

Russo-Ukraine conflict spills over in MENA

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- Russia's invasion of Ukraine has sparked a divided regional response in MENA.
- Countries in the region rely on Russia and Ukraine for wheat, causing potential supply shortages.
- Europe and the US are now looking to the region as the quest to find alternative energy sources to Russian supply begins.

Wheat crisis crops up

With Ukraine exporting half of its wheat supply and Russia contributing roughly 70% of its wheat exports to the MENA region, the conflict poses a serious threat.

- Syria imports a significant portion of Russia's wheat supplies. In the last year alone, Syria imported 1.5M tonnes of wheat.
- The stock of wheat in Lebanon is said to be only enough for a month and a half of supply as Ukraine is the source of 80% of the 600,000 to 650,000 tonnes it imports annually. While the United States is an alternative source, imports require nearly 18 days more to arrive than imports from Ukraine.
 - Additionally, US supply is much costlier than its Ukrainian counterpart.
- Tunisia and Algeria have declared that their wheat supplies are only sufficient for six months at most.
 - Tunisia imports 60% of its wheat from Russia and Ukraine.
 - Algeria is the African continent's second largest consumer of Ukrainian supply.
- Egypt is the world's biggest wheat importer and Russia's second largest customer. It has now started to source Romanian supply as backup to ensure the food security of the country's growing population.
 - Thus, nearly half of Egypt's wheat imports come from Russia and 30% come from Ukraine.
 - The government plans on mitigating the crisis by subsidizing food and energy.

Trade ties with Egypt runs deep

Trade relations between Egypt and Russia have expanded significantly in recent years, amounting to USD 6.2B. Top exports are wheat, seed oils, copper wires, and refined petroleum. With such trade levels, Egypt is considered the largest Russian trade partner in the MENA region.

- In addition, agricultural products make up 80% of exports to Russia from Egypt, making Egyptian agriculture a major sector for exports for the Russian market. Notably, Russian imports from Egypt increased by 55.6% between November 2020 and November 2021 with fruits ranking as top trade products.
- Moreover, major Russian firms like Rosneft, Lukoil, and Lada operate in the Egyptian market with investments of over USD 7.4B. This is in addition to over USD 7B worth of Russian investment in the industrial zone in East Port Said.

Figure 1: Russian Wheat and Maize Exports (USD B)¹

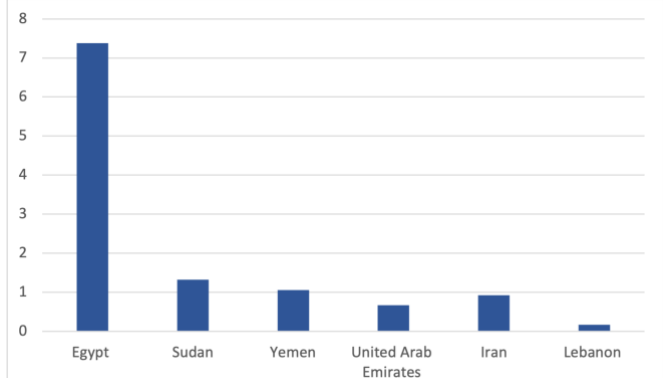


Figure 2: Share of Global Exports in Wheat 2016-2020 (%)²

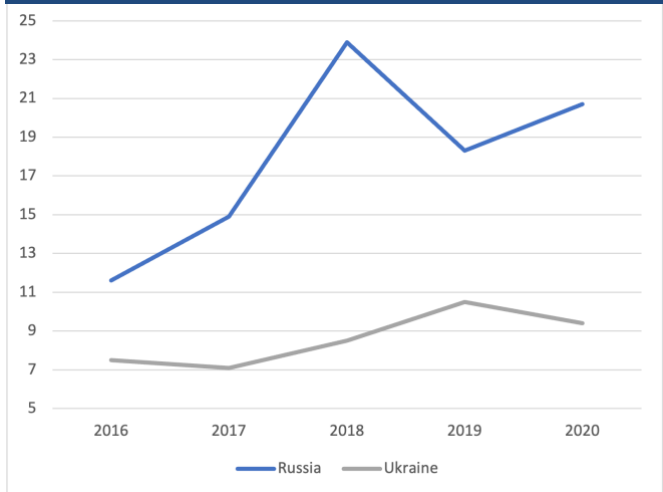
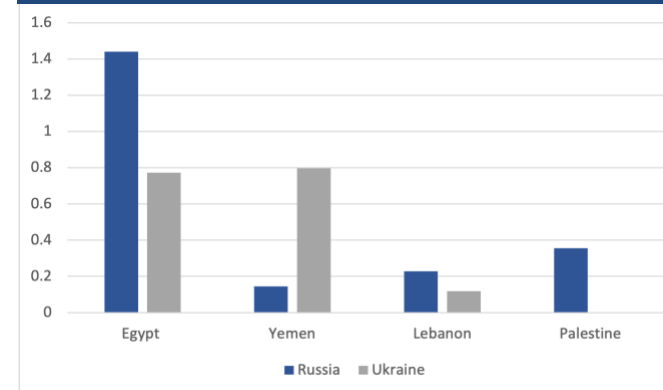


Figure 3: Imports of Wheat from Russia and Ukraine (USD B)³



- While the tourism sector in Egypt began its recovery in 2021 after the COVID-19 pandemic, the crisis is sure to inflict a significant blow.
 - Notably, in 2021, 1.46M Ukrainian tourists visited Egypt, making up 30% of all tourists visiting the Red Sea.
 - The recovery of the tourism sector has also been supported by Russia's decision to resume commercial flights to Egypt last August after a hiatus following a 2015 attack on a Russian plane heading from Sharm-al-Sheikh to St. Petersburg.
 - Albeit, after the attack, the number of Russian tourists dropped by as much as 30%.

¹ Arabia Monitor; Investment Monitor

² Arabia Monitor; Investment Monitor

³ Arabia Monitor; Investment Monitor

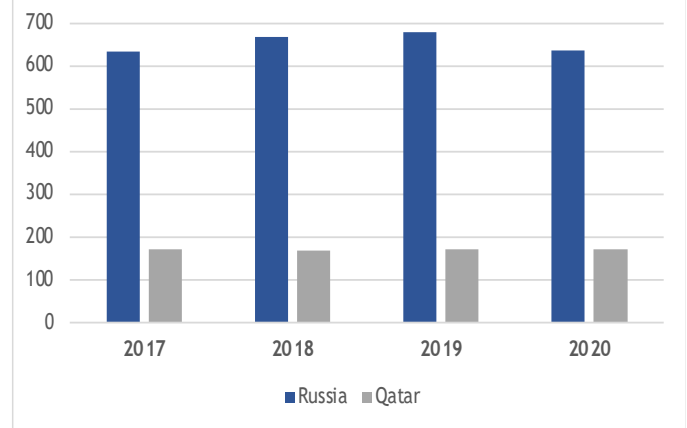
- Egypt seems to maintain a neutral stance as Prime Minister Mostafa Madbouly announced that his country is closely following the crisis and hopes it will be resolved soon.

A delicate balancing act

Gulf states have to maintain a delicate balance between their interests with the US and Russia, with a Gulf Cooperation Council statement affirming the area's 'deep ties' with all parties involved. Other countries in the region are taking a decisive stance.

- Russia continues to be an indispensable partner to many Gulf states -- this is because of its links with regional actors in energy, security, markets, as well as military.
- Saudi Arabia has emphasised its commitment to the OPEC+ agreement with Russia. Crown Prince Mohammed bin Salman confirmed that the Kingdom wishes to keep oil markets stable and emphasised its commitment to the OPEC + deal. Besides their ties as fellow members of OPEC, Saudi Arabia have established closer ties with Russia in various ways, including military cooperation.
- Like many of its Gulf counterparts, the UAE has also chosen to take a neutral stance, with presidential adviser Anwar Gargash stating that his country is keen on encouraging diplomacy and pursuing a 'political settlement' regarding the crisis.
 - The country has long been a hotspot for Russian investment in various sectors, including the military and tourism.
 - UAE Foreign Minister Sheikh Abdullah bin Zayed, in conversation with his Russian counterpart, also stressed the country's willingness to extend bilateral cooperation with Russia in all sectors.
 - The UAE has canceled visa waivers that allow Ukrainians to visit the Emirates for 30 days without a visa - likely an effort to avert refugee resettlement rather than a political stance.
- Meanwhile, Kuwait denounced the violence resulting from the conflict without openly criticising Russia.
- Qatar called for the diplomatic settlement of the crisis for the sake of preserving Ukrainian autonomy and independence.
- Iran has taken a more definitive stance on the conflict with the foreign ministry blaming NATO and the US.
- Lebanon, on the other hand, has condemned Russia's invasion of Ukraine and urged Moscow to halt military operations.
 - It sparked a reply from the Russian Embassy in Lebanon, which claimed it was surprised by the Foreign Ministry's statement, noting that Russia has played a role in Lebanon's advancement and stability.
- The conflict also poses a threat to Syria. Last July, a United Nations Security Council Resolution permitted aid into northwestern Syria through Turkey.
 - Last year also saw a notable reduction in tensions between Russian and American troops

Figure 4: Natural gas production in Russia & Qatar (billion cubic meters) ⁴



in northeast Syria; however, the current conflict could reignite incidents of brinkmanship.

Energy exporters feel the pressure

Up until last week, Russia was exporting 6.5M bpd of oil making it the second-largest oil exporter after Saudi Arabia. Although sanctions on Moscow do not target oil and natural gas exports yet (albeit shipments have been impacted), it has shifted the attention of global demand towards the region as an alternative supply source if Russian supply is interrupted.

- Russia's invasion of Ukraine has resulted in a global surge in energy prices, with the price of Brent crude reaching USD 114 pb before settling around USD 110 pb.
- Gulf oil and gas exporters might seek to increase their influence in the market and gain exorbitant revenues from oil exports.
 - However, with Russia as a defacto OPEC+ leader, the GCC member states are trading carefully.
- With current oil prices remaining at a higher levels than needed to balance most budgets, it is estimated that some member states of the GCC will not witness a budget deficit in 2022 if the price holds.
 - The UAE and Saudi Arabia, which need about USD 67 and USD 72 a barrel pb respectively, are already expected to record a surplus this year. Bahrain is likely to witness a slim surplus, as it needs prices in excess of USD 106 pb.
- Saudi Arabia, the top exporter of crude oil, and Qatar, the leader in exporting liquefied natural gas (LNG), have seen a surge in demand for their energy supplies with the US asking for additional supply. However, their capacity to meet demand remains in question.
 - Despite pressures to increase oil production, Saudi Arabia has shown no interest in increasing production to match market demand. Especially considering their position alongside Russia in Opec+ as well as the Kingdom's growing relationship with Moscow.
 - Qatar has also made it clear that it cannot increase LNG output if Russia was to turn off the taps.
 - Qatar's energy minister also stated that it would be impossible to replace Russian supply to Europe. The majority of Qatar's LNG supply is locked in long-term contracts with (a majority of) Asian buyers; the

⁴ Arabia Monitor; Statista

country can only divert 10-15% of this supply to Europe. In contrast, Russia provides 30-40% of supply to Europe.

- Algeria already plays a significant role in the gas market as Africa's largest natural gas exporter, exporting gas through the Maghreb-Europe Gas Pipeline through Morocco to Spain and Portugal, and the Medgaz pipeline directly to Spain.
 - Eni, an Italian energy company and one of the country's biggest foreign energy producers, has various long-term contracts with Algerian gas monopolist Sonatrach (as well as take-or-pay gas contracts with Russia's Gazprom).
 - Sonatrach has announced that its pipeline in Italy has spare capacity to increase exports to Europe. The Transmed pipeline,

can be used for additional supply if the crisis worsens.

- Despite this, Sonatrach stated that increasing supply would be contingent on the availability of a surplus of LNG, noting that it can only offer a maximum of 2-3 million additional cubic meters.
- Algeria is eager to cement its position in the global energy market as a reliable and stable gas producer. Sonatrach previously announced its plans to invest USD 40B over the next five years in the exploration, production, and refining of gas.

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