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Russian Investment in Syrian Phosphate: Opportunities and Challenges

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Introduction

In 2019, one year after signing a contract with Stroytransgaz Logistic company to operate the state-owned General Company for Phosphate and Mining near Palmyra, the Syrian government signed two additional contracts with the Russian private company to run the state-owned General Fertiliser Company (GFC) in Homs and to manage the commercial Tartous Port. These contracts were ratified by the Syrian Parliament and are considered as a Public-Private Partnership (PPP) under Law 5 of 2016 to modernise and rehabilitate inefficient public enterprises. From a Russian perspective, privileged long-term investment contracts in lucrative sectors serve Russia's long-range geopolitical goals in the region. This comes at the expense of the Syrian state, which will be losing 70-75% of the revenues of phosphate exports and of the returns of Tartous Port to its Russian partner for the next 40-50 years. However, Russian investment in Syria faces a series of challenges, making the phosphate sector less profitable than expected.

While analysts regularly point out that Russia is grabbing Syrian's natural resources, including phosphates, as a compensation for its costly military intervention in Syria, the question remains how it will manage and invest in these resources and at what cost. This paper begins with a description of Russia's investment in Syrian phosphate and its production stages. It then addresses the main security

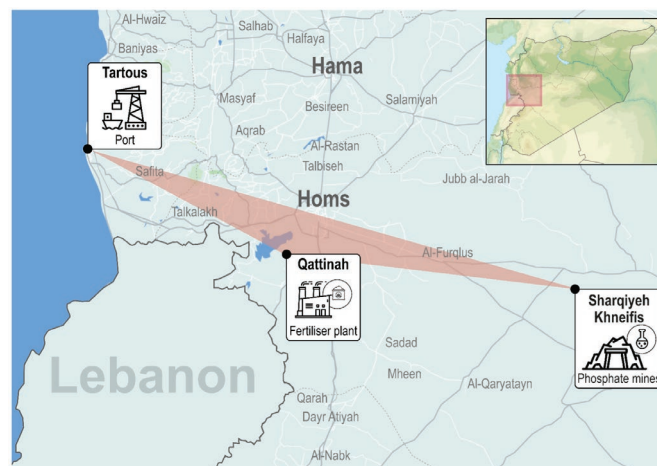
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and economic challenges facing the Russian investment, including the means to protect the production chain in an insecure environment and the consequences of privatisation on the socioeconomic situation of Syrian workers. The paper is based on secondary literature and on a dozen interviews with Syrian workers, employees and military members involved in the phosphate production chain between June and December 2020.³

Russian Investment in Syrian Phosphate

Russian interest in Syria's phosphate dates back to the 1950s, when a Soviet mission discovered phosphate in the Syrian desert. However, this interest only materialised into investment contracts three years after Russia's military intervention in Syria in 2015. The main Russian contractor, the Stroytransgaz Logistic Company (STG), is a private Russian company owned by a sanctioned Russian oligarch and friend of Putin's, Gennady Timchenko. STG has been subject to US sanctions since the takeover of Crimea by Moscow in 2014.⁴ It is one of the few Russian companies that started operating in Syria in 2005, in line with the debt settlement agreement between the two countries, through which 73% of USD 13.4 billion Syrian debt was cancelled.⁵ STG's previous business in Syria and its political connections to Moscow qualified the company to sign three contracts in 2018 and 2019 to ensure its monopoly on phosphate production and the export chain from the mines and the fertiliser plant in the Homs governorate to the exporting port of Tartous (see Map 1).

Map 1 – Phosphate Production and Export Chain



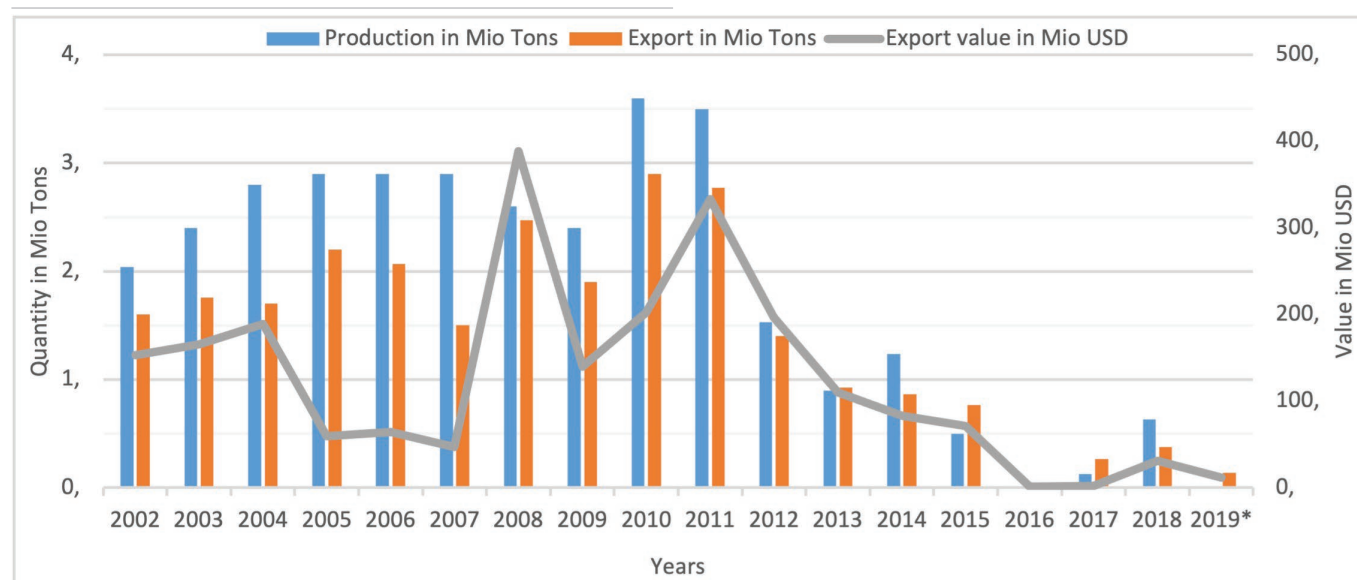
Source: the authors

Phosphate is a lucrative sector for investment in a resource-rich but destroyed country. Syria's phosphate export ranked 4th or 5th worldwide between 2008 and 2011. Yet the extracted phosphate made up less than 0.17% of Syrian reserves, due to the lack of modern technology, machinery and financial resources, and to mismanagement.⁶ Production reached its peak in 2010 with 3.6 million tonnes, before a sharp decline since 2012 (Graphic 1) as a result of the war and the massive destruction of infrastructure, especially the water and electricity infrastructure. The control of the phosphate mining area by Islamic State between 2015 and 2017 led to the cessation of production in 2016. Before 2011, two-thirds of the Syrian phosphate production was intended for export and was therefore an important source of state revenues in foreign currencies. Phosphate exports went mainly to Lebanon, which continued to be the largest import country until 2016.⁷ Since 2011 however, exports have decreased due to both the decline of production and the impact of sanctions.

3. All interviews quoted in the paper were conducted via social media by Azzam Al-Allaf. To ensure the safety of all the interviewees living in Syria, names and place of residency have been withheld.
4. Chloe Cornish, Asser Khattab and Henry Foy, "Moscow Collects its Spoils of War in Assad's Syria", *Financial Times*, 1 September 2019, <http://on.ft.com/3qOjqJ8>. The Syria Report, "Factsheet: Stroytransgaz in Syria", 6 April 2020, <http://bit.ly/3qOjtoi>
5. Before 2011, STG was contracted by Syrian State entities to build a major gas pipeline and two gas processing plants east of Homs. The Syria Report, "Factsheet: Stroytransgaz".

6. Sukrat al-Alo, "The Iranian-Russian Conflict on Syrian Resources: The Case of Phosphate" (in Arabic), *Al Jazeera Centre for Studies*, 18 July 2018, <https://bit.ly/2YdDRTi>
7. UN Comtrade Database, <http://bit.ly/39Vyvyle>

Graph 1 - Production and Export of the Syrian Phosphate (2002-2019)



Source: Collected and calculated by the authors⁸

In March 2017, the Syrian governmental forces regained military control over the phosphate mines, with the support of Iran and Russia. Earlier that year, the Syrian government had signed a memorandum of understanding with Iran to invest in phosphate mines. But six months later, it awarded Russia's STG an exclusive contract to annually extract and sell 2.2 million tonnes of phosphate from the Sharqiyeh mines for a period of 50 years, with only a 30% share for the Syrian state-owned General Establishment for Geology and Mineral Resources (GEGMR).⁹ Russian takeover of phosphate may be seen as a kind of power-sharing agreement with Iran, which

expected to get exclusive investment contracts in other sectors.¹⁰ Since June 2017, STG has worked on rehabilitating phosphate plants in Sharqiyeh and Khneifis, by employing Syrian engineers and skilled workers under Russian supervision.¹¹ This restoration process was reflected in a slight resumption of production in 2018 and 2019. Further reconstruction work took place later in cooperation with the Syrian government and the private Syrian construction company, Yara Geology and Investment LLC. By October 2020, rehabilitation of a phosphate washing plant in Sharqiyeh was completed, and 70% of the reconstruction of plants in Khneifis had been completed, including the factory for producing dried and washed phosphate, a railway for phosphate transport, and the first repair work of electricity networks.¹² Today, phosphate production far from reaches its 2011 level (3.3 million tonnes), but the potential for growth is high.

As phosphate extraction represents only the first stage of the production chain, STG signed two more exclusive investment contracts with the Syrian government in

8. The calculations are based on mirror data of UN Comtrade Database (Ibid) and data of the Syrian Statistical Bureau (<https://bit.ly/3sNcrlk>). According to the Financial Times, exports in 2019 reached 460,000 tonnes, a number higher than the international official trade data. Cornish, Khattab and Foy, "Moscow Collects its Spoils of War in Assad's Syria".

9. The contract between STG and the GEGMR was signed officially in 2018. The agreement limits the investment to a specific block that has reserve of 105 million tonnes. Total reserve of the Sharqiyeh mines amounts to 1.8 billion tonnes. The Syria Report, *ibid*.

10. Sinan Hatahet, "Russia and Iran: Economic Influence in Syria", *Chatham House*, March 2019, <https://bit.ly/39eJEyn>

11. Interview with a worker at a phosphate mine, 11 June 2020.

12. The Syria Report, "Government Awards Phosphate Mining Contract to Mysterious Serbian-Omani Shell Company", 28 October 2020, <http://bit.ly/3peJ9tG>



2019; to take over Syria's fertiliser production complex in Homs and to manage the commercial port of Tartous. According to the first contract, which was ratified by the Syrian Parliament in February 2019, STG should, within two years, invest USD 200 million in restoring the three outdated factories of the state-owned General Fertilisers Company (GFC). In return, STG would enjoy a 65% share of revenues for 40 years, with the possibility of extension. No reliable information exists on the actual volume of the investment. The Director of the state-owned General Company for Chemical Industries described this public-private partnership as a "good deal" for both sides; the Russian company would restore and modernise the factories and maintain employment.¹³ However, in 2020, production at the fertiliser plant was still low, reaching about 400 tonnes of fertilisers per day compared to about 1,000 tonnes per day before 2011. The modernisation of the production line seems to have been limited by sanctions, which prevent the import of new machines.¹⁴ This decline in local production has increased imports, leading to a rise in prices of fertilisers and thereby triggering a wave of dissatisfaction from farmers and landowners.¹⁵

In April 2019, STG signed a similar contract with the General Company of Tartous Port to operate the port – near the permanent Russian naval base – for 49 years. The company committed to invest USD 500 million to construct and expand the port within six years and increase its capacity from 4 to 38 million tonnes, thus providing the capacity to host big sea freights.¹⁶ STG's share of the port's revenues amounts to 65%. Despite the drop in export activities since 2011, the revenues of Tartous Port reached SYP 11.3 billion (USD 24.5 million at the rate of USD 1 for SYP 460 in the black market) in 2018.¹⁷ As reported by a port worker, "*the port is used mainly by the Russians to export the phosphate by Russian ships to unknown direction(s).*"¹⁸ From 2017 onwards,

Serbia surprisingly emerged as a main import partner. Serbia serves as a go-between for other importing countries, which prefer to avoid dealing directly with a sanctioned Syria: this is also a way to avoid sanctions being imposed on STG. In October 2020, it was reported that the Syrian Parliament ratified a contract signed between the GEGMR and the Serbian company Womeco, to extract phosphate from the Sharqiyeh mines. Womeco is officially owned by Serbian and Omani firms, but probably acting as a cover for unknown Russian investors.¹⁹

These exclusive contracts between a private foreign company with close connections to the ruling circles in Moscow and Syrian state-owned companies should be viewed as more than a reward for Russia's support to the Syrian regime. They also help the Syrian government, which faces a series of socioeconomic and financial challenges and is unable, for the moment, to invest in this field. They do, however, deprive the Syrian state from considerable revenues and increase the country's economic dependence on Russian companies.

Business-Military Intertwining

The areas of phosphate production and transport are highly protected by Russian and Syrian military and security forces, mainly the Fourth Division – which is led by Maher al-Assad and considered close to Iran –, the Russian-backed Fifth Corps and the Wagner security company. The phosphate mines are indeed located in an insecure area, which has repeatedly been the target of Islamic State (IS) attacks since Russia took control over the mines in 2018. IS's sporadic and rapid attacks in the Syrian desert on the outskirts of the mines killed hundreds of regime soldiers, including those from the Fifth Corps and the Fourth Division. In addition to these human losses, the need to protect both the mining zone and main roads increases the cost of production and undermines the profit of STG's business.

The intense security presence in the mines and their surroundings may be attributed to the Russian investor's eagerness to fully supervise the extraction of crude phosphate in its first stage. As of late 2020, security forces are deployed in two circles. First, the vicinity of the Sharqiyeh and Khneifis phosphate mines is protected

13. Horrya Press, "After the Phosphate, Russia Seizes the Sole Syrian Fertilisers Company" (in Arabic), 4 November 2020, <https://bit.ly/3c93QU8>

14. Interview with a technical employee at GFC, 10 June 2020.

15. Interview with a worker at GFC, 18 June 2020.

16. Muhamad Rakan Mustafa, "Al-Watan Publishes the Details of the Syrian-Russian Agreement for the Port of Tartous" (in Arabic), *al-Watan*, 25 April 2019, <https://bit.ly/3pfl9a1>

17. Al-Khabar, "Director of Tartous Port tells TV-Al-Khabar" (in Arabic), 10 January 2019, <http://bit.ly/3a1HnFV>

18. Interview with a worker at Tartous port, 6 July 2020.

19. The Syria Report, "Government Awards Phosphate Mining Contract to Mysterious Serbian-Omani Shell Company".



over a distance of about one hundred kilometres, mainly by Russian fighters from the Wagner security company, who report directly to Russia's Hmeimim base.²⁰ Second, the surrounding area in the countryside of Homs and along the highway Deir ez-Zor-Palmyra, the area most exposed to attacks, is controlled mainly by the Fourth Division and the Fifth Corps, through military and security checkpoints spread around villages and on all main and secondary roads. Members of the Fifth Corps seem privileged, as they receive two types of salaries, one paid in SYP by the Syrian military administration, and compensations paid by the Russian military in USD.²¹

Phosphate transport from mining zone to fertiliser factories and to Tartous Port is protected by convoy protection services known in Syrian slang as *tarfiq*. This activity existed before 2011 but became more organised after 2015, when private security companies owned by regime cronies started offering protection. In 2018, the Fourth Division commanded a monopoly over *tarfiq* in the phosphates business through private security companies owned by businessmen with tight connections to either the Fourth Division or the Russian military.²² Two companies are particularly active in protecting phosphate convoys: the first is owned by the influential businessman Kheder Ali Taher, who is affiliated with the Fourth Division;²³ the second is the Sanad Protection and Security Services LLC, which was founded by Russia and in which Kheder Ali Taher and retired officers connected to Russia are said to be involved.²⁴ Consequently, the regime's business cronies and loyal military personnel are benefitting financially from the Russian investor who pays the convoy protection costs.

The protection business is an extension of the business-military relations' pattern in pre-war Syria's political economy. It indicates a further privatisation of the security sector, which weakens state sovereignty and empowers the regime's elite and non-state armed security groups. The *tarfiq* arrangement between the Russian company and the Fourth Division also illustrates cooperative, rather than competitive, relations between Russia, Iran and the regime.

3. Privatised Multi-level Management: A Source of Discontent for Workers

The public private partnership has established a dual administrative structure: STG dominates the management and decision-making levels, including employment issues, through a Russian central public administration, while a Syrian administration is responsible for the implementation and monitoring of the workflow only.²⁵ The centralised, top-down management approach imposed by the Russian administration to deal with Syrian managers and workers has resulted in communication problems between STG and Syrian employees. To solve these problems, in 2019 STG contracted a Syrian private company, Sada Energy Services, which is owned by the businessman Kheder Ali Taher – also involved in *tarfiq* business.²⁶ As a legal agent of STG in the fertiliser factories and the port of Tartous, Sada contracts Syrian workers and pays their salaries on behalf of STG.

In 2020, the Russian administration supervised about 5,000 workers and employees involved in the phosphate production chain, respectively 1,000 in the mines, 1,500 in the fertiliser factories and 2,500 in the port.²⁷ The Russian investor first faced the problems of widespread corruption, favouritism and disguised employment that reigned in the three state-owned enterprises. As stated by a worker at a fertiliser factory, *“the Russians are precise and disciplined at work and do not accept disorder and*

20. Interview with an officer serving in the Homs area, 5 June 2020.

21. According to an officer in rural Homs in June 2020, the Syrian military paid the equivalent of USD 20-40 monthly in SYP and the Russian military paid USD 100 for soldiers and USD 300 for officers.

22. For more information about *tarfiq* and the involvement of the Fourth Division, see Ayman Aldassouky, “The Economic Networks of the Fourth Division During the Syrian Conflict,” Research Project Report, (Florence: European University Institute, Middle East Directions, Wartime and Post-Conflict in Syria, 24 January 2020), <http://hdl.handle.net/1814/65844>

23. Aldassouky, *ibid*.

24. Manhal Baresh, “Private Security Companies in Syria: New Agents at the Regime's Service”, Research Project Report, (Florence: European University Institute, Middle East Directions, Wartime and Post-Conflict in Syria, 10 September 2020), <https://bit.ly/39h32eh>

25. Interviews with workers and employees at a phosphate mine, at GCF and Tartous Port, June and July 2020.

26. Interview with a person close to the regimes, 13 August 2020.

27. Before STG's takeover, the number of workers and employees was estimated between 3,000 and 3,600 in Tartous Port, 3,000 in fertiliser factories and 1,500 in the phosphate's mines. Aliqtisadi, “The Fate of Workers in Tartous Port” (in Arabic), 3 March 2020, <https://bit.ly/3o9Q06o>

corruption.”²⁸ STG therefore started to reduce ‘unneeded’ employees, while keeping the qualified workforce. For instance, at the fertiliser plant, three months after its take-over, the Russian company laid off half of the workers, who had been hired based on favouritism or who continued receiving salaries without going to work.²⁹ In the mines, STG has been able to bring back many of the previous qualified workers, regardless of their political orientations. One of them reported he returned to work in 2018 under Russian protection, despite the fact that he was wanted by a Syrian security agency.³⁰

STG has also faced increasing complaints from Syrian workers. As shown by several workers’ protests and strikes at the fertiliser plant and in Tartous Port in 2019 and 2020, workers’ complaints are primarily related to working conditions, salaries and employment contracts. After STG started operating the state-owned companies, Syrian employees and workers were told by the government they would preserve all their rights and advantages as employees in the public sector, based on Law 50/2004, including their salaries, incentives, refund of meals, free transport, health and social insurance, pension salary and work protective clothing.³¹ However, in June 2019, Tartous Port’s workers were offered new contracts based on labour law 17/2010, which regulates employment in the private sector and is less protective than the law for public employees.³² By February 2020, all port workers were laid off and offered new employment contracts with the private company Sada.³³ Only 2,500 of them have

signed the new contracts, while about 1,000 have not, due to their disapproval of the terms or due to administrative obstacles, such as compulsory military service.³⁴ In response to the continuing strikes in the port, the Minister of Transport declared a new administration of Tartous Port in November 2020.³⁵

In addition to the less advantageous employment contracts, the nominal wages of the Syrian workers and employees at the Tartous Port and GCF have decreased by about 40% one year after the STG took over the management.³⁶ Given the high inflation rates and constant depreciation of the SYP since October 2019, the decline in real wages can be estimated at more than 60%.³⁷ Furthermore, workers reported salary cuts without clear explanation. They accused the private company Sada of embezzlement.³⁸ A number of employees interviewed confirmed that Sada would receive salaries from STG in USD and pay them in SYP at the official exchange rate, which is less than the value of the SYP in the black market, allowing Sada to illegally benefit from the price difference. Workers increasingly distrust Sada and demand direct communication with the Russian company, without an ‘intermediary.’ Their appeal to the government for support and protection ended with the threat of layoffs. According to a worker at Tartous Port, “the Ministry of Transport doesn’t protect the rights of the Syrian worker, but the interest(s) of the Russian company.”³⁹ Interestingly, workers resorted to the labour union to defend their rights and to mediate with both the Syrian government and the Russian investor.⁴⁰ By comparison, the situation of workers in the phosphate mines seems less difficult. They receive two salaries: one from STG (USD 50 or 100, according to rank),

28. Interview with a worker at a GFC, 18 June 2020.

29. Interview with an administrative employee at GCF, 22 June 2020.

30. In the mines, most of the workers hail from the surrounding towns which hosted many opponents to the regime during the 2011 uprising and fled to Free Syrian Army-held areas or to Turkey when IS took control over the mines in 2015. Most of them had worked in mining for years. Interview with a worker at a phosphate mine, 9 June 2020.

31. Industry News, “With the Start of the Rehabilitation Contract of the Fertilizer Company, the Russian Company: These are the Advantages and Rights of “Fertilizer” Workers” (in Arabic), 2019, <https://bit.ly/2Y9vc4e>

32. For more information about employment contracts, see The General Company of Tartous Port, “According to the contract signed between the General Company for the Port of Tartous and STG Engineering Ltd., No.22 dated 28/04/2019, ratified by Law 16 dated 17/06/2019 for the operations and investments in the Port of Tartous. A picture of the permanent individual contract in accordance with labour law No.17/2010” (in Arabic), Facebook, 18 February 2020, <https://bit.ly/2TzPt0A>

33. Interview with a worker at Tartous Port, 6 July 2020.

34. Ibid.

35. Wasim al-Adoui and Mada Aloush, “The Minister of Transport at the People’s Assembly (in Arabic), *Sana*, 18 November 2020, <http://bit.ly/3iKfwy2>

36. At GCF, the salary of engineers declined from SYP 250,000 to 150,000 in June 2020 and the workers’ wages decreased from 100,000-150,000 to 80,000. Interviews with an employee at GCF, 10 June 2020 and with a worker at Tartous Port and member in a Labour Union, 7 July 2020.

37. The SYP on the black market passed from SYP 662 to the US dollar at the end of October 2019 to SYR 2,800 in June 2020.

38. Interviews with a worker at a GFC, 18 June 2020 and with a worker at the Tartous Port, 6 July 2020.

39. Interview with a worker at Tartous Port, 6 July 2020.

40. Interviews with employees and workers at GCF and Tartous Port, June and July 2020.



and one from GEGMR with the same amount of money, including social and health insurance and pension.⁴¹ However, they complain about the lack of mine safety measures and protective clothing.⁴²

The resumption of phosphate production and export has neither benefitted workers nor increased state revenues. On the contrary, the privatisation in this sector has led to further marginalisation of many workers and their families. The government intervention in support of the Russian company and Sada is a good example of how the rights of workers are easily ignored. Moreover, the state apparatus serves as a ‘security agent’ for these private companies, protecting them from any disturbances or social demands. The state acts as an intermediary for foreign capital, while ensuring the enrichment of a bourgeois class linked to the regime.

Conclusion

The exclusive investment contracts between the Russian STG and the Syrian government in the phosphate sector may be considered a manifestation of how President Putin’s close clique is seeking to benefit from Russia’s military presence in Syria. Syrian-Russian relations have existed for decades, but these new partnerships might bolster Russian geopolitical goals in Syria; through its investment in phosphate, Russia has cultivated a presence both in the coastal region and in the hinterland, where mines are under its military and security supervision in partnership with the Syrian regime. These partnerships might also augur a new stage in bilateral economic relations for the next five decades. They are advertised as a “good deal” by Syrian officials in Damascus, as they are expected to support economic recovery in Syria under sanctions, and in the absence of international companies or Western donors.

However, the Russian investment in Syria faces many challenges, which calls into question the sustainability of its modus operandi in the long-term. The lack of security around the mines and on the country’s main roads, the difficulty of modernising equipment, unresolved management problems (employment contracts and salaries) in state-owned companies and the involvement of private Syrian companies owned by businessmen linked

to the regime (both in the security and managerial field) increase the costs of the investment. These challenges slow down the continued low production levels. Sanctions on STG and on Syria also limit phosphate exports, although attempts to circumvent these sanctions seem to work (through a Serbian company).

Moreover, the privatisation in the phosphate sector triggers more socioeconomic problems. This process cannot be traced back to conditions of war and sanctions, it is rather a continuation of the pre-war neoliberal course, which re-allocates income and resources in favour of the regime’s business cronies. The public-private partnership at work in the state-owned companies involved in the phosphate chain is having a negative impact on the Syrian economy and state revenues. It increases injustice and places socioeconomic pressure on thousands of employees. The recent workers’ protests and strikes in Tartous Port are an indicator of the growing dissatisfaction and a warning sign of instability in the absence of a reliable state.

41. Interview with a worker at a phosphate mine, 15 December 2020.

42. The interviewees at phosphate mines hesitated to give further information.

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