

**EXPANDING ENERGY EMPIRE FURTHER: RUSSIAN  
AMBITIONS IN THE MIDDLE EAST VIS-À-VIS HYDROCARBON  
RESOURCES:  
AN APPRAISAL UNTIL THE ARAB SPRING**

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**Abstract**

Being the largest oil producer and natural gas exporter; having the largest proved natural gas reserves and eighth largest proved oil reserves; providing half of government revenues and around one-third of GDP from hydrocarbon exports; owing two-thirds of its exports to hydrocarbon resources, Moscow rules over a vast energy empire from Western Europe to Far East. Although not sufficiently appreciated, the Middle East also plays a crucial role in promotion of Russian prime interest in international arena: the maintenance of Russia's energy power. In this paper, I will make an attempt to examine the role of the pre-Arab spring Middle East in maintenance of Russian energy power. The paper will shed light on Russian attempts before the Arab Spring to infiltrate the Middle East so as to promote its economic, and thus political, interests in preserving the status quo in favor of Russia in international energy market. I argue that Russian political and military power was replaced by economic deals and energy collaboration so that Moscow could maintain and enlarge its influence in one of the key regions of international politics which is vital to sustain its energy empire. However, the Arab riots and Russian position towards the Syrian case could result in a break with this nascent Russian instrument to maintain power balance in global politics.

**Keywords:** Russia, the Middle East, Hydrocarbon, Oil, Natural Gas, Energy Empire, Energy Superpower

**YAYILAN BİR ENERJİ İMPARATORLUĞU: HİDROKARBON  
KAYNAKLAR BAĞLAMINDA ARAP BAHARI ÖNCESİ RUSYA'NIN  
ORTA DOĞU'DAKİ İHTİRASLARI**

**Özet**

Dünyanın en büyük petrol üreticisi ve doğal gaz ihracatçısı, kanıtlanmış en büyük doğal gaz rezervlerinin ve sekizinci en büyük petrol rezervlerinin sahibi olan Rusya Federasyonu, devlet gelirlerinin yarısını, gayri safi yurtiçi hâsılasının üçte birini hidrokarbon kaynakların ihracatından ele etmektedir. Dışsattımının da üçte ikisini hidrokarbon kaynaklara borçlu olan Rusya, Batı Avrupa'dan Uzak Doğu'ya kadar uzanan muazzam bir enerji imparatorluğu üzerinde hüküm sürmektedir. Her ne kadar dikkatleri yeterince çekmese de uluslararası arenada Rus menfaatlerini geliştirme ve Rus enerji gücünü idame ettirme hususunda Orta Doğu bölgesi de önemli bir rol oynamaktadır. Bu makalede Arap baharı öncesi Rus enerji gücünü idame ettirmede Orta Doğu bölgesinin oynadığı rolü inceleyeceğim. Makalede aynı zamanda uluslararası enerji pazarında

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kendi lehine olan statükonun devamının getirdiği siyasi ve ekonomik menfaatlerini korumak isteyen Rusya'nın Arap baharı öncesi Orta Doğu'da izlediği politikalar ele alınacaktır. Çalışmamda, enerji imparatorluğunun nüfuz alanını dünyanın en mühim bölgelerinden birinde artırabilmek ve Rus menfaatlerini sürdürebilmek adına Rus siyasi ve askeri gücünün yerini ticari anlaşmaların ve enerji işbirliğinin aldığını öne sürmekteyim. Diğer yandan, Arap ayaklanmaları ve Rusya'nın Suriye krizinde takındığı tavır, Rusya'nın Ortadoğu'da henüz geliştirmeye başladığı dış politika enstrümanının önünde büyük bir engel olarak öne çıkmaktadır.

**Anahtar Kelimeler:** Rusya, Orta Doğu, Hidrokarbon, Petrol, Doğal Gaz, Enerji İmparatorluğu, Enerji Süper Gücü

After the dissolution of the Soviet Union, Russia politically and economically underwent a shaky period in 1990's. This period marked a substantial decrease in military, economic and political power of Russian Federation, and Moscow started to recede in the international arena. Despite attempts by Great Power Balancers under foreign minister Yevgeny Primakov to restore Great Power status of Moscow<sup>1</sup>, this objective was severely impeded by the economic crisis of 1998. However, the crisis was also the turning point in Russian role in global affairs. Since then, Moscow has increasingly asserted itself both economically and politically in international affairs.

The relations between Russia and the US are no longer governed by a zero-sum game. Even though Russia refrains from a direct confrontation with the only superpower in a unipolar global system, Russia has also left its policy of *bandwagoning* in 1990's.<sup>2</sup> This was due to the dramatic increase in oil prices following the 1998 crisis and Putin's taking advantage of this so as to reclaim Russia's great power status and promote Russian interests through business power which is dominated by hydrocarbon energy sources, arm sales and nuclear energy transfer. Inheriting a financially-depleted, militarily-bettered and politically-under-respected country, Putin was well aware of that Russia had no better instrument in its economic and business arsenal except for energy and mineral resources.<sup>3</sup>

As for today, it is clear that Putin is very successful at using Moscow's business power<sup>4</sup> so as to restore Russia's great power status, to consolidate power in internal and foreign affairs, to rehabilitate Russian economy, to reassert Russian influence over near abroad and further. Owing to well-manipulation of this business power, Russian power today stretches to regions

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<sup>1</sup> Andrei Tsygankov, *Russia's Foreign Policy*, Plymouth: Rowman&Littlefield, 2010, 93.

<sup>2</sup> Dimitry Trenin, "Russia's Policy in the Middle East", *The Century Foundation Report*, 2010, 19.

<sup>3</sup> Marshal Goldman, *Petrostate, Putin Power and the New Russia*, New York: Oxford University Press, 2008, p. 173.

<sup>4</sup> Russian business power refers to a wider area vis-à-vis hydrocarbon fuels and includes, but not limited to, nuclear and arm deals of Russian Federation. I borrowed the phrase from A. Wenger, J. Perovic and R. Orttung, ed., *Russian Business Power*, New York: Routledge, 2006.

which could not be covered by the massive military and political power of the Soviet Empire. Turkey, China and Germany are enjoying good relations with Russia contrary to their position in different camps during the Cold War. Russian well-management of its oil, nuclear and gas sources provided Russia with an expanding area of influence and promotion of its interests in a wide geography. As stated by Perovic, Tsar Alexander III was famous for his saying that Russia had only two true allies – her army and her navy. During the presidency of Vladimir Putin, Russia's true allies appear to be oil and gas.<sup>5</sup>

Russia is the largest oil and natural gas exporter while it has got the largest natural gas reserves and the eighth largest oil reserves in the world. Hydrocarbons account for around two-thirds of Russia's exports, half of government revenues and around one-third of GDP.<sup>6</sup> In that sense, Putin rules over a great energy empire and the fate of Russia and energy is intermingled. Therefore, the main Russian interest in international relations no longer lies in deploying military units abroad, seeking for naval bases and confronting the US but maintaining the Russian energy superpower. Maintenance of Russian Energy Empire embodies Russian status as a great power and helps promote Russian influence in international arena. In this regard, role of energy as a tool for Russian political ambitions is openly voiced by Putin: "Russia enjoys vast energy and mineral resources which serve as a basis to develop its economy; as an instrument to implement domestic and foreign policy. The role of the country on international energy markets determines, in many ways, its geopolitical influence."<sup>7</sup>

Even though Russia can use its oil and gas agreements to project its power over near abroad, Europe, and Far East; the Middle East does not seem to easily fall within Russian area of influence. However, Russia, which has long-lasting interests in the region dating back to the Russian Empire, tries to penetrate the region through its business contracts concentrating on hydrocarbon resources. While Arab-Israeli conflict and the support for the revolutionary Arab regimes laid the ground for Soviet infiltration in the Middle East, contemporary Russia uses business contracts in order to promote Russian interests in the area. Whereas Soviet Union was backed by a high political prestige and military power in pursuit of its interests, Moscow's business power, based on oil and gas, functions as the instrument for promotion of Russian interests in the Middle East.

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<sup>5</sup> Jeronim Perovic, "Russian Energy Power, Domestic and International Dimensions" in *Russian Energy Power and Foreign Relations* ed. J. Perovic, R. Ortung and A. Wenger, Abingdon: Routledge, 2009, p. 6.

<sup>6</sup> Edward Lucas, *New Cold War*, New York: Palgrave Macmillan, 2008, p. 87.

<sup>7</sup> Roman Kupchinsky, "LNG - Russia's New Energy Blackmail Tool", *Eurasia Daily Monitor*, 6:77, 2009.

In this paper, I will make an attempt to examine the role of the Middle East in maintenance of Russian energy power. The paper will shed light on Russian attempts to infiltrate the Middle East so as to promote its economic, and thus political, interests in preserving the status quo in favor of Russia in international energy market. In this study, I argue that Russian political and military power was replaced by economic deals and energy collaboration so that Moscow could maintain and enlarge its influence in one of the key regions of international politics which is vital to sustain its energy empire.

### **I. Importance of Hydrocarbon Resources for Consolidation of Russian Great Power Status**

The seeds of the current Russian energy policy were sown by Vladimir Putin in his 1997 PhD dissertation at the Petersburg Mining Institute. In his thesis, he argued for utilizing the Russian resource sector to reassert Russia's imperial status.<sup>8</sup> Starting with the Perestroika under Gorbachev, Russia underwent a process of liberalization and opening to market economy. After the disintegration of Soviet Empire, liberalization and privatization attempts accelerated as the giant firms of Russian Federation, such as Gazprom and Rosneft, were shared among the so-called *oligarchs*. Instead of allowing the country's oligarch-controlled companies to focus on making profit, Putin argued they must be used to promote national interests.<sup>9</sup> Focusing on the idea of creating *national champions*, Putin foresaw not only re-imposition of state control but also state ownership of at least 51 percent share of companies of strategic importance such as petroleum, gas, metal.<sup>10</sup> Aslund labels this policy as *state capitalism* for the main actors are not private companies but the state in this kind of capitalism.<sup>11</sup>

In accordance with this grand strategy, Russia first asserted state influence over gas and petrol companies and re-nationalized them as in the examples of Yukos and Sibneft. In this process, Gazprom emerged as the crown jewel of Russian Energy Empire. Additionally, Putin replaced the oligarchs of 1990s with state officials from his close working friends. While these officials maintained their governmental posts, they also governed state companies, which created an organic bond between business and state policy. This was a process of replacing private oligarchs with state oligarchs.<sup>12</sup> Presidential chief of staff Dmitry Medvedev became head of the board of Gazprom. Deputy presidential administration head Igor Sechin was named

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<sup>8</sup> Christina Y. Lin, "The Prince of Rosh: Russian Energy Imperialism and the Emerging Eurasian Military Alliance of the Shanghai Cooperation Organisation", *ISPSW*, 2009, p. 1.

<sup>9</sup> Goldman, *Petrostate*, p. 97.

<sup>10</sup> Goldman, *Petrostate*, p. 14.

<sup>11</sup> Anders Aslund, "Russia's Energy Policy: A Framing Comment", *Eurasian Geography and Economics*, 47:3 2006, p. 324.

<sup>12</sup> Marshall Goldman, "The Russian Disease", *the International Economy*, 2005, p. 31.

chairman of the board at Rosneft and deputy presidential administration head Vladislav Surkov became board chairman of Transnefteprodukt, the state oil pipeline company.<sup>13</sup>

Russia took a further step in its grand strategy and started to monopolize its energy sector in state hands. Within this framework, Western companies like Shell, BP were forced to hand over majority part of their stakes to Gazprom in Kovykta and Sakhalin-2 projects.<sup>14</sup> Additionally, Transneft, merging with Transnefteprodukt in 2007, turned into a pipeline monopoly, owning the largest oil pipeline system in the world.

As stated by Wenger, in the area of energy, a structured relationship between a strong state and an increasingly centralized business community translates into mutual interest in expanding Russia's economic and political power across its borders.<sup>15</sup> Aware of that promoting Russian political power could be provided through economic relations, Russia started to reinforce its influence on near abroad. Within that framework, for instance, Gazprom offered to cancel the debt or charge a lower price if the Ukrainians, Armenians, Moldavans, or Georgians would give Gazprom an equity stake in their domestic pipeline network.<sup>16</sup> This move would help Russia to keep those countries in Russian orbit under disguise of promoting economic interests.

Putin's ascension to power in 1999 was therefore a turning point for Russia to emerge as an energy superpower. The strategy, outlined in Putin's dissertation, was applied in four stages. Firstly, a powerful figure, in this case Putin, to assert state control over strategic companies assumed power. Secondly, the Kremlin started a process of creating national champions, to advance state interests, by re-nationalizing energy companies like Yukos. Other companies, such as Lukoil, went on to survive as long as they would behave in accordance with the state strategy to promote state interests. Thirdly, Russia stretched its monopoly over energy sector by forcing foreign companies to give up their majority shares. And lastly, Russia began to enjoy having a new-generation weapon; its monopolized control over hydrocarbon resources and pipelines, which could be defined as *weaponisation of energy*.<sup>17</sup> Stoppage of gas deliveries to Ukraine and Belarus, respectively in 2006 and 2007, shows how vulnerable the clients could be if Russia uses energy as a political tool. Even though interdependence rules over bilateral relations -some need gas

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<sup>13</sup> Orttung, "The role of Business in Russian Foreign and Security Relations" in *Russian Business Power*, p. 30.

<sup>14</sup> Jeronim Perovic and Robert Orttung, "Russia's Energy Policy, Should Europe Worry?", *Russian Analytical Digest*, 18, 2007, p. 5.

<sup>15</sup> Andreas Wenger, "Russian Business Power As A Source Of Transnational Conflict And Cooperation" in *Russian Business Power*, p. 16.

<sup>16</sup> Goldman, *Petrostate*, p. 152.

<sup>17</sup> I borrowed the term from Christina Lin.

while Russia needs energy corridor and clients-, Russia has the advantage to bypass any country via alternative pipelines, such as Nord Stream. Additionally, Russia would not find it difficult to sell its gas and oil to third parties in a world where energy needs of emerging economies are sharply increasing.

Oil and gas prices are great assets to improving Russian economy as well as political influence. The oil prices rose from 10 dollars a barrel in 1998, when Russia was struggling in financial crisis, to almost 100 dollars in 2012. During this period, Russia also enjoyed its monopoly over gas via Gazprom. Russian GDP rose from 271 billion dollars to a colossal 1 850 trillion dollars in 2011,<sup>18</sup> which made Russian the 9<sup>th</sup> biggest economy in comparison with 19<sup>th</sup> in 1998. Natural resources constitute around 80 percent of Russian exports, majority of which is oil and gas.<sup>19</sup> Considering all these, it is clear that Russian interests lie in preserving its energy empire and preventing any attempt to undermine its position. Accordingly, Russia follows three different strategies to promote its interests in maintaining its energy empire: to sustain Central Asian dependence on Russia to export their energy, to maintain its status as the biggest energy exporter to Europe and to diversify its energy market.

*a. Russian Energy Interests in Central Asia*

No longer is the Red Army the penetrating force in the former republics of Soviet Union.<sup>20</sup> Having monopolized the national energy champions and pipelines, Russia is very keen on maintaining its energy superpower, which not only benefits the internal power consolidation but also reinforces Russian Great Power status. Accordingly, Russia takes required measures to provide dependence of Central Asian oil and gas on Russian pipelines.

Firstly, Russia takes advantage of its monopolized domestic pipelines to prevent Central Asian countries from reaching European markets directly without selling their hydrocarbon resources to Russia.

Secondly, Russia, together with Iran, blocks efforts to build Trans-Caspian pipeline, which will bypass Russia and decrease dependency of Central Asian states on Russia. Nevertheless, Kazakhstan directly ships some oil to China while Turkmenistan directly sells some gas to Iran and Central Asia-China gas pipeline will further their independence from Russian pipelines. Azerbaijan and Georgia are good example of how Russia loses both its economic and political influence when it cannot maintain energy and pipeline dependence of CIS countries on Russia. Baku-Tbilisi-Ceyhan (BTC), South

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<sup>18</sup> Data retrieved from [www.imf.com](http://www.imf.com) accessed on 31.05.2012

<sup>19</sup> Fiona Hill, "Moscow Discovers Soft Power", 2006 <http://www.brookings.edu/research/articles/2006/10/russia-hill>, p. 344.

<sup>20</sup> Hill, "Moscow Discovers Soft Power", p. 341.

Caucasus (SCP) and Baku-Supsa pipelines save these countries from both economic and political yoke of Moscow.

Lastly, having accepted, in 2009, paying European prices for Central Asian gas, Moscow sought to maintain its advantageous position and prevent Central Asian states from looking elsewhere to sell their gas. All considered together, Russia has so far relatively achieved its goals of maintaining Central Asia's dependence on Russia to export its energy; preserving Russian influence over former Soviet republics, and preventing the Central Asian energy from creating an alternative to Russia.

*b. Russian Energy Interests in Europe:*

The Kremlin, via Gazprom, has been enjoying a power over Europe far beyond the strength of Russian Empire or Communist Russia.<sup>21</sup> Europe's increasing gas need is instrumental to Russia's increasing influence over Europe, which it was not able to achieve through military power in Soviet era. However, the relationship between Europe and Russia is also dominated by interdependence. Russia is the leading gas and oil provider in European market, supplying 36 percent of EU gas imports, 31 percent of crude oil imports. In turn, the EU is not only Russia's largest trading partner, but it is the market for 80 percent of Russia's oil exports and 70 percent of its gas exports.<sup>22</sup> Therefore, primary Russian interest in European market lies in not *weaponization of energy* but maintaining the availability of European market for Russia and Russian domination in it. While in Central Asia, Russia promotes its interests in sustaining Russian Energy Empire by preventing Central Asian hydrocarbon sources from bypassing Russia and finding new customers, Russian interests can only be advanced in European market by preventing it from bypassing Russia and finding new suppliers. So far, Russia has been quite successful in that, too. Moscow successfully countered Nabucco pipeline, which would diminish dependence on Russian gas, by introducing South Stream in identical route to identical customers. Even though neither of the projects is complete yet, Nabucco has got difficulty with finding reliable source of gas, which puts its fate in question. Russia not only successfully managed to rival Nabucco with an alternative pipeline but also deprived it of Central Asian gas through claims over Caspian Sea and bilateral agreements to pay Central Asian states European price to guarantee their economic loyalty. Likewise, the Nord Stream between Germany and Russia not only guarantees Russian gas export to Europe and keeps the market open for Russia but also bypasses Ukraine as well as Belarus and decreases Russian dependence on energy corridors. So far,

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<sup>21</sup> Goldman, *Petrostate*, p. 3.

<sup>22</sup> European Commission Data, "EU Russia Energy Relations", [http://ec.europa.eu/energy/international/russia/russia\\_en.htm](http://ec.europa.eu/energy/international/russia/russia_en.htm)

Russia has achieved its goals to preserve Russian interest vis-à-vis maintaining tutelage of Russian energy power on European energy market.

*c. Market Diversification*

While for many countries, including Turkey and EU, the main concern is energy diversification and diversification of energy providers, Russia needs market diversification to maintain its current status as a great power. Considering that Europe accounts for 80 percent of Russia's oil exports, 70 percent of its gas exports and that Russia is surrounded by energy rich countries in the South; Russia has to diversify its energy market by including Japan, China, South Korea and India as main targets. Within this framework, the first oil pipeline linking the world's biggest oil exporter, Russia, and the world's biggest consumer of energy, China, began operating in 2011.<sup>23</sup> On the same year, Russia expressed its interest in joining TAPI pipeline leading Turkmen gas to India.<sup>24</sup> Again in 2011, Gazprom signed a gas pipeline agreement that will unite the two Koreas in a common project.<sup>25</sup> In 2012, Russia started talks with Japan to build a gas pipeline between two countries.<sup>26</sup> This market diversification will not only save Russia from over-dependence on Western market but also escape being an *energy hinterland* of China.<sup>27</sup> Accordingly, by the decision to route the East Siberian oil pipeline to the Sea of Japan rather than to China, Russia aimed at gaining access to different markets and avoiding over-dependence on Chinese market.<sup>28</sup> So far, Russia seems successful in promoting its interests to diversify energy markets so as to enable maintenance of Russian Energy Empire. In the following part, I will focus on the reasons for Russian interest in the Middle East, how Russian interests are promoted and what role falls on Middle East in Russian policy of maintaining its energy empire.

## **II. Russia in the Middle East**

Even though Russia's interest in the Middle East dates back to the Middle Ages when first Russian pilgrims started to visit Holy Lands, it was not until the Kuchuk Kainarji that Russia officially acquired the right to

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<sup>23</sup> "Russia-China Oil Pipeline Opens", BBC, January 2, 2011, <http://www.bbc.co.uk/news/world-asia-pacific-12103865>

<sup>24</sup> "India, Russia set to sign mother of all energy deals", April 13, 2011, [http://www.dnaindia.com/money/report\\_india-russia-set-to-sign-mother-of-all-energy-deals\\_1531242](http://www.dnaindia.com/money/report_india-russia-set-to-sign-mother-of-all-energy-deals_1531242)

<sup>25</sup> Dmitry Zaks, "Russia inks North, South Korea pipeline deals", AFP, Sep, 15, 2011 <http://tinyurl.com/3lwjq5h>

<sup>26</sup> "Russia, Japan in Building Gas Pipeline Talks" Ria Novosti, May 3, 2012, <http://en.rian.ru/world/20120503/173198752.html>

<sup>27</sup> Nina Poussenkova, "Russia's Future Customers" in *Russian Energy Power and Foreign Relations*, p. 151.

<sup>28</sup> Josh Newel, "Timber in the Russian Far East and Potential Transborder Conflict" in *Russian Business Power*, p. 239.



guardianship of Eastern Orthodox community in the Ottoman Empire. However, Russian Empire, extending from Pacific to central Europe, was not an overseas empire and did not have any territorial connection with the region. Therefore, Russia sustained her influence on the Orthodox Christians via opening schools, hospitals, consulates and churches. For this purpose, the Imperial Orthodox Palestinian Society was established in 1882. Russian presence in the region could have enabled Russian Empire to reach warm ports and check British power by posing a threat to India. The Bolshevik revolution intercepted Russian attempts to infiltrate the region. Trying to consolidate power in domestic affairs, Soviets followed an isolationist policy and signed friendship treaties with Iran, Turkey and Afghanistan to secure its borders and prevent foreign intervention against the revolution. While advancement of Russia's interests in the Middle East was impeded by relative weakness of Soviet Empire, it was after the World War II when Russia emerged as a great power and resumed promoting its interests in the region by intimidating Turkey and Iran to territorial concessions. Additionally, Moscow supported Zionist movement in establishing Israel even though Zionism contradicts with socialist ideology. Post-war years saw Soviet attempts to penetrate the Middle East so as to break Soviet containment and check American military power in the region which threatened Soviet oil and heavy industry concentrated in the south of the country.<sup>29</sup>

Soviet interests in the region were furthered as Russia acquired bases and allies in the Middle East by supporting revolutionary Arab regimes in Arab-Israeli conflict. Even though Russian influence receded as *perestroika* policy was introduced and Russia underwent difficult times in the 1990's, Russia never ceased to follow its interests in the Middle East. Having assumed power in 1999, Putin followed former Prime Minister Primakov's policy of asserting Russia in this strategically and geo-politically important region.<sup>30</sup> Even though changing in form, Russia has always shown interest in the Middle East and followed appropriate policies, from soft power to intimidation and military presence, to promote Russian influence in the region. As for today, economy and trade deals are tools to stretch Russian influence over the region and promote state interests.

#### *a. Russian Interests in the Contemporary Middle East*

Russia's long-lasting relationship with the Middle East is reinforced by two key factors which provide organic connection between the region and Moscow. Firstly, Russia is home to approximately twenty million Muslims. Central Asia, Russia's geo-economically crucial area of influence, is also

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<sup>29</sup> Rashid Khalidi, *Sowing Crises*, Boston: Beacon Press, 2009, p. 53.

<sup>30</sup> Ilan Berman, "Russia and The Mideast Vacuum", *IASPS Research Papers In Strategy*, 12, 2001, 25.

predominantly Muslim. Russia also holds an observer status in Organization of Islamic Conference. Additionally, Israel is home to the largest Russian speaking population outside Russian Federation. These factors not only facilitate Russian infiltration into the region but also prevent Russia from being indifferent to it. Reinforced by these two factors, contemporary Russia develops relations with any actor in the Middle East including Hamas. However, as opposed to Soviet era, Russia no longer regards the Middle East a battlefield between superpowers but as a medium to serve its economic interests. In this respect, energy projects and arm sales provide Moscow the only tool in absence of an ideology to penetrate the region dominated by the US.<sup>31</sup>

Russia's main economic interests lie in Asia and Europe. While Central Asia provides additional energy resources for Russian pipeline monopoly, Far East and Europe are prominent customers for Russian energy. Nevertheless, the Middle East has a role to play in the agenda of Russian security and economic interests. From security aspect, Russia, long suffered from Chechen wars, is very cautious about Islamic insurgency both at home and in Central Asia. Any Islamic insurgency, which could be backed by Muslim states as in Saudi support for mujahedeen in Afghanistan war, could harm stability in and around Russia.<sup>32</sup> Any spillover effects of a similar Islamic radicalism to Central Asian states could result in those countries' re-orientation of their foreign policy. Therefore, Russia needs close collaboration with Muslim countries not only to maintain loyalty of former-Soviet Muslim population and check radical Islamic movements but also to make sure Islamic states, such as Saudi Arabia and Iran, does not support Islamic movements in and around Russia. So far, Russia has been successful in its policy.

As for Russian economic interests, the Middle East plays a multi-dimensional role, not appreciated sufficiently though. Russia has got the world's largest proven natural gas reserves and is the largest natural gas and oil exporter. However, it is also the third largest natural gas consumer, ranking just behind the US and EU. Approximately more than 60% of Russian natural gas is consumed in domestic market.<sup>33</sup> Russia's natural gas dilemma starts here. Subsidized prices not only help buy the loyalty of the population and soothe any possible unrest but also support stabilization of industrial sector. However, Gazprom loses more than \$50 per tcm sold domestically.<sup>34</sup> The maintenance of Russian energy power relies on exports while domestic consumption continues to increase. As a partial solution, Russia plans to increase the proportion of its

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<sup>31</sup> Julien Nocetti, "Russia's Saudi Arabian Diplomacy", *IFRI Russie Nei Visions*, 52, 2010, p. 22.

<sup>32</sup> Mark Katz, "Russia's Greater Middle East Policy", *IFRI Russie Nei Visions*, 49, 2010, p. 23.

<sup>33</sup> CIA World Factbook. Accessed on June 3, 2012.

<sup>34</sup> "Russia's natural gas dilemma", Stratfor Report, April 11, 2012. <http://www.euractiv.com/energy/russias-natural-gas-dilemma-analysis-512092>

nuclear energy from 16% to 25% by 2030 and build at least 40 new reactors.<sup>35</sup> However, this will not eliminate the problem. In this respect, the Middle East could be a solution to Russia's problem and make up for domestic consumption as in Central Asia where Russia is not a transit for former Soviet republics but a buyer of their resources. Likewise, Russia can secure its interests in the Middle East by lucrative production sharing agreements (PSA) and bilateral deals between Russian companies and governments.

In addition to increasing domestic consumption, Russia uses its oil and natural gas resources inefficiently. Russian old pipeline system contributes to big amount of natural gas leak during transportation. Also, Russia cannot use associated gas in oil drilling effectively and flare approximately 16 billion cbm of natural gas. Michael D. Cohen, an industry economist reports that roughly or one-third of Russia's gas exports either leaked in the form of methane in the course of transmission or distribution or were flared.<sup>36</sup> Enjoying a monopoly over natural gas resources, Gazprom is one of the most inefficient energy companies in the world, rivaled only by Pemex.<sup>37</sup> This situation necessitates close bonds between Russian and the Middle East states because it could provide Moscow with rich resources of the region.

In addition to increasing domestic consumption and ineffective use of natural resources, energy demands of countries will continue to rise up. The Middle East could offer Moscow new opportunities to preserve Russian energy tutelage, and hence political influence, especially over Europe by compensating for its inefficiency. In this regard, Russian companies have already started to drill in West Qurna Field of Iraq, one of the largest in the world.

An important Russian interest to maintain its energy superpower lies in diversification of state income. Russian economy is over-dependent on hydrocarbon resource export. Hydrocarbons account for around two-thirds of Russia's exports, half of government revenues and around one-third of GDP.<sup>38</sup> Therefore, Russia has to find alternative ways of supporting its budget by decreasing dependency on its own gas and oil exports. The Middle East offers an outstanding opportunity so that Russian firms could conclude deals in energy field, which is by far the most appropriate field where Russian large companies have big experience to compete with rivals. In fact, Russia sells arms and builds nuclear plants in the region so as to diversify its income but it is beyond the scope of this study.

In income diversification, Russian international firms play an important role but among them Lukoil, the second largest Russian oil company after state's Rosneft, has a distinctive position. Lukoil was among the luckiest

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<sup>35</sup> "Russia: Energy overview", BBC News, February 13, 2006.

<sup>36</sup> Goldman, *Petrostate*, p. 197

<sup>37</sup> Lucas, *New Cold War*, p. 183.

<sup>38</sup> Lucas, *New Cold War*, p. 87.

companies to escape the re-nationalizing wave of Putin years thanks to its accommodation with Putin's notion of national champions to put state interests before profit. As stated by Goldman,

*What mattered, [for Putin], was not who actually owned the shares but whether the managers of these companies acted as agents of the state and adhered strictly to the goals set out by Putin and other senior state officials as if they were wholly owned by the state.*<sup>39</sup>

As for today, Lukoil fits this categorization and is regarded a national champion. Within this framework, Lukoil sided with Transneft in blocking Caspian Pipeline Consortium (CPC) expansion which would export a larger amount of Kazakh oil. Even though Lukoil was already included in Kazakh oil projects to export oil through CPC, the only private pipeline in Russia, Lukoil submitted to state policy of preventing Kazakh petrol from bypassing Russia. In return, Russian state protects Lukoil interest, as well. Putin put Lukoil privileges in West Kurna-2 at the top of the negotiation agenda with Washington before invasion of Iraq in 2003. Russian government and Lukoil are so intermingled that Saivetz points out "What is good for Lukoil is good for Russia."<sup>40</sup> Lukoil promotes Russian interests in the Middle East in a number of different oil drilling projects. In addition to Lukoil, Tatneft and Sroytransgaz, Gazprom's engineering arm, play crucial roles in promoting Russian influence in the Middle East.

The last, but not the least, Russian interest in the Middle East to sustain its energy power is a close collaboration between Russia and energy exporting states in the region. Thanks to increasing energy prices, Russia has recovered from economic and political nightmare of 1990s, prepaid its external debts, saved a stabilization fund of more than 150 billion dollars, collected the third largest state reserves in the world and stretched its influence beyond its cold war boundaries. Additionally, each dollar increase in the price of oil raises Russian federal budget revenues by approximately 0.3 percent of GDP.<sup>41</sup> This interdependence between energy prices and survival of Russia as an energy power motivates it to strive for preventing energy prices from decreasing. Therefore, the Middle East appeals to vital Russian interests to synchronize and cooperate with the energy exporting countries of the region to keep prices at a reasonable level. In this regard, Moscow has voiced its opinion of establishing a gas OPEC.

In the following part, I shall examine the Russian attempts in the Middle East vis-à-vis advancing its above-pointed interests in maintaining its distinctive status over energy sources.

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<sup>39</sup> Goldman, *Petrostate*, p. 173

<sup>40</sup> Carol Saivetz, "Russia, Iraq, and Iran Business, politics, or both?" in *Russian Business Power*, pp. 115, 119.

<sup>41</sup> Hill, "Moscow Discovers Soft Power", p. 344.

*b. Russian Energy Investments in the Middle East*

Russia promotes its interests in Iraq via Lukoil. Under Saddam regime, Lukoil was granted to develop West-Qurna-2 oil field, world's largest undeveloped oil field, so as to court Russian help in curbing UN Sanctions. Even though the Saddam cancelled the deal in 2002 because Russia sought for reassurance from the US, Lukoil succeeded in its bid to develop the same field in 2009. Gazprom Neft also won a contract to develop the Badra field.<sup>42</sup>

Russia has also made attempts to infiltrate Saudi Arabian energy sector. In 2004, Lukoil won a contract worth 2 billion dollars for a gas deposit in Rub-al-Khali desert. Additionally, Stroytransgaz signed in 2007 a deal with Saudi Oger to construct national transport and gas distribution network in Saudi Arabia.<sup>43</sup>

Russia is preparing to invest in oil and gas areas of Yemen, which depends on the oil revenues making up more than 70% of the state budget.<sup>44</sup> Also, Russian state gas export monopoly Gazprom showed interest in buying Hunt Oil's stake in Yemen's first liquefied natural gas plant.<sup>45</sup>

Russia has got important investment in Syria, as well. Tatneft, sixth largest oil company in Russia, became the first Russian oil company in Syria to begin geological exploration and production after winning a tender and concluding a production sharing agreement in 2003. Tatneft and Syria's General Petroleum Company set up a joint venture, named Al Bu Kamal Petroleum Company, which started oil production at the South Kishma field with reserves estimated at 4.9 million tons.<sup>46</sup> Additionally, Stroytransgaz has been operating in Syria since 2000. The company has performed the contracts for the construction of the Arab Gas Pipeline 319 km long and South Middle Area Gas Exploitation Project.<sup>47</sup> In 2008, Stroytransgaz started building the second natural gas processing plant in north-central Syria.<sup>48</sup>

Russia stretched its interest in energy sector over Bahrain in 2012. Bahraini officials said Russia would replace Iran as a supplier of liquid gas because of deteriorating relations between Bahrain and Iran. Bahrain is expected to start importing liquefied natural gas from Russia by 2014.<sup>49</sup>

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<sup>42</sup> Katz, "Russia's Greater Middle East Policy", p. 14.

<sup>43</sup> Nocetti, "Russia's Saudi Arabian Diplomacy", p. 15.

<sup>44</sup> "Yemen To Hold Meeting For Russian Oil, Gas Investors", Yemenpost, April 16, 2012.

<sup>45</sup> "Russia's Gazprom eyes Hunt stake in Yemen LNG project", Reuters, June 30, 2010.

<sup>46</sup> "Tatneft halts oil production in Syria after Damascus blasts", RIA Novosti, December 23, 2012.

<sup>47</sup> "Another Stage of Stroytransgaz Syrian Project Completed", March 19, 2012 <http://www.stroytransgaz.com/press-center/news/2012/03/19>

<sup>48</sup> "Russia's Stroytransgaz starts building 2nd gas plant in Syria", RiaNovosti, February 5, 2008.

<sup>49</sup> "Bahrain Prefers Russia Over Iran for LNG", February 22, 2012 <http://www.naturalgasasia.com/bahrain-prefers-russia-over-iran-for-lng-4700>

Tatneft, Russian oil company headquartered in Tatarstan, reached in 2005 another country by registering a subsidiary in Oman in cooperation with Petroleum Development Oman (PDO).<sup>50</sup>

In Egypt, Lukoil is implementing several projects the largest of which is the development of the West Esh El Mallaha (WEEM) oilfield. The company is also implementing jointly with Italy's ENI-Agip the Meleya project and operating the West Geisum and the North-East Geisum blocks in the Gulf of Suez. Also, Russia's Novatek has set up a joint venture with Egypt's Sarva to extract gas at gas fields in El Arish.<sup>51</sup>

Russian interest in Israeli market has increased since the discovery of Leviathan natural gas field in 2010. Gazprom has expressed an interest in the offshore Leviathan deposit. In 2012, Russian energy giant Gazprom signed a preliminary deal with Israel to buy liquefied natural gas from offshore fields. The company also signed a letter of intent with the consortium exploiting the Tamar offshore Israeli natural gas deposit to begin talks for marketing gas from Tamar and another offshore field, most probably Dalit. Russia's main interest in Israel is to keep Israeli gas out of European market, where Russia is the principal supplier.<sup>52</sup>

Except for coordinating in Gas Exporting Countries Forum (GECF), Russia and Qatar started collaboration in developing oil and gas fields. In 2007, Qatar Petroleum and Lukoil signed a Memorandum of Understanding in Doha regarding cooperation in the areas of exploration, development and recovery of oil and gas fields.<sup>53</sup>

In United Arab Emirates, Stroytransgaz signed with Dolphin Energy, national gas company of UAE, a contract in 2008 to construct Trans-UAE gas pipeline. The contract was first major deal of a Russian company in the UAE.<sup>54</sup>

These investments and deals show that Russia sees the Middle East as a region where it can promote its interest vis-à-vis maintaining its energy superpower. Although Russia's main partners in energy deals are Europe, as a loyal customer, Central Asia, as a consistent provider, and Far East, as

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<sup>50</sup> "Oman Outlet: Tatneft Spreads Its Wings In The Middle East", June 1, 2005, <http://www.highbeam.com/doc/1G1-132925660.html>

<sup>51</sup> "Russia's Lukoil oil major, Novatek gas giant evacuate staff from riots-hit Egypt", RIA Novosti, January 30, 2011

<sup>52</sup> Robert M Cutler, "Gazprom seeks Israeli gas", May 28, 2012 [http://www.atimes.com/atimes/Middle\\_East/NC28Ak01.html](http://www.atimes.com/atimes/Middle_East/NC28Ak01.html)

<sup>53</sup> "Lukoil and Qatar Petroleum sign cooperation deals", February 13, 2007, [http://www.gasandoil.com/news/middle\\_east/ee972fad2e6141e503b9095331ac8555?b\\_start=4000](http://www.gasandoil.com/news/middle_east/ee972fad2e6141e503b9095331ac8555?b_start=4000)

<sup>54</sup> "Tamsin Carlisle, Stroytransgaz wins Dolphin contract", Jul 22, 2008, <http://www.thenational.ae/business/energy/stroytransgaz-wins-dolphin-contract>

prospective market diversifier; Russian investment in the region show that the Middle East also plays an important role in Russia's grand strategy.

*c. Iran as Cornerstone of Russia's Energy Policy in the Middle East*

The key to maintenance of Russian energy empire is the dependence of European markets, including Turkey, on Russia. Europe accounts for 80 percent of Russia's oil exports and 70 percent of its gas exports, which means Russia owes its wealth and increasing influence to this trade. In this respect, Iran plays the most important role in sustaining the current status quo in energy market to Russia's advantage. Iran has the 5<sup>th</sup> largest proved oil reserves and 2<sup>nd</sup> largest natural gas proved reserves but is kept out of market owing to sanctions, only to the great advantage of Russia.

Under heavy sanctions and ruled by an anti-American Islamic regime, Iran cannot increase its production to export more hydrocarbon resources, which keeps the gas and oil prices high. Any regime change in Iran will highly possibly restore its ties to the US, lead to closer cooperation with the EU, give rise to an Iran competing with Russia in gas and oil export to European markets, will provide a transit route for central Asian energy resources<sup>55</sup> and will deprive Russia of its bargaining chip with the US in the Middle East. Therefore, the essential Russian interest in Iran for continuation of its energy empire is the survival of regime. In this regard, Russian attempts are aimed at supporting the regime to as long as it does not give rise to a direct confrontation with the US. Therefore, Russia, by providing assistance in nuclear field, keeps the strings strained between Tehran and Washington while it also helps the regime survive by providing financial aid through Russian firms. Although Russian investments are restricted by sanctions, Tatneft, in 2011, signed an accord valued at \$1 billion with Iran to develop the Zagheh oil field in the Persian Gulf in the absence of Western Companies due to sanctions.<sup>56</sup> Lukoil resumed in 2011 gasoline sales into Iran together with China's state-run firm Zhuhai Zhenron.<sup>57</sup> Russia also makes most of sanctions by providing arms and nuclear assistance, which help Russia diversify its income. Even though Russian investments in Iran is of no huge scale, Russian interests in Iran are principally served by that Iran does not emerge as a rival in energy market and keep blocking the Central Asian hydrocarbons from reaching European without Russia.

*d. Russian ambitions in the Middle East vis-à-vis gas OPEC*

Even though OPEC, of which Russia is not a member, has been operational since 1960 and it showed its influence in 1973 oil embargo, natural

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<sup>55</sup> Katz, "Russia's Greater Middle East Policy", p. 24.

<sup>56</sup> "Iran and Russia's Tatneft Sign \$1 Billion Oilfield Accord", December 18, 2011, <http://www.syria-oil.com/en/?p=2058>

<sup>57</sup> "Russia's Lukoil resumes gasoline supply to Iran -trade", Reuters, August 11, 2010. <http://www.reuters.com/article/2010/08/11/iran-lukoil-gasoline-idAFLDE67A17G20100811>

gas sector lacks a unifying umbrella organization to regulate production and prices. However, since the establishment of gas exporting countries forum (GECF) in 2001, the idea of a gas cartel similar to OPEC is on the agenda of countries. There are two serious impediments to establishment of gas OPEC. Firstly, gas prices are indexed to oil. Secondly, natural gas, unlike LNG, can be transported only through pipelines on long terms agreements.<sup>58</sup> As of today, Russia has not initiated any serious step towards realizing the idea but has not dismissed the idea as well, which makes it a Sword of Damocles over gas importing countries. Even though establishment of a gas OPEC seems a distant possibility, such an organization will reinforce Russian position in the global energy market and contribute to its status as an energy superpower.<sup>59</sup> In oil sector, Russia enjoys being a free rider within a strategy to maximize its income in short-term because it holds only approximately 6 percent of proven reserves.<sup>60</sup> However, being a member of a gas OPEC is more appealing to Russia because it will be the dominant producer to control organization's strategy for its long term interests to maintain its energy superpower. Today, Russia has got the largest proven natural gas reserves and is the largest exporter in the world.

Considering that three dominant members of GECF -Russia, Iran and Qatar- hold about 57 percent of global gas reserves, the role of the Middle East in Russia's any possible attempt to establish a gas cartel outdoes any other region in order of importance. Russia's long term interests cannot be promoted without taking this reality into consideration and Russia's interests in the Middle East cannot be adequately conceived without considering this equation. So far, Russia has not been successful in enticing Qatar, the largest LNG exporter in the world, to this idea, but Iran is more eager to collaborate with Russia as long as the current regime can survive. In this regard, the Middle East comes to the forefront in the vital Russian interest to sustain its energy empire.

### **Conclusion**

Maintenance of Russian energy empire not only consolidates domestic power and provides internal stability but also helps Russia expand its influence beyond its natural sphere of influence and protect its great power status. Therefore, Russia's prime motivation in international arena is to preserve the status quo in Russia's favor in international energy market. Moscow develops energy policies in Central Asia and Europe, two key regions to its current advantageous position, so as to sustain the survival of its energy superpower in an increasingly competitive global energy market. In this respect, the Middle

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<sup>58</sup> Marcel Dietsch, "The Next Global Energy Cartel", *Forbes*, October 12, 2009.

<sup>59</sup> Sergey Chernavsky and Oleg Eismont, "Is Gas Cartel's Profitable for Russia?", *Journal of the New Economic Association*, 1-2, 2009, p. 25.

<sup>60</sup> Nocetti, "Russia's Saudi Arabian Diplomacy", p. 13.



East, too, holds a crucial role in Russian energy agenda and it is not excluded from Russian area of interest.

As a part of its energy policy, Russia's interests in the Middle East are driven by three crucial factors. Firstly, the Middle East comes forward as an important market for giant Russian energy companies. As a country which is overwhelmingly dependent on hydrocarbon exports, the Middle East plays an instrumental role in diversifying Russia's income. In this respect, Russia promotes the objective to diversify its income through arm and nuclear energy deals as well. Secondly, Russian energy power is impeded by an increasing domestic consumption and inefficient use of its hydrocarbon resources. The Middle East can compensate for the internal consumption and resource depletion via lucrative product sharing agreements in crucial oil and gas fields. Thirdly, the Middle East holds a key position in any possible Russian attempt to establish a gas OPEC considering that only three countries -Russia, Iran and Qatar- hold about 57 percent of global gas reserves. Even if a cartel does not seem probable in near future, the region's importance in Russian energy strategy is reinforced by the fact that coordination with the Middle Eastern states will provide reasonably high prices for gas and oil.

Gone are the days when Russia promoted its influence in the international politics using its military power and ideology as an instrument. Russia no longer penetrates the Middle East through socialist discourses and support for anti-imperialist, quasi socialist revolutionary Arab regimes. In the Middle East, where Russian interests are long-lasting and consistent throughout three different Russian regimes, Russia advances its influence by cooperating and collaborating in energy sphere. Today, Russia enjoys far greater infiltration in the region via trade and energy deals. At the crossroad where Russian prime state motivation to maintain its energy empire and geo-economic importance of the Middle East cross, the region is expected to fall under stronger Russian influence. Within this framework, Russian reaction to Arab spring and its policy towards the Syrian crisis shall prove to be instrumental in sustaining this goal. Russia could preserve and increase its trade power without estranging the new regimes in the Middle East while pursuing its interests arising from realpolitik. Yet, positive Russian image, accumulating since the collapse of Soviet Union, continues to erode since the Syrian crisis and this is expected to motivate Russia to revise its Syrian policy to guarantee the survival of Russian gains in the Middle East. That Moscow opens the door for Syrian opposition can be a positive sign for this.

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