

Russia and Saudi Arabia reaffirm ties, especially in energy, but fail to produce game-changing agreements

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On October 14 Russian President Vladimir Putin made his first official state visit to Saudi Arabia in a decade to discuss a range of issues from regional stability and security to bilateral investment in energy, agribusiness, and military-technology cooperation. The visit, which came at a particularly pivotal time for regional geopolitics and global energy market stability, resulted in several notable agreements and deals, but failed to produce some of the game-changing, bilateral deals that would have advanced the partnership to a next level of deepened political and economic alignment.

Bilateral meetings between Putin and King Salman, as well as other key figures and CEOs from Saudi and Russian companies, resulted in several announced deals, including nine MoUs between Saudi Aramco and Russian oil services companies, and most notably an agreement between Saudi Aramco, the Public Investment Fund of Saudi Arabia and the Russian Direct Investment Fund (RDIF) to acquire Rusnano's 30.76% share in Novomet, a leading Russian manufacturer of electrical submersible pumps. The deal opens the door for further oil services cooperation in a space where Russia has deep expertise but requires further financing. RDIF's recent decision to open its first overseas office in Saudi Arabia further supports this prospect.

Further deals were agreed to team up on investments in the chemicals industry, agriculture and transport, and a Russia-Saudi Economic Committee was established to take the lead in developing future cooperation. However, much-discussed deals in energy, defense and agriculture did not materialize, possibly suggesting that a lack of alignment between the two powers on a range of geopolitical and energy sector matters has hindered wider cooperation.

While the powers have reaffirmed their commitment to the OPEC+ agreement, one of the headline outcomes of the visit, Saudi Arabia and Russia are simultaneously competing for incremental share of high-growth Asian markets in a well-supplied global market. These conflicting messages call into question the ability of the two sides to continue coordinating production cuts, especially amid growing concerns about a global slowdown.

A step, not a leap

The lack of ground-breaking new deals and agreements speaks to the fact that the powers have only begun to rebuild diplomatic channels and political and economic ties in recent years. Renewed cooperation has been aided in particular by a need to stabilize global energy markets under the OPEC+ format, in addition to Russia's geopolitical repositioning following Crimea and the introduction of Western sanctions.

But reticence persists on both sides, as the two powers have failed to reach consensus on several key issues.

First, on the matter of OPEC+, while the two sides reaffirmed their commitment to maintaining cuts and stabilizing oil prices, questions remain about Russia's long-term alignment to and compliance with the agreement. Saudi Arabia has borne the lion's share of the agreed 1.2m barrels per day of cuts as it seeks to stabilize oil prices and prop up the Saudi Aramco valuation ahead of the planned IPO. In turn, it is looking to Russia to inject further confidence in the market that the agreement will persist and remain effective. But the mid-September attacks on Saudi Arabia's Abqaiq and Khurais facilities, among other things, served as a stark reminder that the kingdom remains in stiff competition with Russia to capture oil market share in key Asian growth markets, especially China.

Second, Russia has stepped up its involvement in various geopolitical conflicts in the Middle East, attempting to serve as a mediator in Yemen and now Syria talks. Yet it has pursued a one-foot in/one-foot out approach, balancing interests in Saudi Arabia with those in Iran and beyond (to this end Russia has failed to publicly acknowledge Iran's role in last month's attacks on the kingdom's oil facilities). The lack of clear alignment on an approach to address Middle East tensions undermines trust and complicates prospects for deeper engagement in strategic sectors like energy, military or technology.

Undeniably, Putin and the Russian state have made important headway in reestablishing and deepening ties with Riyadh and reaffirming Russia's growing role in the region. The groundwork has

been laid, but more work must be done to better align longer-term interests in the region and beyond before a more robust slate of deals can be agreed and delivered.