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Russia – UAE Cooperation in the Energy Sector

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RUSSIAN INTERNATIONAL AFFAIRS COUNCIL

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Russia – UAE Cooperation in the Energy Sector

Moscow's Take on Russia – UAE Cooperation in the Energy Sector

INTRODUCTION

The world is currently undergoing a period of high turbulence in the political, economic, and climate spheres. Caused by numerous factors, including those directly affecting the interests of Russia and the United Arab Emirates (UAE), the prospects for developing cooperation between the two countries in various fields, particularly, in the energy sector, has been significantly impacted.

What forms the wide scope of common interests between Russia and the UAE are their similar state views on the need to revise the unipolar system of international relations, understanding the importance of maintaining a balanced global energy (oil) market, the desire to develop mutually beneficial bilateral cooperation in both traditional and “new” relations, seeking low-carbon energy, and achieving sustainable development goals.

Generally, Russia-UAE participation in international organizations and agreements, such as the Paris Agreement, OPEC+,¹ and several others, are based on fairly well-developed mechanisms of bilateral cooperation and mutual interests.

There are intergovernmental agreements on trade, economic, and technical cooperation between Russia and the UAE (January 1991),² Cooperation Agreement between the Chamber of Commerce and Industry of the Russian Federation, the Federation of Chambers of Commerce and Industry of the UAE (May 1994), and many others. In 2013, the Agreement on the Promotion and Mutual Protection of Investments came into force.³ Intergovernmental commissions on trade, economic and technical cooperation have been established. Recent events also have an impor-

tant impact on bilateral relation development between Moscow and Abu Dhabi, including regular communication between heads of state and the participation of UAE representatives in significant events held in the Russian Federation, for example, the St. Petersburg International Economic Forum (SPIEF).

The development of mutually beneficial economic cooperation between the two countries has been rather impressive. By 2022 trade turnover between Russia and the UAE increased by 68% to \$9 billion.⁴ Out of all the countries in the Arab world, the UAE holds first place in this indicator.

Since February 2022, the degree of rapprochement between Moscow and Abu Dhabi has been repeatedly demonstrated at both diplomatic and economic levels. The UAE abstained from voting on a UN resolution condemning Russia for conducting a special military operation in Ukraine. Abu Dhabi also ignores Washington's anti-Russian sanctions. In response, the U.S. Department of the Treasury openly criticized the UAE and imposed sanctions on several Emirati organizations. Recently, personal contacts between UAE and Russian leaders have become more frequent, particularly by expressing mutual support during crisis situations. The UAE has demonstrated its commitment to using different platforms to expand cooperation with Russia, particularly by discussing the possibilities of its participation in the EAEU.

Restrictive sanctions imposed on Russia by the United States, EU, and allies, as well as the unofficial “self-imposed sanctions” by Western companies and financial institutions force Rus-

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¹ OPEC+ brings together 13 members of OPEC and 11 non-member countries. The group was formed in 2016 with the aim of establishing ongoing cooperation in the determination of crude oil production levels that would ensure stability in the oil market.

² Agreement between the Government of Union of Soviet Socialist Republics and the Government of the United Arab Emirates on Trade, Economic and Technical Cooperation // The Ministry of Foreign Affairs of the Russia Federation. URL: https://www.mid.ru/ru/foreign_policy/international_contracts/international_contracts/2_contract/48893/

³ The Agreement between the Government of the Russian Federation and the Government of the United Arab Emirates on the Mutual Promotion and Protection of Investment // The Ministry of Foreign Affairs of the Russia Federation. December 3, 2012. URL: <http://en.kremlin.ru/acts/news/17024>

⁴ Trade turnover between Russia and the UAE increased by 68% to \$9 billion // TASS. February 20, 2023. URL: <https://tass.ru/ekonomika/17094049>

sian companies, including those in energy, to consider the possibility of transferring their foreign representative offices to the UAE. This is facilitated by a favorable tax climate in the country,

the availability of a developed infrastructure, and a system of services. Trading in shares of Russian energy companies is also moving to UAE trading platforms.

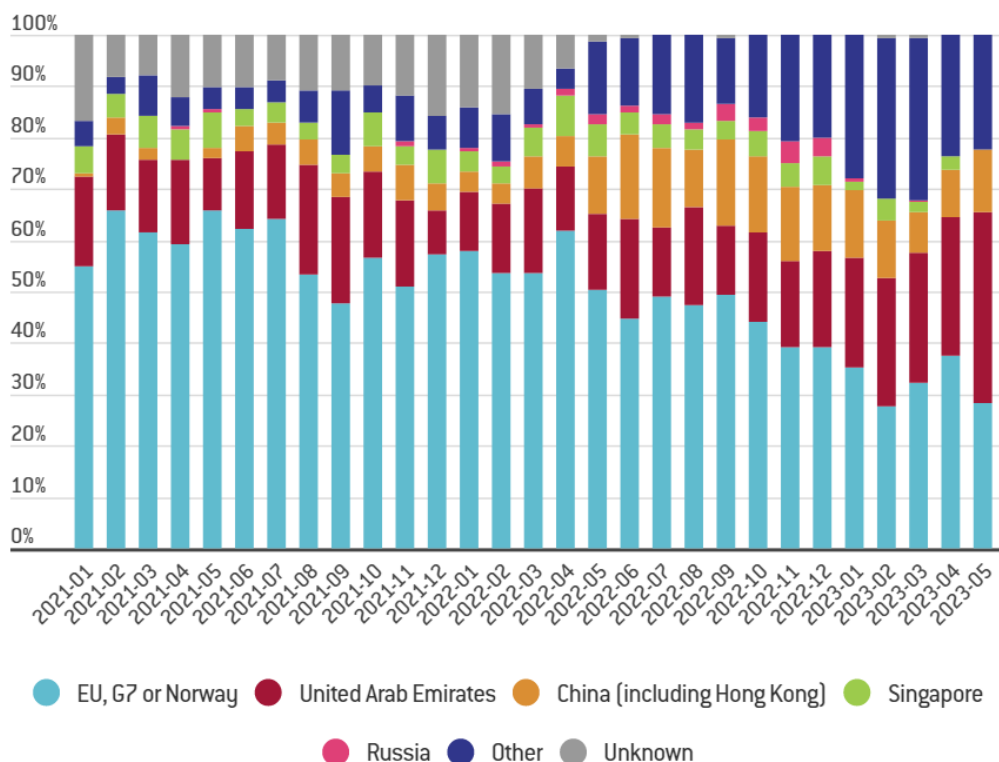
COOPERATION DURING SANCTIONS IN THE OIL SECTOR

Russia and UAE participation in OPEC+ activities aim to stabilize the world oil market, which has been subjected to various shocks and upheavals in recent years. In 2023, OPEC+ member countries agreed to coordinate oil production and supply to the global market, despite pressure from the US and the EU. For its part, within the framework of this agreement, Russia has committed to reduce oil production by five hundred thousand barrels per day in March 2023, and likewise in August.⁵ The joint efforts of members, including those of Russia and the UAE, make it possible to maintain an acceptable level of world oil prices and ensure sustainable profits from hydrocarbon trade. In this regard, the objectives of the agreement coincide with the national interests of Russia, which is struggling to maintain its required income levels from oil and petroleum product exports in the face of comprehensive restrictions.

In leu of the strict sanctions imposed by the US, EU and their allies against Russia's fuel and energy complex, the UAE is one of the world's most active states that provides Russia with comprehensive and diverse support. Due to this position, Russian companies have recently been able to successfully circumvent the imposed restrictions.

The ban on freight and oil shipment insurance from Russia by European traders forced Russian companies to increase the number of tankers of the so-called "shadow" fleet, as well as to resort to Asian, African, and Latin American service carriers. The UAE has become one of the most important participants in these operations, rapidly increasing its share in the total volumes of Russian oil sea transportation (Fig. 1).

FIG. 1. DYNAMICS OF CHANGES IN THE STRUCTURE OF TANKER FLEET OWNERS IN RUSSIAN OIL TRANSPORTATION.



SOURCE: BRUEGEL.⁶

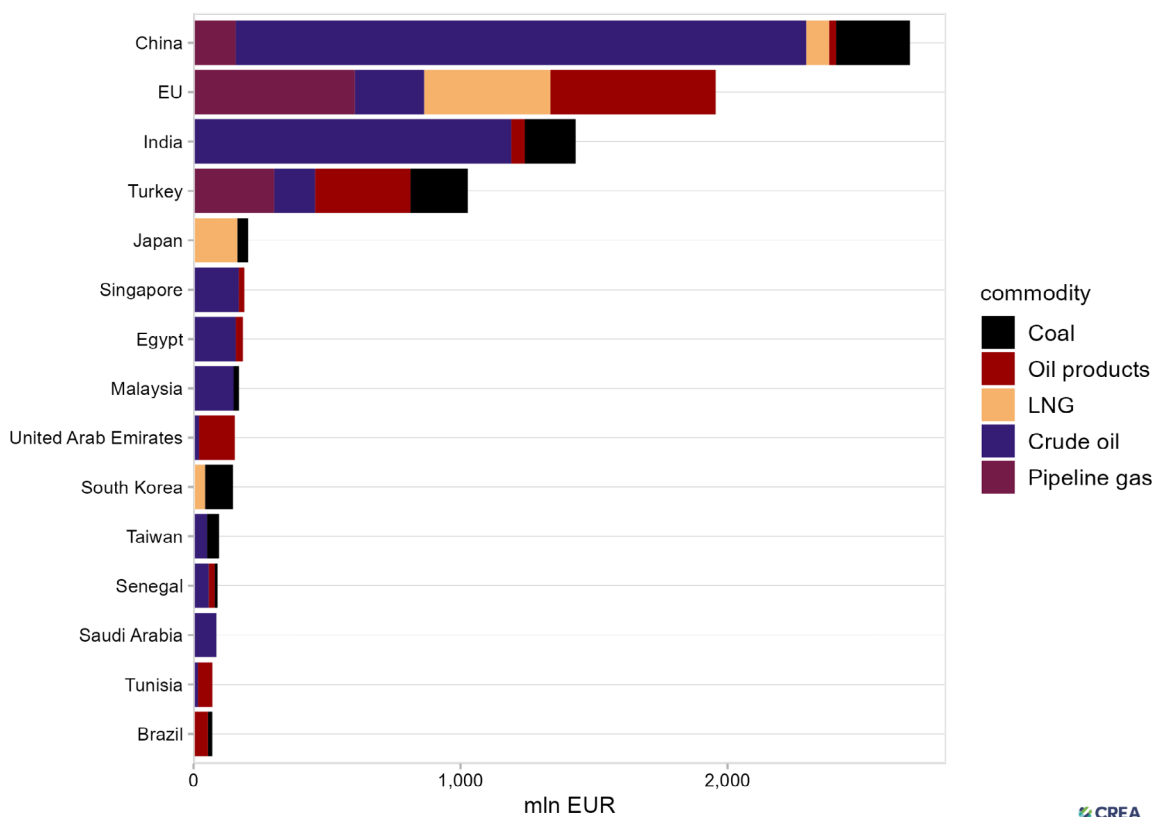
⁵ Russia intends to comply in full of its voluntary commitments under the OPEC+ agreement // TASS. June 15, 2023. URL: <https://tass.ru/ekonomika/18024567>

⁶ Heussaff, C., Guetta-Jeanrenaud, L., McWilliams, B., Zachmann G, Russian crude oil tracker // Bruegel. June 15, 2023. URL: <https://www.bruegel.org/dataset/russian-crude-oil-tracker>

In 2023, the UAE is expected to account for a significant share of Russian oil transported by tanker. Abu Dhabi's share increased from 17% in January 2021 to 37% in May 2023. Fujairah became a major hub for receiving Russian oil and refined products and their subsequent processing and transformation into non-sanctioned goods.

In 2023, during the period when sanctions on Russian oil and refined products (in particular, the price cap) came into force, the UAE ranked 9th in purchases of Russian oil, 2nd in oil products, and 5th overall for liquid hydrocarbons from Russia. In fact, the purchased volume of Russian liquid hydrocarbons by Emirati companies has been steadily on the rise (Fig. 2).

FIG. 2. MAIN BUYERS OF RUSSIAN ENERGY PRODUCTS SINCE THE START OF RUSSIAN OIL PRODUCT SANCTIONS (AS OF FEBRUARY 23, 2023).



SOURCE: CREA.⁷

Despite of a statement made by G7 leaders at the Hiroshima summit, claiming that the price cap on Russian oil and petroleum products were working, Russian oil revenues in March-April

2023 recovered to the previous levels reached in January-February 2023, reaching the highest level since November 2022, thanks in part to UAE activities.⁸

COOPERATION IN THE TRADITIONAL ENERGY SECTOR

Along with transforming the control centers of Russian energy companies to the UAE, their bilateral cooperation with the local companies regarding production, refining and energy transportation continues to expand.

President of PJSC LUKOIL Vagit Alekperov and the Group CEO of the Abu Dhabi National Oil Company (ADNOC) Sultan bin Ahmed Al Jaber signed an Agreement on Accession to the Ghasha⁹ Concession, introducing a 5% share. Additionally, a trilateral Agreement was signed between PJSC LUKOIL, ADNOC and the Russian Direct Investment Fund (RDIF, the sovereign wealth fund of the Russian Federation)

Particularly, on October 15, 2019, in Abu Dhabi, during a state visit of the President of the Russian Federation Vladimir Putin to the UAE,

⁷ Centre for Research on Energy and Clean Air URL: <https://energyandcleanair.org/>

⁸ Reduce Russia's revenues and support Ukraine. Theses of the G7 statement in Hiroshima // TASS. May 19, 2023. URL: <https://tass.ru/mezhdunarodnaya-panorama/17792643>

⁹ Ghasha is a project aimed at developing oil and gas resources in several fields in the Gulf.

on future cooperation in the Gash concession.¹⁰ LUKOIL Mid-East Ltd. Exploration and Production Project Management Center is located in Dubai.

Also important is Rosneft's active cooperation with its UAE partners. In May 2014, Rosneft signed a strategic cooperation agreement with Mubadala Petroleum (part of the UAE sovereign fund, Mubadala Development Company). The non-binding agreement provides for Mubadala Petroleum to participate in developing Rosneft's assets in Eastern Siberia, as well as for the Russian company to participate in international projects implemented by Mubadala Petroleum. In August 2015, Rosneft was found negotiating with Mubadala Petroleum on a project developing the Srednebotuobinskoye and Verkhnechonskoye fields.¹¹ Currently, Rosneft is organizing a trading company in Dubai to enhance its business by creating new trade chains.

LOW-CARBON DEVELOPMENT

The UAE's current energy strategy target also includes increasing clean projects so that it would make up 50% of its energy by 2050, in addition to reducing carbon dioxide emissions from electricity generation by 70%. Abu Dhabi aims to achieve zero emissions by 2050, while planning to invest more than \$160 billion over the next three decades to meet rising energy demands and ensure sustainable economic growth.¹³ One of the directions of the country's low-carbon development strategy is the am-

Another major Russian oil company, Gazprom Neft, focuses on developing business with UAE partners. In October 2019, Gazprom Neft and ADNOC signed a strategic partnership agreement. The parties use the opportunities to implement joint projects in exploring, producing, and refining hydrocarbon sales, developing information technology, artificial intelligence, as well as other fields. Gazprom Neft and Mubadala Petroleum are partners in the joint venture Gazpromneft-Vostok, which is developing 12 fields in the Tomsk and Omsk regions.¹² Gazpromneft-Aero provides air transport services in the UAE.

ROSATOM, Inter RAO, Stroytransgaz and several other Russian companies have large and promising joint projects with UAE partners in the traditional energy sector.

bitious plan to boost hydrogen and ammonia production and export to world markets. Moreover, the country has developed and adopted an official hydrogen strategy aimed at establishing the UAE as a world leader in hydrogen development. Russia is also interested in this new direction of energy development. ROSATOM, Gazprom, and Novatek are considering the possibilities of developing their businesses in this area and could successfully cooperate with Emirati partners in the near future.

CONCLUSION

Under the current conditions, Russia-UAE energy cooperation has immense potential in various traditional and new energy sectors. This is facilitated by the coinciding political positions of the two states, existing experience of cooperation in implementing complex projects in the energy sector, and company interests of both coun-

tries in building strategic cooperation. The joint efforts of the Russian Federation and the UAE in establishing a new energy market format despite growing political turbulence, as well as boosting cooperation by advancing new energy-related technology and low-carbon development, are highly promising.

¹⁰ Tokarev, S. LUKOIL registered a new company for the project in the UAE // Business Emirates. January 11, 2020. URL: <https://www.businessemirates.ae/news/uae-property-news/dlya-proyekta-v-uae-lukoil-zaregistroval-novuyu-kompaniyu/>

¹¹ Rosneft signs a strategic cooperation agreement with Mubadala Petroleum // Rosneft. May 24, 2023. URL: <https://www.rosneft.com/press/releases/item/153291/>

¹² Gazprom Neft and ADNOC conclude a Framework Agreement on Strategic Cooperation in oil & gas // Neftegaz.RU. October 16, 2019. URL: <https://neftegazru.com/news/companies/501077-gazprom-neft-and-adnoc-conclude-a-framework-agreement-on-strategic-cooperation-in-oil-gas/>

¹³ UAE plans hydrogen production increase to 15 million tons per year // TASS. July 5, 2023. URL: <https://tass.ru/ekonomika/18192779>

Abu Dhabi's Take on UAE-Russia Energy Cooperation

The global economy currently faces structural shifts stemming from new technologies, climate change, and fragmentation that could be considered a partial reversal of globalization. Within these shifts, economic policies to curb inflation and gain economic advantages, while continuing to achieve environmental goals, have heightened uncertainty and volatility in international commodity markets. As a result, bilateral and multilateral cooperation on important issues, such as energy and the environment, is needed to achieve stability and sustainability, while stimulating balanced global economic growth.

Within this framework, strengthening existing energy cooperation between the UAE and Russia could yield benefits beyond direct gains for both countries, leading to wider positive impacts for the global economy. Areas for deeper cooperation between the UAE and Russia primarily include oil market stability and clean energy.

Over the course of the last decade, the UAE and Russia have been deepening bilateral energy cooperation. In October 2019, the UAE and Rus-

sian energy ministries signed a Memorandum of Understanding to establish an energy working group to develop proposals for joint energy projects.¹⁴

In addition, in November 2021, the countries signed a Declaration of Intent to form a joint task force to promote cooperation in the energy sector, specifically in clean energy, working toward meeting sustainable development goals in line with the Paris Agreement. A crucial aspect of the agreement relates to coordinating efforts in the hydrogen sector to boost clean energy production.¹⁵

During the 11th UAE-Russia Joint Committee meeting in March 2023, His Excellency Abdulla Bin Touq Al Marri, UAE Minister of Economy, announced that: "Through the Joint Committee, the UAE and the Russian Federation are looking forward to enhancing joint cooperation in several areas, including renewable and clean energy, and food security."¹⁶ All of these efforts to enhance cooperation took place under the umbrella of the Strategic Partnership Agreement signed between the two countries in 2018.¹⁷

OIL MARKET STABILIZATION

Both the UAE and Russia are members of OPEC+, where they represent the fourth and second largest oil producers in the group of 24 nations working to adjust crude oil production to bring stability to oil markets.

Since its launch in 2016, cooperation and coordination among OPEC+ members have helped stabilize oil markets, reduce uncertainty and promote global economic growth. The economic focus of the group's decision-making, and its resistance to political influences, gives it the credibility needed for well-functioning, stable oil markets.

As we can see from the Figure 3, since the inception of OPEC+, daily oil price volatility has significantly decreased, compared to the preceding

three years. Even after the shock of the COVID-19 pandemic, the fall in oil prices during the first half of 2020 was reversed, thanks to coordination among the OPEC+ members, which gradually returned prices close to pre-pandemic levels. Furthermore, the sudden hike in oil prices after the receding of the pandemic was managed by OPEC+, gradually moving prices downwards to hover around sustainable levels.

With OPEC+ managing roughly 40% of global oil production, and as Russia and the UAE are among the top four producers within the group, their close cooperation in decision-making processes related to oil production and member shares is essential for the stability of global oil markets.

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¹⁴ Griffin, R. S&P Global Commodity Insights // October 15, 2019.

URL: <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/101519-russia-uae-sign-new-energy-cooperation-agreements>

¹⁵ UAE, Russia sign 'Declaration of Intent' in Energy Sector // Emirates News Agency (WAM). November 16, 2021.

URL: <https://www.wam.ae/en/details/1395302993325>

¹⁶ 11th UAE-Russia Joint Committee Discusses Strengthening Economic Cooperation // Ministry of Economy UAE. March 16, 2023.

URL: <https://www.moec.gov.ae/en/-/11th-uae-russia-joint-committee-discusses-strengthening-economic-cooperation>

¹⁷ Declaration on the strategic partnership between the Russian Federation and the United Arab Emirates // President of Russia. June 6, 2018.

URL: <http://en.kremlin.ru/supplement/5309>

FIG. 3. BRENT CRUDE OIL DAILY PRICES (2013-2023).



SOURCE: MACROTRENDS.¹⁸

RENEWABLE AND CLEAN ENERGY

As the UAE prepares to host COP28 later this year, the need for cooperation between all global stakeholders on climate issues cannot be underestimated. In this context, the UAE and Russia's November 2021, Declaration of Intent to form a joint task force to promote bilateral cooperation in clean energy is of particular significance.¹⁹

The Declaration's objectives of strengthening efforts toward achieving the Paris goals has been further boosted by the 11th UAE-Russia Joint Committee meeting, which cemented continued cooperation between the countries on technical aspects of renewable and clean energy,²⁰ as well as decarbonization. These agreements offer further support as each nation works toward achieving their net zero emissions objectives (2050 for the UAE, 2060 for Russia).

Within the scope of potential cooperation between the UAE and Russia in renewable and clean energy, the following areas are worth highlighting:

1. Nuclear Energy

There is heightened global interest in using nuclear power as a source of clean energy, particularly amid technical advancements and the push in some advanced economies to recognize it as efficient, clean and economical. Consistent with this trend, both the UAE and Russia are working to increase cooperation in the peaceful use of nuclear energy.

In 2019, the Emirates Nuclear Energy Corporation (ENEC) renewed its 2017 Memorandum of Understanding for cooperation in the peaceful use of nuclear energy with Rosatom State Nuclear Energy Corporation. The MoU established a general framework for cooperation in areas including the creation of a nuclear science center in the UAE, as well as in plant development and investment, nuclear fuel cycle management, and the training of UAE nationals.²¹

2. Hydrogen Energy

According to the World Bank, the demand for hydrogen reached an estimated 87 million metric

¹⁸ Brent Crude Oil Prices – 10 Year Daily Chart // MacroTrends. Retrieved. June 7, 2023. URL: <https://www.macrotrends.net/2480/brent-crude-oil-prices-10-year-daily-chart>

¹⁹ UAE, Russia Sign 'Declaration of Intent' in Energy Sector // Emirates News Agency. November 16, 2021. URL: <https://wam.ae/en/details/1395302993325>

²⁰ UAE, Russia Strengthening Economic Cooperation // Emirates News Agency (WAM). March 16, 2023. URL: <https://wam.ae/en/details/1395303139778>

²¹ Russia, UAE Extend MoU on Cooperation: Nuclear Policies // World Nuclear News. October 16, 2019. URL: <https://world-nuclear-news.org/Articles/Russia,-UAE-extend-MoU-on-cooperation>

tons in 2020, and is expected to grow to between 500–680 million metric tons by 2050, while the hydrogen production market was valued at \$130 billion from 2020–2021. The production market is expected to grow by approximately 9.2% per year until 2030.²² Globally, 520 million tons of hydrogen will be needed to achieve net zero targets by 2050, according to the International Energy Agency.²³

As the UAE aims to build on its significant comparative advantage in hydrogen energy production, the launch of a National Hydrogen Strategy is expected. According to the UAE Ministry of Energy and Infrastructure, the country currently has 28 hydrogen projects “on board”, seven of which have passed the financing stage.²⁴

In November 2021, the UAE and Russia signed a Memorandum of Understanding to collaborate on hydrogen development. The main focus of the memorandum is the design and produc-

CONCLUSION

The UAE and Russia are working to achieve a common goal; to maintain the stability of the global oil market, through group coordination within OPEC+. The two countries also aim to make progress in strategies that envisage a more balanced

tion of equipment for liquefaction, storage and the transportation of hydrogen, as well as the development of national and international standards.²⁵ Closer cooperation in these areas would benefit both countries, which aim to lead in hydrogen development as a promising clean energy source.

3. Natural Gas

There is also potential for the UAE and Russia to increase cooperation in liquefied natural gas (LNG). In August 2020, as part of a spot contract, Russian firm NOVATEK shipped the first cargo of LNG from the Yamal LNG project in Russia to the UAE.²⁶

As the acceptance of natural gas as a clean energy source gains momentum, further cooperation between the UAE and Russia, on both gas production and technology, would have broader benefits, boosting energy markets worldwide.

energy mix in the future, with greater contributions from clean and renewable energy sources. Closer cooperation between the UAE and Russia in these two key areas would have positive impacts for the global economy and the environment.

²² Kane, M.K., S. Gil, S. Green Hydrogen: A key Investment for the Energy Transition // World Bank Blogs. June 23, 2022. URL: <https://blogs.worldbank.org/ppps/green-hydrogen-key-investment-energy-transition>

²³ Collins, L. Has the IEA Lost the Plot? Agency Sets Impossibly High Hydrogen Targets, then Blames Countries for Not Meeting Them // Recharge. October 4, 2021. URL: <https://www.rechargenews.com/energy-transition/has-the-iea-lost-the-plot-agency-sets-impossibly-high-hydrogen-targets-then-blames-countries-for-not-meeting-them/2-1-1077209>

²⁴ Benny, J. UAE to Launch National Hydrogen Strategy in April, Official Says // The National. March 1, 2023. URL: <https://www.thenationalnews.com/business/energy/2023/03/01/uae-to-launch-national-hydrogen-strategy-in-april-official-says/>

²⁵ UAE, Russia to Advance Hydrogen Fuel Technology // Dubai Eye. November 18, 2021. URL: <https://www.dubaieye1038.com/news/local/uae-russia-to-advance-hydrogen-fuel-technology/>

²⁶ NOVATEK Ships First LNG Cargo to UAE // AKM. August 31, 2020. URL: <https://www.akm.ru/eng/news/novatek-ships-first-lng-cargo-to-uae/>

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