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Letter From The Editor

The summer holidays did not prevent in any way the conflicts affecting the international energy sector. In fact, quite the opposite happened. Apart from the Ukrainian crisis, we saw massive outbreaks in Iraq and Israeli-Palestinian territories.

Developments in the Middle East and the need to protect western interests will leed to the the creation of an independent Kurdistan that will eventually include all its respective parts in the neighbouring countries. However, given that the Kurdish regions outside of Iraq are dominated by leftists, further problems could arise from this highly sensitive area, whose security is overseen by Washington.

Throughout the summer months, Washington has also tried to apply its own rules in the African energy market but it is still early for any concrete conclusions.

The above, as well as developments affecting the energy balance triggered by ongoing problems in Iran, Qatar and Bulgaria are the issues being delt in our September issue.

We invite our readers to send us their valuable contributions and comments.

Yours Sincerely,

George Hatziioannou
Editor

Sykes-Picot Send Their Best Regards

The civil war in Syria and the restarted hostilities in Iraq have dealt a humiliating blow on the established administrative order in the Middle East.

Almost a century ago, on May 16, 1916 British and French foreign ministers finalized a deal that was later named after them, the Sykes-Picot Agreement. It defined the mode of partition of the Mid-Eastern part of the crumbling Ottoman Empire at the end of World War I. London and Paris did not take into due consideration the heterogeneous ethnic, cultural, religious, and history-defined realities of the region but kept drawing the border lines of what later became new states and new territories.

Recent events are overwriting the political maps. Syria is de-facto cut into slices, some controlled by the Government and some by armed militias and tribal warlords, entangled in a rivalry of their own. Now Iraq, being still de jure a united country, is splitting into 3 parts: the Shiite area (Center with Bagdad and South), the Kurdish area (North) and now, after the Sunni radicals from the Islamic State (IS) proclaimed Caliphate, a third splinter emerges, Eastern Iraq and North-East of neighbouring Syria.

Experts have different forecasts about the longevity of the new Caliphate which, definitively, dramatically changes the familiar texture of a State. Some believe the Caliphate will stay around for some time, while others suppose that it may disappear as rapidly as it emerged. However, the logic of current events dictates the need to consider other changes in the regional political panorama.

One of the changes amount to the gradual construction of a Kurdish national entity or, maybe, even a State. The Kurdish people counting some 30-40 million were denied statehood by the Sykes-Picot Agreement, sealed by the ensuing border redrawing. Kurds find themselves scattered mostly across four major states: Turkey, Syria, Iran and Iraq. Their fate in history and approach to international and local agenda differ, and it's not surprising: their life experience in the past century was all too different; yet they are united by a deep aspiration of landing with a national state.

Kurds in Iraq have a semiautonomous status from 1991 within the supposedly united Iraq. The Kurds benefited from the US invasion of the country in 2003 being able to preserve political stability and security in their region, set up local governmental institutions and establish excellent collaboration ties with the Americans. The local Government, a market oriented one, has its own armed forces, the Peshmerga. But Kurd autonomy is challenged by the central Government in Bagdad. The core dispute is about sharing oil revenues. Erbil, the administrative center of Iraqi Kurdistan, eventually started to ignore Bagdad, concede oil concessions and do oil business without Bagdad's blessing. Kurds are exporting oil to Turkey and from 2012 this is truly poisoning their relations with Bagdad authorities. It should be noted as a paradox: Iraqi Kurds have excellent relations with Turkey, although Turkey has a big and long lasting clash with the Turkish Kurds. Paradoxically, Turkish companies are now the most active in the Northern Iraq.

The plight of Turkish and Syrian Kurds is quite different. They are politically left-leaning. The dominant political organization, the Kurdistan Workers Party (PKK) in Turkey has been waging a war against Ankara from 1984 to 2013. Their affiliated political wing in Syrian Kurdistan is a branch of PKK, the Democratic Union Party (PYD) which is now controlling a part of Syria and fighting the Islamist militias. The Syrian Kurds have different political and ideological views and agenda than the Kurds in Iraq. While the Iraqi Kurds did not come to the assistance of the Syrian ones in their fight against Islamist militias.

Now the blitzkrieg of IS, targeting also Kurd territories in Northern Iraq, has changed the politics on the ground. Reports claim that Peshmerga and the Kurdish units from Syria and Turkey are fighting side by side against the jihadists, and that they started coordinating their military operations. This could be seen as a sign

that the existing contradictions between the two historical branches of Kurdish nationalism are becoming more and more irrelevant.

After the IS, while attacking everyone who is not Sunnite in Iraq, declared the creation of a Caliphate, the United States decided on a limited military intervention, mostly by launching air strikes. Officially, the US involvement is motivated by the need to protect refugees, persecuted religious minorities (Christians and Yazidis) and the integrity of the Kurdish region itself. Apart from the humanitarian motive, the Americans are driven by keen interest in Kurdish oil reserves.

It is evident that IS attacks Kurdish areas in order to take control over patches of land and to add them to other parts of Iraqi and Syrian territory under their de facto governance. For example, the jihadists sent an ultimatum to evacuate a frontier town, Rabia. This is a strategic point at a crossroad leading to Syria. At the same time, IS is also targeting oil fields, oil facilities, power generation units and the biggest river dam in Iraq which can provide electricity to their capital, Mosul. In Syria, the armed Islamic groups are controlling some local oil fields and have structured a system of oil production and sales through illegal channels, using "tank-cars". Now, having expanded its control over territories in Iraq, IS will capitalize on the enhanced capabilities.

Mariano Moreno, director of the Norwegian Peacebuilding Resource Center in Oslo, estimates the jihadists are able to earn as much as 1.4 million dollars a day which can comfortably finance their military operations and subsidize the controlled areas. "The Middle East has witnessed the emergence of an economic policy based on warfare and control over natural resources, just like in Africa these last decades", Mr. Moreno noted in an article published in *El Pais* newspaper.

Iraqi Kurdistan has plenty of oil in its soil: 43.7 billion barrels (the total for entire Iraq is around 143 billion barrels). On top of it come huge but so far not yet calculated natural gas reserves. Current oil production in Iraqi Kurdistan is about 200,000 barrels a day. If Kurdistan becomes independent, the region would be one of the most prosperous oil producers in the world. Finally, the most successful oil company doping business there is American ExxonMobil. It can explain why the United States are so nervous when Iraqi Kurdistan comes under threat. However, the US would never publicly admit it. But then, did the US ever recognize that their 2003 Iraqi invasion was mostly about access to oil?

Anyway, the new development in the region (the jihadists' military success in Iraq, the dispersion of the US-trained Iraqi army, tension between the Kurds and Bagdad, the US interest in maintaining a stable Iraqi Kurdistan for the sake of sustainable oil production) asserts the stage for the emergence of an independent Kurdish State.

The previous attempt in 1946 to create the Republic of Mahabad was a dismal failure. The leader of that uprising was Mustafa Barzani, the father of Masoud Barzani, the incumbent President of the Iraqi Kurdish Region since 2005. The United States originally supported the idea of preserving the integrity of Iraq but today they may choose to bet on an independent, pro-American Kurdistan given that central authorities in Bagdad are in a state of permanent political crisis while Iranian influence is steadily growing.

All in all, the advancement of IS in Iraq amounts to possibly a bigger blow to the preservation of the Sykes-Picot system so masterly crafted a century ago.

War In Gaza Accelerates Regional Disintegration

The scenario of hostilities in the Gaza strip seems to be repeating itself.

As in the past, first Palestinian radicals commit acts of violence (this time 3 Jewish teenagers were abducted and killed), and in retaliation Israeli Government starts to bombard the Palestinian territory (this time it accused Gaza rulers from the Hamas movement to be the

culprits). Then homemade rockets are fired from Gaza hitting targets on Israeli territory. Finally, the Israeli military are ordered to launch a full scale operation against that tiny patch, 10x40 km only, with some 1.8 million population.

This time 40,000 reservists were mobilized. Israel used not only habitual airstrikes but also ground forces, with tanks rolling inside the Gaza strip destroying tunnels used to smuggle arms and ammunition but also some essential goods.

After a month of warfare, most of these tunnels were destroyed, and the mission was declared accomplished. Israeli casualties were more than 10 times lower that among the Palestinians, although 64 killed serviceman is too much for Israel. Besides, hitting civilian targets in Gaza, including a UN school, generated indignation in world public opinion and mass media brought the sufferings of the Palestinians to everyone's attention. Most Palestinian rockets were intercepted and did not cause significant damage or annoyance, with the exception of temporary, only for two days, postponement of international flights to Israel.

Events seem to follow a standard scheme but, in fact, the realities on the ground have changed. What exactly changed? Who are the main actors and what are their interests?

The first element to be properly assessed is the general trend: this part of the Middle East is in the process of disintegration. It started a decade ago, triggered off by the US invasion of Iraq. Today, Iraq is in the grips of institutional instability, torn apart by a seemingly endless civil war. The same destructive tendency ravages Syria. The instability is projected on Lebanon while Jordan looks more and more fragile. Take into the equation the violent evolution of internal politics in Egypt, the most populated Arab country. Add to the boiling cauldron the tug of war between Gulf petro monarchies with the misty perspective of either smooth or turbulent change of rulers, from the point of view of a generational conflict, in Saudi Arabia. Not to mention Iran with all the linked mammoth problems inside and within the wider region.

Summing up, the region is cursed with clashing interests, uncontrolled militias, clan and tribe rivalries, social and political degradation, spreading of radical Islam and religious intolerance. These are the new regional realities. The emerging new balance of power, however, does not bring about new stability but rather consolidates old animosities.

The second element is the changing role, interests and capabilities of the involved parties.

The Palestinian camp seems to be in a loss. Its leadership is losing influence and power. PLO, Fatah and its Palestinian National Administration (PNA) have forfeited political credit and credibility, and during 2013 its role was reduced to policing the West Bank to ensure governance within the state of Israel. Noteworthy, no Israeli casualties were reported in this enclave. Still, this is not enough for achieving the goal of establishing a Palestinian State. PNA is viewed by the public as inefficient and corrupt. This is the reason why PNA and its leader Mahmud Abbas are seeking new political initiatives for PLO and Fatah's survival.

Simultaneously, the Hamas movement, ruling in the Gaza district, which was at odds with PLO and Fatah and challenges PNA's authority, became the loser in neighbouring Egypt. Muslim Brotherhood was targeted as a terrorist entity by the new Egyptian President, Abdel Fattah al-Sisi, and the Government. Hamas which is de facto the emanation of the Brotherhood in Gaza, lost the support of its sponsor, and the blockade from the Egyptian side of the frontier became a prelude to new hardships. On top of all, new radical movements sprung to existence in Gaza thus undermining Hamas' authority.

Having found themselves in dire straits, PNA and Hamas preferred to join forces, announced the end of rivalry and the start of collaboration (see "Israel And Palestine: Move On Without Moving?", EIRA Volume 2, Issue 6, 2014). That development created some disappointment in Israel, pushed aside the US with its peace efforts and set the stage for Israeli military actions (Operation Protective Edge). Israel needed only a pretext.

The killing on 3 young Israelis served as a desired pretext. Apparently, that act of violence was perpetrated by killers from the Qawasameh tribe, based in Hebron (West Bank). They were aiming to discredit the Hamas leadership every time it attempted to obtain some international legitimacy. In any case, Israeli Prime Minister, Binyamin Netanyahu, accused Hamas of that atrocity and sent the army into Gaza.

Finally, Hamas was happy: the movement was propelled back into the limelight and into the center stage of local politics; the engagement of Hamas became essential for finding any solution for conflict around Gaza; the radical rivals of Hamas were obliged to align themselves with the mainstream movement due to a full-scale war. Still, Hamas will emerge as relative winner only if it manages to negotiate a lifting of the Egyptian blockade. If it fails, Hamas, already at odds with Syria and Iran, may lose momentum and popular support. A poll by the Palestine Center for Research and Information found out that only 33% of Gaza voters are now ready to vote for Hamas, while 65% would welcome PNA back.

At the same time Israel discovered that the traditional political game of playing one Palestinian faction against the other does not bear fruit anymore: there are too many players, and they are less able to control the population all by themselves. Bombing Palestinian targets only multiplies the number of radicals. Additionally, military solutions have lost efficiency compared to previous periods. Take the option of occupation of Gaza for security reasons. What would the costs be, including losses of soldiers' lives? Reinstall the Israeli authority in Gaza and place it fully under the administrative control? Will it bring Israel back to the dead-end situation from which Ariel Sharon pulled out the country almost 10 years ago?

Then again, who are the new counterparts to share risks and responsibilities? Surprisingly, Israel found in al-Sisi's Egypt a new sort of partner with shared common interests. Having started a wide-format war against the Muslim Brotherhood, the new Egyptian president is interested in clamping down on clandestine traffic of arms and goods heading towards Gaza and also isolating Hamas which is considered in Cairo as the local extension of the banned Islamic movement. What really deserves due attention is the fact that Egypt did not join the first wave of international protesters against the Israeli military operation in Gaza. By contrast, Egypt was the main diplomatic intermediary in negotiating a truce and trying to find a settlement to the crisis.

Basically, Egypt has become the main source of political will and effort aimed at lowering tensions in the region. Israel would not talk directly to Hamas' supporters, Qatar and Turkey. Hamas would not talk directly to Israel. Egypt is well placed to be the one and only real mediator. The land of pharaohs, just like the Jewish State of Israel, is interested in seeing Gaza demilitarized not only because of Hamas, but also because of Islamic Jihad and other radical movements.

One may wonder: what is the role played in that scenario by Saudi Arabia, which is Egypt's main sponsor?

Anyway, Egypt it THE new factor in the big game. EU countries have been sidelined long ago, and now the US has also lost its former imperial leverages. US Secretary of State, John Kerry, is still listened to but his suggestions are largely ignored, first of all by Israel. Here is a remarkable quote from *The Jerusalem Post*: "The truth is that the US and the EU are completely unnecessary. Israel and Egypt can secure the borders. And if Americans and Europeans are concerned with the welfare of the people of Gaza, they can transfer their aid to Israel, which can distribute it to those who need assistance rather than handing it over to Hamas."

This is also indicative of the changing times. This time Operation Protective Edge only seemed to be similar to the previous one. State and non-state actors and their respective roles are changing in the context of rapid political and military disintegration of the Middle East. Today, this biggest source of hydrocarbons for the global energy markets is in a desperate need of a "new"

stability to be founded on responsible leadership and effective governance.

Bulgaria In Search Of An Adequate Energy Policy

With looming parliamentary elections on 5 October, the people of Bulgaria who toppled the previous government for having engineered an energy crisis, are once again hoping against hope that more effective politicians with managerial proficiency might finally come to the forefront and find the best possible solution for the country's ills. And energy production, provision, procurement and distribution are steadily remaining on top of the national agenda.

In early August, concurrently with the announcement of the composition of a caretaker government Bulgarian President Rossen Plevneliev admitted the tense and tight state of play in the national energy sector. The President suggested to form an Energy Board and to implement any project in this field only after a full-proof consensus is reached in the society on its expediency and feasibility.

Mr. Plevneliev's words were a clear reference to the controversial South Stream project realized by Russian Gazprom and several European energy companies, namely Italian ENI, German Wintershall and French EDF. Not to forget Austrian OMV, former main lobbyist of Nabucco before it went defunct, which recently jumped on the South Stream "band wagon" out of fear of being left with no extra gas.

Noteworthy, the European Commission has long suspected Bulgaria of violating EU legislation after having approved the construction of South Stream gas pipeline on its territory. In particular, the EC accused Sofia of non-observance of the EU competition rules and threatened to accelerate the infringement procedure.

President Rossen Plevneliev explicitly noted that if South Stream were to be carried out among the essential prerequisites where, first, full conformity with the EU laws and regulations, second, price should be defined by the market only, and third, the deal should be transparent by "making annexes public".

Meanwhile, local media attacked the former Bulgarian Minister of Regional Development Ms. Dessislava Terzieva who at the very last minute, before resigning, signed a document giving the green light for South Stream. The Minister issued a construction permit for a receiving gas terminal, a compressor station and an access road in Varna for the South Stream pipeline. The media accused the member of the already gone cabinet of violating the decision taken earlier by the then Prime Minister Plamen Oresharski to suspend all works on South Stream pending the European Commission's authorization of the project on the whole.

Radan Kanev, the head of the right-wing party Democrats for Strong Bulgaria, reportedly filed an appeal to the Administrative Court to reverse the decision.

Meanwhile, amid the media uproar, allegations of graft linked to land allocation for the pipeline were voiced by two Bulgarian non-governmental organizations. It concerns once again the decision of the previous government to sell 358 acres of state-owned land near the Pasha Dere beach to South Stream Bulgaria. The opposition to the project claims that the land which changed hands was underpriced. The deal was finalized "at the last minute" by the former minister after the announced freezing of all works on South Stream which makes it illegal.

Reports in the Bulgarian media hinted at close association of the two NGOs with the First Investment Bank (FIB) which scared off clients and triggered off the banking crisis forcing the EU to extend emergency credit. With FIB in the limelight, more light was shed on its owner, a powerful local oligarch, Delyan Peevski, who allegedly amassed his personal wealth through shady dealings.

As member of the parliament listed on the party list of the Movement for Rights and Freedoms, popularly known as the "Turkish party" (DPS), Mr. Peevski was instrumental in the downfall of the previous government due to the full-scale war he initiated against a competitor, banker Tzvetan

Vassilev, named by Forbes in 2013 as the "most influential Bulgarian".

The rumours spread by Mr. Vassilev about the credibility of FIB as a bank that provoked the run of the clients. In retaliation, Mr. Peevski launched a similar assault on his rival's CorpBank, Bulgaria's fourth largest lender. The war of words and rumours spiralled out of control and sent the country into a formidable finance calamity.

It either coincided or was one of the key reasons for DPS breaking its alliance with the Bulgarian Socialist Party (BSP) and thus ruining the ruling coalition. For the time being, the country is managed by an interim cabinet with hardly harmonious relations within its own ranks. To give an example of the potential in-house squabbling: the next day after being made Vice Premier for economic policy Ekaterina Zakharieva in an interview to the BTV television channel claimed Bulgaria needed the South Stream gas pipeline, however, it should be built according to EU regulations. Despite the strong-worded warning coming from Brussels, "this does not mean that the project should be halted", she said.

Originally, the biggest unknown was how Vice Premier Ms. Zakharieva would get along with the interim Minister of Economy and Energy, Vasil Shtonov. The young guy is overtly pro-Western and will hardly tolerate South Stream implementation.

In 1995, Mr. Shtonov graduated from the University of Pennsylvania (USA) with a bachelor's degree in electronic engineering, science and finance. Four years later he got his master of sciences in business administration at the Massachusetts Institute of Technology (USA). Until 2004 he worked in the USA as an investment banker in the field of energy and technologies; and then set up McKinsey offices in Sofia.

Surprisingly, the two supposed antipodes spoke in tune. First, Vice Premier Ms. Zakharieva pledged "assistance" to the European Commission by providing all the relevant data regarding the South Stream project and hinted at the possibility to initiate a new tender to select construction and logistics companies to carry out works on the Bulgarian section of the pipeline. The new tender would be held "only if the Commission were to insist on it", Ms. Zakharieva elaborated.

Second, Mr. Shtonov echoed this approach siding with the concept that South Stream could be implemented provided "it could transport not only Russian gas but also gas from third countries, including Bulgaria." The option was spread in the form of a rumour that once Total, Repsol and OMV find hydrocarbons in the offshore zone, namely in the Khan Asparukh field, natural gas could flow through the South Stream pipeline. Probably, the interim government places hopes on using this blend as a proof that the EU demand of TPA (third party access) is duly met.

This is purely a theoretical settlement of the issue. Besides, the grand energy chess game in South East Europe is not over yet. It is no less symptomatic that on 29 July President and Chief Executive Officer Westinghouse Electric Company, Danny Roderick, visited Sofia where he met the largest possible circle of top officials linked to the decision-making on the VII bloc of the Kozloduy nuclear power plant aimed at cutting dependence on Russian natural gas supply.

As a crowning event of the visit, the two parties signed an agreement stipulating the construction of a new 1,000 reactor estimated to cost more than $5 billion. The reactor is expected to come online by 2023. The new AP1000 1,000 megawatt installed-capacity reactor will be a safe bet since it is "in line with EU policies and objectives", Mr. Roderick specifically emphasized.

Nevertheless, the news was not greeted with outright enthusiasm. As reported in Bulgarian media, independent analysts added some 30% "additional costs" and the inflation factor which will cumulatively drive the final price to at least $7 billion. This is not only about the Kozloduy plant price tag but about creating an optimum

energy mix to ensure Bulgaria's security of supply to avoid new electricity bills hikes and disruptions which brought down the Boiko Borisov's government.

Then came 18 of August when interim Energy Minister Vassil Shtonov officially ordered the Bulgarian Energy Holding (BEH) to bring to a halt all activities on South Stream until the project meets all the legal requirements of the EC. In the meantime, the first batch of pipes for the Bulgarian section of the South Stream were delivered by German company Eurotype to the Bulgarian Port of Varna.

No matter how flexible the European Commission could become under new management and with a new team of commissioners, if the Ukrainian crisis adversely affects the flow of Russian gas, it is already clear that South Stream would be delayed both on the onshore and offshore sections with its completion called into question. Noteworthy, analysts at Eurasia Group suggested that South Stream will "remain on hold indefinitely" due to the "worsening relations between Europe and Russia" and it will ultimately leave Bulgaria with no choice but to explore other sources of imported gas and other vehicles of power generation.

US Going Back To Africa. Is It Not Too Late?

Dozens of leaders from African states gathered in Washington for the first time in history at the beginning of August, invited by the White House. For three days they attended plenary sessions, dined and wined at posh receptions, held bilateral meetings with top US officials, including the President, Barak Obama. Apparently, guests were impressed by the sudden attention to African problems.

Why would American foreign policy-makers display a keen interest in Africa which they seemed to have almost forgotten? Why Africa? Why this pivot in the middle of a surge of external challenges to the US leadership in MENA, Afghanistan, Iran, Ukraine/Russia, South America, Asia-Pacific region/China? In all these places around the world Americans appear unable to enforce their views and solutions, assure their state interest as they perceive them, impose horror on their enemies and respect among their allies.

Actually, this is precisely the core reason why the United States started to show interest in Africa.

The US discovered, although this is somehow a belated discovery, that while they were focusing on other regions, they have been completely sidelined in Africa by rampant Chinese penetration. Basically, China and former European colonial rulers are the biggest partners of most of the African countries with a growing Chinese footprint on the continent, especially in the more or less stable and, importantly, in the mineral rich zones. China is involved in an intensified search worldwide for access to mineral resources, in particular oil and gas.

China also has problems with its African policy, and is in its first indirect military clash with the US through proxies in South Sudan (see "Feud In South Sudan Targets Chinese Oil Export", EIRA Volume 2, Issue 5, 2014). But the US, nevertheless, feel being ousted from the continent and, treating it as a challenge to its world leadership, want to restore control over Africa, not ceding the terrain either to expanding China or declining European allies.

The US has proposed to African nations a cooperation package agreement consisting of two basic elements.

The first is an economic program. A new public and private investment program was announced at the summit, totaling $37 billion. It includes US government financial assistance to boost exports and investments. America wants to use the opportunity of economic development in Africa. The continent is the second fastest growing region in the world; it can boast of 6 out of 10 countries around the globe with the fastest growth rates, emphasized US Treasury secretary, Jacob Lew.

Simultaneously, the Unites States are nervous about the spreading of Chinese influence in

Africa. Beijing is successfully using the same tactics there as in Latin America, the traditional US 'backyard'. Thirsty for natural resources and new markets, China is building successful partnerships with Latin America and Africa, largely contributing to their economic and partially social development. In a discreet fashion, avoiding loud public statements and showbiz advertising the Chinese are steadily strengthening their presence on the two continents. They arrive with money and well-knitted tailor-made programs of development. They generate real economic growth. China invests money while Americans "organize receptions", acidly remarked *The New York Times*.

The new US economic package offered to Africa is meant to change that trend and to position the US as a global power thinking locally, bound for cooperation with Africa. Officials in Washington emphatically pointed out that America was proposing a higher quality of cooperation, focused on creating jobs mainly for Africans and aimed at assisting local companies, while China, on the contrary, was providing jobs for Chinese workers and Chinese companies.

The second pillar of the US-sponsored plan is the security dimension of its cooperation with Africa.

Americans are obsessed by the expansion of tough and rough Islam whether it comes under the name of Al-Qaeda or Boko Haram or Al-Shabaab. There are sound reasons for such a preoccupation. The phenomenon of the rise of radical and militant Islam is accompanied by the decay of a number of states: Somalia, Libya, Mali, and Nigeria, to name just a few. The new military, ideological and political realities in many parts of Africa are a game changer setting the scene for the arrival of the New Big Unknown. Even taking into consideration that extreme Islamist movements are mainly targeting the Islamic community, they pose a challenge to the US interest, not to mention that they are deep and unhesitant anti-American champions.

The factor of radical Islam makes the US perceive the complexity of African problems through counterterrorism optics.

During the summit in Washington, African leaders received formal proposals for cooperation in military and security areas. Barak Obama highlighted specially designed programs helping Africa to combat chaos, disorder and extremism. Basically, it amounts to the creation of rapid deployment forces able to intervene in a crisis situation, to be used in peacekeeping missions and as assistance to endangered nations facing breakdown of law and order. The peacekeeping program ($110 million for a period of three years) is earmarked for African nations with some military power at its disposal (Ethiopia, Ghana, Rwanda, Senegal, Tanzania and Uganda), the aid for strengthening security ($65 million in the first year) would go to countries in jeopardy due to attempts to destabilize them (Ghana, Kenya, Mali, Niger, Nigeria and Tunisia). At the core of this approach is the concept that the US will in this way avoid direct military engagement by solely providing training and assistance to its African partner-nations.

Will the concept take off? So far, all the US attempts to place responsibility for security matters on local agencies were not very successful. On several occasions, the very first serious clash has seen the US-trained forces chose to flee rather than fight. It happened in Iraq and Afghanistan; in 2007, HAMAS forces launched an attack on its rivals and the Palestinian National Administration's US-trained police sent to Gaza retreated. Would it be different in Africa now?

Anyway, the US heralded its comeback to Africa. Is it not too late? Will it bring peace and prosperity or a showdown with China? Will it facilitate the outflow of mineral resources, in particular energy resources to the global markets or rupture the export channels as it is happening in Libya? The answers will soon surface.

Iran Ready To Lose Patience But Not Money

The extension of the six-month interim deal (expired 20 July) on easing international sanctions in exchange for Iran's concessions on its nuclear program was apparently intended as a

reassuring gesture to uphold the generally cooperative mood of the ayatollahs. "Cooperative" they are, at least, at present. The talks will continue until a comprehensive agreement on Iran's controversial nuclear program, believed to have a dual purpose, is hammered out by November 24.

It all makes sense in view of the well articulated demand of the six world powers (US, Britain, France, Germany, Russia, and China) to prevent the unilateral emergence of a new nuclear club member. It also reveals the unspoken yearning of big business to get a free access to the Iranian mineral resources and a huge internal market of more than 75 million customers. The purely business interests based on "give-and-take" logic present a powerful lure for Tehran as well.

In the wake of the "interim" success, Mehdi Hosseini, a senior Iranian official in charge of designing new contracts, announced plans to unveil new upstream agreements at a London road-show scheduled for 3-4 November. The main dish offered by Tehran in London could be the reformed oil and gas contract model on which Iranians count as a powerful attraction for foreign investors.

It has been tacitly admitted in Tehran that setbacks in the energy sector development were predominantly attributed to a lack of foreign investment which shied away from the country long before the sanction regime was put in place. The main deterrents were rigid regulations which limited capital in-flow due to a short-terminism approach, the "buyback" abuse and the overall modest rates of return.

As a result of the comprehensive sanctions, the pace of energy sector growth was slowed down. Subsequently, according to OPEC estimates, exploration and production of oil stalled while exports of crude were halved in the past two years. At present, Iran can produce around 3m barrels per day (bpd). Yet, the upbeat forecasts claim that by 2018 the output could be upped to 5.7m bpd.

This is hardly feasible without access to sophisticated know-how and equipment, not to mention transfer of managerial solutions. Having realized the danger of the widening technological gap, the Iranian leadership came to place the correct value and price tag on direct investments from abroad. The rough awakening amid international bans and embargoes forced Tehran to look for alternatives and in the absence of alternatives to accept compromises as the only way forward.

However, there are certain indications that Tehran could be losing patience with its six partner-opponents, striving for a quick fix and a fast lifting of the sanctions. The Iranian pragmatic government managers around President of Iran, Hassan Rouhani, who still have to report to spiritual chiefs and prove they are worth their salt in breaking the stranglehold of sanctions, seem to become overtly prudent and not wanting to put all eggs into one basket. Why?

Given the recent signs of a more belligerent US foreign policy manifested by provocative moves to instigate anti-China sentiments in Asia and the tug-of-war with Russia over the Ukrainian crisis, the Iranian leadership looks for hedging tactics to secure its interests. Tehran shows it is ready to use various options to break through the embargo's walls. The mullahs facing a frustrated populace hit by sanctions are ready to lose patience but not money. Not anymore.

On 5 August, Iranian Oil Minister Bizhan Namdar-Zanganeh signed a Memorandum of Understanding in Moscow aimed at boosting trade and economic ties with Russia. Whether the preliminary deal will culminate in a full-fledged agreement and an assortment of contracts, expected to be concluded after consultation scheduled for early September in Tehran, is yet to be seen. However, both sides displayed confidence. Mr. Zanganeh postulated that "it is the intention of the Iranian government to maintain a long-term relationship with Russia to increase the volume of economic exchange between the two countries."

If Iranian flirt with the Russians comes to fruition, it would constitute a huge barter deal, oil in exchange for goods. Moscow and Tehran will be committed to a five-year trade agreement. Russia will be buying 2.5-3.0 mln per year of

Iranian crude. Noteworthy, the original volumes were reported at some 500.000 bpd, or 25 mln per year. Russians pledged to arrange shipment of Iranian oil. The final destinations would be either China or Africa (South Africa, in particular).

The agreed volumes will hardly make any waves on the global markets. Having said this, it needs to bear in mind that the cooperation in the energy field between two major owners of vast hydrocarbon reserves will set a precedent and the flirt could eventually evolve into a love affair with more serious consequences.

The very news of the potential, still unsigned agreement produced turbulences on the US markets: the number energy major in terms of value, ExxonMobil lost 2.1pc while Chevron went down by 2.4pc, and the Dow fell 188 points.

The scope of trade between Iran and Russia could also expand, as hinted by Mehdi Sanai, the Iranian ambassador to Moscow. Tehran has an interest in purchasing Russian heavy-duty vehicles, metals, rails, grain, and on top of that electronic equipment for airports and equipment for oil prospection and extraction. More relevant to the agenda of multilateral talks on the Iranian atom is the discussed possibility for Tehran to commission Russia to build two more nuclear reactors which will once again put Iran on collision course with the world community.

The strong move by President Rouhani seems to be carefully calculated: since Russia has been subjected to less stringent but formally comparable sanctions by the US an EU, Moscow was placed in the same category as Iran and had no reason to fear reprisals, since they already happened. Moscow was left with no barriers to cross the line of international sanction regime against Tehran. The similarity in positions of the two countries formed basis of a new kind of interaction.

And yet… it all could be a big bluff on the part of Tehran. If taken within the context of the nuclear negotiations under the 6 + 1 format, the MOU signed in Moscow could boil down to a timely reminder that Tehran has an alternative. The Iranian leaders could be sending a signal to the United States and the European Union: if they do not come to appreciate the benefits of rapprochement with Iran, they could be sidestepped and bypassed. This could be deliberate tactics by the mullah-politicians to exert pressure on the parties at the negotiation table by raising stakes and showing that Iran is in no way pinned to the wall.

Qatar Under Fire For Playing Out Of Its League

In recent months Qatar has been once again subjected to severe criticism in the international media for maltreatment of its gastarbeiters coming from Nepal (16% out of the total leased foreign labour force), India and Pakistan (around 50%), Bangladesh, Sri Lanka, Egypt, and the Philippines.

Putting it in retrospective, the volume and level of criticism of Qatar by outside observers remains stable, and yet… The remarkably harsh and almost unanimous lambasting of Qatar for failure to provide decent working conditions for migrant workers, involved either directly or indirectly in the gigantic projects for World Cup 2022 and also in the construction of a brand new urban infrastructure, looks more and more like a premeditated "kill-character" assault to thoroughly tarnish the image of the Gulf monarchy. So far, this is only a hunch but the content analysis provides some hints on whether we witness a deliberate bias or not.

Some arguments are undeniable and some are a bit stretched. Nothing can dismiss the sad fact that 964 foreign workers from India, Bangladesh and Nepal died in Qatar in the time period from 2011 to 2013. Since then, the authorities have formally admitted the losses of human lives.

A more discreet admittance of wrongdoings is found in the decision taken in May by the Qatari government to reform the controversial Kafala system which demands an in-country sponsor for the migrants. Basically, Kafala should be termed as a soft version of serfdom with gastarbeiters left totally at the mercy of employers who often

abuse this acquired position of the de facto colonial master.

However, there is no official repentance of the Qatari government on many counts of gross mistreatment of foreign labour, in particular, the countless accidents on construction sites, horrid accommodation when 10 workers are often crammed into a 16 square meters room (172 square feet) with a broken fan and window sealed with aluminum foil, failure to pay on time and the accumulated arrears, tough regulations which restrict free movement and forbid leaving Qatar at will, etc.

Above all, as one of the richest countries in the region and in the world, Qatar could have paid more adequate salaries than the average of €300 for 8 to 10 hours per day, six days work per week. These meager costs of upgrading the emirate to the splendor of the football capital of 2022 clash with the syndicated volumes of investment to be poured into the construction boom estimated at €150 bn.

In March, the pressure mounted with allegations of a graft scheme used to rig the Fifa selection procedure with Qatar eventually emerging as the winner. The revelations targeted former Fifa executive committee member Mohamed Bin Hammam who allegedly bribed his colleagues to get their support for Qatar's bid.

Sources claimed secret "contributions" to personal wallets from a fund totaling some $5m were made by Mr. Bin Hammam. In particular, Jack Warner, the former vice-president of Fifa, has been allegedly "rewarded" post factum for voting in favour of Qatar with a sum of £720 thousand by a company owned by Mr. Bin Hammam who at one time served as the Asian Football Confederation president. Among other beneficiaries there were members of the African football associations.

Currently, due to a verdict of "conflict of interests" Mr. Bin Hammam is under a life ban from sports. However, the Qatar 2022 organizing committee stands firm on his side rejecting accusations of bribery and saying the official was not involved in the Fifa bidding process in any way.

Meanwhile, the three major sponsors of the event, namely Visa, Adidas and Coca-Cola made public their concerns over the scandalous *expose* which is damaging not only the reputation of Qatar as the host country but of all parties involved.

Above all, Fifa has been repeatedly approached, albeit unofficially, with so far soft and unbinding expostulations to re-run the contest for the World Cup 2022. If it happens, it would mean one thing: stripping Qatar of the privilege. Remarkably, Nick Clegg, the British Deputy Prime Minister, voiced his resolution to kick out the culprits amid rumours that Britain is keen to replace Qatar as the host.

The petro-dollar rich emirate fights back. Western media is accused of "shifting the blame to Qatar in a rather generic manner", retorts a special report prepared by Qatar Foundation, a non-profit organization promoting education science and community development. The authors of the report suggest the critics pay more attention to "the violations by the migrants' own nationals in their countries of origin in addition to those who are complicit in Qatar"; there is also a call to ban the fees paid by would-be migrant workers to recruitment agencies terming them "bribes", as well as focus on the need of proper labour legislation.

The manifested goals articulated in the document cannot be dismissed as wishful thinking for one particular reason: the Qatar Foundation is chaired by Sheikha Moza bint Nasser Al-Masnad, the mother of Qatar's emir. Nevertheless, it is most unlikely that either an improvement in the plight of migrant workers, or failure to prove the corruption case will bring to an end the anti-Qatar media campaign.

The apparently overblown reaction of the media outlets, mostly US-based and British, does not qualify as an instinctive revulsion at the news of wrongdoings committed by the nominally pro-West authoritative regime. It resembles a media campaign which is not solely driven by concerns over the observance of human rights of the gastarbeiters but by geopolitical and geo-economics' considerations.

The Emirate of Qatar has been the mastermind and the chief financier, apart from Saudi Arabia, behind the chain of uprisings leading to the spread of violence, chaos, and rise in prominence of anti-Western jihadist movements all across the MENA region, from Libya to Iraq. The operation "Arab Spring", initially viewed with tacit approval by the United States, ripened controversial fruits of discontent and frustration, activating millions of Arabs and turning them into unruly masses.

The outcome of the sweeping regime-change scenario hardly fits into the original concept of replacing authoritarian rulers with moderate Islamists eager and ready to cooperate with Middle East monarchies and Western democracies. Since then, the uncertainties have multiplied endangering the interests of Western businesses.

Someone had to be blamed and found guilty. Politics and economics organically mingle when it comes to oil and gas rich Emirate of Qatar playing Laurence of Arabia in reshaping the map of the Middle East through arming religious extremists and betting on Frederic and Robert Kagan's doctrine of regime-change. Amid the on-going full-scale war in the Gaza strip, it is noteworthy that Hamas political chieftain, Khaled Meshaal found refuge in Doha, the capital of Qatar.

The miraculous sudden change of guard in June last year when the Emir of Qatar, Sheikh Hamad bin Khalifa Al Thani, handed over power to his son, the Heir Apparent Sheikh Tamim bin Hamad Al Thani, was largely interpreted as a punishment under discreet pressure from "outside players" displeased with the discouraging end-results of the Arab Spring. Yet, the taming of Qatar is not yet over, and this is the unspoken rationale behind the current "name and shame and blame" zeal of the Western media proceeding with its asymmetrical offensive.

On top of the "war of words" comes the news that British energy major Shell is considering a withdrawal from the five-year project to explore for gas in the North Field, part of the Pre-Khuff formation off the coast of Qatar. It seems it is no politics but sheer business. Or is it? The first well drilled by Shell came up dry blowing hopes of a commercially viable production. Today, Shell has announced it had no interest in the second exploratory well. Sounds logical, but mind you, the disappointment with the first well dates back to 2013. What took Shell so long to make up its mind and declare intention of retreat exactly now?

Definitely, the British giant cannot afford to withdraw altogether given the $20 billion investments in LNG business, in particular, in the construction of a liquefaction facility in Qatar. But by lowering its commitments Shell will curtail the prospects of the anticipated surge in local LNG output which is forecasted by Qatari officials to reach 57.1 tonnes by 2015. The relative diminishment in the Qatari LNG supply volumes earmarked for export in the coming years would affect the hierarchy of suppliers and, among other things, offer more lucrative deals to competitors from Australia, East Africa, and probably North America.

To what extent the decision by Shell to withdraw is motivated not by business expediency but geopolitical thinking, is yet unknown. What is more or less evident is that Qatar's 'imperial overstretch' has provoked long-term consequences it can no longer dampen and damage control. Major powers, within and outside the Gulf region, must have agreed among themselves that the recalcitrant emirate is playing out of its league and should be downsized to its actual status.

Open Forum

Latest Developments - Trends In Russian Energy Policy

***By Marika Karayianni**

At present, Russian oil production is growing by less than 1% annually. Because of the nearly stagnating production in the old fields, there is a growing interest in Russian shale oil potential, where the most promising structure is the Bazhenov formation. Currently, shale oil production would not be profitable under an oil price of 120 USD/ barrel. Furthermore, Russia does not possess the necessary know-how for shale oil production, which would be achieved with the help of American oil service companies. IEA is assessing the Bazhenov may hold up to 170 bn barrels of shale oil, able to make Russia a leader in this oil sector. However, the oil is located in very deep depth, around 3 klm, thus making its extraction significantly difficult and expensive.

In the gas sector, Russian LNG export is expected to gain a growing significance in the years ahead. The three biggest projects in the Yamal peninsula, Vladivostok and Sakhalin island are expected to yield results in the medium and long-term future. The biggest project is the Yamal LNG plant with a planned capacity of 16,5 mn tons/year. A problem could be the planned export route from the Yamal peninsula through tankers towards the Asia Pacific region. The Northern route through the Arctic is both shorter and cheaper but it also requires icebreakers, which could significantly raise transportation costs. The realization of the Yamal project is undertaken by Novatek. Due to ice conditions, the exports will be handled between May and October by 4 LNG carriers, two of which have already been ordered to the Korean shipping company Daewoo through the State shipping company Sovkomflot with a loan of VTB Bank. The Vladivostok LNG plant is facing serious problems, due to the lack of financing by Gazprom. The Russian giant has turned to Chinese and Japanese companies offering them up to 49% shares of the project, with no result so far. Finally, in Sakhalin, Rosneft is the operator of the project. The company aims to link the LNG plant with the Khabarovsk-Vladivostok pipeline, however Gazprom and Putin himself seem to prefer the construction of a second LNG terminal with the name Sakhalin 2 (one LNG terminal already exists in Sakhalin island).

A top priority for Russian energy strategy remains to control the gas export routes to Europe, gas-related infrastructure as well as gas storage facilities, particularly in Central Europe. In the event of an acquisition of a power plant or a storage facility, Gazprom is represented in Europe by its subsidiary Itera. In any case, the Russian champion project is and will be South Stream, which however is facing considerable delays due to the EU 3rd Energy Package as well as European sanctions because of the Russian intervention in Crimea.

On the other hand, the ongoing crisis and instability in Ukraine will also negatively affect the Russian economy, given its significant structural flows generated by the low degree of diversification, extreme dependence on raw material extraction for exports and overall lack of investment by the Russian leadership across the country combined with rampant corruption. The crisis deepened the Russian economy flows, thus leading to a number of problems such as the steady devaluation of the ruble, rising inflation, decrease of country ratings and Russian financial assets, as well as a worsening foreign investment climate combined with significant capital flight.

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