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Saudis offer Russia secret oil deal if it drops Syria

Saudi Arabia has secretly offered Russia a sweeping deal to control the global oil market and safeguard Russia's gas contracts, if the Kremlin backs away from the Assad regime in Syria.



OPEC raised production by 400,000 barrels per day to 29.7m Photo: AP

By **Ambrose Evans-Pritchard**
12:00PM BST 27 Aug 2013

The revelations come amid high tension in the Middle East, with US, British, and French warship poised for missile strikes in Syria. Iran has threatened to retaliate.

The strategic jitters pushed Brent crude prices to a five-month high of \$112 a barrel. "We are only one incident away from a serious oil spike. The market is a lot tighter than people think," said Chris Skrebowski, editor of Petroleum Review.

Leaked transcripts of a closed-door meeting between Russia's Vladimir Putin and Saudi Prince Bandar bin Sultan shed an extraordinary light on the hard-nosed Realpolitik of the two sides.

Prince Bandar, head of Saudi intelligence, **allegedly confronted the Kremlin with a mix of inducements and threats in a bid to break the deadlock over Syria.** "Let us examine how to put together a unified Russian-Saudi strategy on the subject of oil. The aim is to agree on the price of oil and production quantities that keep the price stable in global oil markets," he said at the four-hour meeting with Mr Putin. They met at Mr Putin's dacha outside Moscow three weeks ago.

"We understand Russia's great interest in the oil and gas in the Mediterranean from Israel to Cyprus. And we understand the importance of the Russian gas pipeline to Europe. We are not interested in competing with that. We can cooperate in this area," he said, purporting to speak with the full backing of the US.

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The talks appear to offer an alliance between the OPEC cartel and Russia, which together produce over 40m barrels a day of oil, 45pc of global output. Such a move would alter the strategic landscape.

The details of the talks were first leaked to the Russian press. A more detailed version has since appeared in the Lebanese newspaper As-Safir, which has Hezbollah links and is hostile to the Saudis.

As-Safir said Prince Bandar pledged to safeguard Russia's naval base in Syria if the Assad regime is toppled, but he also hinted at Chechen terrorist attacks on Russia's Winter Olympics in Sochi if there is no accord. **"I can give you a guarantee to protect the Winter Olympics next year. The Chechen groups that threaten the security of the games are controlled by us,"** he allegedly said.

Prince Bandar went on to say that Chechens operating in Syria were a pressure tool that could be switched on an off. "These groups do not scare us. We use them in the face of the Syrian regime but they will have no role in Syria's political future."

President Putin has long been pushing for a global gas cartel, issuing the 'Moscow Declaration' last month "defend suppliers and resist unfair pressure". This would entail beefing up the Gas Exporting Countries Forum (GECF), a talking shop.

Mr Skrebowski said it is unclear what the Saudis can really offer the Russians on gas, beyond using leverage over Qatar and others to cut output of liquefied natural gas (LNG). "The Qataris are not going to obey Saudi orders," he said.

Saudi Arabia could help boost oil prices by restricting its own supply. This would be a shot in the arm for Russia, which is near recession and relies on an oil price near \$100 to fund the budget.

But it would be a dangerous strategy for the Saudis if it pushed prices to levels that endangered the world's fragile economic recovery. Crude oil stocks in the US have already fallen sharply this year. Goldman Sachs said the "surplus cushion" in global stocks built up since 2008 has been completely eliminated.

Mr Skrebowski said trouble is brewing in a string of key supply states. "Libya is reverting to war lordism. Nigerian is drifting into a bandit state with steady loss of output. And Iraq is going back to the sort of Sunni-Shia civil war we saw in 2006-2007," he said.

The Putin-Bandar meeting was stormy, replete with warnings of a "dramatic turn" in Syria. Mr Putin was unmoved by the Saudi offer, though western pressure has escalated since then. "Our stance on Assad will never change. We believe that the Syrian regime is the best speaker on behalf of the Syrian people, and not those liver eaters," he said, referring to footage showing a Jihadist rebel eating the heart and liver of a Syrian soldier.

Prince Bandar in turn warned that there can be "no escape from the military option" if Russia declines the olive branch. Events are unfolding exactly as he foretold.

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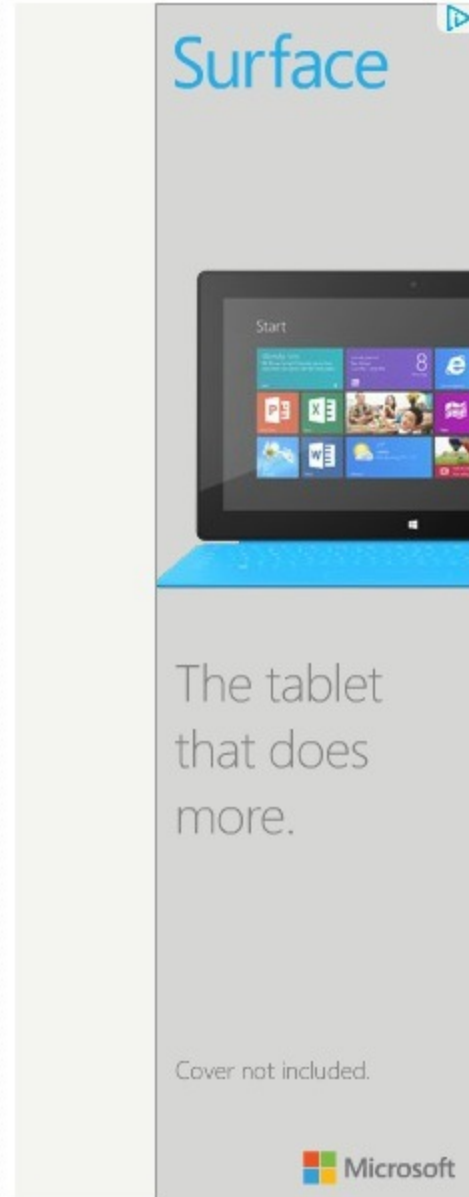
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