008, Gazprom and the National Agency for Oil and Gas of Bahrain signed a letter of intent to jointly explore new opportunities and to identify areas of mutually beneficial cooperation in oil and gas, which was expanded in 2009 and 2010,¹⁰³ such as with regard to exploration of the 'Awali field — the only major hydrocarbon field in Bahrain. In March 2012, Bahrain discussed imports of 400 million cubic feet of LNG per day from Russia's Gazprom through a LNG terminal expected to open by 2015.¹⁰⁴

Oman, like other Gulf states, seeks to cooperate on atomic energy. In 2009, the foreign ministry of Oman and the Russian company Rosatom signed a memorandum of understanding on the use of nuclear energy.¹⁰⁵ At the constituent session of the Russian-Omani Business Council held in June 2011, Sergey Tishkin, the Chairman of the Council, expressed that oil and gas were the priority sectors of cooperation with Oman, but that cooperation in other sectors, such as power generation and engineering, should be developed.¹⁰⁶

Energy ties between Russia and Qatar have also expanded unprecedentedly. In April 2010, they created a joint Russian-Qatari committee for cooperation in gas and energy. Qatar, the world's largest LNG exporter, is currently one of Russia's most important partners but also a rival in the energy sector. In July 2010, Gazprom EP International was invited by Qatar to take part in a tender for conducting oil and gas operations in the license block "A". In addition to this project, Russia expressed interest in working with Qatar, including on projects for exploration and extraction of hydrocarbons, construction, transportation and distribution infrastructure, gas processing, and LNG. In March 2010, the parties dis-

99. "Crescent Petroleum Discusses Major Projects with Rosneft, Rostekhnologii (Update 1)," *RIA Novosti*, August 21, 2010, <http://en.rian.ru/world/20100821/160291179.html>.

100. Miles Johnson, "Rosneft Ventures into Middle East," *Financial Times*, May 20, 2010, <http://www.ft.com/intl/cms/s/0/45898aca-63a6-11df-a32b-00144feab49a.html#axzz2XEiDWVc2>.

101. "Russian-Kuwaiti Relations," *Ministry of Foreign Affairs of the Russian Federation*.

102. "Kuwait Abandons Nuclear Power Option," *United Press International*, February 23, 2012, http://www.upi.com/Business_News/Energy-Resources/2012/02/23/Kuwait-abandons-nuclear-power-option/UPI-63001330021334/#ixzz1upERaqjs.

103. "Russian-Bahraini Relations," *Ministry of Foreign Affairs of the Russian Federation*.

104. "Bahrain Discusses LNG Imports with Russia's Gazprom," *AMEinfo.com*, March 7, 2012, <http://www.ameinfo.com/292586.html>.

105. "Russian-Omani Relations," *Ministry of Foreign Affairs of the Russian Federation*.

106. "Constituent Session of the Russian-Omani Business Council," *Ensat*, June 16, 2011, <http://www.ensat.ru/en/news/85.htm>.

cussed the execution of transactions with swaps of LNG and LNG-pipeline gas in Europe and Asia-Pacific region. Qatar signed an agreement with Gazprom to create a Russian-Qatari company with \$150 million in capital for the operation of gas fields in Russia. Stroytransgaz also has prospects of entering the Qatari market on a permanent basis to monitor oil and gas energy projects in the country. The two countries also discussed potential joint investment projects between Gazprom and Qatar Petroleum; and coordinated efforts in markets in European, Asian, and Pacific Rim countries.¹⁰⁷ In November 2010, they also signed a memorandum of cooperation on civil nuclear technologies followed by plans to work together to provide nuclear materials and nuclear fuel, as well as to arrange training programs for Qatari nuclear sector personnel.¹⁰⁸ Expanding cooperation in the oil and gas sectors has dominated the agendas of all recent meetings between Medvedev and Qatari emir Hamad bin Khalifa Al Thani. Qatar wants to join a project with Russia's Novatek to build a LNG plant on Siberia's Yamal Peninsula and invited Gazprom EP international to bid in a tender to conduct oil and gas operations in Qatar after the moratorium on exploration expires in 2014.¹⁰⁹ In November 2011, Russian energy minister Sergei Shmatko said he wanted to speed up an agreement which would enable Qatar to take part in the Yamal gas project, particularly because of Qatar's financial, technical, and marketing expertise in LNG. Qatari energy minister Muhammad al-Sada also expressed that Qatar is "really interested" in becoming partner in the project.¹¹⁰ So far, however, Novatek has only sold a 20% stake of Yamal LNG to French oil and gas group Total, leaving 29% for other foreign investors. In April 2012, Novatek started negotiations with Électricité de France (EDF), leaving little prospect for cooperation with Qatar. However, in March 2013, an executive at Qatar Petroleum International (QPI) said QPI had "shelved, but not killed" the idea of taking a stake in Yamal.¹¹¹ At the same time, Qatar bought a major stake in Royal Dutch Shell in May 2012; further infringing on the European resource market. Qatar's sovereign wealth fund is also reportedly in negotiations on a stake in Italy's Eni.¹¹²

Interestingly, the prospects of Qatar playing the counterweight to Gazprom's dominance on the European market have led Russia to strive to turn a rival into a partner. Russia understands that greater natural gas flows to Europe would decrease its market and political influence there. LNG, in particular, is a threat because it allows for the delivery of natural gas over long distances at competitive prices. In April 2010, Russia and Qatar signed a joint declaration of cooperation in gas trade and industries. The declaration says that they will work to keep gas prices at oil price levels and that the two countries will, in addition to joint LNG projects, work together on developing scientific and technological cooperation.

107. Interfax, "Russia, Qatar to Discuss Gas Cooperation, Business, Political Issues," November 2, 2010, <http://www.interfax.co.uk/russia-energy-news/russia-qatar-to-discuss-gas-cooperation-business-political-issues/>.

108. Interfax, "Russia, Qatar Sign Memorandum on Civilian Nuclear Cooperation," November 2, 2010, <http://www.interfax.co.uk/russia-energy-news/russia-qatar-sign-memorandum-on-civilian-nuclear-cooperation/>.

109. Interfax, "Qatar invites Gazprom to Participate in LNG Projects," April 16, 2010, accessed via Factiva, document #DANWS00020100417e64g000e1.

110. "Yamal Gas: And Qatar Is Coming," *RT*, November 15, 2011, <http://rt.com/business/news/russias-shmatko-yamal-construction-397/>.

111. "Qatar Goes Cold on Russia's Yamal LNG project," Reuters, March 5, 2013, <http://www.reuters.com/article/2013/03/05/qatar-yamal-lng-idUSL6N0BXH2Y20130305>.

112. "Qatar Buys into Shell," *RT*, May 11, 2012, <http://rt.com/business/news/qatar-shell-stake-buy-003/>.

Qatar has emerged as a competitor in the European gas market traditionally dominated by Russia. With the surge of shale gas in North America, Qatar, as the biggest LNG producer in the world, was forced to divert its supplies to Europe.¹¹³ This development has coincided with the European Union's efforts to diversify its sources of gas. Consequently, in 2010, Gazprom's exports to Europe dropped by 25% compared with 2009.¹¹⁴ The emergence of shale gas, which has only become economically profitable in the past five years as a result of technological advances, has transformed the North American energy market and diminished Russia's energy dominance in Europe. In 2010, for instance, deliveries from Qatar to the European region increased by 49%, rising fastest in countries importing LNG, such as the UK and Belgium.¹¹⁵ Qatar, the world's largest LNG producer and exporter, currently hosts six LNG plants.¹¹⁶ Between 2009 and 2013, some 130 billion cubic meters per year of new LNG capacity will come on stream, half that came from Qatar. This will constitute a 50% rise in global LNG output capacity in just four years.¹¹⁷ Russian envoy to Qatar Vladimir Titorenko pointed out that the LNG terminals also being built in southern Europe create even more competition for Russia's planned South Stream gas pipeline which, if built, would increase the European Union's dependence on Russian natural gas. The pipeline would stretch through the Black Sea to Bulgaria, and further to Greece, Italy, and Austria. Titorenko emphasized that "Russia wants to avoid spending a lot of money on South Stream and then have to compete with cheaper LNG from Qatar."¹¹⁸ Qatar already penetrated Western Europe, notably the UK, Italy, France and Spain, moving closer to Russia's backyard. In April 2010, Poland, which has its own significant shale gas reserves, signed a 20-year deal to import one million metric tons per year of Qatari LNG for its receiving terminal in the port of Swinoujscie scheduled to start operation by mid-2014.¹¹⁹ Qatar also initiated talks with Bulgaria, which suffered the most by a cutoff in Russian gas supplies in January 2009. Russia supplies 42% of Poland's natural gas consumption and nearly all of Bulgaria's. Qatar is also considering investing up to \$4 billion in the development of an LNG import terminal at the port of Astakos in Greece.¹²⁰

113. Sam Barden, "The Gas Gang," *RIA Novosti*, December 8, 2010, <http://en.rian.ru/columnists/20101208/161683342.html>.

114. Yulia Latynina, "The Main International Confrontation of the XXI Century is between Hydrocarbon Despotism and Pipeline Democracies," *Novaya Gazeta*, March 29, 2011, <http://en.novayagazeta.ru/politics/8713.html>.

115. Interfax, "Gazprom Maintained Market Share in Most of Europe in 2010 – IEA," *Russia & CIS Business and Financial Newswire*, Mar 15, 2011, available at: <http://business.highbeam.com/407705/article-1G1-251549303/gazprom-maintained-market-share-most-europe-2010-iea>.

116. Interfax, "Gazprom Talking with Qatar about Working in Europe, Pacific Rim Countries," *Russia & CIS Business and Financial Newswire*, November 3, 2010, available at: <http://business.highbeam.com/407705/article-1G1-241304186/gazprom-talking-qatar-working-europe-pacific-rim-countries>; "World's LNG Liquefaction Plants and Regasification Terminals, as of April 2012," *Global LNG Limited*, <http://www.globallnginfo.com/World%20LNG%20Plants%20&%20Terminals.pdf>

117. Alex Forbes, "Worrying Times for Energy investors," *Petroleum Economist*, October 28, 2010, <http://www.petroleum-economist.com/Article/2730869/A-worrying-time-for-LNG-investors.html>.

118. "Russia Courts Qatar as LNG Partner," *NEFTE Compass*, July 22, 2010, available at: <http://www.highbeam.com/doc/1G1-282007865.html>.

119. Marta Kucharska, "Poland Signs Long-Term Deal with Qatargas," *Boston.com*, July 29, 2009, http://www.boston.com/business/articles/2009/06/29/poland_signs_long_term_deal_with_qatargas/.

120. Leslie Palti-Guzman, "Qatar-Russia: Friends or Enemies?" *Energy Compass*, April 9, 2010, accessed via Factiva, document # EGYCMP0020100511e64900005.

Russia's sudden reluctance to include Qatar as a stakeholder in the Yamal LNG project as well as Qatar's intensified incursion into the European energy market in 2012 may have been triggered in part by mutual criticism in the context of Qatar's and Saudi Arabia's aggressive support of regime change in Libya and Syria. However, following Gazprom's opening of a representative office in Doha in February 2013, Qatari energy minister Muhammad al-Sada noted that Qatar plans to expand joint investments with OAO Gazprom. Meanwhile, Gazprom board chairman Viktor Zubkov, who led a delegation to Doha, expressed that the office "will contribute to stronger partnership ties and will provide an additional impetus to closer mutually beneficial cooperation with the states in the region."¹²¹

Since Iran is a major natural gas producer, Russia can benefit from US-driven economic sanctions against foreign investment in Iran's energy sector. For instance, Europe's effort to diversify its gas supply away from Russia was originally supposed to be realized in part by feeding Iranian gas into the Nabucco pipeline — the project which directly competes with Russia's push for the South Stream pipeline. If built, the Nabucco pipeline would link the Caspian region and the Middle East to the European consumer market, running from Turkey through Bulgaria, Romania, and Hungary. After the relations between the West and Iran dramatically deteriorated, Europe began the search for alternative sources for Nabucco, such as Azerbaijan, where cooperation with Iran could make sense.¹²² In a search for gas to feed Nabucco, the EU also signed a memorandum of understanding regarding energy with Iraq in 2010. Furthermore, Iran's vast reserves would inevitably saturate the market, leading to a decrease in Gazprom's and Russia's main source of revenue. Today, however, Iran is forced to buy gas from Turkmenistan to cover its domestic energy needs. In 2010, Iran did not produce any LNG but has been building three gas liquefaction plants: one is with China in southern Iran where the North Pars deposit is located; the other two plants, built with Europeans, will be in South Pars gas field which Iran shares with Qatar. All three plants aim to produce 125 million cubic meters of gas per day. Iran is expected to produce LNG by 2015.¹²³

Russia is dependent on income from energy exports to Europe. Thus, mutual cooperation in coordinating energy exports from the Persian Gulf is understandably one of Russia's main commercial interests. In the long term, there may be a competition for energy resources; however, in the short term, the supply is abundant and producers are competing for markets. For instance, in August 2011, five large Iraqi oil cargo ships headed to Europe in what energy experts called the "opening shot in a pricing war with rival Russia."¹²⁴ The exports of Iraqi Basra oil were triggered by a US oil stock release in June and by a strengthening of Russian crude values. As Iraq is building export facilities and ramping up production, it could compete with Russia for market share. As export capacity comes on stream in Basra, Europe's dominant supplier Russia would face more

121. "Gazprom Sets up Shop in Qatar," United Press International, February 12, 2013, http://www.upi.com/Business_News/Energy-Resources/2013/02/12/Gazprom-sets-up-shop-in-Qatar/UPI-73201360666276/.

122. "Nabucco Needs Gas from Iran to be a Game-Changer – Bartuska," *ICIS News*, July 24, 2009, <http://www.icis.com/Articles/2009/07/24/9235044/nabucco-needs-gas-from-iran-to-be-a-game-changer-bartuska.html>.

123. "Country Analysis Briefs: Iran," *U.S. Energy Information Administration*, November 2011, <http://www.eia.gov/cabs/iran/Full.html>.

124. Dmitry Zhdannikov, "Update 1: Russia Faces Oil Price Battle as Iraqi Output Grows" Reuters, July 29, 2011, <http://www.reuters.com/article/2011/07/29/iraq-russia-oil-idUKL6E71R22A20110729>.

and more pressure on its Urals crude, which is of a similar quality to Iraqi oil.¹²⁵ It is no surprise that Putin's visits to oil and gas producing countries in the Persian Gulf often focus on coordination between energy producers. Speaking to journalists in Jordan in 2007, Putin admitted that Russia is interested in coordinating its steps on global energy markets with other energy producers and argued that "this coordination will be aimed at consolidating the international energy market."¹²⁶ Since the growth in shale gas will likely provide strong competition to traditional pipeline gas, Russia wants to coax Iran and Qatar, in particular, to manage and coordinate their supply of LNG to ensure price stability.

CONCLUSION

Russia's foreign policy toward and position in the Persian Gulf has changed dramatically since the fall of the Soviet Union. Russia has been making an uneasy and fitful transition from heated rivalry during the Cold War to a different approach toward the region. Commercial interests are gaining in importance and may contribute to Russia's interest in greater regional stability. Our quantitative and qualitative analysis suggests that such a trend in Russia's commercial interests is likely to continue as Russian economic and growth issues become even more important in its mix of domestic and foreign policy goals. However, it is hard to predict the possible outcomes of Iran's nuclear crisis and the short- and longer-term impact of one or more possible American or Israeli attacks on Iran's nuclear facilities. The Syrian crisis could also bedevil Russia's relations with key Arab Gulf states and perhaps reverse some of Russia's gains that we have graphed in this article.

Russia's increasing commercial interests, however, do not imply an absence of rivalry in non-military areas or even in geopolitical competition. Russia and China are enmeshed in relationships with the US that are marked by important elements of both cooperation and rivalry. They sometimes seek to curb US influence in the region, partly to meet their regional goals and partly to check it at the global level or for purposes of protecting the notion of sovereignty, as was the case when they vetoed Western efforts at the UN to sanction the Asad regime in Syria in February 2012. The real question is not whether or not they are rivals with Washington, but to what extent rivalry is tempered by other factors, including interdependence and vested interests in stability for commercial purposes.

If Russia's altered orientation and increased commercial relations continue to develop, they may contribute to Russia's decision to cooperate more in containing Iran's nuclear aspirations. Heretofore, Russia has taken the middle road in its approach to Iran and pursued a purposefully ambiguous policy,¹²⁷ an approach that Washington has found insufficiently weak. In some measure, Russia has cooperated with Washington and its allies. By 2009, President Medvedev appeared to change course on Iran: Russia warmed to the notion of sanctions against Iran and delayed completion of the Bushehr nuclear reactor. Medvedev also signed a decree banning the delivery of S-300 air defense systems and a host of other major arms to Iran, including battle tanks, armored vehicles, large-caliber artillery systems, warplanes, military helicopters, ships, and missiles. This

125. Zhdannikov, "Update 1."

126. "Summary of Russian Press for Tuesday 13 February 2007," *BBC Monitoring*, February 13, 2007, accessed via Factive, document # BBCSUP0020071009e3a90002t.

127. Carol R. Saivetz, "Moscow's Iranian Policies: Opportunities and Dangers," *Middle East Brief*, No. 15 (January 2007), <http://www.brandeis.edu/crown/publications/meb/MEB15.pdf>.

action was in line with UN Security Council Resolution 1929 of June 9, 2010.¹²⁸ Failure to have taken such action would have crossed red lines in US-Russian relations. Moscow has also shown concern over Iran's nuclear program. It expressed regret over news about the beginning of the uranium enrichment plant near the Iranian city of Qom.¹²⁹

However, at the same time, the Russian foreign ministry criticized the new EU sanctions against Iran in early 2012, calling them a mistake which would likely increase tensions and will not push Tehran to make concessions regarding its nuclear program.¹³⁰ The rise in Russian-Iranian trade, as reflected in Graph 1, suggests that Moscow had not been serious about Iran's nuclear aspirations in the first decade of 21st century, although a change in approach may be noticed beginning around 2010. Russia's general approach has been, as Foreign Minister Sergei Lavrov asserted, to oppose Western sanctions against Iran, but to try to deter both Iran and the West from making counterproductive moves that would further jeopardize the chances for talks.¹³¹ Washington has bemoaned this approach and sought unified pressure against Iran.

On the whole, Russia has offered greater cooperation. Surely, such a shift has had more to do with American and international pressure and Russia's own doubts about a nuclear Iran than with its developing economic portfolio with Arab Gulf states, though the latter may play some role in Russia's calculations.

Overall, while Russia has serious economic interests in Iran, and probably views its connection to Iran as a potential check on American power, this article has shown that its commercial interests with GCC states, as well as Iraq, have been growing. And these states do not want Iran to build nuclear weapons. Russia may seek to offer just enough support against Iran to please these actors without disrupting its connection to Tehran, but that balancing act may be harder to achieve if the crisis with Iran heats up, especially given that Moscow has serious misgivings about Iran's nuclear aspirations,¹³² as well as other differences with it.¹³³

Greater Russian-Gulf state cooperation in energy may also help Russia maintain the use of natural gas as a political tool in Europe. LNG is a serious threat to Russia's economic and political influence in Europe because it allows for the delivery of natural gas over long distances at competitive prices. Europe imports up to one-third of its gas from Russia and accounts for 65% of Gazprom's total exports. Russia's power in this arena appears to be decreasing; the big energy companies that have signed long-term gas contracts with Russia are winning more flexible pricing arrangements. This is largely because there is greater competition from LNG, which is transported by ship, and for shale, an unconventional

128. "Medvedev Bans Sale of S-300 missiles, Other Weapons to Iran (Update 1)," *RIA Novosti*, September 22, 2010, http://en.rian.ru/military_news/20100922/160688354.html.

129. "Rossiia Osudila Iran za Obogashchenie Urana" ["Russia has Condemned Iran for Its Uranium Enrichment"], *RBC*, January 10, 2012, <http://top.rbc.ru/politics/10/01/2012/632910.shtml>.

130. "MID Rossii Ob'yavil Novye Sanktsii Protiv Irana Oshibkoï" ["Russian FM Announced New Sanctions against Iran are a Mistake"], *RT*, January 24, 2012, <http://inotv.rt.com/2012-01-24/MID-Rossii-obyavil-novie-sankcii>.

131. Alexei Anishchuk, "Russia Hopes Iran Nuclear Talks Will Resume Soon," *Reuters*, January 23, 2012, <http://www.reuters.com/article/2012/01/23/us-iran-russia-idUSTRE80M0Y720120123>.

132. Mark Katz, "Russian-Iranian Relations in the Ahmadinejad Era," *The Middle East Journal*, Vol. 62, No. 2 (Spring 2008), pp. 202–216.

133. For a good, brief analysis of differences in relations, see Mark N. Katz, "Russian-Iranian Relations in the Obama Era," *Middle East Policy*, Vol. 17, No. 2 (Summer 2010), pp. 62–69.

natural gas extracted from sedimentary rocks. The availability of LNG and the discovery of shale resources in Europe have rattled Gazprom's position, especially in Eastern Europe.¹³⁴

Indeed, as early as 2010, Gazprom acknowledged that it was rapidly losing leadership in the European market; demand for Russian pipeline gas dropped due to the unprecedented increase in LNG supply; and it planned to take various actions to try to remedy this situation.¹³⁵ While Gazprom, the world's biggest gas producer, has supplied about a quarter of Europe's gas needs, it has lost market share to Norway and Qatar, in part as LNG shipments to Europe rose significantly.¹³⁶

As suggested earlier in this article, Russia has responded in part via greater cooperation with natural gas exporters. At the Gas Exporting Countries Forum 2011, Russia won the support of the world's 12 largest natural gas exporters to develop projects for the production and sale of the fuel in order to raise prices. Shmatko described this agreement as integral to Russian energy diplomacy, and the forum's Russian secretary general, Leonid Bokhanovsky, asserted that it marked a new stage in the history of the ten year-old organization. On the forum's sidelines, Russia, Qatar, and Algeria have agreed to cooperate on the European natural gas market. This step is the primary reason for the EU's concerns over any meetings of these countries' leaders.¹³⁷ If Russia can continue to build energy relations with Qatar and Iran, despite sanctions against the latter and political problems with both countries, it may be able to use these rising connections to two of the world's biggest natural gas producers to help counter the LNG threat.

As a final point, Arab states have been investing more in Russian oil and gas exploration and production, and vice versa. Such investment is important for a reason not often discussed or understood. The authoritative International Energy Agency, which is the global energy watchdog for consumers, radically changed its forecast on oil production in 2008. Until then, it largely dismissed notions that oil supplies might peak or reach a point where global oil production no longer increases and then decreases thereafter. By contrast, in November 2008, the agency provided a somewhat alarming forecast that oil will likely peak around 2020. The International Energy Agency changed its forecast because the previous 2007 report was based on best-of-knowledge assumptions about what global oilfields could produce. The 2008 report, by contrast, was based on actual studies of the production rates of the world's largest oilfields. One major factor driving the possible peak oil problem is under-investment by major oil companies and countries in oil discovery and production. Under-investment is caused by a variety of factors, but greater Russian-Gulf state interaction may help ameliorate this problem, if it continues to develop over the longer run and if Russia maintains positive relations with the West. In this sense, if such cooperation continues, it may increase investment in energy that helps buy some more time, in the case that peak oil does become a serious, future problem in world politics.

134. Judy Dempsey, "If Gas Talks Fail, Europe Has a Backup Plan," *New York Times*, January 9, 2012, <http://www.nytimes.com/2012/01/10/world/europe/10iht-letter10.html>.

135. "Strakhi Titana" ["Giant's Fear"], *RBC Daily*, January 21, 2010, <http://www.rbcdaily.ru/2010/01/21/tek/453620>.

136. Anna Shiryayevskaya, "Putin's Global Gas Plan Falts as Gazprom Dithers on LNG," *Bloomberg*, August 4, 2010, <http://www.bloomberg.com/news/2010-08-04/putin-s-global-plan-for-gas-domination-falts-as-gazprom-dithers-on-lng.html>.

137. Konstantin Garibov, "Russia Defends Its Stance at the Gas Exporting Countries Forum," *Voice of Russia*, November 16, 2011, <http://english.ruvr.ru/2011/11/16/60483996.html>.