# Delta Crescent Energy: Refining U.S. Stabilization Strategies in Northeast Syria

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Brief Analysis

**If the Biden administration moves forward with canceling the company's license, it will need to prepare for increased military and economic pressure in the northeast amid further encroachment by Russian personnel.**

On December 31, the U.S. sanctions waiver granted to Delta Crescent Energy will expire, thereby ending the company's efforts to help local partners in northeast Syria stabilize their economy through the oil trade. The Biden administration declined to renew the license last spring. If Delta Crescent withdraws and Washington does not have an alternative plan in place, the resultant vacuum will create a path for the return of the Russian-controlled company Gulfsands Petroleum, which had prewar contracts to operate in Syria and reportedly aims to enforce them. This would leave U.S. and allied troops in the northeast increasingly vulnerable to Russian incursions. It would also undermine American efforts to economically isolate the Assad regime. How did this predicament come to pass, and what can policymakers do to preserve U.S. goals in the area?

## Who Owns Northeast Syria's Oil?

Before the war, Gulfsands was granted contracts to extract oil from some of the most productive fields in northeast Syria (as detailed below, the firm was not yet Russian-owned). By 2011, the fields it oversaw were pumping around 25,000 barrels of crude per day, part of the roughly 200,000 barrels in total daily output that various actors produced from the country's main oil areas in Hasaka and Deir al-Zour provinces. Most of this crude was then shipped west to the coast for refining. Yet once the European Union and Washington began levying heavy sanctions against the Assad regime, Gulfsands declared force majeure and suspended its operations.

By 2014, the regime had been expelled from eastern Syria, and most of the region's oil fields and wells were captured by the Islamic State (IS). The oil provided the terrorist group with a key source of revenue, generating around $1.5 million per day according to a 2016 *Financial Times* estimate. Yet this financial pipeline was severely curtailed once the U.S.-led coalition began bombing the fields.

IS also constructed thousands of primitive, environmentally destructive "stills" to refine oil for its own use (e.g., fuel for automobiles and home heating). These stills became so widespread that they can be seen from space, as black scars on the Syrian landscape.

## Did Delta Crescent Energy Fail?

By 2019, IS had lost all of its territory in Syria, and the Kurdish-led Autonomous Administration of North and East Syria (AANES) had gained control over most of the area's oil fields and, by extension, most of the country's proven reserves. Due to extensive coalition airstrikes and general disrepair, daily output from these fields had plummeted to a fraction of prewar levels. Yet the AANES and its main military arm, the Syrian Democratic Forces (SDF), have still managed to pump some 20,000-40,000 barrels of oil per day, most of which they trade with the Assad regime in exchange for both cash and refined oil products that are sent back to them at a markup.

The AANES relies on these revenues and products to meet salary requirements and dispense development assistance, food, and fuel to residents in its territory. But the arrangement has always been uneasy, in part because most of the SDF's trade with the regime takes place under the table. By early 2021, Damascus reportedly owed the AANES-backed Jazeera Oil Company $150 million for past sales, leading to a brief suspension of all trade between its territory and the regime zone.

The AANES also trades some oil to Iraq's Kurdistan Regional Government (KRG), though it only receives around $22 per barrel for those sales—a quarter of the current market rate for Brent crude. With heavily damaged infrastructure and few other export options, authorities in the northeast have been unable to restore prewar production levels, secure market-rate buyers, or improve the low quality of their oil products. Hence, when oil prices cratered in 2020, the AANES was hit hard, running a deficit of around $35 million at current official exchange rates.

Given these limitations and the coalition's interest in improving the area's economic stability, Washington and other actors took steps intended to increase AANES oil production levels and sale prices. On April 8, 2020, the U.S. Treasury Department granted a rare sanctions waiver to Delta Crescent Energy, empowering the newly formed company to help the AANES reduce its dependence on the Assad regime by exploring deals to export crude oil through Iraq or Turkey. According to its OFAC license, Delta Crescent was expected to negotiate export agreements on the AANES's behalf and provide advice on rehabilitating damaged oil fields. In return, the company was to receive $1 per barrel from the deals it generated. Had the arrangement gone according to plan, it promised to be a win-win for everyone involved—the cash-strapped AANES would get technical expertise to revitalize its oil industry and generate crucial revenue, while Washington would reduce illicit oil sales that provide fuel and revenue to the Assad regime.

This April, however, the Biden administration announced that it would be terminating Delta Crescent's license, with U.S. officials expressing dissatisfaction over the company's lack of tangible progress. At the time, no oil had been exported aside from preexisting arrangements with Damascus and the KRG. Yet company leaders disagreed with this assessment, noting that they had signed export agreements with three companies that planned to transport

AANES oil to Basra, Iraq, for export further abroad.

When Delta Crescent first received the waiver, its core team consisted of three members: John Dorrier, a former Gulfsands executive, brought extensive knowledge of Syria's oil industry; Jim Reese had a background in conflict-zone security; and James Cain, a former political appointee under George W. Bush, knew how to open doors inside the Beltway, especially in Republican circles. This may have looked like a dream team to the Trump administration, but Cain's connections likely proved disadvantageous in a Democratic administration, while Reese's controversial public statements on Syria may have made Delta Crescent even less palatable.

Yet despite publicly announcing that Delta Crescent would have to cease work in Syria, the Biden administration has quietly granted it several temporary extensions since April. These extensions have been described as a formality meant to help Delta Crescent "wind down" operations, but they also give the company a lifeline and open the door to reversing the waiver decision. Indeed, the security, humanitarian, and political consequences of this summer's Afghanistan withdrawal may have made the administration hesitant to cede leverage in other conflict zones.

## The Dangers of Allowing an Oil Vacuum

If Delta Crescent is forced to withdraw and no U.S.-approved alternative takes its place, oil development in Syria would merely change hands—presumably to the Russian-controlled Gulfsands Petroleum—and sales to the Assad regime would likely increase. For years, stringent international sanctions prevented Gulfsands and most of its competitors from returning to Syria; although the company still defended its long-term rights to certain fields, it did not challenge the general policy of divestment. This March, however, Gulfsands made an abrupt about-face after the Waterford Group, an investment firm with close ties to the Kremlin, became its majority shareholder. The company has since been touting the "world-class assets" in northeast Syria, signaling its intent to resume operations there soon. As a Russian venture, it would not face the same incentives to direct oil away from Damascus—rather, the deals it forges would likely enrich the regime by providing an increased flow of cut-rate oil from the AANES.

This scenario might also put U.S. military assets at risk. Russian technicians and security teams would almost certainly need access to the same oil fields currently defended by U.S.-trained critical petroleum infrastructure guards under the SDF's auspices. U.S. military troops make regular visits to the fields as well, for training and other purposes. If an increased Russian presence disrupts or jeopardizes this activity, it could threaten the fragile security situation in the northeast, limit the viability of the U.S. advise-and-assist mission, and undermine the State Department's stabilization efforts. The Syria Transition Assistance Response Team (START) and the U.S. Agency for International Development have invested hundreds of millions of dollars in the area, and they rely on the current security framework to keep a lid on various hostile actors.

This year, for example, IS successfully attacked a gas pipeline in regime-held territory and dozens of power facilities in Iraq, but U.S.-trained forces prevented similar attacks in northeast Syria. Iran's militia proxies could likewise exploit any new holes in the U.S. security umbrella, as they have already done in south Syria.

## Policy Recommendations

The core goals of the original plan—reducing oil sales to the Assad regime, increasing the AANES's refining capacity, and fortifying the area against an IS resurgence—remain worthwhile. Accordingly, the Biden administration needs to assess how best it can achieve those goals with or without Delta Crescent, while also clarifying its objectives and procedures for using private industry to undergird aid and development projects in sanctioned countries.

**Clarify application processes, metrics, and timelines.** Neither Delta Crescent nor the American public was ever clear on what the company's "advise and assist" mission was supposed to look like in practice. Early ideas to refine oil were left by the wayside, and the mission's timeline was never defined. Thus, while terminating the waiver may be defensible, many of the issues that led to that decision could have been avoided by clearer, more consistent government communication to Delta Crescent employees and the public.

**Directly increase refining capacity.** The Defense Department should consider allowing SDF personnel to use existing U.S. mobile refineries in the northeast. This remains Washington's easiest option for increasing the territory's refining capacity, isolating the Assad regime economically, and limiting the use of low-tech stills, which continue to cause environmental destruction and impede local wheat production. Since the Pentagon already owns the necessary equipment, the costs would be minimal and easily absorbed by the Counter-ISIS Train and Equip Fund.

**Explore alternative waiver recipients.** Although the Pentagon is currently best positioned to boost refining capacity in the northeast, a private company could still play an important role in getting Syrian oil to market. With appropriate waivers and guidance from the Treasury Department's Office of Foreign Assets Control (OFAC), a U.S.-supported firm could pick up where Delta Crescent left off, selling oil through Iraq and limiting the Assad regime's access to these resources. Thus, even if renewing Delta Crescent's license is no longer feasible, knowledgeable sources indicate that another U.S. firm could help the Jazeera Oil Company secure favorable export deals if action is taken quickly.

**Deconflict with Gulfsands.** Regardless of what happens with Delta Crescent or alternative U.S. companies, Washington should consider communicating with Gulfsands Petroleum sooner rather than later. Specifically, the Biden administration should make clear that U.S. forces will remain in northeast Syria for the near future, and that any Gulfsands personnel seeking entry to oil fields in the area will need to cooperate with U.S. and allied units responsible for guarding these areas.

**Look beyond oil-based solutions.** Concentrating more humanitarian aid in Deir al-Zour would give the struggling province a crucial economic lifeline. Similarly, increased funding for START stabilization programs across the northeast would help the AANES generate new jobs and revenue without relying on oil funds. Amid uncertainty about the future of the region's oil industry, these programs are more vital than ever to stabilizing the area and staving off hostile actors.

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