



المركز العربي للأبحاث ودراسة السياسات
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**The Ukraine Crisis, Regional and International Competition and
the Future of Energy and Security in the Gulf**

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Background Paper

The Russian invasion of Ukraine, which began on 24 February 2022, has had political, security, economic and food repercussions across the globe. The Gulf region is set to be one of the most -affected, both in terms of security and with respect to energy and food. Europe and the USA look to the Gulf's oil and gas supplies to make up for any shortage resulting from disruption of Russian exports and to help combat the price inflation now threatening the world economy.¹ On the other hand, the crisis has revealed tensions at the heart of many long-standing alliances – particularly with the USA, which has been disappointed by GCC states' attempts to remain neutral on the conflict. Iran has begun to present itself as a possible solution to global energy shortages, increasing pressure on the GCC states to adopt a clearer position on the Ukrainian crisis. Rapid rises in the prices of cereals and other agricultural products, meanwhile, are threatening Gulf food security.

Diversification of Alliances : Does It Offset or Exacerbate the Security Dilemma?

At a time when all countries are scrambling to realign their interests in accordance with the changing international system and the rising intensity of inter-state competition, the Ukrainian crisis has tested the strength of the Gulf-U.S. alliance and the ability of the Gulf states to balance their relationships with Washington and Moscow. The GCC states' determination to remain neutral and avoid angering either side reflects their ties to Russia: the official statements issued by various GCC governments have all limited themselves to calling for an 'end to escalation' in the Ukrainian crisis, despite the fact that all GCC states voted for the UN resolution condemning Russia's behavior.² The UAE, which is a member of the 2022 - 2023 Security Council, abstained on a US-drafted UNSC resolution condemning the invasion of Ukraine and demanding Russian withdrawal. Russia, meanwhile, has supported an Emirati resolution to classify the Houthis as a terrorist organization and expand the current ban on delivering weapons to Yemen.

The GCC position may come as something as a surprise because all of them rely heavily on the USA to guarantee their security, whether directly or through arms sales: the USA accounts for around 45% of all arms sales to the Gulf.³ Both the Yemen conflict and tensions with Iran have meant that US imports have played a key role in strengthening the Gulf's defenses. Between 2012 and 2021, Saudi arms imports have increased by 27%, with purchases from the US specifically shooting up by 106% in the same period.⁴ The USA retains extensive military infrastructure in the region, particularly maritime infrastructure intended to protect the flow of international shipping (and oil and gas) through the Gulf.

1 The Russian invasion has led to the suspension of a 11 billion dollar pipeline project that would have alleviated European consumers' struggles with rising energy prices. See: "Russia-Ukraine War: All Eyes on Opec amid Soaring Oil Prices," *Middle East Eye*, 25/2/2022, accessed on 18/3/2022, at: <https://bit.ly/3JCEjpk>

2 "The Ukraine Crisis: What do Arabs think, and why do their positions differ?," ACRPS, 17/3/2022, accessed on 27/3/2022 at: <https://bit.ly/3Lk9IZi>

3 Stockholm International Peace Research Institute, "South Asia and the Gulf Lead Rising Trend in Arms Imports, Russian Exports Grow, Says SIPRI," 17/3/2014, accessed on 18/3/2022, at: <https://bit.ly/3KUjhhf>

4 Stockholm International Peace Research Institute, "Global Arms Trade Falls Slightly, but Imports to Europe, East Asia and Oceania Rise," 14/3/2022, accessed on 18/3/2022, at: <https://bit.ly/34Uwl70>

The recent US reorientation towards the Indian Ocean, however, has undermined the GCC states' confidence in Washington's willingness to guarantee their security, a concern that was compounded by the Trump administration's refusal to provide sufficient support to Saudi Arabia following the attacks on ARAMCO facilities in Abqaiq and Khurais. Growing pressure from Congress to tie arms sales to Gulf countries, and particularly Saudi Arabia, to human rights issues has prompted these countries to look for alternatives.⁵ In 2020, under the OPEC Plus agreement, Riyadh and Moscow agreed to work together to regulate international oil markets. Between 2016 and 2021, the volume of bilateral trade between Russia and the GCC rose from around \$3 billion to \$5 billion, with Saudi Arabia and the UAE accounting for the majority.⁶ Although the GCC states still consider the USA to be their main ally, their position on Ukraine reflects their desire to diversify their international relationships.

Security, Energy and Investment

Alongside the USA and Russia, Saudi Arabia is one of the biggest oil producers in the world, and the biggest oil exporter. It is currently pumping out some 10.5 million barrels daily, and is capable of ramping production up to 12 million.⁷ Taken together with the UAE and Kuwait, Saudi Arabia has an estimated extra production capacity of 2.2 million barrels a day. Nonetheless, Riyadh has rebuffed US requests to increase production in order to check spiraling price inflation in the aftermath of the Russian invasion, citing the 2020 OPEC Plus agreement with Russia, in which it committed to keeping production low. Is Saudi Arabia simply keen on maintaining its new ties with Moscow, or is this also an expression of a deteriorating relationship with Washington at a time when Biden has snubbed Muhammad bin Salman and allowed publication of a dossier blaming the Crown Prince for the murder of Jamal Khashoggi?

At the same time, many European countries – first and foremost Germany – have begun looking for alternatives to Russian gas and oil in the Gulf. Germany has recently signed a new agreement with Qatar, the world's biggest gas exporter, to this end.

US and European sanctions on Russia are also expected to hit GCC investments in the country, which have been growing rapidly in recent years. The UAE is Russia's biggest commercial partner in the Gulf, accounting for some 55% of Russian-Gulf trade; non-oil bilateral trade between the two countries is valued at around 2 billion dollars, representing growth of more than 80% compared to 2020. UAE-Russian bilateral investment is also the highest in the Arab World, with Emirati investment in Russia making up around 80% of all Arab investment and Russian investment in the UAE around 90% of all Russian investment in the Arab world. Although Gulf investors have not fled Russia *en masse* as have their Western counterparts, anxieties about the possible impact of Western sanctions are sure to hit investment, and those with money in the country are likely to suffer serious losses if the crisis continues.

5 "Saudi Gets First Major Arms Deal Under Biden with Air-to-air Missiles," *Reuters*, 4/11/2021, accessed on 18/3/2022, at: <https://reut.rs/3CR4zVw>

6 "US or Russia? Ukraine Crisis Poses Dilemma for Wealthy Gulf," *The Economic Times*, 26/2/2022, accessed on 18/3/2022, at: <https://bit.ly/36wmpkB>

7 UAE foreign ministry, "Commercial Relations Bulletin: The UAE participates in annual international 'made in Russia' export forum, accessed on 3/31/2022 at: <https://bit.ly/3DrJ25R>

Rising Food Prices

The Gulf states stand to benefit enormously from rising oil prices, which in the aftermath of the Russian invasion have shot up beyond \$100/barrel (after two years of suppressed prices during the COVID-19 pandemic).⁸ With oil revenues providing the majority of state income, price increases have an immediate effect on state budgets and help accelerate diversification of their economies.⁹ But while an extra \$10/barrel translates to an additional \$65 billion flowing into state coffers, the GCC also has to contend with rising prices for imports, including food and medicine.¹⁰

Although the GCC states are obviously less vulnerable to price fluctuations than other Middle Eastern countries thanks to their high incomes and small populations, both the UAE and Oman import large quantities of grain from Ukraine and Russia.¹¹ Saudi Arabia has been moving towards greater dependence on Russian grain as well, having first opened its markets to Russian imports in 2020 and increased their volume several times over the course of 2021.¹² Nonetheless, the chances of a short-term supply crisis are low, and rising oil revenues should allow the GCC states to keep up with rising food prices – even in Oman, where prices have been the subject of protests in recent weeks.¹³

Some GCC states that have already had to contend with challenges to food security during the COVID-19 pandemic have built up large reserves of foodstuffs in order to reduce the threat posed by supply chain problems. It is important to remember, however, that food production is very limited in the GCC, with agriculture accounting for only 1.4% of GDP, while consumption levels are high. According to some reports, between 2010 and 2020 the volume of GCC food imports rose from \$25.8 billion to \$53.1 billion.¹⁴ In light of the willingness of some countries to suspend food exports during the pandemic – Vietnam, for example, the third-biggest rice exporter worldwide – the GCC states will need to reconsider their food security strategies in the near future.

The Iranian Nuclear Deal

Despite the global focus on the Ukraine crisis, the Vienna negotiations on the Iranian nuclear deal have continued throughout this period. In fact, developments in Ukraine have encouraged the negotiating parties to try to speed up the process in the hope that Iranian oil might help mitigate the effects of the crisis on the energy supply. Iran has taken the opportunity to offer its support in

8 “How the Russia-Ukraine Crisis Could Be a Boon for Gulf Energy Producers,” *Independent*, 25/2/2022, accessed on 3/17/2022, at: <https://bit.ly/37EWkAl>

9 “Russia-Ukraine War: All Eyes on Opec Amid Soaring Oil Prices,” *Middle East Eye*, 25/2/2022, accessed on 3/18/2022, <https://bit.ly/3JCEjKp>

10 “The future of European energy security in the aftermath of the war on Ukraine”, Gulf Center for Strategic Studies, *Gulf News*, 5/3/2022, accessed on 18/3/2022 at: <https://bit.ly/3wdCpCN>

11 “What does the Ukraine crisis mean for Gulf economies?” Arab Gulf States Institute in Washington, 28/2/2022, accessed on 21/3/2022 at: <https://bit.ly/3tpZG2n>

12 Ibid.

13 “Omanis Protest High Cost of Living, Corruption,” *World Gulf*, 17/1/2011, accessed on 21/3/2022, at: <https://bit.ly/3N7XvZ5>

14 Hussein Al Ibrahim, “Food Security in the Arab Gulf States”, paper presented to the GCC Secretariat General's fourth *Studies* forum, Kingdom of Bahrain, 2021, accessed on 21/3/2022 at: <https://bit.ly/3ueM7IH>

this regard, taking advantage of Saudi reticence. Russia is not willing to allow this to happen, and has made a new nuclear agreement conditional on Russian trade with Iran being exempted from US sanctions. According to some commentators, Russia introduced this condition only after the visit of the Israeli PM to Moscow on 5 March 2022. In exchange for Russian help in scotching a new nuclear deal, Israel has reportedly been putting pressure on Ukraine to agree to Russian conditions.

By most estimates, by May 2022 Iran would be capable of adding a million barrels of oil to the daily supply and another 800,000 by the end of the year.¹⁵ According to Bloomberg, Iran has 103 million barrels in storage it could quickly ship to Europe, which would add around 1.3 million barrels/day to the global market within a very short time. In January 2022, Iran announced that its oil exports had risen by 40% in the previous year, and that it was now producing 2.4 million barrels a day. Javad Owji, the Iranian minister of oil, claims that Iran could produce 3.8 million if sanctions were removed.¹⁶

Heightened Global Competition

Although the conflict between Russia and the West is playing out in the heart of Europe, China's position has been a major determinant of the direction it has taken. Beijing has tried to balance its strong commercial relations with Russia and its relationship with the West, avoiding taking an unambiguous position on the current crisis. The Gulf states, and in particular Iran, have been following Chinese diplomacy in this regard closely. All countries in the Gulf have been seeking stronger relations with China over the last few years. Iran signed a strategic cooperation agreement in March 2021, which included \$400 billion in Chinese investment in Iran over the next 25 years. The GCC states, on the other hand, have also developed extensive trade links with China in the energy and arms sectors. The volume of annual GCC-Chinese trade is now around \$180 billion. In 2019, China replaced the EU as the GCC's main trading partner. Despite growing US pressure to distance themselves from China, the GCC states are likely to continue to develop this relationship in coming years.

Given the importance of the topic and the the potential ramifications of the Ukraine crisis for the Gulf Region, , the ACRPS holds its ninth annual Gulf Studies Forum under the title **The Ukraine Crisis, Regional and International Competition and the Future of Energy and Security in the Gulf. The Forum will** be held in October 2022 – and seeks to answer a number of questions such as:

- How has the Ukraine crisis affected security and international alliances in the Gulf?
- What are the determinants of the Gulf position on the Ukraine crisis? Why have Gulf positions varied?
- Why have the Gulf states become part of the coalitions forming around the Ukraine crisis? How has this affected their policies?

¹⁵ Hisham Milhem, "Energy at the heart of the Ukraine crisis and the Vienna negotiations, Arab Gulf States Institute in Washington DC, 18/2/2022, accessed on 18/3/2022 at: <https://bit.ly/3wjcUjm>

¹⁶ "Russia-Ukraine War: How Soaring Oil Prices Will Be Felt in the Middle East," Middle East Eye, 4/3/2022, accessed on 3/17/2022, at: <https://bit.ly/367ZCM3>



- How has the Ukraine crisis affected the global energy market and the Gulf states' place in it?
- How has the Ukraine crisis affected food security in the Gulf countries?
- How has the Ukraine crisis affected the Iranian nuclear negotiations and Iran's relations with western countries?
- What are the Gulf states' options for facing the rising tide of international and regional competition and the return of power politics?