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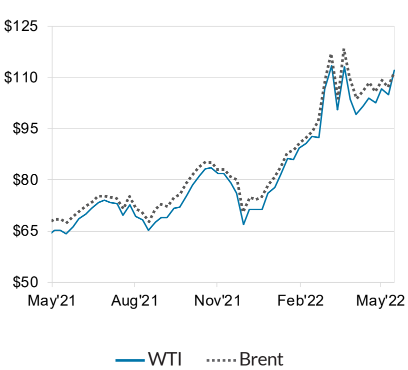
BRENT, WTI PRICES 2021-22 ($/bbl)



Source: CME, ICE

THE BIG PICTURE

US Climate Mantle in Peril

- *Washington's leadership on climate looks vulnerable as stumbling blocks to aggressive action pile up at home.*

- *Many observers believe the administration's climate focus has exacerbated a muddled reaction to rising oil and gas prices.*

- *Sharpened US vulnerabilities — on climate action and high prices — come as the private sector is also rethinking its previously charted decarbonization pathway.*

After four years of the US sitting out — if not actively opposing — climate action, the intense focus of the administration of US President Joe Biden on UN climate talks last year was intended to send the message that the US was back. The US, with the EU, delivered a widely subscribed pledge on reducing methane emissions while Climate Envoy John Kerry and his Chinese counterpart Xie Zhenhua presented a joint climate action plan, assuaging fears that fraught relations between the two superpowers would scupper any chances of coordination. But six months later, US leadership on the energy transition is dragging, as domestic opposition to climate action festers.

On the one hand, the Biden administration's climate lens is still very much in evidence: The Department of Energy has a massive budget for investing in future technologies, and has announced plans to establish hydrogen "hubs" under the auspices of $8 billion in infrastructure funding and $2.25 billion for new carbon storage projects. US Energy Secretary Jennifer Granholm told a Politico Live event this week that "we need to make sure there's offtake" for hydrogen projects, and that will require passing production tax credits currently in legislative limbo.

But addressing emissions is about both investing in low- and zero-carbon technologies, and reining in emissions from existing sources. And in the US, regulations seem out of the question. Hopes for a legislated — and therefore more permanent — fee on leaked methane, a carbon tax, or a carbon border adjustment have been all but dashed as congressional progress on those fronts has sputtered out.

Even the Biden administration's pace of regulation — under executive authority not crimped by Congress — has appeared sluggish. The US Environmental Protection Agency (EPA) is developing new methane standards for oil and gas, for example, but is yet to release a proposal for the meatiest portion of the rule: targeting existing operations. US EPA administrator Michael Regan told lawmakers during a congressional hearing this week that the EPA is closely tracking voluntary industry emissions reductions efforts but did not speak to timing of the rulemaking.

Overheated Politics

In part, that's because unlike in other countries, politicking around the energy transition has become a part of the culture wars, with little buy-in from the right that fossil

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fuels should play a diminishing role in the energy sector in years to come. Once-bipartisan areas of agreement — things like energy efficiency and even carbon capture — have become controversial. Republican lawmakers complain the Biden administration is trying to "shame" the oil and gas industry. Dozens of public comments against the Securities and Exchange Commission's (SEC) climate risk disclosure rule deride it as "woke" policy.

The stalemate complicates Washington's ability to coordinate already tricky climate issues with partner countries. Last week, Canada's natural resources minister, Jonathan Wilkinson, was asked how Canada — a country with a carbon price set to escalate in the coming years — can navigate the issue of pricing carbon with its largest trade partner. "It is, as you will appreciate, a bit more of a complicated subject because they do not have an explicit price," he told reporters. "You would have to develop some kind of methodology for imputing a price from either regulatory measures or spending measures."

Headwind or Tailwind?

Some focused on sustainability worry publicly and privately that the attention to today's oil and gas crunch and the search to replace declining Russian output will necessarily detract from the action needed to convert the global economy to zero- or lower-carbon sources. It's a situation the Biden administration found itself in as oil prices rose last year, with officials wary of calling for more oil and gas supply — but also misfiring on messaging when they attempted to do so, a problem the administration is still grappling with.

Recently, the administration put pressure on the Democratic majority of the Federal Energy Regulatory Commission to soften the edges of its climate-focused rewrite of natural gas infrastructure rules, which came out just as the White House was promising to backfill Russian supplies to Europe. But it has since stopped short of publicly embracing a wholesale overhaul of the policy in line with what the gas industry says is necessary to meet new European demand.

Still, the US is attempting to put its thumb on the scale of the transition when it comes to financing and corporate action. The SEC is working on climate risk disclosure rules to match those of its counterparts in other countries. And in development financing, Washington is not only pushing for larger-scale deployment of renewables but for an accelerated retirement of carbon-intensive sources, particularly coal. Last year, several countries worked on a project to wind down coal use in South Africa and the US is pushing for similar deals in India, Indonesia and elsewhere, the Treasury Department's top climate adviser John Morton told a conference Tuesday.

But not everything is moving in that direction. Last week, investment manager BlackRock said it would not support prescriptive shareholder resolutions — those setting specific net-zero targets, for example. At the state level, there's an effort to punish money managers that withhold investments from fossil fuel companies. And internationally, this year's climate negotiations are shaping up differently. Host country Egypt wants international oil companies to have a seat at international climate talks this year — something they didn't have at Glasgow.

The optimistic view is that today's high prices should "create a tailwind, an impetus to action," as Morton said this week. "If we respond smartly this could be the last time the world has to deal with a fossil fuel supply shock like the one that we're facing now." Brussels is arguably amplifying that message the loudest: The REPowerEU plan released Wednesday calls for increased energy efficiency and accelerating the rollout of renewables to make up 45% of energy supplies by 2030. By contrast, the US' megaproducer status — and polarized politics — means that view struggles to get traction in the US.

The reality is that policymakers in the US and around the world must be focused on both issues simultaneously: drawing out more production to deal with today's supply crunch while working on policies that speed along decarbonization to avoid the worst effects of climate change. But in Washington, at least, these policy maneuvers are often seen as at odds with one another — undermining the Biden administration's ability to deliver on either.

Emily Meredith and Bridget DiCosmo, Washington

GEOPOLITICS

Russia Strikes Back, But Reach Limited

As the US and EU pursue new ways to target Moscow's revenues, Russia is hitting back with new countermeasures, halting gas supplies to Bulgaria and Poland and sanctioning Gazprom's former European subsidiaries. The impact of such measures has been limited so far. But it could grow bigger should European gas buyers and Moscow hit any stumbling blocks in implementing an apparent compromise agreement on gas payment mechanisms. Moscow is also expected to respond to any possible EU ban on its oil, although how is unclear. Washington has also raised the possibility of a price cap or tariff on Russian oil exports.

• **The risk of a gas cutoff over the payment issue is falling as key buyers near a compromise solution.**

Regardless of Russia's key motivation to unilaterally impose a new payment scheme for pipeline gas buyers from "unfriendly" European countries, the move has created some division within Europe, including over the viability of a complete halt of Russian gas imports anytime soon. For Moscow, a divided Europe that's also facing rising social discontent over high energy prices is a welcome development — seen as potentially helping to ease sanctions pressure as Moscow's invasion of Ukraine turns into a protracted war.

The EU and its heavyweight members Germany, France and Italy are not ready for an immediate embargo on Russian gas, fearing it would damage their economies more than Russia's. Instead, importers there appear to have reached a compromise with Russia that would allow them to pay for gas supplies under Moscow's new two-step procedure without breaching EU sanctions against Russia's central bank. The CEO of Germany's EnBW, Frank Mastiaux, said in an interview with *Suddeutsche Zeitung* on May 18 that his company has already tested the mechanism.

A day earlier, Italy's Eni revealed it was opening two special convertible accounts at Gazprombank, one in euros and the other in rubles, as required by Moscow. Invoicing and payment will continue in euros, which will then be converted into rubles by a clearing point agent operating at the Moscow Exchange without any involvement of Russia's central bank, Eni said. Risks remain, however, as the European Commission says the opening of a ruble account breaches sanctions.

Brussels also insists that payments be considered final when they are made in the currency — euros or dollars — stipulated in the contract. Here Moscow appears to have compromised: Eni said it has clarified with Gazprom Export that the payment obligation will be deemed satisfied by Eni upon the transfer of euros consistent with the contracts. Moscow had previously insisted that payment is only complete when Gazprom receives the rubles.

Buyers that are less dependent on Russian gas imports and/or ready for a faster divorce with Russia might still reject Moscow's payment scheme, like Poland and Bulgaria did in late April. Finland's Gasum, for example, has said it won't pay under Moscow's new rule and will take its contract to arbitration. High prices mean Moscow isn't likely to feel the pain from any moderate drop in export volumes. And in the short run, buyers that have been cut off will still likely buy at least some Russian molecules from traders or on spot.

• Russian countersanctions cut off former Gazprom units from cheaper supply contracts — but gas flows have remained steady.

European buyers already cut off include Gazprom's former trading and distribution units, controlled by the Gazprom Germania holding company, taken over by Berlin in early April. Russia has imposed blocking sanctions on Gazprom Germania and its 29 subsidiaries registered in Europe and elsewhere, which means they can no longer buy Russian pipeline gas or LNG at preferential terms under long-term contracts, forcing them to pay a higher price on spot markets. One of the blacklisted importers, Germany's Wingas, tells Energy Intelligence it now procures gas at various European hubs and is maintaining contractually agreed supplies to its customers.

Russia also blacklisted Europol Gaz, the owner of the Polish section of the Yamal-Europe gas pipeline to Germany, meaning Gazprom can no longer flow gas through it. But Gazprom had used the route sporadically over the past several months, shipping only marginal volumes. Combined, the measures have not triggered any sharp declines in overall gas flows.

• Anticipating an EU oil embargo, Russia plans to develop infrastructure to target new markets.

Hungary, Slovakia and the Czech Republic are seeking an up to three-year exemption from any EU embargo of Russian oil, which is so far blocking agreement. Failure by the EU to agree a unanimous position could move decision-making to national levels. The Slovak government, for one, has proposed a special tax on processing Russian crude, which could help the 1 million barrel per day Druzhba pipeline stay operational.

Any exemption period could be used by Russia to develop infrastructure for exports to other regions. A detailed infrastructure plan is to be prepared by the government by Jun.1, but sources say one of the options to replace the Druzhba pipe is connecting it to the port of Murmansk on the Barents Sea for onward shipments to global markets, including via the Northern Sea Route. Construction could take three years and state support would be needed, including on financing: Loans on domestic markets are expensive and access to international institutions is blocked.

President Vladimir Putin, calling Europe's plan to ban Russian oil and gas "economic suicide," promised such support at a meeting with industry this week, saying the government would do everything it could to help companies improve logistics chains, provide credit resources and insurance services, and develop oil-field service technologies.

• Finland and Sweden's decision to join Nato points to further breaks, and possibly escalation.

Russia's InterRAO halted electricity supplies to Finland on May 14 because no payments had been received since May 6. Finnish grid operator Fingrid cited InterRao's Nordic subsidiary as saying payment problems were behind the halt, although the move also coincided with Finland's shift in favor of joining Nato. Putin said that Finland and Sweden's decision to become Nato members does not represent an immediate threat for Russia, but that Russia would react to "the expansion of the military infrastructure" on the territories of those countries.

The alienation between Moscow and Helsinki looks set to grow in any case. State-owned Finnish generator Fortum Oyj last week announced plans for "a controlled exit from the Russian market," while gas supplies to Gasum could stop at the end of this week, the Finnish company said, following its refusal to accept the Russian payment system.

Staff Reports

COUNTRY RISK

Lula Still Leads in Brazil, But Bolsonaro Gains

- *Former Brazilian President Luiz Inacio "Lula" da Silva is leading polls ahead of presidential elections this October, but incumbent Jair Bolsonaro is making up ground.*
- *High fuel prices have emerged as a campaign trail flashpoint, and driven leadership reshuffles.*
- *Lula is leaning toward the center and is expected to preserve key parts of the industry's status quo if elected, but incremental changes could bring headaches.*

The Issue

Upcoming presidential elections will be crucial for Brazil, a fast-growing global producer whose low-cost, low-carbon presalt barrels have attracted global majors' investments. Center-right rule since 2016 — despite Bolsonaro's poor handling of the Covid-19 pandemic and Trump-like populist takes — has been good for the oil industry, with broad access to acreage and relaxed local content laws. At Petrobras, an efficient, market-centered approach has turned the formerly debt-strapped company into a cash-generating machine. But Lula, left for dead politically after the Car Wash corruption scandal, is back on the scene after a judge vacated his charges. Rival Bolsonaro has also recovered from his lowest poll numbers and could still pounce on a second term.

State of Play

Lula, president from 2003-11, has solidified a once-remote comeback. The politician is tacking to the center to mount a broad cross-party push to oust Bolsonaro, signing on center-right former Sao Paulo Governor Geraldo Alckmin as his running mate. His campaign launch speech called for "governing as an act of love" and for "fascism to be returned to the sewer of history." Aggregated Brazilian polls put Lula well ahead of Bolsonaro in recent surveys, at 43% to 32%. But that's an improvement for Bolsonaro, who trailed 40%-25% in a November poll. Lula has stumbled at times in his first Internet-era campaign trail, making his share of gaffes and pushing further on social issues — including abortion — that could lead to a backlash, especially in Brazil's increasingly important evangelical voting bloc.

On energy, Lula takes a center-left approach to the oil sector that sees hydrocarbons as a key force for national development, recently calling pre-salt oil "our passport to the future" to fund "health, education and science." But few peg him as a hard-liner. "Lula sees the importance of the business community and understands the importance of investment for Brazil to continue to be competitive," says Valentina Sader, at the Atlantic Council's Latin America Center in Washington. While a clean energy supporter, Lula has shown no signs of adopting a more dramatic climate-focused agenda like new Chilean President Gabriel Boric or Colombia's leading presidential candidate, Gustavo Petro, who plans to halt oil exploration.

Observers see Lula leaving key elements of the status quo intact, unlikely to rip up contracts or impact massive investments in progress by Petrobras and international oil companies, according to Andre Fagundes, with Welligence Energy Analytics. But Lula has spoken of plans for a larger Petrobras less focused on profitability and more oriented toward jobs and national development — aiming to serve the Brazilian people, not "large foreign shareholders." More incremental changes affecting competitiveness on issues like taxation, permitting or local content could impact future investments.

Fuel-Price Furor

Sharply higher fuel prices have surged as the main energy issue in the race. Lula has vowed to change Petrobras' current policy on market pricing (under his rule, prices were subsidized, helped by Brazil's commodity windfall of the 2000s). Bolsonaro, sensitive to the electoral risk, has denounced Petrobras profits on higher oil prices and has taken pains to be seen addressing the issue. This drove Bolsonaro toward a major reshuffle in energy sector positions, including a new mines and energy minister in Adolfo Sachsida, a close adviser to Economy Minister Paulo Guedes, as well as a new Petrobras CEO.

But changing Petrobras' pricing policy, which follows international movements with some buffers, is easier said than done. It would require action by Congress (where Bolsonaro's populism clashes with free-market political allies), a change in Petrobras bylaws or recommendation from antitrust regulator Cade, the Eurasia Group told clients in a note. More likely, Petrobras would stretch the limits of current rules by holding prices steady as long as possible — "balancing that with the risk of private players failing to import diesel and gasoline given the mismatch between domestic and international prices," the consultancy said. Sachsida has also formally requested studies to fully privatize Petrobras and pre-salt governance entity PPSA. But there is broad skepticism this would materialize before the election.

Devil in Details

The international oil industry tangled with Lula and his successor Dilma Rousseff during their terms. Access to prime pre-salt acreage and steep local content requirements were some of the largest conflicts, with the latter causing huge cost overruns and bottlenecks that proved fertile ground for corruption later uncovered in the Car Wash scandal. Some of these concerns are less relevant as Brazil's industry has matured. Petrobras retains a leading role in the pre-salt with its massive set of 15 greenfield FPSO projects. Today, majors' portfolios are stuffed with exploration acreage from past sales.

But some finer points could still bring headaches that, depending on the severity, could weigh on future investments. Industry will be closely watching the important Repetro industry tax benefit, periodically up for renewal, as well as future bid round plans. Lula may be less receptive to industry pleas to simplify business red tape, which still makes Brazil a tricky place to operate despite advantages. Fagundes expects still-pending Petrobras divestments to halt under a Lula administration, potentially driving a scramble to complete deals beforehand. Tighter local content regulations, permitting snags or Petrobras contracting strategy changes could impact ease of operations and competitiveness. One contractor told Energy Intelligence that while Brazil is his company's strongest global market, the situation might be different in a year with Lula in power.

A second Bolsonaro term would continue his market-oriented sector approach and Petrobras' focus on efficiency and cash generation. He'd also be expected to advance more measures to promote competition, like a reform bill passed last year to bring more players into the country's downstream gas market. Privatization of Petrobras would take another step along that path, but likely faces an uphill battle.

Kathrine Schmidt, Houston

COUNTRY RISK

New President, New Era in the United Arab Emirates

- *New United Arab Emirates President Sheikh Mohammed bin Zayed al-Nahyan, long de facto ruler, had already recharged economic, foreign and oil policy.*
- *Nuanced yet focused change will continue.*
- *UAE internal dynamics and the appointment of a new Abu Dhabi crown prince will be watched closely.*

It was no surprise that Sheikh Mohammed bin Zayed, commonly known as MBZ, was last week unanimously elected president of the UAE by the rulers of the six other emirates after the death of his older half-brother, President Sheikh Khalifa bin Zayed al-Nahyan. The move formalizes his de facto rule since early 2014 when Sheikh Khalifa suffered a stroke from which he never fully recovered. But it still represents the beginning of a new era.

Aged 61, Sheikh Mohammed has been viewed widely as coming from a new generation of leaders in the Gulf — including in Saudi Arabia, Qatar and Oman — who are willing to shake up old structures and processes in their countries. Sheikh Khalifa, born in 1948, had been president since 2004. With Sheikh Mohammed officially at the helm as president, the wealthy Gulf state's overall direction — including its economic, foreign and oil policy — is expected to continue. "I don't see how there will be any change in UAE policy, MBZ has been running the show for a while," said one Western diplomat.

Watching the Details

But nuances in decision-making will be important. Appointments for key positions in government or state companies could signal upcoming changes. In 2016, the appointment of Sultan al-Jaber as CEO of Abu Dhabi National Oil Co., in the aftermath of the 2014 oil price crash, ushered in an era of fundamental change for the state oil giant. In a seminal move in early 2021, Abu Dhabi's top oil and gas decision-making body, the Supreme Petroleum Council, was abolished and folded into a newly created 11-member Supreme Council for Financial and Economic Affairs.

Both decisions were aimed at consolidating economic management in Abu Dhabi and injecting more dynamism in decision-making, to enable the UAE to position itself in a world where hydrocarbons' role is shrinking as clean energy and fourth industrial revolution technologies become increasingly important.

Observers of regional affairs believe that Sheikh Mohammed's priorities will center on advancing economic diversification initiatives and bolstering the country's competitiveness on a regional and international level — all the better to position Opec's No. 3 producer to address global energy transition challenges and a shifting world economic order. "President Mohammed bin Zayed will be extremely dynamic, will build on the last 10 years, including lessons learned," said Theodore Karasik of Washington-based consultancy Gulf State Analytics.

With this in mind, the UAE is expected to push ahead on projects and initiatives aimed at positioning the country to host the 2023 UN climate conference, COP28. Sheikh Mohammed will likely be keen to show that the UAE, a major oil and gas producer, is on track to achieve its net-zero by 2050 target and prepared to help shape the global climate debate.

At the same time, the UAE remains focused on expanding its oil and gas production capacities to monetize its lower-cost and lower-carbon hydrocarbon reserves, and was a regional first-mover in accelerating monetization of its hydrocarbon assets to support the transformation of its economy. The UAE also appears committed to the Opec-plus alliance that includes Russia, which it believes is crucial to managing the oil market in the longer term, although in 2020 it privately weighed the benefits of its Opec membership.

Foreign Policy Positions

Under MBZ's stewardship, Abu Dhabi adopted increasingly assertive foreign policy positions. After Libya's 2011 revolution, the UAE positioned itself against groups close to the Muslim Brotherhood and in support of renegade Gen. Khalifa Haftar's Libyan National Army. In 2014, the UAE, Saudi Arabia and Bahrain withdrew their ambassadors from Qatar over what they saw as sustained support for the brotherhood along with warm ties with Iran. This ultimately led to the three allies breaking off ties with Doha in 2017 — only restoring them in January 2021.

In 2015, the UAE joined Saudi Arabia in its military campaign against Yemen's Houthi rebels, considered to act on behalf of Iran. In 2020, the UAE moved to normalize ties with Israel under the US-brokered Abraham Accords.

How Sheikh Mohammed will position the UAE vis-à-vis the US, and the administration of President Joe Biden in particular, will be watched closely. Ties between the traditional allies have seemingly cooled under Biden thanks to his more hands-off approach to the region — including on security issues, the push to revive the Iran nuclear deal and his position on climate and fossil fuels. The Biden administration's pleas to Opec members the UAE and Saudi Arabia to increase oil output (beyond agreed monthly Opec-plus increments) at a time of high oil prices have fallen flat.

Vice President Kamala Harris and her high-level delegation's visit to Abu Dhabi to express their condolences on Sheikh Khalifa's death and meet with Sheikh Mohammed could be an indication that the Biden administration is keen to return ties to their previous strength. "We were here to discuss the strength of that partnership and that friendship and our commitment, going forward, to continue to work at the strength of that relationship," Harris said. Also in attendance were the US secretaries of state and defense, as well as the CIA director.

Crown Prince Questions

Internal dynamics between the UAE's emirates, of which Abu Dhabi is the largest and wealthiest, will be watched closely. For now, regional observers' attention has zeroed in on who will be named crown prince of Abu Dhabi — although that might not be imminent. "For sure that will be the next big question, but I don't think MBZ needs to appoint anyone soon. So it could take a couple years," one Western diplomat said. Nasser al-Shaikh, Dubai's former finance chief, takes a similar position. "It's not a must now & Sheikh Mohammed will appoint a CP [crown prince] as and when he sees fit," he said on Twitter. Whether a brother or a son or a cousin, he intimated, "It'll be Sheikh Mohammed's sole decision and we have absolute confidence in his judgment."

Oliver Klaus, Dubai

COUNTRY RISK

Namibia: Ready or Not for Oil?

- *Oil could rescue Namibia from unsustainable fiscal deficits and ballooning debt.*

- *The government needs to boost transparency around contracts and reinforce public trust in institutions before production starts.*

- *Oil companies have yet to sanction prospective ultra-deepwater projects, but some are mooting first oil in 2028.*

The Issue

As TotalEnergies and Shell appraise their Venus and Graff oil and gas discoveries in the ultra-deepwaters off Namibia, the country's economists and civil society actors welcome the potential fiscal and investment benefits. But they are also concerned about heading off the associated corruption and political repression — the so-called oil curse — that has afflicted fellow African producers. On the plus side, Namibia's government has extensive experience of managing natural resources, but lack of transparency and recent scandals suggest Namibia could be vulnerable once the oil starts to flow.

Last-Chance Saloon

International oil companies (IOCs) have yet to negotiate converting their exploration licenses into production contracts. But if developed, the discoveries could propel Namibia to a midsized producer in a relatively short time frame. Total and Shell are currently weighing schemes to produce oil through multiple floating production, storage and offloading units, alongside at least one LNG project. Total has yet to comment on the size of Venus. Analysts initially estimated the reserves at 3 billion barrels, but unconfirmed reports say it is the largest deepwater discovery ever, containing up to 13 billion bbl. Shell's discovery has been estimated at between 700 million bbl and 2 billion bbl, along with plenty of gas.

There are strong incentives to speed up negotiations for development and production contracts. Namibia's government, having waited decades for a commercial discovery, feels as if it is in the last-chance saloon as the energy transition looms. IOCs are also keen to cash in on the right terms while demand lasts.

Right now, there is consensus that Namibia is relatively better positioned than most African countries to meet the governance challenges that come with oil. It has a decades-long history of managing a large mining sector that produces diamonds, uranium, gold and zinc, which accounts for around 9% of GDP and 47% of export earnings. The government has a reputation for handling resource extraction efficiently. Mines and Energy Minister Tom Alweendo is a respected technocrat, having formerly headed Namibia's central bank and the country's planning commission.

Oil could make a massive difference. Wealth is unevenly divided in the vast, sparsely populated country, with the dry south particularly poor. GDP has only just recovered after two years of recession. Namibia has been running fiscal deficits for over a decade and issued a lot of debt — and must issue more to pay off what falls due, including a US$750 million eurobond in 2025.

While estimates of total reserves and oil prices are uncertain, economists at Cirrus, a financial services company in the capital of Windhoek, estimate that producing 3 billion bbl of oil over 10 years, priced at US$80 per barrel, could deliver N$50 billion (US$3.1 billion) of annual revenues to the state. This would far exceed revenues from mining, which pays relatively little tax. For example, tax revenues are projected at just N$2.2 billion ($138 million) in the current financial year. "[Oil] would solve the growth problem, solve the government revenue problem and the investment problem," says Robert McGregor, head of research at Cirrus.

Vulnerabilities

Namibia's relatively young democracy has been dominated by the same liberation movement party, Swapo, since independence in 1990 — although support for the party fell significantly in the last elections in 2019. The country has a vibrant if small civil society and one of the freest medias in Africa, says Graham Hopwood, director of the Windhoek-based Institute for Public Policy Research (IPPR). Also in Namibia's favor, "The oil is far offshore, making it less prone to the community conflicts around oil facilities that have dominated Nigeria," says Namibia expert Andrew Sekandi, managing director of the Alpha Sierra Group, which advises investors in emerging markets.

However, many are nervous that an oil boom could expose the vulnerabilities of the country's institutions. Recent surveys have revealed a lack of public trust in the independence and robustness of some institutions, especially the Anti-Corruption Commission.

Mining projects are structured differently to those in the oil sector, which tend to have more free cash flow earlier than hard minerals. Perceptions are also important: "Oil feels like a more liquid tradeable commodity ... that often invites predatory behavior," says one analyst.

Some high-level politicians were implicated in the "Fishrot" scandal of 2019, in which Iceland's largest fishing corporation, Samherji, allegedly paid $10 million in bribes for preferential access to Namibia's abundant fishing waters. Coordinated exposure involving Wikileaks, a whistleblower and a sting by Al-Jazeera reporters prompted law enforcers to act. The former fisheries and justice ministers face trial this year, along with the chairman and CEO of the state fishing corporation and five others.

"On the one hand there will be extra vigilance, on the other it shows how easily things can go wrong," says McGregor.

IOCs have taken their own precautions, instructing the mines ministry not to partner them with any so-called briefcase firms linked to politicians. Such concerns cropped up during previous oil price and exploration booms, even before oil was discovered, when licenses were awarded to firms linked to briefcase empowerment companies and proxies for politicians, sources say.

More Transparency Needed

Namibia's mining sector is not transparent, setting a poor precedent for oil companies that also tend to disclose information selectively in countries where they operate. Hopwood notes Namibia's mineral legislation hasn't changed much since its enactment in the 1990s. "We are way behind on global standards now ... and we will be urging reforms to those laws," he said. The IPPR wants to see licenses and contracts published, along with registers of beneficial ownership. The latter is a requirement under Financial Action Task Force stipulations for members and the UN Convention Against Corruption.

The government, which has gone along with arguments citing commercial sensitivity, has declined to join global anticorruption body the Extractive Industries Transparency Initiative (EITI) for years. However, President Hage Geingob has now pledged to improve transparency, either by joining EITI or following international standards.

Christina Katsouris, London

Namibia: Country Risk Assessment

Overall, Namibia scores comparatively well in Energy Intelligence's proprietary Country Risk Index risk ranking system. While the discoveries will drive concerns about the resource curse, Namibia is better positioned to handle the potential windfalls than many of its sub-Saharan African neighbors, given its history of natural resource development and comparatively stronger track record on governance and corruption. This is reflected in Namibia's relatively supportive Rule of Law and Contract Enforcement (4) and Corruption (4) risk scores. Longer term, oil developments may serve to improve some of Namibia's poor Economics scores — including Fiscal Balance (8), Real per Capita GDP Growth (7), and Gross Debt (6) — which weigh heavily on its risk outlook.

Risk Score: 4.2 (23rd of 71)
Risk/Reward Score: -0.3 (36th of 71)

Country Risk Assessments are provided by Risk Research, the Research & Advisory unit of Energy Intelligence's Risk Service. Our Country Risk Index assesses aboveground Risk on a scale from 0 (least risk) to 10 (greatest risk), and Rewards from 0 (lowest rewards) to 10 (greatest rewards). The resulting Risk vs. Rewards scores range from -10 to +10 (positive scores = rewards outweigh risks).

CLOSING ARGUMENTS

Arctic Council On Hold, Argentina Reorients Itself

Russia: Future of Arctic Council Under Threat

The eight-member Arctic Council, presently chaired by Russia, had already been thrown into disarray after Russia's invasion of Ukraine. On Mar. 3, the Council's non-Russian members announced they would temporarily boycott all future meetings but left open the prospect of continuing the Council's work once "necessary modalities" could be worked out "in view of the current circumstances." But the decision by two of the council's members, Finland and Sweden, to seek Nato membership has effectively turned the Arctic Council into a new front for Russia-Nato tensions, complicating any return to normal operations. The Council is comprised of the eight nations — Russia, the US, Canada, Finland, Denmark, Iceland, Norway and Sweden — that have territory north of the Arctic Circle.

Since its establishment in 1996, the Arctic Council has served as a model of cooperative governance, de-emphasizing the military aspects of geopolitical competition and focusing its efforts exclusively on civilian spheres of mutual interest, including economic development and environmental preservation. Russia's policy priorities for its two-year chairmanship that kicked off in May 2021 fell under the framework of "Responsible Governance for a Sustainable Arctic" and had been well received by its climate-conscious partners on the Council.

The Arctic Council was seen as a venue for US-Russian cooperation and compromise that could have a cooling effect on an otherwise tense relationship. The balance provided by Sweden and Finland was key: The two were seen as a neutral bloc that helped prevent the council's work being overtaken by Russia-Nato geopolitical tensions. Nato membership for both would alter the unique political character of the Arctic Council.

Russia has indicated that it would seek to implement its stated agenda despite the meeting freeze. But Finland's decision to join Nato could transform its long border with Russia into a militarized zone, including in the Arctic (Nato-member Norway also has an Arctic land border with Russia). And cooperative development of the Arctic region, particularly with a view to its climate-related vulnerabilities, could now take a back seat to the kind of militarized competition that the Arctic Council had helped preclude through its work over the past three decades.

Argentina: Brics Invitation Underscores Shift

Argentina has long expressed its interest in joining Brics, an organization of so-called "developing economies" whose name is derived from the initials of its members (Brazil, Russia, India, China and South Africa). This year, thanks to China and Brazil, Argentina may get its wish. Chinese President Xi Jinping has invited Argentina to participate in both the May 20 virtual summit of Brics foreign ministers, and that of Brics leaders on Jun. 24. Brazil has endorsed Beijing's invitation, paving the way for Argentina being brought in as a full member. More broadly, the potential transformation of Brics into "Bricsa" underscores the growing influence of China as a competitor to the US on the global stage. It also comes as Washington contends with possible critical no-shows — among them the presidents of Brazil and Mexico — at its planned Summit of the Americas next month.

The US had long been a dominant presence in Argentina, playing a major role in Argentinean domestic and foreign affairs since the end of World War II. Recently, however, the US has slipped behind China to become Argentina's third-largest trade partner, with Brazil in the No. 1 slot. China surpassing the US as a trading partner coincides with Argentina's ongoing troubled relationship with the International Monetary Fund (IMF). Despite blaming the IMF for its 2001 economic collapse, Argentina keeps turning to it for bailout packages, the most recent of which, for $44 billion, was approved in March.

To help break free of its recurring cycle of economic default, Argentina is looking to China and the promise of increased economic development. In February, Argentina signed a memorandum of understanding with China to join the Belt and Road Initiative (BRI), China's signature foreign economic policy. Argentina is also working closely with China and other Brics members to join the New Development Bank, Brics' alternative to the IMF. China has meanwhile supported Argentina's claims to the UK-controlled Falkland Islands, which it calls the Malvinas, a gesture that has further bolstered its standing with the South American nation.

Still, the extent to which Brics and BRI membership can provide Argentina with an economic safety net to soften the blow of another likely default on its latest IMF loan is not clear. Nor does an Argentinean IMF default bode well for the collective economic health of a future "Bricsa." China, however, may have determined that the geopolitical gains of such a move offset any economic concerns.