FEATURE: Syria seeks to rebuild oil and gas industry, but needs western backing

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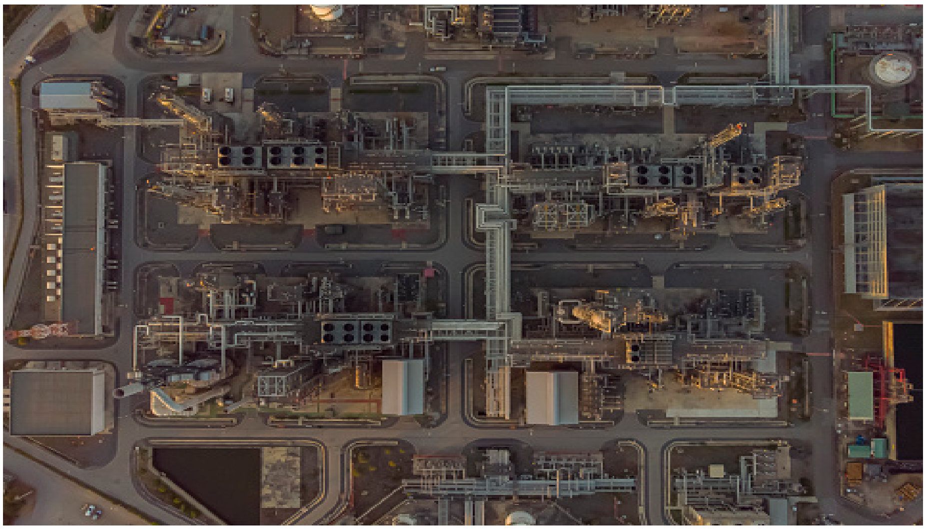
Author: Lauren Holtmeier, lauren.holtmeier@spglobal.com | EN

Crude oil | Gasoline | Petrochemicals



Syria’s oil industry, along with its agriculture sector, was once the lifeblood of its economy, with international majors like Shell and TotalEnergies investing in the country.

But 14 years of war have crippled Syria’s ability to produce and refine its crude oil, as international companies have exited, and harsh western sanctions that remain in place will make it extremely difficult to restore it to its former glory.

Before the onset of the civil war in 2011, Syria pumped around 380,000-400,000 b/d of crude -- enough to meet its domestic consumption and supply some barrels to the international market. It also produced 316 MMcf/d of natural gas, according to US Energy Information Administration data from 2015.

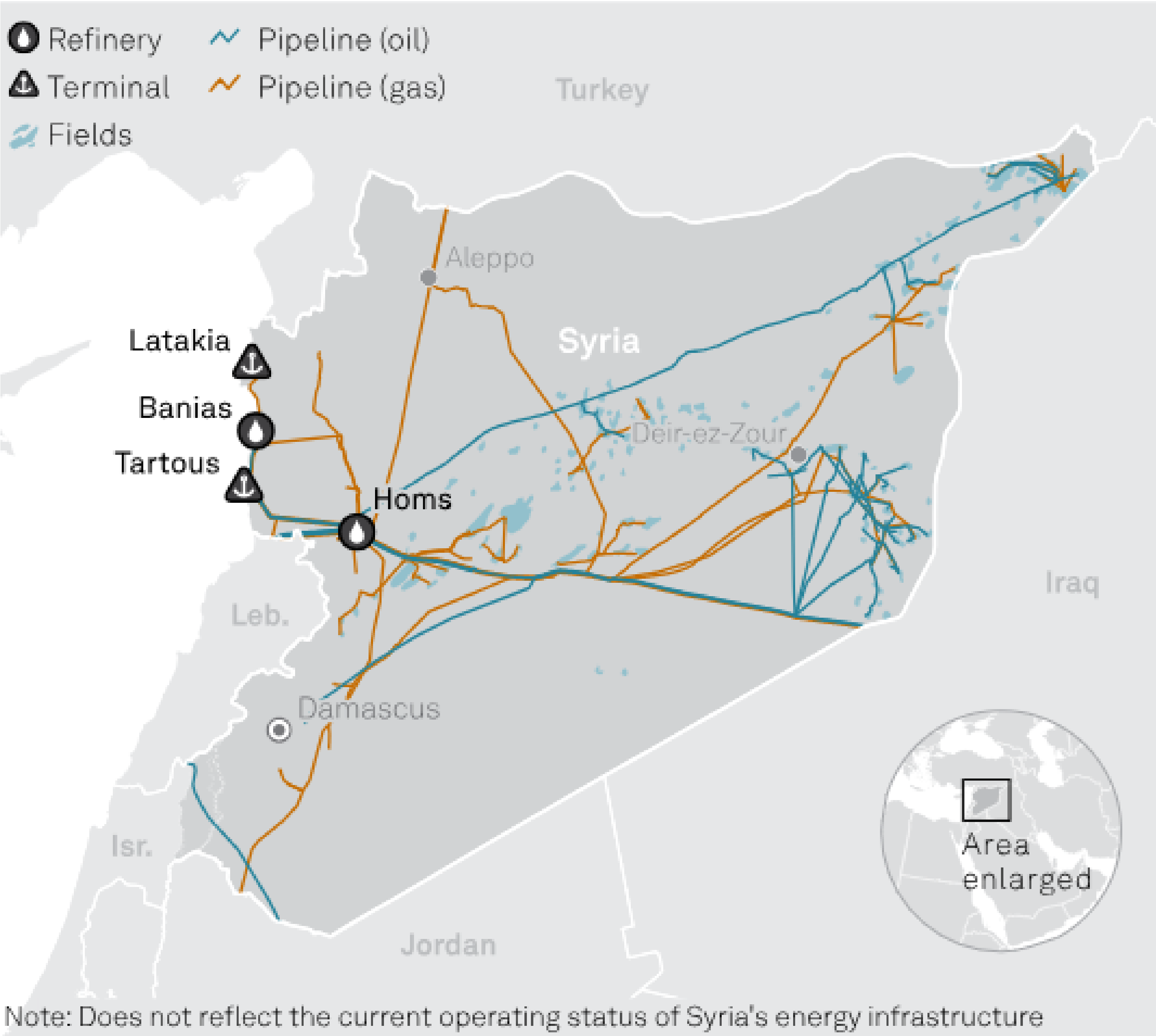
However, Syria’s oil and gas fields and infrastructure have been badly damaged and neglected, and crude production now stands between 80,000-100,000 b/d, according to various estimates. The loss of output had made Syria highly reliant on supplies from Iran, which had backed former dictator Bashar al-Assad.

That dependence, in part, led to some sanctions being levied on Syria. Now, heavy US, UK and EU sanctions remain in place as the country and its many factions – some with alleged ties to terrorism and are themselves sanctioned groups -- sort out Syria’s future in the wake of Assad’s overthrow, while neighboring countries jockey for influence.

Advocates say that lifting sanctions on Syria is crucial to kickstarting reconstruction and that oil and gas revenues could be a major source of revenue to fund rebuilding efforts that may cost between $250 billion to $400 billion.

“A revitalized oil and gas sector is critical for moving the needle in terms of providing significant revenue to fund early recovery, to accelerate reconstruction and to support the huge humanitarian needs of the Syrian people,” said John Bell, the managing director of Gulfsands, a London-headquartered oil company that was forced to declare force majeure on their operations in Syria as a result of UK sanctions.

Syria's oil and gas infrastructure



Credit: CI Content Design
Source: S&P Global Commodity Insights Midstream Data, EIA

In the absence of western companies, non-state actors, including the Islamic State militant group and the Kurdish People's Defense Unit (YPG) –which now controls Gulfsands' Block 26 -- as well as Russia's private military organization Wagner Group, have for years profited from Syria's main oil fields in the northeast and in central Syria where smaller reserves are located.

As the Islamic State was beaten back by an international fighting force, the US-backed, Kurdish-led Syrian Democratic Forces began to take control of the northeast oil fields in 2017.

Now, HTS, the group currently ruling Syria, is vying for control over SDF territory, and the SDF have said they are open to transferring control of oil resources if the distribution of wealth is fair.

Oil governance

Syrian oil minister Ghiath Diab recently told CNBC Arabia that the country aims to begin exploration and production activities soon and looks to welcome international oil companies back.

Bell said that for Gulfsands to return if sanctions are lifted, the various groups vying for control of Syria need to stand up strong central institutions to manage the sector – a prospect that could take time.

“The central institutions, including the Ministry of Oil and Mineral Resources, the Syrian Petroleum Company and the General Petroleum Corporation, need to centrally manage and control the oil,” Bell said. “We can’t have a black market controlled by the YPG anymore.”

Other companies, like Canada’s Suncor, Shell and Total that also declared force majeure, are also unlikely to rush back in, industry officials say. Whether or not contracts signed with the previous government remain valid is another complicating factor.

TotalEnergies, which ceased operations in 2011, declined to comment. Shell and Suncor did not respond to requests for comments.

“The terms of the contract have, by default, changed because they don't apply to the situation anymore,” said Christina Abi Haidar, a lawyer and independent energy consultant.

With many years passed, the legal and financial situation has changed dramatically, and degraded assets once owned by the oil majors will require high rehabilitation costs. The force majeure clause should lead to negotiations between Syria and these companies regarding the existing contracts, she said.

Sanctions in focus

For now, western sanctions are the major roadblock to rebuilding the country. Syria's two main refineries, state-backed Syria Trading Oil Company, or Sytrol, and the oil ministry all remain under US sanctions. Some of these sanctions may not be easily peeled back by executive order, making doing business with Syria harder, analysts say.

Additionally, HTS remains designated by the US as a foreign terrorist organization, which criminalizes any “material support” to the group, from goods and services to advice.

Alex Zerden, the founder of risk advisory firm Capitol Peak Strategies, described the multiple layers of sanctions as a “Gordian knot” that extends across state institutions, banks, industries, individuals and rebel groups – and the state of Syria itself.

While the EU and UK, and to a lesser extent the UN, also have various sanctions still in place, diplomatic sources and analysts have told Commodity Insights that many sanctions-imposing countries are waiting to follow US President-elect Donald Trump’s lead once he takes office Jan. 20.

The EU has said it will begin discussing lifting sanctions at the end of January, and UK Foreign Secretary David Lammy said the British government is reviewing its measures “alongside allies” and wants to see an “inclusive government” in Syria.

The outgoing Biden administration in the US has issued a sanctions exemption that allows for humanitarian assistance, including energy, to enter the country, as well as trade and payment of petroleum and petroleum products.

But the scope is narrow, and tailored licenses, like the carve out issued by Biden, are often too intricate for industry players to understand and trust they won’t accidentally fall on the wrong side of US law, analysts and oil officials say.

The exemption, which is in effect for six months, will not help with any genuine reconstruction efforts in the oil and gas sector, said Rachel Ziemba, the founder of energy consultancy Ziemba Insights.

“It’s a step in the right direction, as it helps aid and some government-to-government links,” she said, “but it doesn’t address the underlying issues.”