

SAUDI-RUSSIA RELATIONS: OIL AND BEYOND

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A brief comparison

	Saudi Arabia	Russia
Country area (sq. km)	2,150,000	17,000,000
Population (million)	33 (rising)	145 (declining)
GDP (billion USD)	640 (20 th) (2016)	1,270 (12 th) (2016)
GDP/capita (USD)	19,900 (39 th) (2016)	8,840 (71 th) (2016)
Oil/state revenues (%)	97	57 (oil & gas)
Political regime	Absolute monarchy Strong tribal structure	Centralized federation
Dominant religion	Sunnite Wahhabism	Christian Orthodox
History in brief	>18 th Century/1932 Same political regime Only proxy wars before Yemen Regional power	>9 th Century/1991 Different political regimes Numerous wars Nuclear superpower

A brief comparison (oil & gas)

	Saudi Arabia	Russia
Oil		
Reserves (Billion Bls)	266	80
Output (MMb/d)	10,500 (R/O: 71 years)	10,300 (R/O: 21 years)
Exports (MMb/d)	9	7.6
Gas		
Reserves (Bcm)	8,600	50,500
Output (Bcm)	111	642
Exports (Bcm)	None	210
Structure	State monopoly	State-dominated mixed industry

Early historic relations

- 1927: The USSR was the 1st country to recognize the 1st Saudi state “Kingdom of Hejaz & Nejd” (Saudi Arabia in 1932).
- Soviet envoy Karim Khakimov (a Tatar Muslim) played a crucial role in improving relations. In June 1926, thanks to Soviet support, king Abdulaziz was elected President of the newly formed Pan-Islamic Congress of Mecca. A Soviet delegate was elected vice-president.
- In 1928, a new Soviet ambassador was named to Jeddah: Nazir Bey Turyakulov, a Muslim from Ingushetia. Soviet kerosene and gasoline were imported by Saudis. Soviet medics were sent.
- In 1932, Abdulaziz sent his son Faisal (king in 1969) to Moscow. The USSR cancelled the Saudi debt, offered aid: Abdulaziz used it to get British financial aid instead. Faisal was impressed by Soviet oil industry. He wanted to import Soviet technology.

Early relations (continued)

- In 1932, the Soviet Union unofficially banned its Muslim citizens from performing pilgrimage (Hajj) to Mecca.
- >1935, Stalin was obsessed by European affairs. Hitler came to power. The Gulf area was less interesting then before.
- 1937-1938, the 1st two Soviet envoys to the Saudi kingdom were executed under Stalin's order. Abdulaziz was outraged.
- In March 1938, US geologists found oil in Saudi Arabia.
- Saudi oil find prompted Stalin to send a new envoy to Jeddah, but Abdulaziz refused saying that he did not wish to see anyone other than Khakimov or Turyakulov in Jeddah.
- In September 1938 relations were severed.
They were only restored in 1992, 54 years later.

Saudi-Soviet/Russian confrontation

- Saudi-Russian relations only started improving in 2003.
- In the 1950's USSR sided with Arab Socialist Republics opposed to Saudi Arabia (Syria, Iraq, Egypt)
- From 1962 to 1970, a proxy war took place in Yemen between Soviet-backed Egypt and the Saudi Kingdom.
- Proxy war also in Afghanistan during Soviet invasion of that country (1978-1989)
- Saudis supported Chechens against Moscow until 2003
- When oil prices were sharply cut in 1986, Soviet media accused the Saudis of a “plot” against the USSR. Riyadh was again suspected of a “plot” in 2014

How did relations improve

- The deterioration of Saudi-US relations was a key to the gradual improvement of Saudi-Russian relations.
- Saudi-US relations started deteriorating under G. W. Bush (2001-2009) and got worse with B. Obama (2009-2017) who favored the “Arab Spring” and opted for a nuclear deal with Iran (July 2015).
- >2009 the rise in US shale-oil output started to undermine the 65-year-old Saudi-US “reciprocal security” pact.
- Qatar crisis. May 2017: Trump lets MBS think that he favors a blockade. June 2017: the crisis starts. First, Trump Approves. But later on, the US retracts. => The US is seen an unreliable and unpredictable partner.

The turning point of 2015

- Salman became King in January 23, 2015
- Three days earlier (Jan. 20) Iranian-backed Houthi rebels had seized the presidential palace in Sanaa, Yemen.
- Prince Mohammed bin Salman (MBS) gets almost full power. In March 2015, he launches the Yemen war
- June 2015: 1st meeting between MBS and Putin
- July 2015: signing of the nuclear deal on Iran
- September 2015: Russia intervenes in Syria
- => Russia becomes unavoidable: to contain Iran, to balance failing US support, to find a solution in Syria...
- ... as well as to find a solution to the 2014 oil crisis

The impact of the oil crisis on Russia's foreign exchange reserves

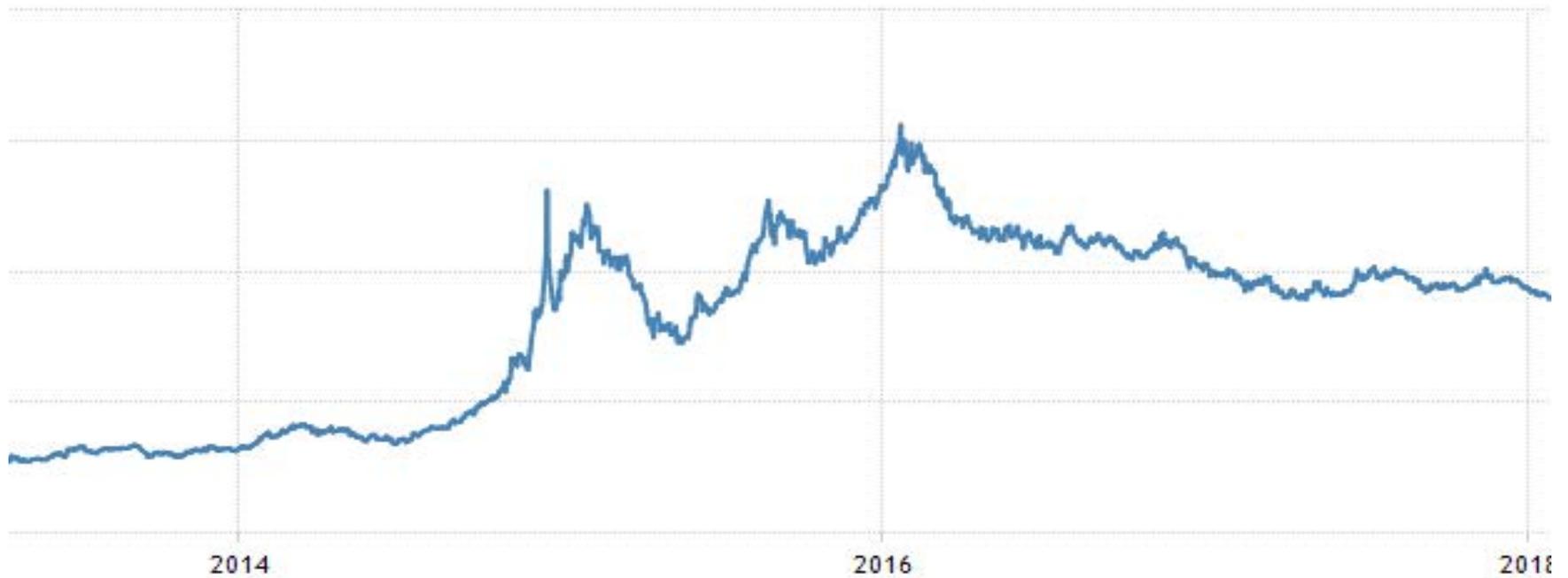
IA FOREIGN EXCHANGE RESERVES



SOURCE: TRADINGECONOMICS.COM | CENTRAL BANK OF RUS

Russian Ruble to US Dollar rate

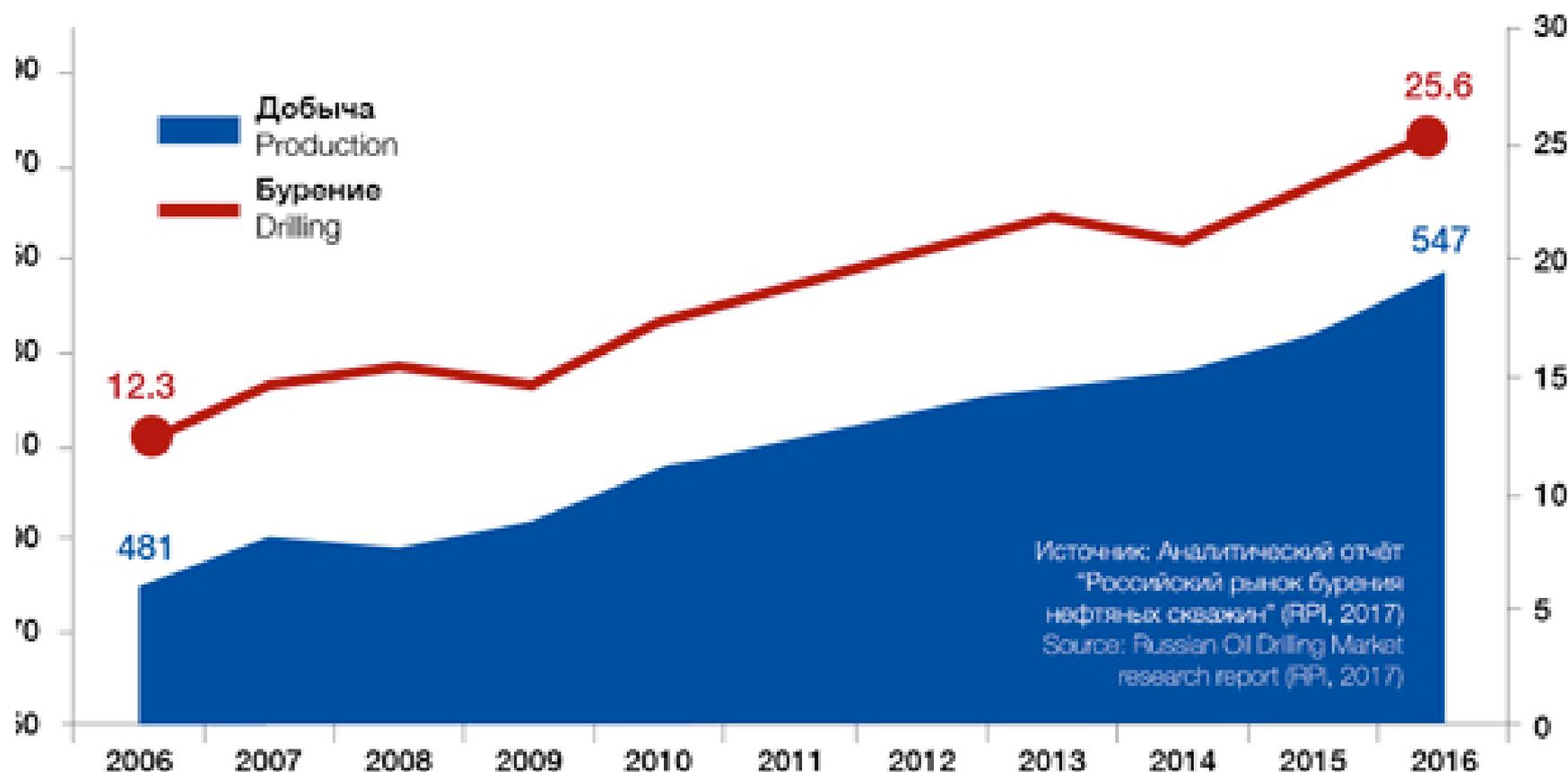
RUSSIAN RUBLE



SOURCE: TRADINGECONOMICS.COM | OTC INTERBANK

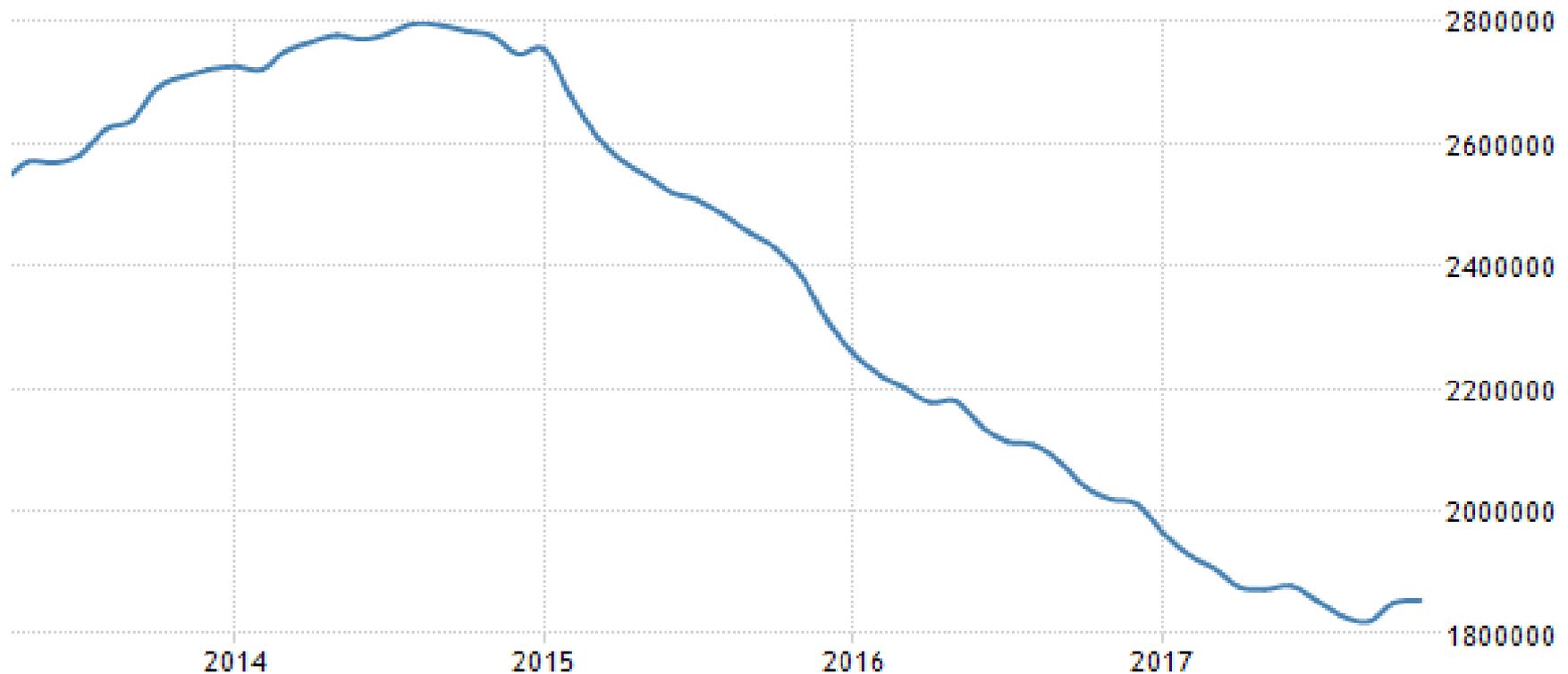
The increase in Russian oil drilling

Oil and Gas Condensate Production and Footage Drilled in Russia



The impact of the oil crisis on Saudi foreign exchange reserves

SAUDI ARABIA FOREIGN EXCHANGE RESERVES



SOURCE: TRADINGECONOMICS.COM | SAUDI ARABIAN MONETARY A

How does Russia intend to lower its dependence on oil & gas revenues?

- In the 2018-2020 State budget, all oil & gas revenues >\$40/b (2017) will be included in State reserves. Base price will increase by 2% per annum
- The policy of a weak Ruble will be maintained. Central Bank cuts Ruble refinancing rate
- > January 2018, CB started buying US dollars to prevent the Ruble from increasing
- Surge in Russian oil & gas drilling activity in 2017: +11 %/2016; +30%/2015

How does Saudi Arabia intend to lower its dependence on oil revenues?

- “Vision 2030” program aims to introduce wide economic and social reforms
- Basic subsidies are being reduced (electricity, water, fuels, etc.)
- Aramco will be partly privatized (5%)
- New sources of revenue will be developed (religious tourism, mining, renewable energy, new technology cities, etc.)
- Recover illicit funds (\$106 billion)

Why do the Saudis want to co-operate with Russia?

- In oil matters, Russia's co-operation was sought immediately after OPEC's creation in 1960
- Saudis underestimated the potential of US shale
- To make Saudi foreign policy less dependent on the US
- To diversify partners
- To seek leverage over Iran
- To seek a solution in Syria
- Saudis are not the only US allies looking for closer ties with Russia: Pakistan, Turkey, etc.
- Russia is also enhancing its presence in Libya

Why do the Russians want to co-operate with the Saudis?

- To increase oil & gas revenues
- To fill the political vacuum left by the US in the Middle East and North Africa
- To find new partners: try to escape the isolation imposed by sanctions (Ukraine - 2014)
- To sell arms: political and economic benefits
- Russia's weak-Ruble policy amplifies the impact of higher oil prices (and of arms sales)
- To protect its Muslim minorities from extreme ideologies

Why did Russia this time fulfill its promises to co-operate with OPEC?

- Past OPEC-Russia agreements were concluded either before Putin became President (May 2000) or in his early years, when he did not yet have full control over the State and the Russian oil sector.
- Past OPEC-Russia agreements: March 1998; March 1999; November 2001; December 2001.
- Putin's control over Russian oil sector starts with the arrest of Yukos' Khodorkovsky in October 2003. Control completed with Yukos bankruptcy in July 2006. Yukos main assets split between Rosneft and Gazprom (both State controlled).

Russia is imposing its terms on the Saudis

- No concessions on Syria
- Not siding with the Saudis in the Qatar crisis. On the contrary: Moscow got Qataris to invest in Rosneft
- Refused to downsize its relations with Iran. Refused that Iran be obliged to freeze oil output (Doha)
- Saudis stopped supporting Chechen rebels, backed Russia's membership in WTO, "understood" Russia's invasion of Georgia in August 2008, helped Russia to look friendly to Muslim world, etc.
- But the Russian Orthodox church opposes the building of new mosques in Moscow

How solid is the relationship?

- Saudi-Russian relationship resisted the failure of the Doha oil meeting in April 2016, caused by MBS' last-minute demand that Iran must cut output. Putin said: "Our Saudi partners at the last moment changed their view. Our position has not changed"
- Putin added: "MBS is a very reliable partner"
- Saudi Oil Minister Faleh's latest statements. (Jan, 23, 2018): bilateral relations between S.A. and Russia ... "will last for decades and generations". (Feb. 8, 2018): this relationship "has the potential to become one of our strongest energy partnerships around the world"
- Putin (Jan. 2018): "Russia is demonstrating a stable foreign policy, predictability and reliability. I think that this is what attracts our partners"

It is a win-win partnership

- Higher oil & gas prices => higher revenues
- Cross-investment opportunities are considered
- New political partnership
- New trade opportunities
- King Salman paid a visit to Moscow in October 2017 with a 1,500-strong delegation
- Common goals: fight Muslim terrorists, preserve oil's role as a main energy source
- US is becoming a rival in oil/LNG production and exports. Trump wants "energy dominance"

Under what conditions can Saudi-Russian relations persist & develop?

- Find OPEC / Non-OPEC “new mechanisms”. Cutting or freezing oil output cannot be maintained for too long because
 - It will not prevent US shale oil increase
 - It will not be accepted by Russian oil companies
 - It will not resist the increase in other countries’ oil output (Iran, Libya, Nigeria, Venezuela)
 - Peak oil demand approaching: 2030? 2035? 2040?

Under what conditions (continued)

- Saudi-Iranian conflict must be tackled
- Saudi-Iranian conflict keeps Riyadh close to the US.
=> Russia must help find a solution to this conflict if it wants to enlarge the gap between the US and Saudis.
- Russia has offered to mediate between Iran and Saudi Arabia.
- Yemen war is turning bad for Saudis (Jan. 2018). Forces allied to Saudis are fighting against forces allied to the UAE. If Saudis seek a way out of Yemen, that could lead to a de-escalation in Iranian-Saudi tensions. But, it is not an easy option for MBS.

Thank you for your
attention

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