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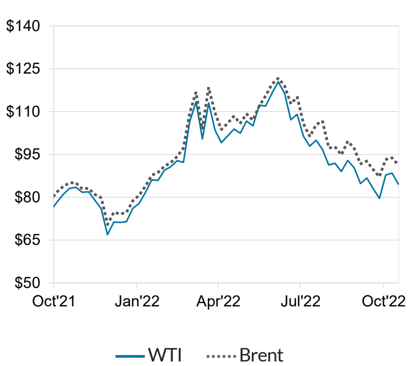

Source: CME, ICE

THE BIG PICTURE

Russia's Sliding Influence in Its 'Near Abroad'

- *Russia's clout in Central Asia and the South Caucasus appears to be waning as the war with Ukraine intensifies.*
- *Old conflicts over disputed territory are flaring up again, and Russia lacks the means to resolve them.*
- *China and Turkey are gaining influence in the region, with energy ties playing a central role.*

The longer Russia's war with Ukraine drags on, the more the conflict could erode Russia's ability to contain instability on its southern fringes in Central Asia and the South Caucasus. In recent weeks, border skirmishes between Armenia and Azerbaijan, and Tajikistan and Kyrgyzstan, have left hundreds dead, and in both cases Russia appears powerless to forge a reconciliation. Analysts say a perception is growing in the region of a weakened Russia that is losing clout to Turkey and China, both strategic allies. None of the countries in the region want to antagonize Moscow, however, at a time when it is bombing civilian infrastructure in Ukraine and has declared martial law in the four areas it occupies. All are aware of Russia's importance as a transit route for their oil, gas and other commodities — Kazakhstan in particular — and their vulnerability to a sudden cutoff in supplies if relations were to worsen.

Unfrozen Conflicts

Russia cannot afford to get bogged down in any more conflicts in its former backyard that could force it to commit troops that it doesn't have, and risk instability spreading in the region. A particular concern for Moscow is the prospect of another war between Armenia and Azerbaijan that came close to happening last month, when Azeri troops attacked positions across the border, prompting Armenian reprisals. The skirmishes raised the prospect of a rerun of the 44-day war that broke out in 2020, and led to Azerbaijan regaining chunks of Armenian territory in and around the disputed enclave of Nagorno-Karabagh that it had lost in the early 1990s. It was a Moscow-brokered cease-fire that cemented Azeri gains but failed to tackle the root causes of the conflict.

With Russia distracted, it will be up to other external actors — including the US, EU and Turkey — to prevent another conflict. There is much at stake, with the EU now more dependent on the roughly 10 billion cubic meters per year of gas it imports from Azerbaijan, transported via Turkey, as a substitute for Russian gas that it used to import via the Nord Stream pipeline. Turkey also acts as a conduit for Azeri oil that is pumped via a 1,500 kilometer pipeline crossing Georgia, ending up at the Turkish Mediterranean port of Ceyhan.

The fighting between Kyrgyzstan and Tajikistan, which each side blames the other for starting, is of less interest to the West, as there are no energy supplies at stake. It poses a much greater challenge for Moscow, which has a military base in Tajikistan

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and also enjoys close relations with the Kyrgyz government. Moscow fears the violence could spill over into Central Asia's most populous country, Uzbekistan, and spiral out of control. Having an unstable Afghanistan run by the Taliban across the border only adds to Russia's sense of unease.

Kazakhstan Boxing Clever

The country with the most to lose from a rupture with Moscow is Kazakhstan, which depends on pipelines crossing Russia to transport most of its oil — especially the 1.4 million barrel per day Caspian Pipeline Consortium (CPC) line that runs to the Black Sea port of Novorossiysk. Kazakhstan fears the Kremlin could bring the country to its knees by cutting off oil flows, and mysterious disruptions at the Russian end of the CPC line in recent months have reinforced these concerns.

Kazakhstan's president, Kassym-Zhomart Tokayev, was viewed by Russian President Vladimir Putin as a trusted ally who would support the campaign in Ukraine. But when Tokayev said in June, at a panel he shared with Putin at the St. Petersburg Economic Forum, that he would never recognize the Donetsk and Luhansk "republics" as independent states, he crossed a red line. Just days afterward, a Russian court ordered the closure of the CPC pipeline for a month for alleged "irregularities." It suspended the ruling days afterward.

Since then, Tokayev has stepped up his quest for alternative oil export routes — including a new transportation system that would cross the Caspian Sea and run across the South Caucasus to Turkey. He also called for an expansion of the 400,000 b/d Kazakhstan-China oil pipeline that runs over 2,000 km eastward from the Caspian Sea to the border town of Alashankou.

China Dominant in Central Asia

When Chinese President Xi Jinping last month made Kazakhstan his first foreign visit since the Covid-19 pandemic spread in early 2020, it underlined how important the country and Central Asia as a whole is for Beijing. During his trip, Xi said he would oppose any attempt to "destabilize" Kazakhstan, which analysts interpreted as a dig at Russia. He also called for an expansion of economic ties, and hailed growing Chinese investment in the region as a shining example of the Belt and Road Initiative that Xi unveiled almost 10 years ago.

It is hard to dispute the notion that China has supplanted Russia as the dominant external force in Central Asia. Its flagship state oil company, China National Petroleum Corp., has big oil and gas projects in Turkmenistan and Kazakhstan and jointly owns the Central Asia-China gas pipeline system that can pump up to 55 Bcm/yr of gas from Turkmenistan, Kazakhstan and Uzbekistan to the Chinese mainland. Chinese state banks have lent tens of billions of dollars to the Central Asian countries, especially Kazakhstan, while cross-border trade has picked up after the Covid-19 slowdown. Russia, which is relying on China to remain its top ally, can do little to alter this shift of power in Central Asia that is built around energy, rather than military power.

Paul Sampson, London

GEOPOLITICS

How US-Saudi Relations Could Change

US-Saudi differences over oil supply spilled into public view late last week, with the US accusing Saudi Arabia of following the "wrong direction" in oil policy after Opec-plus' headline 2 million barrel per day production cut agreement. Tensions have since moved out of the headlines, and rash decisions appear unlikely. But changes to the relationship could still lie ahead. Below, Energy Intelligence flags what to watch for in the coming months.

• **Further releases of strategic oil stocks are Washington's primary tool, but could make Opec-plus less inclined to rein in its cut.**

The US this week announced plans to sell 15 million barrels of strategic oil stocks through the end of December — completing the 180 million bbl sale authorized by US President Joe Biden in March. More releases could be coming, Biden said Wednesday, with a decision on a January release expected in about a month. Notably, Biden did not mention Saudi Arabia or Opec-plus in his remarks. Expectations of further US Strategic Petroleum Reserve (SPR) releases are seen as having dampened the price effect of the Opec-plus cut agreement.

In theory, a US fixed-price buyback plan could help ease some Saudi concerns about US market intervention by signaling a price floor. US officials said the government would buy back barrels for the SPR at a West Texas Intermediate price of $67-$72 per barrel in an attempt to "provide industry with certainty about future demand and encourage near-term production." However, Opec-plus is still likely to view this as unwelcome intervention in oil markets — and a challenge to its role. Releases beyond the already announced 180 million bbl might also cause Opec-plus to reassess the options of tweaking the current cut in the coming months.

• The US could slow weapons sales, but a major change in the US-Saudi security relationship isn't expected.

US National Security Adviser Jake Sullivan said Sunday that Biden would consider "changes to our approach to security assistance" as an option in response to the Opec-plus cut — but also that Biden would act "methodically, strategically." Some in Congress have pressed for farther-reaching steps, from blocking all future arms sales to Saudi Arabia to freezing support for US weapons systems used in the region. Any momentum for sharp moves like this seems likely to be mitigated by concerns about Iran's role in the region.

A temporary hold on arms sales — to signal disapproval — would not be unprecedented. US lawmakers paused sales after the killing of Saudi journalist Jamal Khashoggi in 2018 and over the Saudi-led war in Yemen, noted Melissa Horvath of the Washington-based Middle East Institute. On taking office, Biden also launched a review of arms sales struck in the final weeks of Donald Trump's presidency.

Any more permanent breakdown in security ties would have consequences for the US, which "risks effectively shutting itself out of the region and being unable to secure its own defense interests, disrupt violent extremist organizations, [or] protect vital sea routes," Horvath wrote in a Middle East Institute briefing. Moreover, she added, "the US will have lived up to the 'abandonment narrative' that is already prevalent across the region."

Energy Intelligence understands there's little concern among Saudi officials about the risk of the US ceasing arms sales, with maintaining stability and security in the region — and containing Iranian influence — seen as a top priority for Washington and likely to override the current spat over an Opec-plus cut. Saudi officials emphasized the strength of the security angle in comments last week. In the Saudi view, Saudi Arabia and the US are facing a short-term diversion of interests spurred by the US election cycle and management of an unprecedented oil market.

The two countries are also confronting shifting geopolitical realities, such as the war in Ukraine, which has escalated tensions between the US and Russia, without changing Moscow's status as an essential ally for Saudi Arabia (and Opec) to manage the global oil market (p6). But these new pressures are not seen by Riyadh as undermining the bedrock of the relationship.

• The White House could find it harder to head off bipartisan congressional pressure for "Nopec" antitrust legislation, which is gaining momentum.

The Nopec bill — short for "No Oil Producing and Exporting Cartels" — that would expose Opec members to US antitrust action has existed in some form since 2000. Republican Sen. Chuck Grassley has pledged to try to introduce the legislation to a must-pass defense spending bill, but that attempt won't come until after November midterm elections. Sen. Dick Durbin, the majority whip for the Democrats, is also a vocal Nopec proponent. The bill would allow the US Justice Department to pursue legal action against states and state-backed companies that take action to limit the production or distribution of oil, oil products and gas, or set the price or restrain trade of those fuels.

Past administrations have typically opposed the legislation on grounds that it could expose the US to retaliatory action. Fears are that passage of the bill could prompt a Saudi and wider Mideast Gulf exit from their US investments. Proponents of the measure argue those sorts of actions would "be equally as damaging to Saudi Arabia as they would to the United States, more so in most cases," as Dennis Blair, a retired Navy admiral who works with the organization Securing America's Future Energy, put it. Saudi sources see the legislation as unlikely to pass amid the current global energy crisis. But the odds have risen in the shifting environment compared with recent years.

• Next week's Saudi investment conference should provide pointers on the US backlash's depth.

Saudi Arabia's high-profile Future Investment Initiative (FII) summit, which attracts the world's business elite, is usually a good gauge for assessing interest in Saudi investments by global investors. In 2018 following the Khashoggi murder, the FII was boycotted by many Western companies, although executives and officials from Asia, Russia and other African states made a strong appearance. Energy Intelligence understands that the US backlash over the Opec-plus cut has so far not prompted any US companies or investors to change plans to attend this year's FII.

• Saudi Arabia and other Mideast Gulf producers are upping mediation and aid efforts in the Ukraine crisis, while sticking tight with Moscow on market management.

All Mideast Gulf states voted in favor of a UN resolution last week condemning Russia's annexations in Ukraine and calling for its military withdrawal from those areas. Additionally, after the fallout from the Opec-plus cut, Saudi Arabia and the UAE announced aid packages to Ukraine. The two Gulf states have also helped mediate prisoner of war exchanges between Russia and Ukraine. At the same time, there's no doubt the younger generation of leaders in the Gulf are prioritizing national interests over taking sides in a conflict that might harm their future ambitions, budgets and diversification plans. "A message to those hot-headed congressmen and pundits in Washington: the 6 Arab Gulf states are not client states of the America," tweeted Emirati political commentator Abdulkhaleq Abdulla.

Emily Meredith, Washington, and Amena Bakr, Dubai

GEOPOLITICS

Europe Braces as Hybrid Energy War Intensifies

Russia's energy war with Europe looks set to intensify in the coming months, as implementation of the planned G7 price cap and EU bans on Russian crude imports and shipping services nears on Dec. 5. Missile strikes that reportedly destroyed 30% of Ukraine's power plants in the past 10 days and last month's sabotage of the Nord Stream pipelines highlight the vulnerability of infrastructure in conflict, while sharply curtailed Russian gas flows do the same for energy markets. Some challenge by Moscow to upcoming oil sanctions seems likely — but in an increasingly "hybrid" conflict, the shape is uncertain.

• Pretexts for the plunge in piped gas exports to Europe range from contract disputes to sabotage that both sides blame on the other. The two gas routes still open are now at risk of disruption.

Russian President Vladimir Putin floated the idea last week of expanding the Turk Stream offshore gas pipeline to Turkey, with a view to redirecting volumes to Europe from the damaged Nord Stream pipelines — a long-shot idea given Gazprom's shredded reputation as a reliable supplier.

The Russian energy giant is currently sending just over 30 million cubic meters per day via the Europe-bound Turk Stream and just over 40 MMcm/d through Ukraine. Those Europe-bound export volumes are just 20% of what they were a year ago.

But that will not prevent Putin from further reducing them as a way to ramp up the pressure on European governments and sow division, says Adnan Vatansever, an expert on Russian energy at King's College London. "He basically has two winters to use gas as a weapon — it's this winter and next winter, and it's a lot more likely that he will be further limiting gas flows to Europe this winter, and especially making it more difficult next year to replenish the storage in Europe."

Cutting off supplies through Turk Stream carries its own political risks, however. Turkish President Recep Tayyip Erdogan is seen as one of Putin's most useful allies. He has sought to play a mediating role between Russia and the West and has resisted pressure to join Western-led sanctions on Russia, making Turkey a valued outlet for shunned Russian oil. Erdogan also faces a crucial election next year at a time when Turkey's economy is in serious trouble. "My expectation would be that if there is a Gazprom reduction, it's probably going to affect flows through Ukraine," Vatansever says.

• Oil flows have also been interrupted, and Putin has warned that Russia would stop supplying countries that use the price cap. But Moscow may have less room for maneuver here.

Opec-plus officials insist their decision earlier this month to cut oil production by a nominal 2 million barrels per day was a purely technical, preemptive move to head off any slide in oil prices. Moscow hailed the cut as "responsible" in contrast with "the mayhem that the Americans are causing." But by tightening oil markets and supporting prices, the cut has also given the Kremlin additional leverage ahead of the planned price cap and EU embargo on Russia oil. Recent incidents suggest it will not be afraid to use it.

Russian crude flows to Germany via the Druzhba pipeline have resumed after a leak was discovered last week on a Polish section of the 1 million b/d line. Polish and Russian officials said the leak appeared to be accidental, but circumstances remain unclear. Berlin last month seized stakes held by Russian state oil giant Rosneft in three German refineries. Germany and Poland plan to halt imports via Druzhba by the end of this year, but some countries on the southern leg, including Hungary, won exemptions from EU sanctions and will remain exposed. Reported plans to double the capacity of the 20 million ton per year Adria pipeline from Croatia could reduce Hungary's dependence on Russian oil but this will need time and investment.

European refiners will also be mindful of disruptions at the Caspian Pipeline Consortium's marine terminal, where loading operations have been hit several times this year. The terminal, which handled 1.2 million b/d of mostly Kazakh crude last year, is located in Russian territory near the Black Sea port of Novorossiysk. Both of these oil routes remain vulnerable to interruption, whether politically motivated or not.

Any move by Moscow to sharply rein in Russian oil supplies would be complicated, however. The EU embargo will force a major dislocation of trade flows and likely some shut-ins. But Moscow's overwhelming reliance on oil revenues limits its ability to restrict flows, argues Vatansever. "Being unable to export oil ... would be devastating for the Russian economy." Russia's "war premium" oil income is already flattening and should flip into deficit this quarter, Energy Intelligence analysis suggests.

• Unclaimed attacks on critical infrastructure could escalate as the West targets Russia's oil and gas earnings.

Cyberattacks are a known strategy of the Putin regime. They allow Moscow to strike below the threshold of armed conflict, deny responsibility and undermine public trust in the host country's security, according to cyber experts Jamie Collier and Jamie MacColl, at UK think tank the Royal United Services Institute.

Key sectors like health care and energy — in the US and Europe — have been successfully targeted by Russian ransomware operators. Sources in Norway's energy sector last month reported a spike in attempted cyberattacks. Writing in *Politico*, Collier and MacColl flagged cyberattacks on operations at oil terminals in Belgium, Germany and the Netherlands shortly before the invasion of Ukraine, warning that similar incidents at gas terminals this winter could cause significant disruptions. Ukraine's cyber resilience thwarted Russian attempts to cause blackouts in March and April.

Equally, the blasts on the Nord Stream pipelines — whoever was responsible — showed the potential to inflict serious damage on physical infrastructure without easily being detected. The sabotage of fiber-optic cables that brought rail services across northern Germany to a halt on Oct. 8 did likewise. European countries are on high alert to the threat to energy facilities after the Nord Stream blasts, and drone sightings near North Sea oil and gas installations have stoked these concerns. Norway, now Europe's largest gas supplier, has beefed up its security. Prime Minister Jonas Gahr Store warned Thursday of a "real and serious threat" to the country's oil and gas security, adding that the security forces were closely cooperating against digital threats. Attacks on physical and digital infrastructure are hard to both prevent and attribute, experts say.

Simon Martelli, London

COUNTRY RISK

Iraqi Deadlock Broken

- *It has taken a year since October 2021 elections, but Iraq at long last looks like it has a new government.*

- *Some fierce political horse-trading is under way to decide who gets the top jobs, and the oil ministry could be a pivotal bargaining chip.*

- *Public faith in government is at an all-time low, and the best Prime Minister-designate Mohammad Shia al-Sudani can hope for is to steady the ship and launch some modest reforms.*

In Iraq, despair springs eternal. Last week came the revelation that between September 2021 and August 2022 some $2.5 billion dollars was effectively stolen from the finance ministry's General Commission of Taxes at Rafidain Bank by five companies. Estimates of government funds lost to corruption since the US-led invasion in 2003 range from $150 billlion to over $300 billion. Nevertheless, the news comes as a shock, and rampant corruption is taking an increasing attritional toll on Iraq. It triggered the resignation of respected Finance Minister Ali Allawi over the summer. And the scandal has forced out acting Finance Minister Ihsan Ismail, who remains, at least until the new government, as oil minister.

Allawi's resignation letter sent a message that "militias are running the ministry" and can't be controlled, notes an Iraqi oil source. Ill-gotten gains have essentially fueled the recent gravity-defying surge in Baghdad property prices, with some areas rivaling London or Paris, notes one former Iraqi politician. "They can't get it out, so they invest in Iraqi property," the ex-politician argues.

Parliament's selection of Latif Rashid, a Kurd, as president and al-Sudani as prime minister on Oct. 13 may have given Iraq's nomenklatura a last-minute reprieve. Al-Sudani, who is the candidate of the pro-Iran Coordination Framework Alliance, has 30 days to present his cabinet and program to parliament for approval. Negotiations will be challenging and opponent Muqtada al-Sadr, the biggest winner in last year's elections, could well look to sabotage the whole process if some minimum demands are not met. However, consensus is that "there is decisive momentum that this government will go through," notes the ex-politician.

Need for Speed

Fear of al-Sadr and public rage at the extended governance vacuum means the Coordination Framework is "in a bit of a rush and wants to get a government in place as soon as possible," explains Sajad Jiyad of the Century Foundation think tank. A presentation of cabinet to parliament, even if key posts remain unfilled, could happen within a week, he argues. The ex-politician argues that this is impossible, with wrangling over which party gets what ministry likely to go down to the wire. Many of the "most important portfolios will be decided in the very last 72 or even 48 hours," he argues.

Momentum aside, one factor that could swing things in terms of a tacit al-Sadr green light would be a key ministry. Last election, al-Sadr was pushing for the oil ministry and thought he had a deal — only to be disappointed by the selection of the current minister, Ihsan Ismail, notes the oil source.

A few names are being bandied around in connection with the top job at the oil ministry. These include: (retired Deputy Oil Minister) Fayadh Hassan Nama; Basim Abdul Karim, the head of state-owned Iraq Drilling Co.; Ali Muarij, a former head of the Parliamentary Oil and Gas Committee and before that head of Missan Oil Co. (when al-Sudani was the provincial governor of Missan); and Muhammed Mazeel al-Aboudi, director-general of the ministry's Reservoirs and Field Development Directorate, notes the source. Muarij apart, none are closely affiliated with any party.

Even with parliamentary blessing, al-Sudani is on shaky ground. The whole system, and political class with it, has lost legitimacy and may be unreformable. Nevertheless, a new government at the very least enables a stop to the complete paralysis that has killed governance over the last 12 months.

Don't expect too much, counsels Jiyad. Al-Sudani "should focus on stabilizing the country, preventing the situation from getting any worse and look to make progress on a couple of key things — rather than overpromise and underdeliver," he advises. Some low-hanging and very important fruit are within reach, the most important of which is the strategic integrated oil, gas, solar and infrastructure deal with TotalEnergies, signed just before the elections. Progress on this Total deal in the next couple of months will be the key litmus test of whether the new administration is able to begin the slow process of turning things around.

Calm or Conflict?

Traditionally, pro-Tehran politicians have taken a dim view of any Kurdish push for more autonomy. But even for the Kurds a new government could bring benefits. They need a legitimate government in place for any chance of talks addressing the bitter dispute over the independence of the Kurdistan region's oil and gas sector that has reached boiling point this year. The Kurds will also be hoping a modicum of stability in Iraq could help security issues in the Kurdistan Regional Government (KRG), whose main gas plant, Khor Mor, has seen repeated rocket attacks in recent months. "Not having a government in Baghdad is not helpful to anybody," notes one KRG investor.

Much has been made of the Coordination Framework's ties with Iran. But al-Sudani "doesn't want to appear as the prime minister backed by Iranian-backed parties. He wants a more nationalist vision," argues Jiyad. How achievable an independent path is will depend on how much Iran feels it needs to intervene in Iraq. This in turn rests on the trajectory of regional political dynamics and Tehran's dispute with Washington.

Al-Sudani has one ready ace to play. So low is the governance bar that any tangible progress he can make on any of the many problems facing Iraq will be warmly welcomed by the international community and Iraqis alike. Failure and a slide back to the chaos seen over the summer is a very real prospect. Then, Iraq came within a whisker of all-out civil conflict. Ayatollah Ali Sistani, Iraq's most senior Shiite cleric, intervened to halt the slide toward meltdown as he has done so often since 2003. But clearly there is only so much longer the 92-year-old Sistani can be expected to come to Iraq's rescue.

Rafiq Latta, Nicosia

GEOPOLITICS

Mideast Gulf-Russia: The Ties That Bind

- *Saudi Arabia and other Mideast countries are declining to take sides on Russia despite pressure from the US. The appeal is Moscow's respect of partners' interests.*
- *But while Saudi Arabia is keen to keep Russia on board for oil market management, cooperation in other areas remains embryonic.*
- *The redirection of Russian oil flows to Gulf producers' traditional Asian markets is not seen as a threat since they have secure long-term contracts.*

The Issue

Opec-plus agreeing a 2 million barrel per day nominal production cut raised accusations of Mideast Gulf producers siding with Russia — with Moscow standing to benefit from higher prices in the run-up to an EU crude ban and G7 oil price cap taking effect from early December. Gulf producers insist the decision was driven by market fundamentals but find themselves engaged in a tricky balancing act. They don't wish to take sides over Russia's war in Ukraine, but rather want to strike an independent line and demonstrate they aren't under the US' thumb. Saudi Arabia's interest in joining the Brics economic group — which includes Brazil, Russia, India, China and South Africa — is evidence of the trend.

Political Positioning

The tightrope Gulf governments are walking was clearly demonstrated in the UN General Assembly last week, when they voted for a resolution condemning referendums in four Ukrainian regions on acceding to the Russian Federation. Saudi Arabia and the United Arab Emirates also recently announced aid packages to Ukraine.

Moscow is well aware of its Gulf friends' precarious situation, and analysts note that the meetings of UAE President Sheikh Mohammed bin Zayed al-Nahyan and Qatari Emir Sheikh Tamim bin Hamad al-Thani with Russian President Vladimir Putin last week were an important signal of a desire to maintain ties with Russia, and act as international mediators.

Putin also praised Sheikh Mohammed's mediating role in an attempt to find a way out of the Ukrainian crisis, while Saudi Crown Prince Mohammed bin Salman played a key role in the exchange of prisoners between Russia and Ukraine. At the same time, there is an understanding that if Opec feels the need to supply more oil to the market — even if it is to make up for lost Russian barrels come December — Moscow would accept such a move.

For the Gulf states, one of Putin's biggest plusses is the lack of pressure to choose sides, and Moscow's respect for their national interests. There's also a drive in the region by the younger leadership in Saudi Arabia, the UAE and Qatar to focus on being independent.

Toward that end, Saudi Arabia's Prince Mohammed confirmed the kingdom's interest in joining Brics during talks with South African President Cyril Ramaphosa in Riyadh this week. Such thinking is also in line with the idea, promoted by Russia and China, of a shift to a more multipolar world, and away from a US-led one.

Economic Shortfalls

Economic ties lag the political relations between Russia and the Middle East. Moscow is interested in changing this and will seek more bilateral investments now that Western companies have departed Russia. However, not many deals have materialized — and trade potential between the two major energy exporters is necessarily limited. The US is a dominant trade partner of the region, while China is on the rise: Saudi Arabia was the No. 1 target of investment under Beijing's Belt and Road Initiative in the first half of this year, with energy the main focus.

Arms sales is an area that Middle East countries have been looking to expand on with Moscow. But Gulf states will continue to rely on the US for weapons supplies and there's confidence that the US won't fully halt sales (p2). Russia's own arms needs for its war in Ukraine also limit its ability to export. Nuclear cooperation at least on the technology side could also be of interest to Saudi Arabia. Russia's state Rosatom is preparing documents to participate in a tender for the kingdom's first nuclear power station, Russian Deputy Prime Minister Alexander Novak said last week.

Areas for Russia-Saudi economic cooperation were to have been discussed at a planned meeting of the Russian-Saudi intergovernmental commission on trade and economic cooperation that was supposed to take place in Moscow simultaneously with Russian Energy Week over Oct. 12-14. But the Saudi delegation was absent despite Prince Mohammed having promised Putin in a telephone conversation last month that the kingdom would send high-level representation to the Moscow event. The clear priority for Saudi Arabia is keeping Russia part of the Opec-plus alliance.

Competition vs. Cooperation

Russia and Gulf producers have always been competitors on global markets. That competition could intensify as EU sanctions on Russian crude take hold, with Russia seeking to sell still more of its barrels to Asia, a market that has been well fed by Mideast oil. But Saudi Arabia and other Gulf producers are not too concerned about Russian barrels crowding out their own supply. They have long-term contracts with many of the major buyers, sell very little to the region on spot, and know Asian customers want diverse and sustainable suppliers. It's also unclear how long Russia can keep offering its barrels at a discount, while EU and UK sanctions on shipping insurance and tankers also mean Russia getting its oil to Asia might be an issue.

Russia already managed to reroute roughly 1.5 million-2 million b/d from Europe, according to Russian oil executives, with most cargoes absorbed by China, India and Turkey. Russian producers have also tested supplies to Latin America, Africa and the Middle East, and transshipments of Russian products have also made their way to the Gulf. The UAE has meanwhile become a new safe place for Russian companies and oil traders to operate.

Staff Reports

CLOSING ARGUMENTS

Russia's Africa Push, Moldova's Dilemma

Burkina Faso: Goodbye France, Hello Russia

Burkina Faso last month experienced its second coup in less than a year, with the government of President Paul-Henri Sandaogo Damiba (which took power in January of this year via a coup) overthrown by a group of military officers led by Ibrahim Traore. The primary reason cited by Traore and his associates for the Sep. 30 coup was the failure on the part of the Damiba government to respond to a growing Islamic insurgency that's seen the government lose control over some 40% of the country. Coup plotters' support for Russia has been notable, raising concerns of a possible Russian hand behind Traore — and the possibility that Russia might fill the vacuum created by France's fall from grace.

Former colonial power France took the lead in providing counter-terrorism support to the Burkina Faso military when the Sahel region of Africa exploded in a wave of Islamic insurgency linked to Al-Qaeda and the Islamic State in 2015 — but to little effect. Four years later, in 2019, France began deploying troops operating in Mali into northern Burkina Faso. Many in Burkina Faso viewed this deployment as being more about protecting profitable gold mines located along the border region with Mali than defeating the growing Islamic insurgency. This contributed to a growing resentment of France that boiled over on Sep. 30, opening the door for Russia.

Russia has long used the anti-colonial stance of the former Soviet Union as leverage in its diplomatic dealings on the African continent, as seen in Russian Foreign Minister Sergei Lavrov's African tour this summer. But since 2017 Russian diplomacy has been supplemented by military assistance provided through the vehicle of the Wagner Group, a Russian private military contractor. Ostensibly a purely commercial concern, the Wagner Group operates as an adjunct of the Russian General Staff, providing contracted military services under conditions where conventional Russian military forces would otherwise be prohibited from operating under Russian law.

Wagner's expansive presence in Africa — with deployments in Mozambique, Madagascar, Sudan, Libya, the Central African Republic and Mali — has had mixed results, most notably in Mozambique. In West Africa, Wagner made headlines by supplanting French forces in Mali on the invitation of a Mali government installed by a military coup in 2021. And there is growing concern in France and the US that Wagner, building on its success in Mali, played a role in Burkina Faso's recent coup. But still unclear is whether Wagner will be any more successful than France or the US in defeating the root cause of this instability — Islamic fundamentalist insurgency.

Moldova: Energy Crisis Fuels Political Unrest

Crowds of demonstrators, estimated to be over 60,000 strong, have taken to the streets of the Moldovan capital of Chisinau in recent days to demand the resignation of Moldovan President Maya Sandu and the holding of early parliamentary elections. These demonstrations are part of a wave of similar public protest that has gripped the former Soviet Republic since early September. While the immediate motivating issue appears to be discontent over energy policy, the demonstrations are reflective of a larger power struggle between pro-EU factions led by Sandu and pro-Russian factions loyal to former Moldovan President Igor Dodon, who lost a 2020 election and has been arrested and charged with treason and corruption by Moldovan authorities.

Moldova's energy crisis predates Sandu's support for EU sanctions targeting Russia after its Feb. 24 invasion of Ukraine. In October 2021, Russia, which supplies Moldova with nearly 100% of its gas needs, reduced its supply of gas while raising its price. This action appeared to be linked to efforts by pro-Russian political parties in Moldova to undermine the credibility of the Sandu government. While access to Russian gas was restored, the price was tied to the spot market, resulting in a dramatic increase in costs for Moldova that drove inflation to 34% by mid-2022. It's in this climate of economic crisis that Sandu's political opponents have launched their protests. The wild card in this politically driven crisis is the breakaway region of Transnistria, a pro-Russian enclave along Moldova's western border with Ukraine that declared its independence from Moldova in 1992. Russia supplies Transnistria with 100% of its gas needs through a pipeline that runs through Moldova. If Russia were to cut off gas supplies to Moldova, Transnistria would be left without a source of energy. This dependence has been exploited by the current Moldovan government, which has doubled down on its anti-Russian policies, knowing it has relative immunity when it comes to losing access to Russian gas.

While Moldova may have secure access to gas supplies, albeit at a price, the same cannot be said about electricity. Ukraine provided Moldova with approximately 30% of its electrical power. The recent Russian air strikes targeting Ukrainian energy infrastructure have prompted Kyiv to halt this arrangement. While Romania has agreed to provide Moldova with electricity at a capped price until connectivity can be re-established with Ukraine, the strain put on an already-stressed Moldovan economy has only exacerbated the growing popular discontent in Moldova toward the embattled Sandu government.