



NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

**CRISIS AND OPPORTUNITY: RUSSIA'S WAR IN UKRAINE AND
THE MIDDLE EAST**

by

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September 2023

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ABSTRACT

Russia's war in Ukraine instigated a new era in strategic competition. As this report examines, outside of Europe, no region has been more affected by the war than the Middle East, nor been more consequential to its geopolitics. The report analyzes how the war became a crisis and opportunity for regional powers. All Middle East powers declared neutrality in the conflict; however, as this report identifies, their actions tended to bolster Russia's position in the war more often than not, putting them at odds with U.S. policies and interests. Whereas Iran backed Russia with military aid, further deepening the Russo-Iranian strategic convergence, other regional states pursued a less overtly supportive approach. Both Turkey and Israel attempted to balance their relations with Ukraine and Russia, even if the latter is more important to their foreign policy objectives. Saudi Arabia and the United Arab Emirates (UAE) deepened ties to Russia and provided indirect support. The UAE became crucial to Russia's ability to sell oil and navigate sanctions, and Saudi Arabia backed Russia's war through its own self-interest of keeping oil prices rising. The disruption to wheat exports from Ukraine—which threatened food security in the region and beyond—was managed, and disaster averted, but the potential for serious disruptions remains. The report concludes by highlighting how the Middle East's role in the conflict, as well as the war's impact on the region, has been a stark reminder that great power competition is neither binary nor limited to the principal competitors—its ramifications are global and regional actors play an important, if underappreciated role.

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TABLE OF CONTENTS

I. Introduction	1
II. Part One: Geopolitics.....	4
A. Introduction: Russia and the Middle East.....	4
B. Iran and Russia: A Strategic Convergence	6
C. The Turkish-Russian Relationship: Crisis and Opportunism	12
D. Israel, Saudi Arabia, and the UAE: Differing Shades of Neutrality.....	17
III. Part Two: Commodities	21
A. Introduction	21
B. Oil: A Precarious Balance	23
1. Actual oil-related consequences of the war in Ukraine	23
2. Anticipated oil-related consequences that <i>have not</i> occurred:	32
C. Natural Gas: A Limited Impact	35
1. Actual gas-related consequences of the war in Ukraine	36
2. Anticipated gas-related consequences that <i>have not</i> occurred:.....	43
D. Wheat: Crisis Averted?	45
1. Actual wheat-related consequences of the war in Ukraine	46
2. Anticipated wheat-related consequences that <i>have not</i> occurred:.....	55
IV. Conclusion: Findings and Recommendations	58
INITIAL DISTRIBUTION LIST	63

I. INTRODUCTION

This study was born out of a critical question: How is the war in Ukraine impacting U.S. interests in other parts of the world? The Deputy Chief of Naval Operations for Operations, Plans and Strategy's (N3/N5) considerations mandate that the shifting geopolitical landscape be carefully monitored to assess how certain issues could affect U.S. naval strategy and operations around the globe. The Middle East holds strategic importance to the United States and is an important arena of U.S. naval activity. It is vital that the U.S. Navy monitors crises that could affect its interests in the region. Doing so is crucial to planning and resourcing purposes, and helps the Navy anticipate future disruptions that could impact its regional relationships and operations.

This study analyzes how the Russo-Ukrainian war has impacted U.S. interests in the Middle East in anticipated and unanticipated ways. That impact has been subtle and pronounced, and encompassed geopolitics, economics, and food security. After the invasion, the initial fear was that an interruption in wheat exports from Ukraine could spark a regional food security crisis. The relationships between Russia and regional powers, many of whom are U.S. allies and partners, were also likely to be affected by the war. Although Middle East states managed to navigate the disruption in grain exports and forestall crisis, the geopolitical ramifications of the conflict proved more decisive.

In order to delineate how the war might impact the Middle East—and thereby might affect the Navy's relationships and operations in the region—this study assessed the shifts and changes in two major dimensions over the course of nine months: 1) Russia's relationships with Middle East powers (Iran, Turkey, Saudi Arabia, UAE, and Israel); 2) the oil, gas, and wheat commodities markets. In each dimension, we examined how the war impacted the issue immediately, and how that impact changed over time. In doing so, we were able to assess the trajectory of change in each area which informed our findings and recommendations. The report is divided into two main parts: geopolitics and commodities (oil, gas, and wheat). Each part is subdivided into short case studies wherein the specific criteria under consideration is analyzed and the trajectory of any changes identified. By analyzing the patterns of impact resulting from the war in Ukraine in the Middle East across several dimensions, the authors developed findings and

recommendations for the planners and strategists in N3/N5 and in the Department of Defense more broadly.

The research for this study was focused primarily on unclassified literature, foreign language and Western news reporting, and data concerning oil, gas, and wheat markets. Foreign language reporting included open-source literature such as official statements, published interviews with regional political and military leaders, government publications, and semi-official news sources. Quantitative data were collected from the International Energy Agency, U.S. Energy Information Agency, U.S. Department of Agriculture, the St. Louis Federal Reserve, Organization of Petroleum Exporting Countries (OPEC), the International Monetary Fund, the World Bank, and the U.N. Comtrade dataset. The information gleaned from those sources helped us establish baselines in each dimension and observe how they changed due to various factors.

Whereas initial concerns regarding the Russo-Ukrainian war's impact on the Middle East centered on fears of a grain shortage, the major reverberations have been much broader and primarily geopolitical. Instead of weakening Russia's relationship with the Middle East, the war provided a context for an intensification of ties between Russia and Middle East powers. Such has occurred despite the West's effort to isolate Russia and hold it accountable for its aggression through economic sanctions. Iran has expanded its strategic partnership with Russia more than any other regional actor, and has been the only Middle East state to aid Russia militarily in Ukraine. That aid has given Iran more leverage with Russia, but has yet to pay the former clear dividends. Saudi Arabia and the UAE have also moved closer to Russia, and aided its war effort indirectly by helping buoy its oil-and-gas-centered economy. Turkey and Israel have balanced their relations with Moscow and Washington more so than the other regional states considered, yet neither—as with Iran, Saudi Arabia, and the UAE—have joined Western-led sanctions against Russia. U.S. partners and allies have rejected efforts to hold Russia accountable for its war in Ukraine and instead have seen the war as an opportunity to gain leverage with Moscow and add greater balance to their relations with the United States by further diversifying their strategic partnerships.

This study finds that Middle East states are moving toward a more transactional calculus in their foreign policies, which suggests that their relationships with competing

powers (i.e., Russia and China) will continue to increase and that their relationships with the United States are susceptible to further strain. For that reason, this study recommends that the U.S. Navy anticipate further change in U.S.-regional relations, and prepare options for scenarios in which U.S. partners have developed more integrated strategic ties with the Russian and Chinese militaries. Such a shift could further empower Iran militarily, but could also put further strain on the Navy's relationships with partners and allies in the region—especially with Saudi Arabia and the UAE—and therefore impact maritime operations in the wider region.

II. PART ONE: GEOPOLITICS

A. INTRODUCTION: RUSSIA AND THE MIDDLE EAST

The war in Ukraine coincided with Russia's longstanding efforts aimed at deepening ties in the Middle East. Those ambitions had well-laid foundations. Going as far back as 2014, Russian national security doctrine emphasized the need to expand upon its security and technical cooperation with foreign states and to safeguard its interests when it comes to energy.¹ In execution, regional analysts have tended to emphasize Russia's transactional and opportunistic approach in engaging with states in the Middle East. In many respects, Moscow's broader regional push is aimed at keeping the United States off-balance. While maintaining a substantial military presence in the eastern Mediterranean, Russia has presented itself as an alternative partner to the United States—one that asks little in terms of fidelity or consistency with respect to the rule of law.

Moscow's fundamental goal in the Middle East, as one analyst has put it, is to impose costs on U.S. policymakers and generally erode the U.S. position in the region.² Russia arguably reaped substantive diplomatic and military benefits from this strategy ahead of 2022. Putin cemented closer relations with key regional leaders, namely Turkish President Recep Tayyip Erdogan and the Saudi Arabian crown prince, Mohammed bin Salman (also commonly known as MBS). The Russian military gained substantial expeditionary experience in assisting Bashar al-Assad's prosecution of his civil war. A look at the numbers alone would seem to suggest that the war in Syria provided the Russian military with a training ground for its future operations in Ukraine. Chief of Staff Valery Gerasimov declared in 2017 that almost all divisional commanders and more than forty thousand other officers had seen some action in Syria and as a result acquired critical experience in warfighting.³

With Russia's war in Ukraine now more than a year in duration, the ongoing conflict will no doubt put further strain on Russian military operations in the Middle

¹ Becca Wasser, "The Limits of Russian Strategy in the Middle East," *Rand Corporation* (2019), 3.

² Michael Kofman, "Drivers of Russian Grand Strategy," *Frivald* (2019), 2.

³ Mason Clark, "The Russian Military Lessons Learned in Syria," *Institute for the Study of War* (January 2021), 33.

East. Such challenges, and the stress of the war on Russia's economy and on its military stockpiles, ammunition, and platforms, could, over time, compel President Vladimir Putin to take a more constrained role in the broader Middle East. The war has already impacted Russia in that regard. Indeed, within the first 12 months of the Ukraine war, news reports surfaced of redeployments of both troops and weapons systems (namely an S-300 battery) from Syria to Russian-occupied Ukraine.⁴ Further, due to the closure of the Turkish Straits to exiting warships, maintaining a maritime presence in the eastern Mediterranean now requires Moscow to dispatch portions of its Northern Fleet to the region, thus weakening the Russian navy's disposition in the Atlantic.⁵ With Iran as an outlying case, no new security cooperation deals have been inked between Russian suppliers and other Middle Eastern states. In the case of Egypt and Saudi Arabia, respective deals to purchase aircraft, anti-aircraft platforms and other systems may have collapsed or remain on hold.⁶

More uncertainty reigns with respect to the future of Russian mercenaries deployed in Syria and Libya. In the wake of the aborted uprising staged by Yevgeny Prigozhin, and his probable assassination in August 2023, Putin appears to have taken greater charge over troops previously contracted by the Wagner Group. How Moscow intends to administer these troops, in terms of leadership and command and control, remains an open question. Given the wide distribution of Wagner's forces, and the critical role they continue to play for Russia's expeditionary campaign in Syria, Putin may struggle with fully integrating the force into the military's regular chain of command.⁷ Even were Moscow to effectively integrate Wagner forces into the Russian military, or at least bring them fully under its control, the strains of the war in Ukraine could prompt a redeployment of troops from the Middle East and Africa back to Europe. All of these factors may diminish Russia's capacity and standing in the Levant and North Africa.

⁴ Patrick Kingsley and Ronen Bergman, "Russia Shrinks Forces in Syria, a Factor in Israeli Strategy There," *New York Times*, October 19, 2022.

⁵ Xavier Vavasseur, "Russia Sends Slava-Class Cruiser Ustinov In The Mediterranean," *Naval News*, February 7, 2022.

⁶ "Egypt - Market Report," *Janes*, April 21, 2023; "Saudi Arabia - Market Report," *Janes*, April 21, 2023.

⁷ Colin P. Clarke, "Following Prigozhin's Aborted Mutiny, What Will Happen to the Wagner Group?" *Foreign Policy Research Institute*, July 13, 2023.

Internal developments in the region may also moderate the extent to which Russia exercises influence in the Middle East. As the scene of already considerable changes in the balance of power, Middle Eastern states appear willing to retain a transactional relationship in the pursuit of their local and international interests. Unlike in the West, the war in Ukraine has not aroused emotive reactions from the region's leaders or populations. Most Middle East states—including U.S. allies and partners—have claimed neutrality in the conflict; and regional media tends to de-emphasize the human costs of the war in favor a broadly anti-Western narrative.⁸ Looking more closely at individual states such as Iran, Turkey, Israel, the UAE and Saudi Arabia, it appears clear that more idiosyncratic interests and interpretations also play a role in shaping the region's interactions with Russia.

B. IRAN AND RUSSIA: A STRATEGIC CONVERGENCE

The war on Ukraine has elevated Russia and Iran's strategic relationship. Although Iran claims a similar neutral stance on the war as its neighbors, it is the only one to have backed Russia militarily. The provision of drones and knowhow by Tehran has expanded its relationship with Moscow and led to what appears to be a developing military and strategic partnership. Deepening relations between Iran and Russia serve the interests of both countries in different ways, but where they converge the strongest is in their mutual desire to counter Western influence both in the Middle East and beyond. That relationship has its obstacles, none more significant than Russia's desire to balance regional relations, particularly with Israel and with Gulf Arab monarchies. Appeasing the former is vital for the continuance of Russia's campaign in Syria, and drawing closer to the latter helps Russia in OPEC+, in defense sales, and in navigating sanctions in order to sell its oil and gas.

Whereas Arab states have helped buoy Russia's economy, Iran has provided crucial military assistance in the war. As Russia's antagonism toward the West has intensified over the last decade, so too have its larger strategic objectives become more aligned with Iran's. Civil war in Syria provided an advantageous context for both states to expand their influence in that country through military support to Bashar al-Assad.

⁸ Amr Salah, "Why Does Some of the Arab Public Support Putin's War in Ukraine?" *Carnegie Endowment for International Peace*, June 16, 2022.

Russia's intervention into Syria in 2015 was hastened by Iranian encouragement and facilitated by Iran's prior intervention, which, despite bolstering the regime early in the conflict, began to flounder against entrenched rebel opposition.⁹ Russia provided three things that Iran lacked: 1) the political wherewithal to intervene overtly, without fear of consequence from the United States or the international community; 2) a much larger military-industrial base that could both make an expeditionary campaign at scale possible and provide the necessary armaments and logistical support to sustain it; and 3) air power to both contest the skies above Syria against Turkish and American aircraft and deliver strikes against enemy positions. Russia's intervention was effective, and when combined with Iran-led forces on the ground it helped preserve both Iran's position in Syria and the Assad regime's existence.

Russia has been an important, if challenging partner for Iran since the latter 1990s.¹⁰ Russia helped build Iran's nuclear plant at Bushehr, and has been involved in Iran's nuclear program and in diplomacy surrounding that program for decades through the P5+1 construct. Russia has also been a leading military supplier to Iran, including through the sale of the S-300 long-range air-defense system in 2008 and its eventual delivery in 2016.¹¹ More than that, however, Russia has helped shield Iran from Western pressure through its permanent membership on the United Nations Security Council (UNSC). That aspect of the relationship is the most vital to Iran, and what has given Moscow its core sway with Tehran.

Russian and Iranian ties were already growing closer prior to the war in Syria, but that conflict pushed them into overdrive. The Islamic Revolutionary Guards Corps (IRGC), Iran's preeminent strategic force and a pillar of the regime, developed a strong, co-operational relationship with the Russian military in Syria and with politicians in

⁹ Afshon Ostovar, *Vanguard of the Imam: Religion, Politics, and Iran's Revolutionary Guards*. New York: Oxford University Press, 230-232.

¹⁰ Dina Esfandiary and Ariane Tabatabai, *Triple Axis: Iran's Relations with Russia and China*. London: I.B.Tauris, 2021, pp. 36-38.

¹¹ Andre Roth, "Iran announces delivery of Russian S-300 missile defense system," *Washington Post*, 10 May 2016, https://www.washingtonpost.com/world/iran-announces-delivery-of-russian-s-300-missile-defense-system/2016/05/10/944afa2e-16ae-11e6-971a-dadf9ab18869_story.html; also, Farzin Nadimi, "Russian S-300 Deliveries to Iran Have Apparently Begun," Washington Institute for Near East Policy, 13 April 2016, <https://www.washingtoninstitute.org/policy-analysis/russian-s-300-deliveries-iran-have-apparently-begun>

Moscow. A testament to their expanding ties as well as to mutual interests in Syria came in mid-2016, when Iran allowed Russian military aircraft access to Iranian air bases and permitted their use for flying strike missions into Syria.¹² Foreign forces had not been allowed use of Iran's military bases since the 1979 revolution, which made the step controversial domestically, thus compelling a quick policy reversal by Tehran.¹³ Yet, it had become clear that Russia and Iran were willing to further their military cooperation toward specific ends.

With those inflection points as context, that Iran moved to back Russia's effort in Ukraine was unsurprising. Iran has depended on Russia's political and military support, and the two states share similar objectives in wanting to purge Western influence from their regions of interest. However, the form of Iran's aid to Russia *was* surprising. Despite its massive military and advanced capabilities, Russia has fallen behind its competitors in the development of Unmanned Aerial Vehicles (UAVs) and loitering munitions, especially cost-effective models. Iran has invested heavily in developing drones of various types, and built a domestic industrial base in order to produce drones cheaply and at scale. The wars in Syria, Yemen, Iraq, and Lebanon provided a reason and encouragement for the IRGC to develop even more inexpensive variants that could be constructed and used by proxies in foreign arenas. Those drones needed to be produced from easily accessible parts that were not constrained by the limits imposed on Iran's industrial base by Western and international sanctions.¹⁴ Russia was undoubtedly familiar with the effective use of inexpensive drones by the IRGC and its foreign clients in regional conflicts. As the Russian cruise missile arsenal was quickly expended in the early months of the war in Ukraine, a need for a cheaper alternative arose. Iran was both a willing and able supplier of the types of weapons Russia needed.

¹² Neil MacFarquhar and David E. Sanger, "Russia Sends Bombers to Syria Using Base in Iran," *New York Times*, 16 August 2016, <https://www.nytimes.com/2016/08/17/world/middleeast/russia-iran-base-syria.html>

¹³ Anne Barnard and Andrew E. Kramer, "Iran Revokes Russia's Use of Air Base, Saying Moscow 'Betrayed Trust'," *New York Times*, 22 August 2016, <https://www.nytimes.com/2016/08/23/world/middleeast/iran-russia-syria.html>

¹⁴ Andre Hanna, "Iran's Drone Transfers to Proxies," *The Iran Primer*, 30 June 2021, <https://iranprimer.usip.org/blog/2021/jun/30/iran%E2%80%99s-drone-transfers-proxies>

Providing drones to Russia for use in Ukraine shifted the Russo-Iranian relationship into a new stage. On the one hand, it confirmed the two states' shared strategic agenda. On the other, it lifted Iran's position in the relationship and gave it more leverage with Moscow. The first signs of that were in the growing military cooperation between the two states which accompanied Iran's support in Ukraine. The construction of a factory in the Alabuga Special Economic Zone, near Yelabuga in Tatarstan, has added a new dimension to their military partnership. The factory is understood to be the site of a new Russian-Iranian venture to co-produce drones, including more advanced variants. It has reportedly been designed with the intention of gradually expanding the production of the Shahed-136 variant, also called the Geran-2 by Russia's military, over the course of a few years. Russia aims to produce 6,000 domestically built drones by mid-2025 and to keep production lines running around the clock. Although the plant has struggled to get going for a number of reasons, including insufficient support from the Iranians, Russia's intention appears to be not only to gain Iran's designs and knowhow, but also to improve upon them and build drones at a faster and larger scale than the Iranians could.¹⁵

How much Iran will benefit from any advances made by the Russians is unclear, although one would assume that that aspect of the program is intended to be mutually beneficial. Further, outside of its backing of Russia, Iran has become an increasingly active arms exporter, particularly to developing nations and in conflict zones.¹⁶ Iran's announced agreement to co-produce drones in Tajikistan in May 2022 preceded its agreement with Russia, and was indicative of Iran's rising ambition to become a weapons dealer.¹⁷ As long as Russian arms are directed at Ukraine, the Alabuga production plant is unlikely to impede Iran's efforts to sell drones elsewhere. But should Russia eventually end the war in Ukraine, or begin to produce drones beyond its needs and redirect its arms production to the open market, then drones produced at Alabuga could undercut Iran's

¹⁵ Dalton Bennett and Mary Ilyushina, "Inside the Russian effort to build 6,000 attack drones with Iran's help," *Washington Post*, 17 August 2023,

<https://www.washingtonpost.com/investigations/2023/08/17/russia-iran-drone-shahed-alabuga/>

¹⁶ Pierre Boussel, "Assessing the Iranian Arms Industry," GIS, 9 January 2023,

<https://www.gisreportsonline.com/r/iran-weapons/>; also, Theodore Karasik, "Iran's Growing Weapons Transfers to Africa," *Arab News*, 3 March 2023, <https://www.arabnews.com/node/2261896>

¹⁷ "Iran opens drone factory in Tajikistan," *Tehran Times*, 17 May 2022,

<https://www.tehrantimes.com/news/472704/Iran-opens-drone-factory-in-Tajikistanin>

market share. One suspects that the Iranians have thought through such an eventuality, and have planned accordingly. But even so, the prospect that Russia in five to ten years could flood the market with inexpensive and relatively advanced loitering munitions is a real one. Such a scenario could make the already growing use of such weapons much more common, and make conflicts, especially in the developing world, more destructive and destabilizing for their regions.

Tehran's backing of Moscow is not altruistic. It is political and strategic, and intended to pay clear dividends. Russia's agreement to sell Su-35 fighter aircraft to Iran appeared to be one of the initial fruits of Iran's risky effort.¹⁸ Deficiencies in airpower has been one of the core weaknesses of Iran's military, and the deal for advanced Russian aircraft was intended to address it. It is unclear how many Su-35s were purchased from Russia—thinly-sourced reports range from 25 to 60—but were Iran to take possession of those aircraft, its outdated air fleet of F-4s, F-5s, and F-14s would be overhauled and reach closer parity with some of its neighboring rivals. Yet, such as with the slow start to the production of drones in Russia, Iran has yet to receive the Su-35s, and military officials began to walk back expectations of their arrival early this summer.¹⁹ By late July, Iran's defense minister, Mohammad-Reza Qara'i Ashtiani, even implied that the deal might have fallen through by suggesting that Iran had the capacity to build similar aircraft domestically, which further enshrouded the issue.²⁰

Why Russia has delayed delivery or perhaps even reneged on the deal is unclear. Russia's own military stockpiles and inventory, to include spare parts, have been depleted in the war, and Moscow might not feel comfortable losing more aircraft. Perhaps more likely is that outside pressure and incentives encouraged Moscow to rethink its deal with

¹⁸ "Tehran Reaches Deal To Buy SU-35 Fighter Jets From Russia, Says Iranian State Media," *REF/RL*, 11 March 2023, <https://www.rferl.org/a/iran-russia-su-35-fighter-jets-deal/32313456.html>; and, Jay Solomon, "Iranian official says purchase of Russian fighter jets complete," *Semafor*, 9 March 2023, <https://www.semafor.com/article/03/08/2023/iranian-official-says-purchase-of-russian-fighter-jets-complete>

¹⁹ "Downplaying 'speculation', Iran hedges on Su-35 purchase from Russia," *Amwaj*, 5 June 2023, <https://amwaj.media/media-monitor/downplaying-speculation-iran-hedges-on-su-35-purchase-from-russia>; and, Saeed Azimi, "Iran Paid for Su-35 Jets, But Russia Won't Deliver Them," *Bourse & Bazaar*, 13 July 2023, <https://www.bourseandbazaar.com/articles/2023/7/13/iran-paid-for-su-35-jets-but-russia-wont-deliver-them>

²⁰ "Iran Implies Collapse Of Deal To Buy Russia's Su-35 Warplanes," *Iran International*, 20 July 2023, <https://www.iranintl.com/en/202307203141>

Tehran. Israel, Saudi Arabia, and the UAE pressured Russia not to transfer advanced weaponry and platforms to Iran, and, as discussed in Part Two of this report, Russia has heavily relied on the Gulf Arab states to facilitate its oil sales and survive sanctions.²¹ Another theory proposed is that Russia's sale could have been loaded with contingencies, not including a transfer of technology or allowing for co-production in Iran, which would make Iran dependent on Russian assistance and spare parts to keep the aircraft serviceable. Those terms might have become an obstacle, leading Iran to back out of the deal.²²

Either way, because Iran's technical support is central to Russia's ability to use Iranian drones in Ukraine and to develop them domestically, Iran has cards to play. Whether it eventually goes through or not, the Su-35 deal is unlikely to be the final piece of the Russo-Iranian strategic convergence. One would suspect if Moscow does not make good on the sale of the Su-35s, Iran would be keen to compel Russia to provide it tangible benefit in some other way. Without such benefit, Iran could always end or degrade its cooperation on drones, which would certainly severely undermine Russia's effort in Alabuga and could lead to its eventual collapse.

It is clear that the Ukraine war provided Iran an opportunity to both deepen its relations with Russia and to gain leverage in that relationship. That conjunction has been an important development in the war's impact on the Middle East, and could prove to be of enduring consequence to the region's geopolitics. Russia's need to balance relations with other regional powers—Israel, Saudi Arabia, and the UAE in particular—has limited the potential for its coming together with Iran, at least for now. Even if it is partially offset by other factors, Iran has gained more pull in Moscow, and is intent on securing as much benefit from that relationship as possible. Necessitated by its rivalry with the United States, Russia already reflexively shields Iran from Western pressure both in general and on the nuclear issue in particular, and that is unlikely to end. Change could occur in the pipeline of military technology transfers between Tehran and Moscow.

²¹ Jay Solomon, "Gulf states and Israel are secretly lobbying Russia not to arm Iran," *Semafor*, 6 March 2023; and, Barak Ravid, "Scoop: Bibi says Israel protested Russia's cooperation with Iran," *Axios*, 14 June 2023, <https://www.axios.com/2023/06/14/israel-iran-netanyahu-protest-ukraine-cooperation>

²² "Iran Implies Collapse Of Deal To Buy Russia's Su-35 Warplanes," *Iran International*, 20 July 2023, <https://www.iranintl.com/en/202307203141>

Although Tehran has so far failed to benefit from its supply of drones to Russia, a return on its investment is bound to come. Whether through Su-35s or in some other way, Iran seeks to strengthen its military and Russia will be a key ally in that effort. Further, Iran's involvement in Ukraine should also be viewed in terms of great power competition. Iran inserted itself into the conflict not merely to help a partner, or to make advances in military procurement, but rather to aid Russia's challenge to the United States.

C. THE TURKISH-RUSSIAN RELATIONSHIP: CRISIS AND OPPORTUNISM

With Russia's invasion of Ukraine in February 2022, the mood in Turkey was mixed. Major television news stations maintained strict attention to developments on the ground, albeit without much editorial commentary. Pundits with close ties to President Erdogan were more vocal. One noted commentator accused NATO of never coming to Turkey's aid and, for this reason, the country "refused to be a satellite state" to the alliance. It was immaterial, in her estimation, who was truly the aggressor in Ukraine. What mattered most was the fact that Western states, most notably the United States, were in a state of panic and retreat.²³ This not-so-subtle satisfaction with Russia's invasion was echoed across Turkey's fractured political spectrum. Even opponents of Turkey's president agreed that the United States was using Ukraine as a proxy to attack Russia and that the war, as they saw it, confirmed that the world had entered a new era of multipolar competition.²⁴

General sentiments in Turkey have remained relatively consistent in the year that has followed the start of the Russian invasion. Prominent editors still tend to depict the conflict as a proxy conflict between the United States and Russia, one brought on by American desires to dominate global politics at the expense of Moscow, Ankara and other non-Western states. Pundits continue to identify the invasion as the start of a new geopolitical epoch. "The West's imperial 'balance of powers' system is collapsing," one news director declared, and continued, "The world is moving towards a 'concert of powers' order that addresses the needs of the new age."²⁵ Commentators widely agree that Turkey is among the beneficiaries of this supposed change in global politics.

²³ Hilal Kaplan, "Çar Putin ve ibret olarak Ukrayna," *Sabah*, February 22, 2022.

²⁴ Alev Coşkun, "Ukrayna savaşının arka planı," *Cumhuriyet*, February 27, 2022.

²⁵ Bercan Tutar, "Dünya yeni bir küresel düzene doğru ilerliyor," *Sabah* February 23, 2023.

Erdogan's supporters and opponents tend to cheer the country's general policy of "active neutrality" in engaging with both Russia and Ukraine.²⁶ The war, it is widely agreed, has provided Turkey with opportunities to demonstrate its leadership in matters of diplomacy, humanitarianism, and security cooperation. Turkey's "impartial and at the same time autonomous policy from the Western alliance," in the words of one security analyst, has made it into a "problem solving nation," one that has developed into a much more powerful state within the wider region.²⁷

There has been much debate over what impulses have steered Turkish reactions to the war in Ukraine. Some elements of the Turkish political establishment possess an inherent sympathy for Russia. Despite the legacies of the Cold War, Ankara has retained a consistently constructive relationship with Moscow based on shared interests in trade, energy and economic development.²⁸ Developments in recent years have also given voice to a small, but relatively influential, community of Eurasianist pundits, activists and advisors. As advocates for a re-centering of global politics around the great continental states of Russia, China and Turkey, Turkish Eurasianists loudly condemn U.S. efforts to aid Ukraine and actively campaign for Turkey's withdrawal from the NATO alliance.²⁹

The instincts and interests of President Erdogan arguably constitute the most important elements shaping Turkey's policy towards Russia and Ukraine. Having amassed considerably amounts of power over Turkish institutions, Erdogan tends to exercise a highly personalistic style of foreign policy decision-making. The Turkish president has developed a standing rapport with Vladimir Putin (the two have had ten telephone conversations over the first half of 2023 alone).³⁰ Erdogan's personal reasoning and unquestioned authority in dealing with Russia is best exemplified by his 2017 decision to purchase the S-400 anti-aircraft system. Though Ankara continues to argue the acquisition was in response to the breakdown in negotiations over the purchase

²⁶ "Batı'ya verdiği vaatler turizme darbe vurur," *Akşam*, May 12, 2023.

²⁷ "Rusya-Ukrayna Savaşı'nın yıl dönümü: Hangi dersler çıkartıldı?" *Yeni Şafak*, February 23, 2023.

²⁸ Samuel J. Hirst, and Onur Isci. "Smokestacks and pipelines: Russian-Turkish relations and the persistence of economic development." *Diplomatic History* 44.5 (2020): 834-859.

²⁹ Suat Kınıklıoğlu, "Eurasianism in Turkey," *German Institute for International and Security Affairs: SWP Research Paper* 7, March 2022.

³⁰ According to records published by the President of Russia website, Putin went as far as to call Erdogan to wish him a happy birthday amid Turkey's recovery from the February 2023 earthquake.

of a NATO-linked system, experts tend to agree that the S-400 sale reflected Erdogan's growing relationship with Putin as well as his desire to "coup proof" his regime against his own air force.³¹

Institutional and personal interests also exert influence over Turkey's congenial approach towards Ukraine. Like Russia, historical and cultural connections to Ukraine is the source of some sympathy found among Turkish elites. This relationship dates back to the early days of Ukrainian independence after the First World War and is partially connected to the deep cultural ties Turkey shares with Ukraine's Crimean Tatar community.³² Shared economic ties also factor into Ankara's approach towards its neighbor to the north. The balance of trade between the two countries is admittedly a fraction of the Russo-Turkish relationship (in 2021, for example, Ukrainian exports to Turkey was valued at just over \$4 billion dollars; during the same year, Russian exports to Turkey were valued at over \$20 billion).³³ Ukraine, however, is an important source of raw materials, particularly iron ore, for the Turkish economy. As far back as 2015, Ankara entered into a series of cooperation agreements with Kiev related to a number of defense projects.³⁴ It was on the basis of these early agreements that Ukraine and Turkey forged cooperative efforts in the development and co-production of the now much celebrated TB-2 Bayraktar UAV. Initial successes scored by Ukrainian-operated Bayraktars against Russian targets were warmly embraced by state and popular media sources in Turkey. Benefiting the system's Turkish host company, the state-run Baykar, Ukraine's use of the UAV has aided sales of Turkish weapon systems in various parts of the world.³⁵

Erdogan clearly has sought to leverage Turkey's relationships with both Ukraine and Russia in navigating events since February 2022. Early efforts to secure a grain deal

³¹ Aaron Stein, "Ankara's look East: how Turkey's warming ties with Russia threaten its place in the transatlantic community," *War on the Rocks*, December 27, 2017.

³² Glenn Kates, "Turkey Torn Over 'Brothers' In Crimea, Good Ties With Russia," *Radio Free Europe/Radio Liberty*, March 9, 2014.

³³ See OEC comparison: Turkey/Russia (<https://oec.world/en/profile/bilateral-country/rus/partner/tur>, consulted June 12, 2023); Turkey/Ukraine (<https://oec.world/en/profile/bilateral-country/tur/partner/ukr?dynamicBilateralTradeSelector=year2020>, consulted June 12, 2023).

³⁴ "Turkey, Ukraine announce defence industrial collaboration," *Janes*, April 20, 2015.

³⁵ Nailia Bagirova, "Exclusive: After Ukraine, 'whole world' is a customer for Turkish drone, maker says," *Reuters*, May 30, 2022.

with both sides, coupled with its delayed closure of the Turkish Straits to combatant craft, served as an early sign of Ankara's disposition. Why Erdogan has undertaken this policy of "active neutrality" appears partially rooted in his domestic agenda. Amid his re-election bid in May 2023, Turkey's president positioned himself at home as a generational leader. With the aid of the country's strictly censored news environment, he and his supporters pointed to his handling of Russian and Ukrainian relations as a demonstration of his accomplishments as a statesman, dealmaker and bridgebuilder. Erdogan's defenders have celebrated his flirtations with both Ukraine and Russia as a demonstration of Turkey's status as a regional leader at a time of increased polarization.³⁶ News sources have heralded Erdogan's refusal to sanction Russia and have championed with the same enthusiasm his support for military aid to Ukraine, characterizing each as masterful acts aimed at supporting the Turkish economy.³⁷ More often than not, commentators in Turkey have seized upon the crisis in Ukraine as evidence that Turkey has grown stronger at the expense of both Russia and the West. When Russia and Ukraine finally make peace, one noted pundit recently mused, "the main [coordinating] actor will be Turkey."³⁸

Maintaining a promiscuous relationship towards Russia is in harmony with Ankara's broader foreign policy strategy. Since 2015, Erdogan has actively engaged Putin on key areas of mutual interests in several corners of the greater Middle East, including in Libya, Syria and the Caucasus. Shared goals, as well as a shared desire to exclude the influence of Western competitors (particularly the United States), generally form the basis of this relationship. Though Erdogan has maintained a comparatively muted stance on the future of Turkish-Russian cooperation in these regions, a consensus among Turkish foreign policy experts holds that the crisis in Ukraine allows Ankara to gain an upper hand in this relationship. For many in Turkey, the implications of Russia's weakened state are especially stark when it comes to the Caucasus. With Azerbaijan poised to solidify further control over the disputed territory of Nagorno-Karabagh, Turkish experts have anticipated that Moscow will be unable to back Armenian forces or

³⁶ Burhanettin Duran, "Türkiye'nin Rusya Politikasını Doğru Anlamak," *SETA Vakfı*, August 12, 2022.

³⁷ Enes Babacan, "Batılı şirketler arayışta: Yatırımların yeni gözdesi Türkiye," *TRT Haber*, April 8, 2022.

³⁸ Hilal Kaplan, "Erdogan'ın Ukrayna çıkışı ne anlama geliyor?" *Sabah*, July 10, 2023.

sustain its peacekeeping effort in the region.³⁹ Baku's potential victory over Armenia, it is reasoned, will strengthen Turkey's influence over the Caucasus and the energy pipelines that traverse it. Foreign policy advocates have expressed similar hopes in the cases of Syria and Libya. Russia's waning presence in the Levant, it is hoped, would provide Ankara with greater clout to press Assad into giving Erdogan a freer hand to deal with Kurdish militants along Syria's border.⁴⁰ Yevgeni Prigozhin's insurrection was similarly heralded as a potential "rupture" in Russia's efforts in eastern Libya, a turn that was to the benefit of Turkey's allies in Tripoli.⁴¹ Any deterioration of Russia's position in North Africa, it is reasoned, would further Turkey's interests in pursuing exploratory rights in drilling for natural gas the eastern Mediterranean.

So far, Ankara's expected gains at Russia's expense have proven more aspirational than actual. Rather than give in to a strengthened Turkey, Moscow has evinced clear signs of resilience. In Syria, for example, Turkey failed to prosecute an expected December offensive along its border after Russia purportedly blocked the Turkish armed forces from entering Syria's sovereign airspace.⁴² Putin's more recent decision to withdraw from the 2022 Black Sea grain deal appears to underscore the genuine limits of Erdogan's power and influence over Russia. While it remains unclear whether or not Russia will allow grain exports to resume through the Turkish Straits, the cancelation of the agreement places new pressures upon Turkey to deliver relief in some discernable way. Should Putin fully terminate the agreement, now or in the future, Erdogan likely would lose his present advantage and status as a mediator in Russian and Ukrainian affairs. In the long run, the future of the grain corridor likely will be seen as symptomatic of how dependent Russia is upon Turkey as an interlocutor or partner.⁴³

There are strong indications that the outcome of the war in Ukraine will not radically change the current trajectory of Turkey's foreign policy. Irrespective of whether Russia holds on to its territorial gains or not, Turkish commentators tend to agree that

³⁹ Ferhat Piriñçi, "Azerbaycan-Ermenistan Çatışmasının Düşündürdükleri," *SETA Vakfi*, September 17, 2022.

⁴⁰ Burhanettin Duran, "Erdogan's quest for trilateral Syria diplomacy," *Daily Sabah*, December 19, 2022.

⁴¹ "İsyandan sonra Wagner: Afrika'da neler olabilir?" *TRT Haber*, July 5, 2023.

⁴² Sam Heller, "Turkey's Russian Red Light in Syria," *War on the Rocks*, December 30, 2022.

⁴³ Alexandra Prokopenko, "Is This the End of the Road for the Ukraine Grain Deal?" *Carnegie Endowment for International Peace*, July 19, 2023.

Ankara will continue to seek out opportunities to expand upon its hegemonic aspirations. As the country's indigenous defense industry continues to grow, it is possible Erdogan will be tempted to look upon the country's military capabilities as an effective means to exert influence in the region.⁴⁴ As seen most recently in its dispute over Sweden's candidacy, Turkey's ties with NATO does not guarantee Ankara's fidelity to any international consensus. If past behavior serves as any indicator, it appears more likely that Erdogan will leverage NATO's interests and insecurities in the hopes of advancing Turkish interests in its near abroad.⁴⁵ It is likely the most serious impediment upon Turkish behavior is its ailing economy. With the lira continuing to lose value, and Ankara desperate for financial assistance, Erdogan has been forthright in his refusal to ask the International Monetary Fund (IMF) or the European Union (EU) for aid in his attempts to remedy the country's economic downturn. Russia, as well as erstwhile rivals like Saudi Arabia, may use the promise of loans or other economic lifelines to modulate Erdogan's behavior.

D. ISRAEL, SAUDI ARABIA, AND THE UAE: DIFFERING SHADES OF NEUTRALITY

Russia's war in Ukraine has long been peripheral to the affairs and interests of Israel and the principal states of the Persian Gulf. In 2014, the Israeli government delayed its condemnation of Moscow's seizure of Crimea.⁴⁶ While Israel eventually backed a 2018 UN resolution calling for a Russian withdrawal, both the United Arab Emirates (UAE) and Saudi Arabia remained firm in their statements of neutrality. Increased pressure from Washington following the February 2022 invasion has triggered, on some occasions, adverse effects upon U.S. relations with these states. News reports circulated soon after Russia's incursion that Saudi and Emirati officials refused to arrange a phone call with President Biden in order to show their displeasure with Washington's demands.⁴⁷ To this day, neither Israel nor the capitals of the Persian Gulf have imposed economic or political sanctions upon Russia. The continuation of these expressions of

⁴⁴ Selim Koru, "What Russia's New Reality Means for Turkey," *War on the Rocks*, February 25, 2022.

⁴⁵ Aaron Stein, "A Pirouette, Not A Pivot," *War on the Rocks*, May 24, 2023.

⁴⁶ JTA and Cnaan Liphshiz, "Israel Joins UN Critics of Russia's 'Occupation' of Crimea," *Haaretz*, December 19, 2018; Barak Ravid, "U.S. Officials Angry: Israel Doesn't Back Stance on Russia," *Haaretz*, April 13, 2014.

⁴⁷ Dion Nissenbaum, et al, "Saudi, Emirati Leaders Decline Calls With Biden During Ukraine Crisis," *Wall Street Journal*, March 8, 2022.

neutrality and resistance speak to several factors that inform the strategic outlook of the states of Israel, Saudi Arabia and United Arab Emirates. Both immediate and long-term policy imperatives are central to this pattern of decision-making. They also may reflect the personalistic styles of the leaders of each of these states. Of the three, it would appear that Israel is the mostly likely actor to shift course within the near future.

In approaching the war in Ukraine, conflicts within their immediate peripheries appear to weigh heavily upon Middle East decisionmakers. Israeli officials maintain that open communications with Russia is vital to Israeli security interests in Syria. With Moscow controlling much of Syria's airspace, it is generally feared that Israel Defense Forces (IDF) raids upon Iranian weapon shipments to Lebanon may fall victim to Russian anti-aircraft fire. This anxiety was realized in May 2022 when Israeli warplanes were reportedly targeted by a Russian S-300 missile during one mission in northwestern Syria.⁴⁸ Since then, Israeli officials have continued to cite what one minister euphemistically described as "operational limitations" in explaining their reticence to offer Ukraine direct military.⁴⁹

While far less explicit, Saudi and Emirati aversions towards Ukraine may be tangentially traced to their mutual concerns in Yemen. Despite Riyadh's and Abu Dhabi's rivaling interests, both have actively engaged with Moscow in the hopes of mediating an end to the fighting between Yemeni government forces and Houthi rebels. Moscow might not possess a concrete plan to end the country's civil war; but due to its strong ties to the intervening parties on both sides, it is hoped that Russia could play the role of a credible mediator and help secure compromise from the war's major belligerents—Iran especially.⁵⁰ Nevertheless, Saudi and Emirati openness to Russian mediation stands in contrast to the tensions that have emerged between the United States and the two Gulf states over their conduct in the conflict.⁵¹

⁴⁸ Emanuel Fabian, "Russia fired S-300 at Israeli jets over Syria in 'one-off' incident, Gantz confirms," *Times of Israel*, July 26, 2022.

⁴⁹ Anna Ahronheim, "Israel won't give Ukraine weapons, will help make missile warning system – Gantz," *Jerusalem Post*, October 19, 2022.

⁵⁰ Mark N. Katz, "Russia is friendly with the Houthis in Yemen. But it's complicated," Atlantic Council, April 9, 2021.

⁵¹ Shaun Tandon and Leon Bruneau, "Over a barrel, Biden faces tough options with Saudis," *Al-Monitor*, October 16, 2022.

Commentators have often pointed to the importance of personal leadership styles in interpreting how Saudi Arabia, Israel and the UAE have navigated issues pertaining to Russia and Ukraine. As the most powerful figures within their respective kingdoms, Mohammed bin Zayed and Mohammed bin Salman (more commonly known as MBS) have relished their roles as international statesmen. State media in Abu Dhabi and Riyadh have touted their respective leaders as globally renowned brokers and visionaries.⁵² The shared desire to burnish these reputations may provide some motivational impetus for their engagements with Vladimir Putin. Some degree of personal rapport may also play a role in buttressing Russia's ties with the Gulf. British intelligence officials have been quoted as saying that MBS has long admired Russia's president and has sought to emulate his manner of rule.⁵³ In the case of Benjamin Netanyahu, personal preferences and electioneering appear to play an important role in his approach towards Russia. Over the course of more than a decade, Israel's current prime minister has boasted of a close friendship with Putin.⁵⁴ Though he has more recently sought to distance himself from Russia's president, Netanyahu's has regularly cited his relationship with Putin as evidence of his preeminent stature as a statesman. During a 2019 electoral contest, large posters were unfurled of the two men shaking hands. The accompanying text on the poster read "Netanyahu: In a league of his own."⁵⁵

In spite of these similarities, the differences between Israel and the principal Gulf states are profound. There is no indication that Israel tends tilt away from the United States as its main security partner. Moreover, in spite of Israel's reliance upon Moscow's cooperation with respect to Syria, early opinion polls in Israel suggest that an overwhelming majority hold Russia responsible for the war in Ukraine.⁵⁶ This

⁵² Jamal Sanad Al Suwaidi, "Sheikh Mohamed bin Zayed is a man of conviction and vision," Gulf News, August 3, 2022; "How leadership has helped transform The Kingdom, *Misk Foundation* (<https://hub.misk.org.sa/insights/leadership/2022/leadership-has-transforms-the-kingdom/?allowview=true>, consulted July 26, 2023).

⁵³ Martin Chulov, "Putin and the prince: fears in west as Russia and Saudi Arabia deepen ties," *The Guardian*, October 5, 2022.

⁵⁴ Yossi Melman, "The strange love affair of Putin and Netanyahu," *Middle East Eye*, September 7, 2016.

⁵⁵ Raoul Wootliff, "Netanyahu touts friendship with Putin in new billboard," *The Times of Israel*, July 28, 2019.

⁵⁶ Tamr Hermann, et al, "60% of Israelis Back the Government's Policy on the Russia-Ukraine Conflict - Special Survey," *The Israel Democracy Institute*,

consensus, coupled with American and European pressure, has prompted Netanyahu to supply Kiev with some non-military aid. What seems more likely to stymie further Israeli support for the Ukrainian war effort are domestic factors, namely the country's contentious debate around judicial reform and broader public fatigue on security issues.⁵⁷

The lack of a public pressure, as well as shifts in their long-term planning, exercise greater influence over the thinking of leaders in Riyadh and Abu Dhabi. Bin Zayed and bin Salman appear to steer their country's foreign policy free of independent, outside influence. Their aggressively neutral stance towards the war in Ukraine appears in keeping with their opportunistic interpretation of what they believe is a world defined by multipolar competition.⁵⁸ In their dual pursuits to develop more robust capabilities in the realm of foreign policy, both Saudi Arabia and UAE plan to invest more heavily into their respective domestic defense industries. Russia figures prominently in Saudi and Emirati intentions to diversify their defense industries. Both countries appear poised to pursue co-production agreements with Moscow in spite of Putin's relative isolation and weakness.⁵⁹

⁵⁷ Daniel Rakov, "The Netanyahu Government's Approach to Russia and Ukraine," *Washington Institute for Near East Policy*, February 28, 2023.

⁵⁸ Jonathan Panikoff, "Shifting priorities: The US and the Middle East in a multipolar world," *Atlantic Council*, July 12, 2022.

⁵⁹ Agnes Helou, "Russian firm eyes options in Middle East for 'joint production' of tech, including 5th-gen fighters," *Breaking Defense*, February 20, 2023.

III. PART TWO: COMMODITIES

A. INTRODUCTION

This section examines how the war in Ukraine has affected Middle Eastern countries, through the lens of three major commodities: oil, natural gas, and wheat. The discussion is divided into three sub-sections, one for each commodity. Each section examines two sets of consequences: 1) the war's actual effects; and 2) effects that were widely anticipated at the war's outset, but have not occurred.

The war's impacts on the Middle East, through all three commodities, have not been as severe as observers expected when the war began. This is largely because the jumps in commodity prices precipitated by the conflict reversed fairly quickly, limiting their economic effects. These modest economic effects have also shaped the war's impacts on Middle Eastern countries' international political relationships, including with Russia, the European Union, the United States, and China.

Oil exporters experienced a temporary revenue windfall, but this subsided as prices declined. Moreover, while oil trade patterns have shifted, with a greater share of Middle Eastern exports going to Europe, the region's oil output has not replaced Russian oil globally, constraining the war's economic benefits. The war may have accelerated the green energy transition, with mixed effects for oil exporters. The war's oil-related impacts on Middle Eastern oil importers are similarly mixed; the negative effects of temporarily high energy prices were partially counterbalanced by rising assistance from the Gulf's oil exporters. Middle Eastern exporters and importers alike have benefited from the arbitrage opportunities created by cheap Russian crude oil and petroleum products, which can be laundered or used to free up domestic resources for export at market prices. Dubai has emerged as a major oil trading hub.

The effects of these oil-related dynamics have resounded politically more in some places than in others. Whereas OPEC's decisions to lower output heightened tensions between Washington and its Gulf Arab partners (Riyadh especially), the impact elsewhere has been limited.⁶⁰ Middle Eastern countries' relationships with China have

⁶⁰ Julian Borger, Stephanie Kirchgaessner, and Edward Helmore, "Biden administration angered by Opec+ oil output cut," *The Guardian*, 5 October 2022,

not changed, and Iran has made little progress in its efforts to lift international sanctions. The war has complicated Saudi Arabia's efforts to manage OPEC+. If Russia fails to restrain its oil output, this could lead to a larger break between the two countries. Yet, the UAE's role in helping facilitate Russia's oil sales has helped the latter better navigate sanctions, to the frustration of the West.

The war's effects on the Middle East have been more limited for gas than for oil because of the region's smaller number of major gas exporters and importers, and because of the characteristics of the natural gas market, in which revenues are smaller and prices are often tied to long-term contracts, so less affected by market swings. Temporarily high prices did compel some major gas importers to reduce domestic electricity subsidies, but this did not prompt political unrest. Exporters did modestly, temporarily increase their gas revenue, and modestly increased their gas sales to Europe when Russian flows slowed. However, future gas-related economic opportunities in Europe are limited, as countries attempt to transition away from fossil fuel consumption. Accordingly, the war has not inspired any large new gas infrastructure projects and Turkey is unlikely to become a major gas transport hub. Middle Eastern gas exporters may eventually compete with Russia for the Asian market, but only if Russia constructs more liquefied natural gas (LNG) terminals or builds a pipeline from its Yamal gas fields to China.

Finally, regarding wheat, although Middle Eastern countries imported large amounts of Ukrainian grain and those flows temporarily halted when the conflict began, they were able to secure supplies elsewhere, thereby avoiding war-induced absolute shortages and political unrest. Because many governments in the region subsidize flour and bread purchases, their spending rose along with wheat prices, compelling them to seek additional loans from international financial institutions and wealthy Gulf Arab states, whose food security was largely unaffected by the war. This additional financial burden is likely to intensify economic challenges in the long run. Some countries also

<https://www.theguardian.com/business/2022/oct/05/biden-administration-angered-by-opec-oil-output-cut>; and, Courtney Kube and Carol E. Lee, "Biden vowed 'consequences' for Saudi Arabia after oil production cut. But the U.S. has no plans to follow through." *NBC News*, 3 December 2022, <https://www.nbcnews.com/politics/biden-vowed-consequences-saudi-arabia-oil-production-cut-us-no-plans-f-rcna59799>

drew closer to Russia to secure wheat access, but the Kremlin's withdrawal from the Black Sea Grain Initiative is likely to weaken these ties.

B. OIL: A PRECARIOUS BALANCE

To analyze the war's impacts on the Middle East through the prism of oil, this section divides countries into two groups: net oil exporters and net oil importers. The net exporters are Algeria Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE).⁶¹ The net importers are Egypt, Israel, Jordan, Lebanon, Morocco, Tunisia, and Turkey.⁶²

1. Actual oil-related consequences of the war in Ukraine

a. Exporters temporarily collected windfall oil revenues

The 2015–2020 period was economically challenging for all major oil-exporting countries. Oil prices collapsed from over \$110/barrel (per barrel, or /bbl) in mid-2014 to less than \$50/bbl in early 2015, and \$30/bbl in early 2016.⁶³ After recovering some from 2017 to 2019, they plunged again in 2020, due to the demand destruction caused by the COVID-19 pandemic. During much of this period, prices fell below exporters' fiscal breakeven points—the price they need to balance their budgets. Governments responded to the bust with numerous strategies, including drawing down financial reserves, borrowing, raising taxes, reducing military spending, cutting subsidies, and imposing other austerity measures. Most of them successfully staved off political instability.⁶⁴

The increase in oil prices prompted by the lead-up to the war in Ukraine was nonetheless a welcome relief. The price of Brent crude, the European oil benchmark, rose from less than \$70/bbl in early December 2021 to over \$115/bbl in February, peaking at over \$122/bbl in June. This revenue windfall created a budget surplus for oil exporters, enabling them to halt or reverse austerity measures and increase their investments in economic diversification initiatives, such as Saudi Arabia's Vision 2030. The success of

⁶¹ Yemen is omitted from the analysis because the Ukraine war's effects on its oil exports and imports have been minimal, relative to the effects of its ongoing civil war.

⁶² Syria is omitted from the analysis for the same reason as Yemen. The civil war transformed the country from a net oil exporter to a net importer.

⁶³ Prices are for Brent crude, the European benchmarks. Data are from the US Energy Information Agency (EIA).

⁶⁴ Emily Meierding, "Over a Barrel? Oil Busts and Petrostate Stability," *Comparative Politics* 54, no. 4 (2022): 671–694.

these efforts will be crucial to oil exporters' future economic health, as the world transitions away from fossil fuels to greener energy sources.

This windfall was, however, temporary. After peaking in summer, the price of Brent dropped below \$90/bbl by September 2022. In the first half of 2023, it has averaged around \$80/bbl. This figure is higher than the 2015–2020 average. Yet, it is below some exporters' current fiscal breakeven prices, including Saudi Arabia's.⁶⁵

b. Exporters increased oil sales to Europe

During the first year of the war, European countries drastically reduced their purchases of Russian crude oil and petroleum products. In early March, 2022, the United Kingdom announced that it would halt all imports of Russian oil by the end of 2022. In June, the EU announced that it would stop all seaborne imports of Russian crude oil and petroleum products within a year. The crude ban went into effect in early December 2022. The EU, G-7, and Australia simultaneously announced a \$60 price cap on sales of seaborne Russian crude, destined for any countries that were continuing to purchase Russian oil. Any oil sold above that price could not be transported in EU-registered vessels or insured by EU-based companies.⁶⁶ The ban on Russian petroleum products, including gasoline and diesel, went into effect in early February, 2023.⁶⁷

As a result of these measures, Russian crude oil and petroleum product exports to the EU dropped from more than 4 million barrels per day (MMbpd) in early 2022 to 600,000 bpd in late February, 2023.⁶⁸ The remaining crude is being delivered through the

⁶⁵ Abeer Abu Omar, "Saudi Oil Cuts Throw Last Year's Standout Economy Into Slow Lane," *Bloomberg*, July 8, 2023, <https://www.bloomberg.com/news/articles/2023-07-09/saudi-oil-cuts-throw-last-year-s-standout-economy-into-slow-lane>.

⁶⁶ "Sanctions Against Russia: A Timeline," *S&P Global*, August 14, 2023, <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/sanctions-against-russia-8211-a-timeline-69602559>.

⁶⁷ William James and Kylie Maclellan, "Britain to Phase Out Russian Oil Imports By End of 2022," *Reuters*, March 8, 2022, <https://www.reuters.com/business/energy/uk-ban-russian-oil-imports-politico-2022-03-08/>.

⁶⁸ "Factbox: How the EU Ban on Russian Oil Imports Affects Oil Flows," *Reuters*, March 15, 2023, <https://www.reuters.com/business/energy/how-eu-ban-russian-crude-affects-oil-flows-2023-02-27/>.

southern branch of the Druzhba pipeline, to Hungary, Slovenia, and the Czech Republic.⁶⁹

To replace 3.4 MMbpd of Russian crude oil and petroleum products, the EU turned to numerous alternative suppliers, including exporters in the Middle East. The region includes many of the world's largest producers, including Saudi Arabia (#2), Iraq (#6), the UAE (#7), Iran (#9), and Kuwait (#10).⁷⁰ Algeria and Libya are geographically convenient suppliers, as they merely need to ship their oil across the Mediterranean to import terminals in southern Europe. Some Gulf exporters, especially Iraq, Saudi Arabia, and the UAE, have needed new markets for the crude that they had formerly shipped to India.⁷¹ Since the war began, Indian refineries have increased their imports of discounted Russian crude from near zero to over 2.2 MMbpd, reducing their demand for Middle Eastern oil supplies.⁷²

Between January 2022 and the first three months of 2023, the EU's imports of Middle Eastern crude rose from 7.8 MMbpd to 10.7 MMbpd, increasing Middle Eastern exporters share of the EU's crude oil imports from 20% to 28%. The crude oil exporters that benefited most from this increase were Saudi Arabia and Iraq. The Middle East's petroleum product exports to the EU rose from 2.7 MMbpd in January 2022 to 3.3 MMbpd in March 2023, increasing Middle Eastern exporters share of the EU's product imports from 11% to 14%. Among Middle Eastern exporters, Algeria, Kuwait, Libya, and Saudi Arabia increased their product sales to the EU the most.⁷³ Product exports from the Gulf states to the EU could rise more in the near future, as new refineries are coming online in several countries in the region, including Kuwait and Saudi Arabia.⁷⁴

⁶⁹ Alberto Nardelli and Natalia Drozdak, "EU Backs Fresh Russia Sanctions to Crack Down on Circumvention," *Bloomberg*, June 21, 2023, <https://www.bloomberg.com/news/articles/2023-06-21/eu-backs-fresh-russia-sanctions-to-crack-down-on-circumvention>.

⁷⁰ Based on 2022 data. "Frequently Asked Questions," US EIA, last updated May 1, 2023, <https://www.eia.gov/tools/faqs/faq.php?id=709&t=6>.

⁷¹ Rakesh Sharma and Alex Longley, "India Is Starting to Reach the Limits of Its Russian Oil Splurge," *Bloomberg*, June 27, 2023, <https://www.bloomberg.com/news/articles/2023-06-27/india-is-starting-to-reach-the-limits-of-its-russian-oil-splurge>.

⁷² Rakesh Sharma, "India's Oil Imports From Russia Climb to New Peak as Limit Nears," *Bloomberg*, July 2, 2023, <https://www.bloomberg.com/news/articles/2023-07-03/india-s-oil-imports-from-russia-climb-to-new-peak-as-limit-nears>.

⁷³ Figures calculated from Eurostat data.

⁷⁴ Sean Mathews, "Middle East Primed to Pounce When EU Bans Russian Diesel," *Middle East Eye*, January 18, 2023, <https://www.middleeasteye.net/news/middle-east-sweet-spot-ahead-russian-import-ban>.

c. *Importers and exporters are purchasing cheap Russian oil*

Like Indian refineries, Middle Eastern actors have had the opportunity to buy Russian crude oil at a discount, which has ranged from \$20/bbl to \$40/bbl since the war began. They can also buy discounted Russian petroleum products. This has enabled some Middle Eastern importers to lower their energy bills, moderating the negative effects of rising oil prices. These negative effects typically include balance of payments problems, a drain on foreign currency reserves, worsening exchange rates, constraints on the ability to purchase other products, and slower economic growth.

Among Middle Eastern countries, Turkey and Egypt have increased their Russian crude oil purchases the most since the war began, with Turkey's increase by far the greatest. Morocco, Tunisia, and Turkey have increased their Russian petroleum product purchases the most.⁷⁵ Some of these imported products are consumed domestically, as are some Russian crude oil imports, after they are refined. These new, cheap supplies can also free up some of the purchasing countries' own energy output for export at normal market prices. For example, Saudi Arabia has increased its purchases of discounted Russian petroleum products so it can consume them domestically, to free up more of its own crude oil for export. Egypt has increased its purchases of Russian fuel oil to free up more of its own natural gas for export.⁷⁶

d. *Importers and exporters are laundering Russian oil*

Some of the Middle Eastern countries that are importing Russian oil are also re-exporting it. The EU's sanctions against Russia prohibit member states from importing seaborne Russian crude or petroleum products, unless they have been "substantially transformed." This creates an opportunity for arbitrage. Countries with domestic refining capabilities can purchase discounted Russian crude, refine it into petroleum products, and legally sell those products to the EU and United States. These countries can also buy

⁷⁵ Russia Fossil Fuels Tracker, <https://www.russiafossiltracker.com/>; "Russian Oil Product Flows to Africa Jump Following Western Sanctions," *S&P Global*, July 4, 2023, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/070423-russian-oil-product-flows-to-africa-jump-following-western-sanctions>; Will Horner, "North African Countries Snap Up Russian Oil Products Shunned by West," *The Wall Street Journal*, February 25, 2023; <https://www.wsj.com/articles/north-african-countries-snap-up-russian-oil-products-shunned-by-west-f63aa287>.

⁷⁶ Mathews, "Middle East Poised to Pounce."

Russian petroleum products, “substantially transform” them through practices like additional refining or blending these with domestically-produced products, and resell the “new” products.⁷⁷

Multiple Middle Eastern importers (Morocco, Tunisia, Turkey) and exporters (Saudi Arabia, UAE) are participating in this so-called oil “laundromat.”⁷⁸ The international response has been tepid because of the laundromat’s mixed effects. On the one hand, it helps Russia to legally evade sanctions. On the other, by keeping Russian oil on the market, it prevents shortages of global energy supplies, keeping prices in check.

e. The UAE has become a major oil trading hub

Oil trading firms have historically centered their operations in Geneva, Switzerland. Before the war, some were already changing their locations or opening subsidiaries in the UAE, especially Dubai. However, the war accelerated this geographical shift because, once Switzerland agreed to participate in EU sanctions, trading firms headquartered in the country could no longer purchase Russian oil. Dubai imposes no such restrictions on trading operations and had the added attraction of even lower corporate tax rates than Switzerland.

Some of the companies that now operate out of Dubai, including subsidiaries of companies headquartered in Switzerland, respect the EU/G-7 price cap and are therefore not violating any countries’ laws. Others, particularly many of the more shadowy Russian-affiliated firms, ignore the price cap. The crude they are trading must therefore

⁷⁷ Ana Swanson, “Opposition Grows to U.S. Imports of Refined Russian Oil,” *The New York Times*, June 29, 2023, <https://www.nytimes.com/2023/06/29/business/economy/russia-oil-imports-ban.html>.

⁷⁸ “Interactive: Global Oil Flow Tracker,” *S&P Global*, August 2, 2023, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/072122-interactive-global-flow-tracker-recording-changes-russian-oil-exports>; “The Laundromat: How the Price Cap Coalition Whitewashes Russian Oil in Third Countries,” Center for Research on Energy and Clean Air (CREA), April 19, 2023, <https://energyandcleanair.org/publication/the-laundromat-how-the-price-cap-coalition-whitewashes-russian-oil-in-third-countries/>; Patricia Cohen, “Turkey Is Strengthening Its Energy Ties With Russia,” *The New York Times*, December 9, 2022, <https://www.nytimes.com/2022/12/09/business/turkey-erdogan-energy-russia.html>; Jeslyn Lehr, “Saudi Arabia Imports Record Russian Fuel Oil in June as Trade Grows,” *Reuters*, July 12, 2023, <https://www.reuters.com/business/energy/saudi-arabia-imports-record-russian-fuel-oil-june-trade-grows-2023-07-13/>; Mathews, “Middle East Poised to Pounce”; Jack Wittels, “Turkey Is Guzzling Russian Diesel That Europe Can’t Buy,” *Bloomberg*, April 4, 2023, <https://www.bloomberg.com/news/articles/2023-04-04/turkey-is-guzzling-russian-diesel-that-europe-can-t-buy>.

be transported by non-EU tankers that are insured by non-EU firms, raising the danger of accidental spills and environmental damage. Some of the crude these firms are trading is transferred to storage facilities, primarily in Fujairah. Other oil shipments travel directly from their ports of origin to mostly Asian destinations.

Its growing role as an oil trading hub has benefited the UAE by raising oil storage fees in Fujairah, “moving billions of dollars of additional oil revenue through its banks and attracting dozens of new companies to its free-trade zones.”⁷⁹ The United States’ leading concerns with this practice are that it facilitates Russian sanctions evasion and that efforts to constrain these flows could engender U.S.–UAE tensions.

f. Managing OPEC+ has become more complicated

In December 2016, after two years of low oil prices, members of the Organization of Petroleum Exporting Countries (OPEC) and non-member oil-exporting countries, including Russia, Norway, and Mexico, reached an agreement to collectively manage their oil output to try to balance global supply and demand and revive oil prices. Since then, the participants in the resulting informal organization, known as “OPEC+,” have continued their efforts to manage the oil market. The two leading states in OPEC+ are Saudi Arabia and Russia. Their relations within the organization have sometimes been rocky: most notably, they engaged in brief price war at the beginning of the COVID-19 lockdowns, which intensified the pandemic-induced collapse in oil prices. Russia has also regularly exceeded its OPEC+ production quotas.

The war has further complicated Russia’s relations with other OPEC+ participants. The organization’s existence has reduced the likelihood that Saudi Arabia and other Middle Eastern oil exporters will censure Russia’s aggression against Ukraine, as they want to sustain energy cooperation. These countries’ failure to condemn Russia is a point of friction with the United States, which has sought widespread international support for its sanctions programs, especially those that aim to limit Russia’s energy revenue.

⁷⁹ Archie Hunter, Ben Bartenstein, Verity Ratcliffe, and Isis Almeida, “Dubai Becomes New Switzerland for Traders of Russian Commodities,” *Bloomberg*, June 21, 2022, <https://www.bloomberg.com/news/articles/2022-06-21/dubai-becomes-new-switzerland-for-traders-of-russian-commodities>; Tom Wilson, “How Dubai Became the “New Geneva” for Russian Oil Trade,” *Financial Times*, July 18, 2023, <https://www.ft.com/content/7ac92047-b306-49d0-9811-ddde5c916dd6>.

However, the war has also increased tensions between Russia and Saudi Arabia over oil production levels.⁸⁰ The Kremlin wants to keep output levels high, as oil sales are vital for financing its war effort. In contrast, Saudi Arabia wants to reduce the total output of OPEC+ in order to raise oil prices. The Saudis have generally adhered to their OPEC+ quotas and recently announced voluntary, unilateral production cuts, including an additional 1 MMbpd starting in July 2023.⁸¹ Russia recently agreed to reduce its exports, announcing that it would lower them by 500,000 bpd in August.⁸² Yet the state's willingness to execute these cuts is uncertain, especially since it has largely failed to follow through on previous pledges to cut.⁸³

A continued failure to reduce Russian output will strain Saudi patience. The Saudis bore much of the economic brunt of production cuts in the early 1980s, while other OPEC members persistently cheated on their quotas. They have no desire to repeat the experience, and their economic growth has already begun to suffer as a result of their recent production cuts.⁸⁴ Eventually, the Saudis will repeat their strategy from the mid-1980s and 2020: flooding the market to trigger a complete price collapse, and maintaining their elevated output until higher-cost producers are compelled to reign in their industries. Russia's recent moves to constrain its exports are likely aimed at deterring this Saudi response.

⁸⁰ Clifford Krauss and Anatoly Kurmanaev, "Russia and Saudi Arabia's Oil Partnership Shows Strain," *The New York Times*, June 7, 2023, <https://www.nytimes.com/2023/06/07/business/energy-environment/saudi-arabia-russia-oil-opec-plus.html>.

⁸¹ Grant Smith and Omar Tamo, "Saudis Extend 1 Million-Barrel Oil Cut, Say Can Be Deepened," *Bloomberg*, August 3, 2023, <https://www.bloomberg.com/news/articles/2023-08-03/saudis-extend-1-million-barrel-oil-cut-say-it-can-be-deepened>.

⁸² "Russia Will Cut Its Crude Exports by 300,000 B/d in September," *Bloomberg*, August 3, 2023, <https://www.bloomberg.com/news/articles/2023-08-03/russia-will-cut-its-crude-exports-by-300-000-b-d-in-september>.

⁸³ Julian Lee, "Russian Oil Flows Show First Signs of Drop Months After Cuts Vow," *Bloomberg*, July 11, 2023, <https://www.bloomberg.com/news/articles/2023-07-11/russian-oil-flows-show-first-signs-of-drop-months-after-cuts-vow>.

⁸⁴ Abeer Abu Omar, "Saudi Oil Cuts Throw Last Year's Standout Economy Into Slow Lane," *Bloomberg*, July 9, 2023, <https://www.bloomberg.com/news/articles/2023-07-09/saudi-oil-cuts-throw-last-year-s-standout-economy-into-slow-lane>.

g. The green energy transition has accelerated, with mixed effects for oil exporters

Russia's war in Ukraine may be accelerating the world's shift toward greener energy consumption, especially in the EU. The EU member countries have not only responded to the war by reducing purchases of Russian oil and petroleum productions. They have also reduced their total consumption of fossil fuels, including oil and natural gas, more rapidly than planned before the conflict.⁸⁵ RePowerEU, the energy plan announced by the European Union in May 2022, codified these initiatives, proposing to "fast forward the green transition" as a means of "tackling the climate crisis."⁸⁶ If the EU sustains these efforts, its demand for oil imports is likely to decline more quickly than previously anticipated.

This acceleration will have mixed effects for Middle Eastern oil exporters. On the negative side, it will more quickly reduce global demand for their leading source of export revenue. This will prompt a reduction in oil prices if global demand falls below available supplies. It also creates an incentive for producers to accelerate their current economic diversification initiatives. On the positive side, as oil prices fall, oil production is likely to become increasingly concentrated in the Middle East—specifically the Arabian Gulf states—because they have the world's lowest oil production costs, and can therefore profitably extract resources for much longer than other countries. This concentration of production could benefit the Gulf states, as it will give them greater control over the industry.

h. Oil importers have experienced moderate positive and negative effects

The war's impacts on oil-importing Middle Eastern countries have also been mixed. On the negative side, as noted above, higher oil prices harm importing states by inducing balance of payments problems, draining foreign currency reserves, worsening exchange rates, constraining their ability to purchase other products, and slowing

⁸⁵ Will Mathis and Akshat Rathi, "How Europe Ditched Russian Fossil Fuels With Spectacular Speed," *Bloomberg*, February 21, 2023, <https://www.bloomberg.com/news/features/2023-02-21/ukraine-news-europe-ditches-russia-fossil-fuels-with-surprising-speed>.

⁸⁶ "REPowerEU: A Plan to Rapidly Reduce Dependence on Russian Fossil Fuels and Fast Forward the Green Transition," European Commission Press Release, May 18, 2022, https://ec.europa.eu/commission/presscorner/detail/en/IP_22_3131.

economic growth. In the first half of 2022, Middle Eastern importers' GDPs fell by .5% on average.⁸⁷ Borrowing money to cover additional energy-related expenses has also been more difficult, as a result of tightening monetary policies and intensified lender fears of defaults.⁸⁸

If the governments of oil-importing countries pass price increases on to their populations, the resultant inflation and economic hardship could provoke or intensify opposition to the ruling regime, which might escalate to protests, riots, or other forms of anti-state violence. Historically, Middle Eastern governments have attempted to shield their populations from these economic consequences by subsidizing energy products, including gasoline, diesel, and fuel oil. However, over the last decade, many governments in the region have engaged in subsidy reforms. Among the oil importers, Jordan and Morocco reduced petroleum subsidies in 2012–2015, Egypt and Lebanon from 2017 to 2020, and Tunisia and Turkey from 2018 to 2020.⁸⁹

Some importers nonetheless responded to the war-induced oil price increase by halting or reversing subsidy reforms. Jordan capped price for cooking oil and gas and did not go through with planned increases in gasoline prices. In contrast, Tunisia raised fuel prices multiple times in 2022, heightening popular discontent with the ruling regime.⁹⁰ Many Middle Eastern countries have experienced significant inflation, induced largely by increases in commodity prices.⁹¹ Fortunately, the relatively quick decline in oil prices, after their peak in summer 2022, has moderated the negative impacts of high prices for oil importers.

On the positive side, high oil prices can benefit Middle Eastern importers by increasing remittances and foreign aid, particularly from oil-exporting states that are

⁸⁷ International Monetary Fund (IMF), *Regional Economic Outlook: Middle East and Central Asia: Mounting Challenges, Decisive Times*, (Washington, DC: International Monetary Fund, October 2022), 3, 20.

⁸⁸ *Ibid*, 5.

⁸⁹ Data on subsidies as a share of GDP, Fossil Fuels Subsidy Tracker, <https://fossilfuelsubsidytracker.org/>. Based on this measure Egypt's petroleum subsidies remain exceptionally high.

⁹⁰ "The Impact of Russia's Invasion of Ukraine in the Middle East and North Africa," International Crisis Group, April 14, 2022, <https://www.crisisgroup.org/middle-east-north-africa/impact-russias-invasion-ukraine-middle-east-and-north-africa>.

⁹¹ IMF, *Regional Economic Outlook: Middle East and Central Asia: Safeguarding Macroeconomic Stability Amid Continued Uncertainty* (Washington, DC: International Monetary Fund, May 2023), 3.

experiencing an economic boom and budget surplus from their resource revenue windfall. This economic growth, particularly in Gulf states with small local populations, increases demand for foreign workers, who send a share of their income home. Budget surpluses also enable these governments to increase their foreign assistance, which some have historically distributed generously to other Arab states.

According to IMF data, between 2018 and 2022, Gulf Cooperation Council (GCC) countries “provided about \$54 billion in balance of payments and budget financing to Middle Eastern and North African (MENA) emerging market and middle-income economies (EM&MIs) and Pakistan, with additional support planned.”⁹² In 2022 alone, Saudi Arabia gave \$5 billion to Egypt’s Central Bank and Qatar and the UAE promised \$7 billion in investments to other Arab states.⁹³ The GCC countries have also provided debt relief to low-income and conflict-affected states in the region.”⁹⁴ Remittances, in contrast, did not rise significantly from 2021 to 2022.⁹⁵ However, they could increase in 2023, if there is a lag between rising revenue and increasing foreign employment. Alternatively, the price jump may have been too brief to prompt a substantial increase in foreign employment in the Gulf states.

2. Anticipated oil-related consequences that *have not* occurred:

a. *Middle Eastern exporters have not replaced Russia’s oil output globally*

At the war’s outset, many observers anticipated that international sanctions targeting Russia’s oil industry would compel the country to reduce its total oil production and exports. However, this prediction has not come to pass. Although the destinations of Russia’s oil exports have shifted, its total output and exports have not. The country’s crude oil production actually increased by 2% from 2021 to 2022.⁹⁶ Russian oil

⁹² Ibid, 16.

⁹³ “The Impact of Russia’s Invasion of Ukraine in the Middle East and North Africa.”

⁹⁴ *Regional Economic Outlook* (May 2023), 16.

⁹⁵ Based on World Bank data on “Personal Remittances, Received (Current US\$),” <https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT>.

⁹⁶ See, for example, Anatoly Kurmanaev and Stanley Reed, “How Russia Is Surviving the Tightening Grip on Its Oil Revenue,” *The New York Times*, February 7, 2023, <https://www.nytimes.com/2023/02/07/business/russia-oil-embargo.html>.

companies also drilled at a record pace in 2022 and are on pace to exceed that in 2023.⁹⁷ Russia's crude oil and petroleum product exports also remained consistent, at approximately 8 MMbpd, from January 2022 to January 2023.⁹⁸ Accordingly, while Middle Eastern producers have contributed to replacing Russian oil exports to the EU, they have not replaced Russian supplies globally.

This dynamic could eventually change, if U.S. and EU sanctions prohibiting exports of oil-related technology to Russia and investments in the country's oil industry reduce future Russian output. These sanctions were originally imposed in 2014, after Russian forces downed flight MH17. Initially, they only applied to new, more capital-intensive or technologically-challenging projects, like drilling in the Arctic or exploitation of tight oil and gas resources using hydraulic fracturing (fracking). However, the EU's 4th round of sanctions (2022) extended these prohibitions to all Russian energy projects.⁹⁹ Analysts have suggested that the 2014 sanctions, in particular, will eventually limit Russia's energy output, as the state and countries that continue to trade with it (including China) currently lack indigenous technological capabilities to execute complex oil projects. If Russia is unable to acquire these capabilities, its oil production will decline, as output from its mature, less technologically-complex oil fields falls and is not replaced. However, the time frame for this shift is uncertain.

b. Iran has failed to negotiate the lifting of international sanctions

Had Russia's oil output and exports declined significantly because of the war, the world would be facing a tighter oil market and consequent price increases. This would have heightened the appeal of restoring Iranian resources to the international market by lifting international sanctions against the state's energy industry. European countries have already demonstrated their willingness to buy Iranian oil; their imports surged when sanctions were lifted in 2015. A globally tight oil market, coupled with the loss of Russian exports to the EU specifically, would likely have heightened European countries'

⁹⁷ "Russia Sets Record Pace for Oil-Drilling This Year Despite Production Cuts," *Bloomberg*, July 31, 2023, <https://www.bloomberg.com/news/articles/2023-07-31/russia-sets-record-pace-for-oil-drilling-this-year-despite-production-cuts>.

⁹⁸ "Russian Total Oil Exports, January 2022–January 2023," International Energy Agency (IEA), last updated February 25, 2023, <https://www.iea.org/data-and-statistics/charts/russian-total-oil-exports-january-2022-january-2023>.

⁹⁹ "Sanctions Against Russia: A Timeline."

interest in accessing Iranian resources. This could have provoked tensions between an EU eager to lift sanctions, and the United States, which wants to maintain them.

Russia's sustained oil output, along with lower than anticipated growth in global oil demand due to persistent fears of economic contraction, has kept supplies abundant up to this point. This has limited European incentives to lift sanctions, reducing Iran's bargaining leverage.¹⁰⁰ However, Iran has benefited at the margins. Weak sanctions enforcement over the last year has enabled the state to increase its unofficial oil sales to China, Syria, and Venezuela, boosting its resource revenue.¹⁰¹

c. Middle Eastern exporters' relationships with China have not weakened

For Middle Eastern exporters to shift a large share of their oil sales to the EU, they would have to significantly reduce their oil sales to China, currently the largest foreign purchaser of many Middle Eastern countries' resources. This would weaken China's leading incentive to intensify its diplomatic and potentially military engagement with these countries. As a result, Sino-Middle Eastern ties could weaken, to the benefit of the United States, which has historically been the leading security partner of many Middle Eastern countries.

However, the war has not reduced Middle Eastern exporters' oil sales to China. Although the EU's imports of Middle Eastern crude and petroleum products rose from 10.5 MMbpd to 14 MMbpd between early 2022 and early 2023, China's imports of Middle Eastern oil also rose marginally during this time period, by approximately 150,000 bpd.¹⁰² China's imports of Russian oil increased more, in response to the large discounts on Russian crude mentioned above. These enabled Russia to overtake Saudi

¹⁰⁰ Some Iranian supplies have also returned to the market due to loose enforcement of international sanctions.

¹⁰¹ Benoit Faucon, "Iran Floods Global Markets With Cheap Oil as Saudi Arabia Cuts Output," *The Wall Street Journal*, July 6, 2023, <https://www.wsj.com/articles/iran-floods-global-markets-with-cheap-oil-as-saudi-arabia-cuts-output-e78aeac>.

¹⁰² "Middle East Oil Exports to Asia Seen Weakening Amid OPEC+ Cuts, Cheap Russian Barrels," *S&P Global*, April 6, 2023, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/040623-middle-east-oil-exports-to-asia-seen-weakening-amid-opec-cuts-cheap-russian-barrels>.

Arabia as China's largest oil supplier.¹⁰³ Yet, Middle Eastern exporters and producers are likely to resist any further deterioration in their China market share, as they are keenly aware that the future of oil demand growth lies in Asia, not Europe. China's dependence on Middle Eastern oil will therefore remain very high, as will its incentives to maintain positive relations with the region.

C. NATURAL GAS: A LIMITED IMPACT

The war in Ukraine's impacts on Middle Eastern countries, through natural gas, have been more limited than its impacts via oil, for several reasons. First, the Middle East has a smaller number of significant gas exporters and importers than oil exporters and importers. Only four countries in the region were net exporters of more than 10 billion cubic meters (bcm) of gas in 2022: Qatar (135 bcm), Algeria (49 bcm), Iran (19 bcm), and Oman (15 bcm).¹⁰⁴ Other countries, including Egypt, Israel, and Libya, are net exporters of less than 10 bcm of natural gas annually. To give a sense of comparison, before the war, Russia exported 155 bcm of gas to Europe, alone. Some of the Middle East's other major oil producers also produce substantial amounts of natural gas, often in conjunction with their oil extraction. However, these states—Iraq, Kuwait, Saudi Arabia, and the UAE—consume their gas domestically.¹⁰⁵

Turning to importers, only one Middle Eastern country, Turkey, is a net importer of more than 10 bcm of gas per year. Tunisia and Jordan import smaller amounts of gas. Natural gas constitutes a substantial share of all three of these countries' total energy supply: 50% for Tunisia, 38% for Jordan, and 26% for Turkey.¹⁰⁶ However, these supplies are more easily substitutable than oil imports, so they are lesser—although non-negligible—energy security concerns. Other countries with limited domestic fossil fuel production, including Lebanon and Morocco, import very little natural gas.

¹⁰³ Summer Said and Benoit Faucon, "Russia Set to Overtake Saudi Arabia in Battle for China's Oil Market," *The Wall Street Journal*, June 27, 2023, https://www.wsj.com/articles/russia-set-to-overtake-saudi-arabia-in-battle-for-chinas-oil-market-6435742e?mod=article_inline.

¹⁰⁴ Net export figures are derived from OPEC data on natural gas exports and imports.

¹⁰⁵ They also purchase some gas from their neighbors (Iran and Qatar) to fill gaps between domestic supplies and demand. See Verity Ratcliff, "Kuwait Looks to Gas Imports as Gulf States Aim to Burn Less Oil," *Bloomberg*, July 13, 2021, <https://www.bloomberg.com/news/articles/2021-07-13/kuwait-looks-to-gas-imports-as-gulf-states-aim-to-burn-less-oil>.

¹⁰⁶ Figures are from the IEA, for 2021.

Second, the war's impacts on Middle Eastern gas exporters are more limited than for oil exporters because gas sales are less profitable than oil sales. Third, spot price increases have less impact because many gas sales occur through long-term contracts. Fourth, gas markets do not offer the same arbitrage opportunities as crude oil and petroleum product markets because, apart from some initial processing near production sites, natural gas is not refined.

1. Actual gas-related consequences of the war in Ukraine

a. Exporters modestly, temporarily increased their resource revenue

The war in Ukraine triggered a jump in global natural gas prices as well as oil prices. The spot price of Title Transfer Facility (TTF), a European benchmark, rose throughout 2021 from approximately \$20 per megawatt hour (MWh) in early January to \$136/MWh in mid-December, triggering economic pain across the continent. The price fell to approximately \$80/MWh by the end of December, and remained at that level until mid-February. However, the war's onset triggered another jump to over \$190/MWh by the end of the month. Although the price dropped to less than \$100/MWh by mid-April, between early June and late August, it soared again, to almost \$340/MWh. This peak was fortunately temporary; the price quickly began to fall and, by the start of 2023, it had dropped to approximately \$70/MWh. Since May 2023, it has hovered around \$35/MWh.¹⁰⁷ This is still higher than before the war, but it no longer constitutes a windfall for exporters.

The temporary price jump provoked by the war also benefited a smaller number of exporting countries than the oil price jump. As noted above, only seven Middle Eastern states are major or moderate gas exporters: Qatar, Algeria, Iran, Oman, Egypt, Israel, and Libya. The revenue bump these states received was also smaller in magnitude than the windfall obtained by oil exporters, due to the characteristics of natural gas pricing. Publicly quoted gas prices, like TTF, are either spot prices (for immediate delivery) or futures prices (usually for delivery in one month). However, most gas is sold in long-term contracts (often 15–20 years). These often allow for some price variation

¹⁰⁷ TTF spot price data are from Trading Economics, <https://tradingeconomics.com/commodity/eu-natural-gas>.

based on market conditions, but much less than occurs in the spot and futures markets.¹⁰⁸ Exporters therefore received only modest revenue bumps from their contracted gas sales. Those that had substantial spot cargo available to sell received larger revenue boosts.

b. Exporters modestly increased gas sales to Europe

Before the war, Russia was the world's second largest producer of natural gas and its top exporter. Gazprom, Russia's leading gas company, accounted for 24% of global gas trades in 2021. Europe was the leading market for these resources: it was the destination for 83% of Russian pipeline gas exports and 44% of its liquefied natural gas (LNG) exports.¹⁰⁹ When the war began, EU sanctions did not target Russian gas supplies, as these were considered too difficult to replace. However, over the next six months, Russia dramatically cut back on its pipeline exports to the EU. It stopped transporting gas through the Yamal pipeline in May 2022 and the Nord Stream 1 pipeline by early September. Later that month, the NordStream system was targeted in a sabotage attack, rendering it inoperable. Since then, Russian pipeline gas has flowed to Europe primarily through the Turkstream pipeline (destined especially for Turkey, Hungary, and Serbia¹¹⁰), with some transiting through Ukrainian pipelines (destined especially for Austria¹¹¹). In total, pipeline gas flows from Russia to the EU fell from 146 bcm in 2021 to 61.5 bcm in 2022. In the first five months of 2023, they averaged only 10 bcm.¹¹²

In contrast, Russian LNG flows to the EU actually increased from 2021 to 2022, from 10 to 16 bcm.¹¹³ Much of these volumes had been contracted before the war. One of the main buyers, France's TotalEnergies, had an additional reason to sustain its

¹⁰⁸ Many also reflected changes in oil prices, rather than gas prices, because gas contracts are often indexed to oil, especially for Asian customers.

¹⁰⁹ Claire Jordan and Steve Husbands, "Europe's Not Buying: The Impact of Lost Gas Markets for Gazprom and Russia," *RUSI*, May 5, 2023, <https://www.rusi.org/explore-our-research/publications/commentary/europes-not-buying-impact-lost-gas-markets-gazprom-and-russia>.

¹¹⁰ "Russian Pipeline Gas Flows to Europe Steady on Month in June," *S&P Global*, July 4, 2023, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/natural-gas/070423-russian-pipeline-gas-flows-to-europe-steady-on-month-in-june>.

¹¹¹ Patricia Cohen, "Why One Country Is Struggling to Break Away From Russian Gas," *The New York Times*, July 31, 2023, <https://www.nytimes.com/2023/07/31/business/energy-environment/austria-natural-gas-russia.html>.

¹¹² Symon Kardaś, "Own Goal: How Russia's Gas War Has Backfired," European Council on Foreign Relations, July 27, 2023, <https://ecfr.eu/article/own-goal-how-russias-gas-war-has-backfired/>.

¹¹³ Ibid.

purchases; the company is a significant investor in Russia's Yamal LNG project, one of the main suppliers of this gas. Recently, European countries have intensified their efforts to reduce such purchases; in April, the EU energy policy chief asked member states to refrain from signing new contracts for Russian LNG.¹¹⁴

To replace Russian gas supplies, European states have turned to numerous alternative producers, including in the Middle East. Before the war, only two countries in the region—Algeria and Libya—sent the majority of their gas exports to Europe. In 2021, 88% of Algeria's pipeline gas went to the EU, and 58% of its LNG went to the EU and United Kingdom.¹¹⁵ All of Libya's exports traveled to Europe, through the Greenstream pipeline, as the country's LNG terminal, Marsa el-Brega, is not controlled by the Government of National Unity. Qatar sent 21% of its gas exports to Europe (including the United Kingdom) in 2021. Egypt sent 31% of its exports to Europe in 2021.¹¹⁶ Oman directed most of its exports to Asian buyers, and Israel did not export gas to Europe before the war. Iran's exports were directed predominantly to Iraq and Turkey, due to EU sanctions.

After the war began, European officials reached out to many Middle Eastern states, asking them to direct a larger share of their gas exports to the EU. Algeria received visits from Italian, French, and German officials, as well as the European Council president.¹¹⁷ These efforts bore some fruit. In November 2022, Germany signed a 15-year deal for LNG supplies with Qatar; it will begin in 2026.¹¹⁸ Oman signed contracts

¹¹⁴ Will Horner, "Europe Moves Toward Cutting a Last Source of Russian Energy," *The Wall Street Journal*, April 27, 2023, <https://www.wsj.com/articles/europe-moves-toward-cutting-a-last-source-of-russian-energy-2caf3859>.

¹¹⁵ Data are from the BP Statistical Review of World Energy, 2022.

¹¹⁶ "Rethinking Gas Diplomacy in the Eastern Mediterranean," International Crisis Group, Report No. 240, April 26, 2023, <https://www.crisisgroup.org/middle-east-north-africa/east-mediterranean-mena-turkiye/240-rethinking-gas-diplomacy-eastern>.

¹¹⁷ Federica Saini Fasanotti, "Europe Turns to Algeria for Natural Gas," GIS Reports Online, October 20, 2022, <https://www.gisreportsonline.com/r/algeria-europe/>.

¹¹⁸ Andrew Mills and Maha El Dahan, "Germany to Get New Qatari LNG Flows Through QatarEnergy, ConocoPhillips Deal," *Reuters*, November 29, 2022, <https://www.reuters.com/business/energy/qatarenergy-conocophillips-sign-lng-supply-deal-germany-2022-11-29/>.

with companies representing Germany (SEFE),¹¹⁹ France (TotalEnergies),¹²⁰ and Turkey (BOTAŞ).¹²¹ The first will begin in 2026, the others in 2025. In June 2022, Egypt, Israel, and the EU signed a memorandum of understanding (MOU) to increase Israeli gas exports to Europe, via Egypt's LNG export facilities.¹²² Egypt also almost doubled the share of its gas sold to Europe in 2022, to 71.5%.¹²³ Israel increased its gas exports to Egypt from 4.2 to 5.8 bcm.

In contrast, Algeria, the Middle East's leading gas supplier to Europe, decreased its gas sales to Europe from 50 bcm in 2021 to 44 bcm in 2022. Although Qatar, the world's leading LNG exporter, increased the share of its sales directed towards Europe from 21.2% in 2021 to 24.9% in 2022, it reversed course in 2023, directing only 17.7% of its sales to Europe in the first five months of the year. This is the lowest share in the last five years, and a response to falling European natural gas prices.¹²⁴ Oman has continued to export predominantly to Asia, and Iran to Iraq and Turkey.

There are two main constraints on Middle Eastern countries' ability to quickly increase their gas sales to Europe. First, a large share of their current output is already committed to other buyers, under long-term contracts. The sellers may have a contractual right to redirect some of this gas to other destinations to chase higher profits. But these volumes are limited, and sellers do not want to alienate their current customers. Second, exporters cannot rapidly increase the total volume of gas they have available to sell. As [who] noted in reference to the aforementioned 2022 MOU, "in the short term, neither

¹¹⁹ John Benny, "Oman LNG Signs Supply Deal with Germany's SEFE," *The National*, August 14, 2023, <https://www.thenationalnews.com/business/energy/2023/08/14/oman-lng-signs-lng-supply-deal-with-germanys-sefe/>.

¹²⁰ "Oman LNG Signs Deals with TotalEnergies, Thailand's PTT," *Reuters*, January 18, 2023, <https://www.reuters.com/business/energy/oman-lng-signs-deals-with-totalenergies-thailands-ptt-2023-01-18/>.

¹²¹ Smruthi Nadig, "Oman Signs Agreement to Supply LNG to Turkey from 2025," *Offshore Technology*, January 31, 2023, <https://www.offshore-technology.com/news/oman-signs-agreement-to-supply-lng-to-turkey-from-2025/>.

¹²² Shira Rubin, "Israel and Egypt Sign Gas Export Deal as Europe Seeks Russia Alternative," *The Washington Post*, June 15, 2022, <https://www.washingtonpost.com/world/2022/06/15/israel-gas-europe-export-turkey/>.

¹²³ Tom Pepper, "EU Seeks More Egyptian LNG Despite Demand Concerns," *Energy Intelligence*, February 13, 2023, <https://www.energyintel.com/00000186-4c68-d8f6-a7d7-eeeac5620000>.

¹²⁴ Walid Ahmed and Verity Ratcliffe, "Qatari LNG Shipments to Europe Drop in 2023 as Gas Prices Slump," *Bloomberg*, June 1, 2023, <https://www.bloomberg.com/news/articles/2023-06-01/qatari-lng-shipments-to-europe-drop-in-2023-as-gas-prices-slump>.

Israel nor Egypt have much spare capacity to send a lot more to Europe amid growing domestic demand.”¹²⁵

It is also unlikely that most Middle Eastern exporters will dramatically increase their sales to Europe in the medium or long-term. Few of them have the ability to significantly increase their domestic gas production, especially at a rate that surpasses rising domestic demand. One exception is Qatar, which “last year approved expansion projects that will boost its LNG output by 64% to 126 million tons per year by 2027.”¹²⁶ Some of this gas will be used to fulfil the German contract, mentioned above.¹²⁷ Although on a much smaller scale, Israel also aims to expand its exports over the next five years by increasing production from its Leviathan and Karish fields and building a third pipeline to Egypt to accommodate these flows.¹²⁸

In contrast, Algeria only expects to increase its gas production by approximately five bcm over the next five years, and domestic demand will likely consume this additional output.¹²⁹ Egypt faces a similar dilemma, with domestic demand rising, as output from its prolific Zohr field declines due to water intrusion.¹³⁰ Iran’s capacity to maintain, let alone increase, its current production, is hobbled by international sanctions

¹²⁵ Dov Lieber and Chao Deng, “EU Signs Gas Deal with Israel, Egypt in Bid to Wean Itself off Russian Supplies,” *The Wall Street Journal*, June 15, 2022, <https://www.wsj.com/articles/eu-signs-gas-deal-with-israel-egypt-in-bid-to-wean-itself-off-russian-supplies-11655299886>.

¹²⁶ “Qatar Expects Record Volume of LNG Offtake Signings This Year,” *Reuters*, July 11, 2023, <https://www.reuters.com/business/energy/qatar-expects-record-volume-lng-offtake-signings-this-year-2023-07-11/>.

¹²⁷ Mills and El Dahan, “Germany to Get New Qatari Gas Flows.”

¹²⁸ “COP27: Israel Says Big Boost in Gas Supply to Europe Will Take Years,” *Reuters*, November 11, 2022, <https://www.reuters.com/business/cop/cop27-israel-says-big-boost-gas-supply-europe-will-take-years-2022-11-11/>; “Leviathan Partners in Israel to Invest \$568 Million in Third Gas Pipeline,” *Reuters*, July 2, 2023, <https://www.reuters.com/business/energy/leviathan-partners-israel-invest-568-million-3rd-gas-pipeline-2023-07-02/>.

¹²⁹ “Algerian Pipeline Gas Flows to Southern Europe Remain Robust in 2023,” *S&P Global*, May 22, 2023, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/natural-gas/052223-algerian-pipeline-gas-flows-to-southern-europe-remain-robust-in-2023>; Intissar Fakir, “Given Capacity Constraints, Algeria is No Quick Fix for Europe’s Russian Gas Concerns,” Middle East Institute, March 8, 2022, <https://www.mei.edu/publications/given-capacity-constraints-algeria-no-quick-fix-europes-russian-gas-concerns>.

¹³⁰ Abdel Latif Wahba and Anna Shiryaevskaya, “Egypt Plans to Resume LNG Exports in Autumn, Minister Says,” *Bloomberg*, July 19, 2023, <https://www.bloomberg.com/news/articles/2023-07-19/egypt-plans-to-resume-lng-exports-in-autumn-minister-says>.

against investments in the country's energy industry.¹³¹ Libya's ongoing conflict continues to constrain its ability to increase gas production and exports

Even the Middle Eastern countries that expect to increase their future gas exports (Qatar and Israel) may choose not to direct their additional output to Europe. The EU member states' plans to quickly reduce fossil fuel consumption—accelerated by the war in Ukraine—make them unattractive customers for gas exporters, who prefer to sign long-term (15–20 year) contracts in order to ensure a sustained market for the gas that is produced from extremely expensive new development projects. For similar reasons, Europe's gas crisis is unlikely to stimulate the construction of major new international gas pipelines in the region. These include the much-touted EastMed project, which has lost momentum, with the United States pulling its support this January,¹³² and the Trans-Saharan pipeline, which aims to run from Nigeria to Algeria, via Niger.

Instead, Middle Eastern gas exporters will continue to prioritize Asian customers, whose gas demand is expected to persist or grow in coming decades. Since late 2022, exporters have established numerous long-term contracts with Asian buyers. The largest were two massive deals between Qatar and Chinese national oil companies (Sinopec and CNPC), each for 4 million tons of LNG per year, for 27 years. Each company also received a 5% equity stake in Qatar's North Field East expansion project.¹³³ Qatar also signed a deal with Bangladesh,¹³⁴ and Oman signed deals with Japanese,¹³⁵ Thai,¹³⁶ and Bangladeshi buyers.¹³⁷

¹³¹ Umud Shokri, "Iran Has a Long Way to Go to Export Natural Gas to Europe," *Middle East Monitor*, March 22, 2022, <https://www.middleeastmonitor.com/20220322-iran-has-a-long-way-to-go-to-export-natural-gas-to-europe/>; Patrick Sykes, "Iran Revives LNG Export Plan as World Scrambles for Natural Gas," *Bloomberg*, March 15, 2022, <https://www.bloomberg.com/news/articles/2022-03-15/iran-revives-lng-export-plan-as-world-scrambles-for-natural-gas>;

¹³² "Rethinking Gas Diplomacy in the Eastern Mediterranean."

¹³³ Erica Downs, Robin Mills, and Shangyou Nie, "Unpacking the Recent China-Qatar LNG Deals," *Center on Global Energy Policy*, Columbia SIPA, July 10, 2023, <https://www.energypolicy.columbia.edu/unpacking-the-recent-china-qatar-lng-deals/>.

¹³⁴ Andrew Mills, "QatarEnergy and PetroBangla Sign 15-year LNG Supply Deal, CEO says," *Reuters*, June 1, 2023, <https://www.reuters.com/business/energy/qatarenergy-petrobangla-sign-15-year-lng-supply-deal-ceo-says-2023-06-01/>.

¹³⁵ "Oman LNG Pens Supply Deal with Japan's Jera," *LNG Prime*, December 27, 2022, <https://lngprime.com/asia/oman-lng-pens-supply-deal-with-japans-jera/69694/>.

¹³⁶ "Oman LNG Signs Deals with TotalEnergies, Thailand's PTT."

¹³⁷ "Bangladesh Signs New Long-term LNG Deal with Oman," *Middle East Monitor*, June 20, 2023, <https://www.middleeastmonitor.com/20230620-bangladesh-signs-new-long-term-lng-deal-with-oman/>.

Given the modest increase in Middle Eastern gas exports to Europe so far, and the likelihood that this pattern will persist, the war in Ukraine is also unlikely to prompt any shift in relations between Europe and Middle Eastern gas exporters, with the possible exception of Qatar—and even this shift will be temporary, as Europe attempts to reduce fossil fuel consumption. For the same reason, the war will not weaken relations between these gas exporters and China.

c. Importers experienced some economic pain

The rise in natural gas prices in 2021–2022 caused significant economic pain for Turkey, which imports 99% of its natural gas: approximately 49 bcm in 2022. Rising gas prices created a balance of payments problem. The country's severe financial crisis exacerbated this problem by causing the lira to devalue, thereby increasing import costs for all resources priced in dollars, including gas. The state's expenses also rose dramatically, as Turkey's state-owned natural gas company, BOTAŞ, is legally required to subsidize households' and businesses' electricity consumption. BOTAŞ was nonetheless compelled to raise household's electricity prices by 174% in 2022, businesses' by 277%, and large industries' by 379%, while maintaining subsidies. These price hikes exacerbated inflation and intensified popular suffering. To contain the energy crisis, in late 2022, Turkey appealed to Russia—its leading natural gas supplier—to lower gas prices, allow Turkey to delay gas payments, and accept payment for a share of its gas in rubles, in order to reduce the drain on Turkey's dollar reserves.¹³⁸ Russia agreed to the ruble settlement and to defer payments until 2024.¹³⁹

A much smaller importer, Tunisia, consumes only five bcm of gas annually and some of this is produced from domestic fields. However, Tunisia uses gas to generate 97% of its electricity,¹⁴⁰ so rising gas prices significantly increase the state's energy bills. In April 2022, the Tunisian government announced that it would be raising the price

¹³⁸ Agata Łoskot-Strachota and Adam Michalski, "Turkey's Dream of a Hub, Ankara's Wartime Gas Policy," OSW Commentary, No. 497, Center for Eastern Studies, March 10, 2023, <https://www.osw.waw.pl/en/publikacje/osw-commentary/2023-03-10/turkeys-dream-a-hub-ankaras-wartime-gas-policy>.

¹³⁹ "Russia Agrees to Deferred Gas Payments, Turkish Energy Minister Says," *Reuters*, May 3, 2023, <https://www.reuters.com/business/energy/russia-agrees-deferred-gas-payments-turkish-energy-minister-says-2023-05-03/>.

¹⁴⁰ "Tunisia," IEA country profile, <https://www.iea.org/countries/tunisia>.

of electricity by 3% each month, until the end of the year, spreading this economic pain to the population.¹⁴¹

2. Anticipated gas-related consequences that *have not* occurred:

a. *Little additional investment in gas projects*

One way for European countries to increase their Middle East gas imports would be to encourage energy companies to invest in gas exploration and LNG infrastructure projects in countries that would otherwise fail to significantly increase their gas exports. Building on the analysis above, the leading targets for such investment would be Algeria, Egypt, and Libya.

Some European actors have recognized this opportunity. The 2022 Egypt–Israel–EU memorandum of understanding (MOU) called on European companies “to help increase the production of natural gas in the eastern Mediterranean by competing for exploration and production projects.”¹⁴² In January 2023, the Italian oil company, ENI, announced that it would invest \$8 billion in two Libyan gas fields: the “largest single investment in Libya’s energy sector in more than two decades.”¹⁴³ However, no foreign investments on similar scales have been announced for Algeria or Egypt. Additionally, the European Investment Bank and European Bank for Reconstruction and Development have announced that they will no longer invest in oil and gas projects, limiting Middle Eastern countries’ access to concessionary loans.

Were it not for international sanctions, Iran could also be an appealing target for commercial investment in gas projects, as the country possesses the world’s second largest gas reserves, after Russia. However, as in the oil sector, there is no evidence that the desire to develop these resources has led European countries to push for the modification of international sanctions.

¹⁴¹ Tarek Amara, “Tunisia Raises Domestic Electricity and Gas Prices,” *Reuters*, May 13, 2022, <https://www.reuters.com/business/energy/tunisia-raises-domestic-electricity-gas-prices-2022-05-13/>.

¹⁴² Lieber and Deng, “EU Signs Gas Deal With Israel, Egypt.”

¹⁴³ “Italy, Libya Sign \$8b Gas Deal as PM Meloni Visits Tripoli,” *El País*, January 1, 2023, <https://english.elpais.com/international/2023-01-28/italy-libya-sign-8b-gas-deal-as-pm-meloni-visits-tripoli.html>.

b. *Turkey has not become a gas hub*

In October 2022, Russian President Vladimir Putin suggested that Turkey could become a regional gas hub, with its Black Sea pipelines replacing Nord Stream 1 as conduits of Russian gas to Europe.¹⁴⁴ TurkStream's 31.5 bcm capacity is not fully used, and the Kremlin suggested that additional Black Sea pipelines could be constructed. Turkish President Recep Tayyip Erdogan quickly embraced the idea.¹⁴⁵ However, there are numerous obstacles to realizing this vision. First, additional pipelines would have to be constructed in a war zone. Second, the United States is actively opposed to the idea, as it would strengthen Russia's ability to export gas, expanding its war chest. Third, European countries have no interest in reviving their purchases of Russian gas while the war in Ukraine continues, and appear to have progressively less interest in restoring them, even after the war concludes.¹⁴⁶ The plan's viability is therefore low, although Putin and Erdogan continue to assert that it is still on the table.¹⁴⁷

Turkey's prospects for becoming a transit hub for Eastern Mediterranean gas are also increasingly limited. As noted above, enthusiasm for the EastMed pipeline has dimmed. Meanwhile, the country's ongoing dispute with Cyprus limits the viability of a shorter pipeline, from Israel's gas fields to Turkey.

Turkey's best future prospect for increasing gas transit is an expansion the Trans-Anatolian Pipeline (TANAP). Since 2018, TANAP has carried Azerbaijani gas from the Georgia–Turkish border through the Bosphorus. From there, gas flows north to the Balkans or west across Greece to Italy, in the Trans-Adriatic Pipeline (TAP). In October 2022, Turkey and Azerbaijan announced that they would double TANAP's capacity from

¹⁴⁴ "Kremlin Weighs Boosting Turkish Gas Links to Replace Nord Stream," *Bloomberg*, October 12, 2022, <https://www.bloomberg.com/news/articles/2022-10-12/kremlin-mulls-boosting-turkish-gas-links-to-replace-nord-stream>.

¹⁴⁵ Beril Akman and Firat Kozok, "Erdogan Welcomes Putin's Idea to Make Turkey a Gas Hub," *Bloomberg*, October 14, 2022, <https://www.bloomberg.com/news/articles/2022-10-14/erdogan-welcomes-putin-s-idea-to-make-turkey-a-natural-gas-hub>.

¹⁴⁶ Yevgenia Gaber, "Turkey Can Become an Energy Hub—But Not By Going All-in on Russian Gas," Atlantic Council, December 7, 2022, <https://www.atlanticcouncil.org/blogs/turkeysource/turkey-can-become-an-energy-hub-but-not-by-going-all-in-on-russian-gas/>.

¹⁴⁷ "Russia Plan for Turkey's Gas Hub Is Still on Agenda, Putin Says," *Bloomberg*, July 29, 2023, <https://www.bloomberg.com/news/articles/2023-07-29/russia-plan-for-turkey-s-gas-hub-is-still-on-agenda-putin-says>.

16 bcm to 32 bcm.¹⁴⁸ However, Azerbaijan's ability to increase its exports to this level is uncertain.¹⁴⁹

c. Competition with Russia for Asian gas market has not intensified

Russia would like to shift the gas exports that it was previously sending to Europe to Asia: in particular, to China. However, there are currently no pipelines from Russia's prolific western gas fields to China, and the capacity of Russia's Arctic LNG terminals (Yamal and Arctic LNG 2) is limited. Russia is attempting to persuade China to construct a second Power of Siberia pipeline from its Yamal gas fields to northeastern China, through Mongolia. However, China has not embraced the project, in part because it has already secured sufficient supplies from other exporters.¹⁵⁰ Russia is also likely to have difficulty expanding its Arctic LNG infrastructure, due to the limitations on its access to western technologies and capital imposed by international sanctions. Russia is attempting to develop indigenous LNG train technology, but its attempts to deploy its "Arctic Cascade" system in the Arctic LNG2 project ran into difficulties. It is also attempting to purchase systems from other countries it continues to trade with, including China and UAE.¹⁵¹ But it is unclear when additional export terminals could become operational. It is unlikely that Russia's former exports to Europe will compete with Middle Eastern gas in Asia for at least the next five years.

D. WHEAT: CRISIS AVERTED?

This section of the war's impact on the Middle East through agricultural commodities examines wheat. Ukraine and Russia are major exporters and Middle Eastern countries are major importers, including from Russia and Ukraine. High bread

¹⁴⁸ "Türkiye, Azerbaijan to Double TANAP Gas Pipeline Capacity," *Daily Sabah*, October 7, 2022, <https://www.dailysabah.com/business/energy/turkiye-azerbaijan-to-double-tanap-gas-pipeline-capacity>.

¹⁴⁹ "Azerbaijan's Gas Exports to the EU Face Challenges," *Economist Intelligence*, July 10, 2023, <https://www.eiu.com/n/azerbaijans-gas-exports-to-the-eu-face-challenges/>.

¹⁵⁰ "Explainer: Does China Need More Russian Gas Via the Power-of-Siberia 2 Pipeline?" *Reuters*, March 22, 2023, <https://www.reuters.com/business/energy/does-china-need-more-russian-gas-via-power-of-siberia-2-pipeline-2023-03-22/>; "Power of Siberia: China Keeps Putin Waiting on Gas Pipeline," *Financial Times*, May 24, 2023, <https://www.ft.com/content/541f8bcb-118a-419e-869f-3273fcc9ce92>.

¹⁵¹ Malte Humpert, "Russia's Novatek to Use Closer Ties with UAE to Secure Key Technology for Arctic LNG Project," *High North News*, October 17, 2022, <https://www.highnorthnews.com/en/russias-novatek-use-closer-ties-uae-secure-key-technology-arctic-lng-project>; Heiner Kubny, "Chinese Technology to Power Russian Arctic LNG Plant," *Polar Journal*, June 2, 2023, <https://polarjournal.ch/en/2023/06/02/chinese-technology-to-power-russian-arctic-lng-plant/>.

prices have also historically been associated with anti-government activities in the region, including some of the protests that initiated the Arab Spring. When the war in Ukraine began, many analysts and policymakers anticipated that it would trigger a food crisis that would provoke similar popular uprisings. However, the relatively short duration of the spike in agricultural commodity prices, coupled with effective government responses and international lending and aid, minimized negative impacts.

In contrast to the oil and gas sections, this section analyzes MENA countries as a group, rather than dividing them into commodity importers and exporters.

1. Actual wheat-related consequences of the war in Ukraine

a. Volumes and destinations of Ukraine and Russia's Middle Eastern wheat exports evolved

Before the war began, Russia and Ukraine were leading wheat exporters. Russia was ranked number one, exporting 39.1 million metric tons (MMT) of wheat in trade year (TY) 2020/21, the last full year before the war.¹⁵² Ukraine, ranked sixth, exported 16.9 MMT that year.¹⁵³ Much of this wheat was shipped via Black Sea ports: over 95% of Ukraine's grain exports and 70% of Russia's.¹⁵⁴

MENA countries were large purchasers of both exporters' wheat because it was geographically close and historically lower-priced than European and American wheat.¹⁵⁵ In 2021, Russia sent 57% of its wheat exports to MENA countries. The leading recipients, by far, were Turkey, which purchased 24.7% of Russia's exports, and Egypt, which purchased 21.3%. No other MENA state purchased more than 3% of Russia's wheat.¹⁵⁶ Ukraine sent 44.9% of its wheat exports to MENA countries in market year

¹⁵² Based on United States Department of Agriculture (USDA) data on "World wheat, flour, and products trade." "Grain: World Markets and Trade," Global Market Analysis, USDA Foreign Agricultural Service (FAS), August 2023. The USDA measures wheat exports in "trade years," which run from July 1–June 30.

¹⁵³ In USDA rankings, the EU is counted as a single body.

¹⁵⁴ Polina Devitt and Vladimir Soldatkin, "Factbox: Significance of Black Sea Ports for Russian Commodities Exports," *Reuters*, July 20, 2023, <https://www.reuters.com/markets/commodities/significance-black-sea-ports-russian-commodities-exports-2023-07-20/>.

¹⁵⁵ Rachel Trego, "Russia Grain and Oilseed Exports Expand," USDA FAS, May 2023.

¹⁵⁶ Calculated from United Nations Comtrade data on "Wheat and meslin" exports, <https://comtradeplus.un.org/>.

(MY) 2020/21.¹⁵⁷ The region includes seven of the top ten importers of Ukrainian wheat: Egypt (#2, 14.8% of Ukraine's exports), Morocco (#5, 6.5%), Turkey (#6, 4.8%), Yemen (#6, 4.8%), Tunisia (#8, 4.2%), Libya (#9, 3.9%), and Lebanon (#10, 3.8%).

Many MENA countries were highly dependent on wheat imports from Russia and Ukraine. The most dependent state was Turkey, which obtained more than 85% of its wheat imports from the two countries. Other highly dependent states included Lebanon (75%), Egypt (almost 70%), and Libya (more than 60%). Other MENA countries that imported more than a third of their wheat from Russia and Ukraine included (in descending order of dependence) Saudi Arabia, Oman, Israel, Yemen, Tunisia, Iran, and Jordan. Approximately half of these countries acquired a larger share of their wheat imports from Ukraine than Russia: Tunisia, Lebanon, Libya, Oman, Yemen, and Saudi Arabia. Although Egypt is not among this group, as the world's largest wheat importer, it also purchased a very large volume from Ukraine before the war.

Russia's wheat exports have not been significantly impeded by international sanctions. In contrast to the energy sector, the United States and EU have not sanctioned Russia's agricultural exports to avoid a global food crisis. Some of their sanctions have indirectly affected Russian food production and exports. Most international agricultural companies have pulled out of Russia in response to sanctions, shipments of agricultural machinery to the country have slowed, and Russian banks have been kicked off the SWIFT financial messaging service making it more difficult to pay for Russian products.¹⁵⁸ However, contrary to the claims of Russian president Vladimir Putin, these effects have been mild.¹⁵⁹

¹⁵⁷ Denys Sobolev, "Grain and Feed Update, Ukraine," USDA FAS Wheat Outlook, November 2022. Data on "LLCWheat Exports from Ukraine by Destination (HS Code 1001)." This figure was calculated by adding individual MENA countries' shares. For Ukrainian wheat, market years run from July 1–June 30.

¹⁵⁸ Sybille De La Hamaide and Gus Trompiz, "Explainer: Have Western Sanctions on Russia Impacted its Wheat Exports?" *Reuters*, May 11, 2023, <https://www.reuters.com/markets/commodities/have-western-sanctions-russia-impacted-its-wheat-exports-2023-05-11/>; Aine Quinn and Megan Durisin, "What End of Ukraine Grain Export Deal Means for the World," *Bloomberg*, July 19, 2023, <https://www.bloomberg.com/news/articles/2023-07-19/what-end-of-ukraine-grain-export-deal-means-for-the-world>.

¹⁵⁹ "Russia's War on Ukraine's Grain and Global Food Supply, in Five Myths," US Department of State, August 17, 2023, <https://www.state.gov/russias-war-on-ukraines-grain-and-global-food-supply-in-five-myths/>.

Russia's blockade of Ukraine's Black Sea ports, in contrast, dramatically affected regional wheat exports. After Russia initiated the blockade at the beginning of the war, its own wheat exports continued, albeit at a somewhat lower level. However, Ukraine's exports halted almost entirely from March to July 2022.¹⁶⁰ To restore these exports and prevent a global food crisis, in mid-July, Russia, Ukraine, Turkey, and the United Nations established the Black Sea Grain Initiative (BSGI), which allowed Ukraine to export from three Black Sea ports. The BSGI did not fully restore Ukraine's seaborne exports; the country shipped an average of 3 MMT of agricultural products/month from Black Sea ports between September 2022 and March 2023, in comparison to the 6 MMT it had exported through the Black Sea before the war started. Russia also periodically attacked Ukraine's energy grid, preventing grains from being loaded onto ships.¹⁶¹ By spring 2023, Russia was obstructing Ukrainian shipments by slowing the pace of the cargo inspections required by the BSGI. Inspected volumes fell from an average of approximately 3.5 MMT/month from September 2022 to March 2023, to an average of less than 2 MMT in April through June.¹⁶²

In mid-July 2023, Russia withdrew from the BSGI. This has compelled Ukraine to rely on alternative export routes: shipping through ports on the Danube River and transporting over land, by rail and truck to Europe. These routes are less attractive than shipping through the Black Sea, as the Danube ports are smaller and have reached capacity; the rail gauges of Ukrainian and European railways differ, forcing crops to be transferred to different rail cars at the border; and EU farmers are unhappy about cheaper

¹⁶⁰ Anders Åslund, "Russia's War on Global Food Security," Atlantic Council Issue Brief, June 1, 2022, <https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/russias-war-on-global-food-security/>; Susanna Savage, Meredith Lee Hill, and Sarah Anne Aarup, "Who's Feeding the World? We Are, Say Both Ukraine and Russia, as War Rages On," Politico, February 20, 2023, <https://www.politico.eu/article/food-world-hunger-russia-ukraine-war-grain-export-black-sea/>; Denys Sobolev, "Grain and Feed Update, Ukraine," USDA FAS Wheat Outlook, January 2023.

¹⁶¹ Edward Wong and Ana Swanson, "How Russia's War on Ukraine Is Worsening Global Starvation," *The New York Times*, January 2, 2023, <https://www.nytimes.com/2023/01/02/us/politics/russia-ukraine-food-crisis.html>.

¹⁶² "One Year of the Black Sea Initiative: Key Facts and Figures," United Nations, July 10, 2023, <https://news.un.org/en/story/2023/07/1138532>; Jared Malsin, "Russia Says It Is Pulling Out of Ukraine Grain Deal," *The Wall Street Journal*, July 17, 2023, https://www.wsj.com/articles/russia-says-it-is-pulling-out-of-ukraine-grain-deal-68190d1?mod=series_foodsecurity.

Ukrainian wheat imports flooding their markets and competing with their crops.¹⁶³ Nonetheless, Ukraine had been using these routes extensively since mid-2022. Between May 2022 and July 2023, it exported more grain through them (41 MMT) than through the BSGI. EU officials estimate that up to 5–5.5 MMT/month of grain can be exported along these alternative routes. However, the largest volume that has been achieved to date was 4.2 MMT, in November 2022. In June 2023, only 3 MMT was exported along these routes.¹⁶⁴

Even before the BSGI's termination, Ukraine's wheat exports had started to fall. They had actually risen between TY2020/21 (the last full trade year before the war) and TY2021/22, from 16.9 to 18.8 MMT, and only dropped to 16.8 MMT in TY2022/23. However, the relatively high export volume in TY2022/23 included residual stocks that had not been shipped during the previous trade year, due to the Russian blockade. Now that these stocks are exhausted, Ukraine's exports are projected to drop dramatically, to only 10.5 MMT in TY2023/24.¹⁶⁵ The termination of the BSGI will contribute to decline, but so will falling Ukrainian wheat production: from 33 MMT in MY2021/22 to 21.5 MMT in MY 2022/23.¹⁶⁶ Causes of the decline include Russia's occupation of some of Ukraine's leading agricultural regions; Russian attacks on Ukrainian farms, irrigation infrastructure, and storage facilities; labor shortages as more farmers enlist in the Ukrainian armed forces; less access to diesel because of Russian supply cutoffs; and higher input costs for supplies like seed and fertilizer. All of these factors, along with the prospect of blocked Black Sea transportation, discourage ambitious planting and reduce crop yields.¹⁶⁷

¹⁶³ Megan Durisin, Andra Timu, and Konrad Krasuski, "The Race Against Food Inflation Starts on Rusty Soviet Railway Lines," *Bloomberg*, May 29, 2022, <https://www.bloomberg.com/news/features/2022-05-29/food-inflation-news-danube-river-could-play-large-part-to-secure-vital-shipment>; Quinn and Durisin, "What End of Ukraine Grain Export Deal Means for the World."

¹⁶⁴ Jared Malsin, "U.S. in Talks to Develop Ukraine Grain Export Routes," *The Wall Street Journal*, August 15, 2023, <https://www.wsj.com/articles/u-s-in-talks-to-develop-ukraine-grain-export-routes-3e597c3>.

¹⁶⁵ Denys Sobolev, "Grain and Feed Annual, Ukraine," USDA FAS Wheat Outlook, April 2023; Bryn Swearingen and Angelica Williams, "Feature Article: Changes in Ukraine Wheat and Corn Export Patterns Since the Start of the Ukraine-Russia War" in "Wheat Outlook: January 2023," USDA, January 17, 2023.

¹⁶⁶ "Grain: World Markets and Trade," August 2023.

¹⁶⁷ Max Bearak, "Ukraine's Wheat Harvest, Which Feeds the World, Can't Leave the Country," *The Washington Post*, April 7, 2022, <https://www.washingtonpost.com/world/2022/04/07/ukraine-wheat-crop-global-shortage/>; Swearingen and Williams, "Feature Article: Changes in Ukraine Wheat and Corn Export."

In contrast, the war has not reduced Russia's wheat exports. Although they fell from 39.1 MMT in TY2020/21 to 33 MMT in TY2021/22, they soared to a record 46 MMT in TY2022/23 due to an exceptional crop and Russia relaxing its wheat export quotas. In TY2023/24, they are projected to be even higher: 48 MMT.¹⁶⁸ This expansion will compensate for the decline in Ukrainian wheat exports.

Focusing on the MENA region, Russia's wheat exports to the Middle East (including Turkey, but not North Africa) have risen some since the war started, from approximately 15 MMT between July 2021 and April 2022 to approximately 16.5 MMT between July 2022 and April 2023. Russia's exports to Africa as a whole also rose during that time period, although precise figures for North Africa are unavailable.¹⁶⁹ The leading MENA recipients of seaborne exports of Russian wheat in MY2022/23 were Turkey, Egypt, Iran, Saudi Arabia, and Algeria.¹⁷⁰

Ukraine's wheat exports to the Middle East fell after the war began. Between July 2022 (after the BSGI came into effect) and December 2022, its wheat exports to the Middle East (including Turkey, but not North Africa) declined by 42%, relative to the same six-month period in 2021.¹⁷¹ The largest drop was to Egypt; it imported 87% less Ukrainian wheat in the second half of 2022 than the second half of 2021. Libya imported 88% less, and Lebanon 30% less. These were significant drops, as Lebanon imported approximately 63% of its wheat from Ukraine in 2021 and Libya approximately 45%. Although Egypt imported only 30% of its wheat from Ukraine in 2021. However, because the total volume of its wheat imports is so large, losing 87% of that was also a substantial blow.

In contrast, Turkey's imports of Ukrainian wheat declined only a little from 2021 to 2022.¹⁷² Between July and December 2022, Turkey was the second largest importer of Ukrainian wheat, after the EU, purchasing 1.7 MMT.¹⁷³ A large share of these imports eventually make their way to other MENA states; Turkey reexports 70% of its wheat

¹⁶⁸ "Grain: World Markets and Trade," August 2023; Trego, "Russia Grain and Oilseed Exports Expand."

¹⁶⁹ Russia stopped providing export data in January 2023.

¹⁷⁰ Trego, "Russia Grain and Oilseed Exports Expand."

¹⁷¹ Sobolev, "Grain and Feed Annual, Ukraine."

¹⁷² Swearingen and Williams, "Feature Article: Changes in Ukraine Wheat and Corn Export."

¹⁷³ Sobolev, "Grain and Feed Annual, Ukraine."

imports as processed flour and pasta. Iraq, Syria, and Yemen are major purchasers of these products.¹⁷⁴

Some of the Ukrainian wheat that has been exported to Europe since the war began has also likely continued to MENA countries, either in its original commodity form or as refined products. Romania, for example, is believed to have transshipped 1.4 MMT of Ukrainian wheat to other destinations in the second half of 2022 alone.¹⁷⁵ The decline in Ukrainian wheat transfers to MENA countries was therefore likely smaller than the statistics above suggest.

b. Record wheat prices degraded government finances

Rather than generating absolute shortages, the war's most significant impacts on MENA countries, through wheat, arose from high prices. Wheat prices were already rising globally, well before the war began. In the first eight months of 2020, the price of wheat was fairly stable, at approximately \$174/metric ton.¹⁷⁶ It then started rising and, by February 2022, had doubled to almost \$350/metric ton. It continued to rise after the war started, eventually peaking at almost \$450/metric ton in May 2022. This increase was caused by the temporary shutoff of Ukraine's wheat exports, uncertainty about future Ukrainian and Russian wheat and fertilizer exports, market speculation, and rising agricultural input costs. Increasing oil prices raised the cost of diesel, which is used to power agricultural machinery. The cost of fertilizers, many of which are manufactured using natural gas as a feedstock, rose with natural gas prices. Gas prices became so high that some European plants halted production, reducing fertilizer supplies and driving up prices even more. Supplies of ammonia, another fertilizer feedstock, also fell when the war shut down a pipeline from Russia to the Ukrainian port of Odessa. Russia was responsible for approximately 12% of global ammonia exports when the war started, and these plunged by 76% in first nine months of 2022, relative to same period in 2021.¹⁷⁷

¹⁷⁴ Kubilay Karabina, "Grain and Feed Annual, Turkey," USDA FAS Wheat Outlook, April 6, 2023.

¹⁷⁵ Sobolev, "Grain and Feed Annual, Ukraine."

¹⁷⁶ Price data from the IMF Primary Commodity Price System dataset, <https://data.imf.org/?sk=471dddf8-d8a7-499a-81ba-5b332c01f8b9&sid=1547558078595>. Price is for "Wheat, No. 1 Hard Red Winter, ordinary protein, Kansas City."

¹⁷⁷ Emiko Terazono, "Russian Fertiliser Export Revenue Surged 70% in 2022 as Prices Jumped," *Financial Times*, January 13, 2023, <https://www.ft.com/content/c10bcdb9-d01d-4a01-a4a1-38736e263a1e>. Exports of other Russian fertilizers jumped in 2022.

However, like oil and natural gas prices, the price of wheat rapidly fell: to less than \$325/metric ton in July 2022. After a small bump in autumn, it fell back below \$325/metric ton in January 2023. By June 2023, it had declined to \$282/metric ton, a level last seen in September 2021.¹⁷⁸ The price rose briefly in mid-July, when Russia withdrew from the BSGI. However, by August, it was lower than it had been before Russia's withdrawal.¹⁷⁹ The expectation that Ukraine will continue to use alternative transportation routes, coupled with abundant harvests elsewhere, calmed the market.¹⁸⁰ Fertilizer prices also peaked early in the war, then fell with natural gas prices.¹⁸¹

Rising wheat prices contributed to increasing food costs in MENA countries, which were the leading driver of inflation in 2021, outside of the GCC countries.¹⁸² Regional food security also increased, with the number of food insecure people in North Africa rising by 24.7% between 2021 and 2022.¹⁸³ Among North African countries, Egypt had the highest level of food insecurity (19.7% of its population) and the largest number of food insecure people (21.4 million). Morocco and Tunisia had the smallest shares (13.5% and 12.9%), but Tunisia's rate almost doubled from 2021 to 2022, compounding the country's ongoing economic crisis.¹⁸⁴ Lebanon and Yemen were also hit particularly hard by war-induced price jumps and the interruption of Ukrainian grain shipments. Lebanon's grain silos were destroyed by the 2021 explosion at the port of Beirut and it had the world's highest rate of food inflation when the war began.¹⁸⁵

¹⁷⁸ Price data from the IMF Primary Commodity Price System dataset.

¹⁷⁹ Peter Coy, "The Great Wheat Price Surge That Sputtered," *The New York Times*, August 21, 2023, <https://www.nytimes.com/2023/08/21/opinion/russia-ukraine-wheat-prices.html>.

¹⁸⁰ Swearingen and Williams, "Feature Article: Changes in Ukraine Wheat and Corn Export."

¹⁸¹ Terazono, "Russian Fertiliser Export Revenue Surged."

¹⁸² Jihad Azour, Jeta Menkulasi, Rodrigo Garcia-Verdu, "Middle East and North Africa's Commodity Importers Hit by Higher Prices," IMF Blog, May 24, 2022, <https://www.imf.org/en/Blogs/Articles/2022/05/24/blog-mena-commodity-importers-hit-by-higher-prices>.

¹⁸³ Swearingen and Williams, "Feature Article: Changes in Ukraine Wheat and Corn Export."

¹⁸⁴ David J. Lynch, "Tunisia Among Countries Seeing Major Economic Consequences from War in Ukraine," *The Washington Post*, April 14, 2022, <https://www.washingtonpost.com/business/2022/04/14/ukraine-war-economic-impact-tunisia/>.

¹⁸⁵ Elisa Miolene and Jared Malsin, "For Stricken Lebanon, Shipments of Ukrainian Grain Might Not Be Enough," *The Wall Street Journal*, August 4, 2022, <https://www.wsj.com/articles/for-stricken-lebanon-shipments-of-ukrainian-grain-might-not-be-enough-11659618145>.

Yemen's ongoing civil war has made it highly dependent on foreign aid from the World Food Program, which purchased much of its wheat from Ukraine.¹⁸⁶

High wheat prices also degraded government finances, as many MENA governments generously subsidize flour and bread, when the costs of those products jumped. In Egypt, the bill for bread subsidies was expected reach 90 billion Egyptian pounds (\$4.9 billion) in 2023, compared to 87 billion in 2022 which was already an increase from previous years.¹⁸⁷ The depreciation of regional currencies that were not tied to the U.S. dollar exacerbated this problem by effectively increasing the cost of all imports priced in U.S. dollars. The governments of major oil and gas-producing states, most of whose currencies are tied to the dollar, did not face the latter problem and were able to cover their rising food import costs with the windfall revenue they received from temporarily high oil and gas prices.¹⁸⁸ In contrast, other regional governments confronted intensifying balance of payments problems. It was also difficult to finance their current account deficits with commercial borrowing, due to increasingly tight global monetary policies and these countries' poor credit ratings.¹⁸⁹

Consequently, many MENA governments turned to non-commercial lenders, like the IMF and World Bank. Egypt sought \$3 billion in loans from the IMF and received a \$500 million World Bank loan in June 2022 to "support poor and vulnerable households' access to bread."¹⁹⁰ The same month, Tunisia received a \$130 million World Bank loan to buy grains. Tunisia has also discussed a bailout from the IMF, but talks floundered due to the organization's insistence that the government lift subsidies on basic goods.¹⁹¹ The

¹⁸⁶ Samy Magdy, "UN: First Grain Shipment Departs Ukraine for War-torn Yemen," *AP*, August 30, 2022, <https://apnews.com/article/russia-ukraine-middle-east-united-nations-black-sea-81a6d5e52940412d1c0033958292b8a4>.

¹⁸⁷ Chao Deng and Amira El-Fekki, "Egypt's Bread Crisis Awakens Old Fears of Political Unrest," *The Wall Street Journal*, May 23, 2022, <https://www.wsj.com/articles/egypts-bread-crisis-wheat-supplies-russia-ukrain-warawakens-old-fears-of-political-unrest-11653318765>.

¹⁸⁸ Nadeen Ebrahim, "Why the Food Crisis Sparked by Russia's War Hasn't Hit Gulf States Yet," *CNN Business*, May 2, 2022, <https://www.cnn.com/2022/05/02/business/gcc-food-security-mime-intl/index.html>.

¹⁸⁹ Azour, Menkulasi, and Garcia-Verdu, "Middle East and North Africa's Commodity Importers Hit."

¹⁹⁰ Claire Parker, "5 Countries Hit Hard by the Grain Crisis in Ukraine," *The Washington Post*, June 15, 2022, <https://www.washingtonpost.com/world/2022/06/15/ukraine-war-russia-grain-food-crisis-world-hunger/>.

¹⁹¹ "Tunisia Preparing Alternative IMF Proposal, Official Says," *Reuters*, June 13, 2023, <https://www.reuters.com/world/africa/tunisia-preparing-alternative-imf-proposal-official-says-2023-06-13/>.

World Bank provided Lebanon with a \$150 million grant to supply wheat to the country.¹⁹² The United States has also contributed assistance; in June 2022, it pledged “\$1 billion in new aid to address food security in the Middle East.”¹⁹³ The Gulf states have provided loans to struggling regional governments. Saudi Arabia lent Egypt \$5 billion to shore up its foreign exchange reserves, which had dropped due to rising expenditures on dollar-denominated commodity imports.¹⁹⁴ The Abu Dhabi Exports Office provided Egypt with a \$500 million loan, specifically to fund five years of wheat imports.¹⁹⁵

This international support has moderated the war’s economic negative impacts for the populations of low- and middle-income MENA states, by allowing their governments to maintain flour and bread subsidies. However, this government borrowing will increase countries middle and long-term costs, as interest payments increase and loans eventually come due. They have delayed their economic crises, not averted them.

c. Some countries drew closer to Russia to secure wheat access

The interruption of Ukrainian grain shipments, coupled with the uncertainty generated by international economic sanctions, caused some wheat-importing countries to draw closer to Russia at the beginning of the war. In July 2022, Iran, which had previously purchased only modest amounts of Russian grain, became Russia’s largest wheat importer, buying twice the total volume acquired by Turkey and Egypt that month. Other countries hesitated to trade with Russia, due to fears that expanding international sanctions would interrupt their transactions. Iran, already under sanctions, and a close strategic partner to Russia, had no such qualms.¹⁹⁶

¹⁹² “First Shipment of 33,000 tons of Wheat Helps Rebuild Lebanon’s Stock and Ensure Access to Affordable Bread,” World Bank Press Release, February 11, 2023, <https://www.worldbank.org/en/news/press-release/2023/02/11/first-shipment-of-33-000-tons-of-wheat-helps-rebuild-lebanon-s-stock-and-ensure-access-to-affordable-bread>.

¹⁹³ Parker, “5 Countries Hit Hard.”

¹⁹⁴ Deng and El-Fekki, “Egypt’s Bread Crisis Awakens Old Fears.”

¹⁹⁵ Abdel Latif Wahba, “Egypt Expects to Tap UAE Wheat Financing Deal in January,” *Bloomberg*, August 20, 2023, <https://www.bloomberg.com/news/articles/2023-08-20/egypt-expects-to-tap-500-million-uae-wheat-financing-in-january>.

¹⁹⁶ Benoit Faucon, “Iran and Russia Are Cementing an Alliance with Grain, Drones and Satellites,” *The Wall Street Journal*, August 27, 2020, <https://www.wsj.com/articles/iran-and-russia-are-cementing-an-alliance-with-grain-drones-and-satellites-11661605200>; Ariane Lüthi, “Russia-Iran: How the Wheat Trade is

Egypt, which has restored and increased its purchases of Russian wheat, has drawn closer to the Kremlin, partly to protect its food access.¹⁹⁷ Syria became increasingly dependent on Russian wheat shipments, including supplies stolen from Ukraine, during the war's first year.¹⁹⁸ Turkey and Libya have also increased their purchases of Russian wheat, tightening their economic linkages to the country.¹⁹⁹

Turkey and Egypt's relationships with Russia are nonetheless being strained by its decision to withdraw from the BSGI.²⁰⁰ The BSGI enabled both countries to increase their Ukrainian grain purchases. Turkey especially benefited from the accord; while the BSGI was active, it received the second largest share of Ukrainian seaborne wheat exports, after China.²⁰¹ President Erdogan is attempting to persuade Putin restore the agreement, but with no success so far.

2. Anticipated wheat-related consequences that *have not* occurred:

a. *Absolute supply shortages*

Despite their dependence on Russian and Ukrainian wheat and the interruption in Ukrainian wheat shipments at the war's outset, MENA countries generally did not experience war-induced scarcities of wheat supplies. They were able to quickly replace their Ukrainian imports with wheat from other suppliers. As soon as the war began, Egypt sought deals with numerous other exporters, from India to Paraguay. As discussed above,

Flourishing Despite Sanctions," SwissInfo, July 13, 2023, <https://www.swissinfo.ch/eng/business/russia-and-iran-under-sanctions---daily-bread-from-a-fellow-pariah/48653614>.

¹⁹⁷ Ahmed Elleithy, "Egypt, Russia Find Opportunity in Crisis," *Al-Monitor*, March 3, 2023, <https://www.al-monitor.com/originals/2023/02/egypt-russia-find-opportunity-crisis> ; Evan Hill, Missy Ryan, Siobhán O'Grady, and Samuel Oakford, "Egypt Secretly Planned to Supply Rockets to Russia, Leaked U.S. Document Says," *The Washington Post*, April 10, 2023, <https://www.washingtonpost.com/national-security/2023/04/10/egypt-weapons-russia/>.

¹⁹⁸ Haid Haid, "Wheat and War: How Sanctions are Driving Russia–Syria Cooperation," Chatham House, March 29, 2023, <https://www.chathamhouse.org/2023/03/wheat-and-war-how-sanctions-are-driving-russia-syria-cooperation>.

¹⁹⁹ Jesse Newman and Patrick Thomas, "Facing a Wheat Crisis, Countries Race to Remake an Entire Market on the Fly," *The Wall Street Journal*, May 2, 2022, https://www.wsj.com/articles/ukraine-war-wheat-shortfalls-high-prices-11651503940?mod=article_inline.

²⁰⁰ Malsin, "Russia Says It Is Pulling Out of Ukraine Grain Deal"; Abdel Latif Wahba, "Egypt Criticizes Russia for Ending Ukraine Grain-Export Deal," *Bloomberg*, July 20, 2023, <https://www.bloomberg.com/news/articles/2023-07-20/egypt-in-talks-for-400-million-uae-funding-to-help-it-buy-wheat>.

²⁰¹ Shotaro Tani, Harry Dempsey and Isobel Koshiw, "Grain Exports Back in Russia's Sights in Ukraine War," *Financial Times*, August 9, 2023, <https://www.ft.com/content/86aa6c1d-908b-45b0-96aa-3960e89fa20d>.

some MENA countries also shifted a share of their pre-war purchases from Ukraine to Russia. Others accelerated their domestic harvests to compensate for temporary dislocations.²⁰² This did not mean that MENA countries have entirely avoided wheat shortages since the war began. However, these arose more from longstanding structural economic problems that predated the war in Ukraine, rather than from the conflict itself. The acute food crisis caused by the war was a price issue, not a supply issue.

Looking forward, wheat prices are likely to remain at their current, relatively low levels, or decline further. Russia and Australia's production have been high since the beginning of 2023 and analysts expect that declining Ukrainian production and exports will be offset by productivity gains in the EU and Argentina.²⁰³

b. Political uprisings

Contrary to the fears that the war-induced spike in food prices would provoke a new Arab Spring, anti-government activities have been limited in MENA countries since the conflict began. Approximately 500 people demonstrated in Nasiriya, Iraq, in March 2022, partly to protest high food prices.²⁰⁴ In May, the Iranian government's cuts to state subsidies for flour-based foods provoked protests in multiple cities.²⁰⁵ New sources also report heightened popular tensions related to food access in other MENA states.²⁰⁶ Yet these did not escalate into protests or riots. The relatively brief duration of the wheat price jump, international lending and aid, effective government interventions like the continuation of bread subsidies and cash grants for food purchases, and governments'

²⁰² Deng and El-Fekki, "Egypt's Bread Crisis Awakens Old Fears"; Ahmed Wally, "Decline in Ukraine Wheat Imports Drives Egypt to Diversify its Suppliers," USDA FAS, June 22, 2022.

²⁰³ Food and Agricultural Organization of the United Nations (FAO), *Food Outlook: Biennial Report on Global Food Markets*, Food Outlook, Rome, June 2023, <https://doi.org/10.4060/cc3020en>.

²⁰⁴ "Iraqis Protest Rise in Food Prices, Officials Blame Ukraine War," *Al Jazeera*, March 9, 2022, <https://www.aljazeera.com/news/2022/3/9/iraq-protest-food-prices-russia-ukraine-war>; Trevor Filseth, "Protests Break Out in Iraq Over Shortage of Ukrainian Grain," *The National Interest*, March 10, 2022, <https://nationalinterest.org/blog/middle-east-watch/protests-break-out-iraq-over-shortage-ukrainian-grain-201119>.

²⁰⁵ "Price Protests Turn Political in Iran as Rallies Spread," *Reuters*, May 15, 2022, <https://www.reuters.com/world/middle-east/price-protests-turn-political-iran-rallies-spread-2022-05-15/>.

²⁰⁶ For example, Tunisia. See Lynch, "Tunisia Among Countries Seeing Major Economic Consequences."

increasing repression of political dissent since the Arab Spring contained anti-state activity.²⁰⁷

²⁰⁷ For examples of government interventions in Iraq, see Ayser Jabber, "Iraq Grapples with Rising Food Costs as a Result of Ukraine War," *Al-Monitor*, April 27, 2022, <https://www.al-monitor.com/originals/2022/04/iraq-grapples-rising-food-costs-result-ukraine-war>.

IV. CONCLUSION: FINDINGS AND RECOMMENDATIONS

Russia's invasion of Ukraine presaged a shift in the global political landscape and commodities markets. Whereas the impact on commodities has been less severe than many predicted, the Russo-Ukrainian war has had a more significant imprint on geopolitics. The deepening strategic ties between Iran and Russia has been one of the leading stories of the conflict. Compared to the balancing acts of Israel and Turkey, and the indirect support provided to Moscow by Saudi Arabia and the UAE, Iran's activism has been clearly directed against U.S. interests and in-line with its longstanding anti-Western agenda. While Iran's behavior is an important angle of the conflict, and one which the United States should have an interest in monitoring, it is also in keeping with the trajectory of the Russo-Iranian relationship. That support has not benefited Iran as much as Russia, due at least in part to the latter's need to balance relations with other Middle East states. The growing proximity of Russian and Iranian interests is nonetheless concerning, and adds another layer to great power competition.

Perhaps more significant than Iranian behavior has been the strain the war has put on U.S. relations in the Middle East, particularly with Saudi Arabia and the UAE. America's relations with both countries already faced challenges, and the war in Ukraine added another. More than anything, it exposed the differing perspectives on geopolitics that drive state decision-making in the Middle East. America's partners in the region tend to view the world more similarly to Russia and Beijing than to Washington, and their policies are increasingly betraying those inclinations. Thus, when it came time to hold Russia accountable for its war of aggression, Middle East states demurred from their Western partners, and instead acted in their own self-interests, which, not coincidentally, also benefited Russia and helped it navigate sanctions. The neutrality of Middle East states is less likely to be issue-specific to the war in Ukraine, and more likely to be indicative of their foreign policy trajectories.

With those issues as context, this report concludes with the following six findings and recommendations. These findings highlight the changing landscape of the Middle East, and present broad recommendations to inform the planning and strategy efforts of the U.S. Navy and the Department of Defense more broadly.

1. ***Middle East allies and partners are growing closer to Russia and China.***

Although Middle East states desire a strong relationship with the United States, they desire the same with Russia and China. As they grow closer to Russia and China, Middle East partners are going to be less inclined to defer to U.S. positions on critical issues. The Russo-Ukrainian war is just the latest example of that. For that reason, it behooves U.S. Navy and defense planners to consider the region's evolving politics, and adjust strategies and policies accordingly.

2. ***Iran's strength is growing and the threat it poses transcends the Middle East.***

Iran is a perennial challenge, and the stronger the Islamic Republic becomes, the greater the challenge it will present. Although its strategic alliance with Russia has yet to pay dividends for Iran, having greater military cooperation with Russia, as well as greater political leverage, is bound to help strengthen Iran militarily and politically over time. Iran is no longer a regional problem. The challenge it presents, including through weapons proliferation, is already impacting a war in Eastern Europe, and has the potential to impact political dynamics and fuel conflicts further abroad. Iran is interwoven in the competition between the United States and its great power rivals, and should no longer be viewed as a tertiary concern.

3. ***Although commodities shocks have been avoided in the war thus far, the potential remains for disruptions that could spark crises.*** The Russo-Ukrainian war provoked much worry and consternation among analysts who envisioned resulting food and oil crises. While those crises have not occurred, Russia continues to use its influence over oil, gas, and wheat markets to exert pressure on the international system. Russia's desire to collectively punish the world for its misguided and floundering war remains a feature of its wartime foreign policy, and rash actions by Moscow could spark new crises in the future. For those reasons, U.S. Navy and defense planners should continue to consider issues such as food security and commodity-linked economic stress to remain potent dangers in the Middle East and possible trigger points for potential domestic upheaval, conflict, and refugee flows in the region.

4. ***For the foreseeable future, Middle Eastern powers such as Turkey, Saudi Arabia, and Gulf Arab states will continue to strike a balance between American and Russian interests.*** Domestic politics, as well as rising aspirations in the international domain, will continue to influence the decision-making behavior of these states. Any future suggestion that the U.S. and NATO failed to guide Kiev to victory is likely to fortify regional leaders to further hedge towards China and Russia. Yet, although it is possible that sudden and decisive Ukrainian successes on the battlefield may compel Middle Eastern leaders to reconsider further dealings with Russia; a dramatic Russian military collapse may not necessarily result in greater gains for the United States in regional relations. Enduring Middle Eastern leeriness towards American interests is likely to provide new windows for Chinese engagement with regional leaders.
5. ***Middle East powers have gained more leverage over Moscow.*** Russia's need for economic lifelines and military partners has driven its push to deepen relations in the Middle East. Whereas Iran has provided a military boost, Gulf Arab states have proven more important in that they have helped buoy Russia's economy. Yet, Russia's pressing needs have inverted its traditional relations in the Middle East, and given regional capitals more sway in their relations with Moscow than they had previously. Although that shift has not manifested in much yet, over time it could further entwine Russian and Middle Eastern interests. For that reason, the U.S. Navy and Department of Defense should anticipate a growing political role for Russia in the region, even if Moscow's political power might decline elsewhere.
6. ***Middle East states are exploring closer military cooperation with Russia and China.*** For that reason, the U.S. Navy should anticipate further change in U.S.-regional relations, and prepare options for scenarios in which U.S. partners have developed more integrated strategic ties with the Russian and Chinese militaries. Such a shift could further empower Iran militarily, but could also put further strain on the Navy's relationships with partners and allies in the region—especially with Saudi Arabia and the UAE—and therefore impact maritime operations in the wider region.

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