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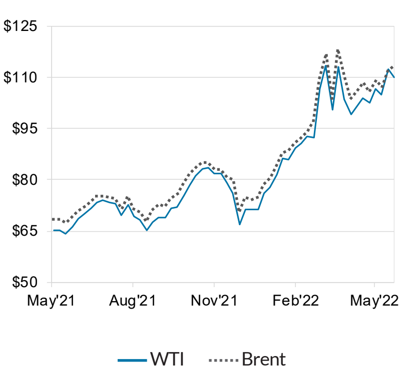
BRENT, WTI PRICES 2021-22 ($/bbl)



Source: CME, ICE

THE BIG PICTURE

A War on Russian Energy?

- *Western officials want to undercut Moscow's ability to wage war by stifling its energy revenues.*
- *That objective informs the EU's push to enact an oil embargo, and discussion of a possible price cap on Russian barrels, among other mechanisms.*
- *But US officials also talk of degrading Russia's status as an oil and gas powerhouse longer term — an objective with enormous geopolitical and energy ramifications.*

Russia's invasion of Ukraine has brought a stark realization that Europe's reliance on Russian energy supplies creates a deep strategic vulnerability. Past US warnings of this led to little action in practice, but the focus now is on a swift decoupling from Russia that will undercut Moscow's ability to wield that energy weapon, while pressuring its capacity to wage the current war. But a bigger agenda also seems to be at play, targeting Russia's long-term status as a major energy player to neutralize any future threat from Moscow. "Even if this war stops today, the Putin regime still would present the gravest direct threat to Europe's overall security architecture," says Harvard University's Benjamin L. Schmitt, also a fellow at the Center for European Policy Analysis.

The US and Europe "have a collective interest to degrade Russia's capacity to be a leading energy supplier over the long term," a senior US administration official said when rolling out the first set of sanctions in March. That, the official added, requires sanctioning "critical technology inputs that allow Russia to remain a leader in their energy production." A recent *New York Times* report cited current and former US officials describing a "long-term goal of destroying the country's central role in the global energy economy."

Such an objective would, if pursued in earnest, have profound consequences. Similar sanctions tactics have been used against Iran and Venezuela, but those producers are not of the same scale. Russia is the world's No. 1 gas exporter and No. 2 crude oil exporter, and a key member of the Opec-plus producer group (p2).

Seriously undermining Russia's energy influence is much easier said than done. A full-on assault on Russian energy could spike oil and gas prices even higher — a key concern for US officials from the outset of Russia's invasion, and one that continues to complicate Europe's plans for an embargo. So, how far can or will the West really go?

Sanctions after Russia's 2014 annexation of Crimea partly targeted future production — restricting Arctic, deepwater and shale technology exports. But near-term supplies weren't touched, given concerns about the economic fallout. The aim now is to do both: undermine Russia's production longer term, and limit its export revenues today — but in a way that somehow does not jolt oil markets or impose undue pain on the global economy.

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Falling Output

Existing sanctions will constrain Russia's energy future to some extent. Direct, indirect or voluntary restrictions on purchases of Russian oil and products have pushed oil production down by almost 8% since the February invasion. Longer term, technology sanctions and the exit of Western oil companies will crimp Russia's upstream capacity. Energy Intelligence predicts Russian crude output will drop to 8.5 million barrels per day at year's end, down 15%, or 1.5 million b/d, from end-2021 — and hover in the 8.6 million b/d range over 2024-26.

An EU ban on key liquefaction equipment could also severely limit Russia's LNG ambitions. And Europe's push to cut reliance on Russian gas by 2027 would require Russia to spend billions of dollars redirecting pipeline flows from west to east to maintain gas production levels (p4). An end to the war alone seems unlikely to prompt any major rethink in Brussels: European Commission President Ursula Von der Leyen told the World Economic Forum that Russia could return to its place in Europe if it "finds its way back to democracy" — but described this as "a distant dream and hope."

But the Western plan to hit Russia's export revenues is not going well. High oil and gas prices mean that Russia continues to earn bumper revenues. And Hungary is blocking a European embargo on Russian oil, prompting German Economy Minister Robert Habeck to argue for flexibility: "If this is a change in times, then we have to change the rules as well."

Complex Options

All this is spurring the US and EU to look at more creative approaches, including:

• **Capping the per barrel price customers pay for Russian oil.** Italian Prime Minister Mario Draghi earlier this month said Rome's priority is to cap prices to "reduce the financial help we are giving to Putin to continue the war" and that the "same thinking could be applied to oil at a global level." For Western players to effectively enforce a global price cap, they would likely need to apply so-called secondary sanctions, says Edward Fishman, a former State Department sanctions official. Mechanically, European officials could ban imports of Russian oil but provide exemptions for oil under a certain price threshold. The US could do the same, threatening to cut off buyers from the US financial system if they paid above the threshold.

Enforcement would likely be fiendishly complicated, even if potential customers in China, India and elsewhere want to pay less for the oil they buy. Oil trade by its nature is secretive and increasing volumes of Russian oil are now going dark, further complicating visibility on the price buyers are paying.

• **Diverting Russia's earnings into escrow accounts.** This is how secondary sanctions on Iran worked in the lead-up to the 2015 nuclear deal. Iran's receipts from countries that continued to buy its oil went into escrow accounts in the purchasing countries, and could only be used to purchase nonsanctioned items. Another, related idea is for receipts from Russian oil sales to be overseen by a Western authority, with the aim of paying reparations to Ukraine. Russian producers would only be paid for their costs.

• **Levying a tariff on Russian oil imported to Europe.** Similar to the escrow account idea, a tariff levied in Europe would aim to restrict the revenues Russia receives. The idea is that European buyers, faced with additional taxes, would look for alternatives, forcing Russia to discount its oil further. This, however, would be a difficult sell in Europe, given that consumers are already paying high energy prices.

All of these options — and others — could work in concert with an embargo, particularly if an embargo is phased in, sanctions experts say. But their complexity — and questions over the extent to which Moscow would continue trading under such terms — also illustrates the scale of the challenge. Europe can likely succeed in reducing its vulnerability to Russian energy supplies, albeit with difficulty and at a high price. Limiting Russian revenues looks harder, in the near term at least, while oil and gas markets remain red hot. Degrading or destroying Russia's central role in energy markets will be hardest of all.

Emily Meredith, Washington, and Jill Junnola, London

OPEC-PLUS

What Does Opec-Plus 2.0 Look Like?

• *Opec-plus will emerge from its current agreement in a few months as a very different organization.*

• *In a murky future, one thing is almost certain: The producer group will work to retain its market clout and unity, with Russia's participation seen as key.*

• *On a practical level, the quota system needs attention, with some members massively overcomplying due to lack of capacity.*

The Issue

Opec-plus will have an inbuilt bias toward doing as little as is necessary when its current agreement expires in September, particularly if prices and demand remain buoyant. But whatever the price, some change is unavoidable. Capacity inadequacies of many members are becoming increasingly glaring, with underproduction hitting some 2.7 million barrels per day last month. The current quota system is simply not fit for purpose. Longer-term challenges loom in the form of demand destruction concerns and turbulent energy transition politics — alongside fallout from the Ukraine war.

New Realities

Quota restructuring will require deft handling, especially around Russia, given Moscow's own forecast of a 17% production slide this year. Nigeria, Angola, Malaysia, Azerbaijan, Congo (Brazzaville) and Equatorial Guinea have been underproducing for months and are clearly structurally incapable of responding to the staggered monthly increases called for in the current market management regime. By the time September arrives, Kuwait and Iraq might also have joined the "overcompliant" producer club. Even discounting group capacity weakness, Russian output falls alone would arguably require a quota target revamp.

Asked whether there will be a new Opec-plus production deal after September, United Arab Emirates Energy Minister Suhail al-Mazrouei told Energy Intelligence the group would "wait and see" and look at the market. "There are challenges of course. Many of the countries that used to be able to produce the baseline, they can't do it anymore — that's a discussion" the group will have, he said. What's most important is unity, al-Mazrouei said on the sidelines of a Dubai industry event, while citing a number of "moving parts," like Iran's contribution depending on whether a nuclear deal is reached and Russia, seemingly referring to a possible embargo (p1).

This lower Opec-plus capacity suggests the group will have limited ability to respond to any further outage or major price upswing. The wider capacity slippage will further reinforce the dominance of those few producers with the ability to increase output — namely Saudi Arabia and the UAE. Equally, the fact that so few members can increase output makes it less likely they will cheat on their quotas or seek to leave the organization.

Price — and inventory levels — will be a key driver of market management. Should prices fall sharply and strong action be required, the individual targets, laser-like focus on compliance and regular meetings that characterized Opec-plus' Covid-19 response will likely return. But if the current price range holds, or even if it drifts downward somewhat, say to the $80-$95 per barrel range, it is easy to see Opec-plus taking a more relaxed attitude to management, perhaps even bringing back an overall output ceiling to target — as Opec had in place from 2009 to early 2017.

Investment, Price Conundrum

Falling global capacity is also a clarion call for more oil investment, whether it be within Opec-plus or outside it. For some time, producers have been blaming the energy transition for the investment gap. Speaking at the World Economic Forum in Davos this week, Saudi Aramco CEO Amin Nasser told Reuters "a more constructive dialogue" between producers and consumers was needed. Producer arguments were ignored at last year's climate conference in Glasgow, he argued. Consumers "say we don't need you by 2030, so why would you go and build a project that takes six-seven years? Your shareholder will not allow you to do it," Nasser said.

The fear of stranded assets implies higher prices will be needed to incentivize investment, especially in the downstream. But the energy transition has also fundamentally disrupted the relationship between producers, prices and consumers. In the past, concern over demand destruction would mollify producers' natural instincts to seek higher prices. Today, to a certain extent, producers feel politicized transition policies are more likely to drive demand, with fundamentals playing a secondary role in price formation. In other words, if demand is only loosely connected to price, producers might as well enjoy high prices while they can. The danger here is that high prices and especially heightened consumer concerns over security of supply will only accelerate energy transition moves, as can be seen by the EU's ambitious REPowerEU program (p4).

A More Cohesive Core

Capacity shrinkage and the Ukraine situation are major challenges. But in many ways these concerns are offset by the enhanced cohesion Opec-plus now wields, not least as a result of overcoming the Covid-19 demand crisis. Eighteen months ago, there were serious doubts — since faded — over the UAE's commitment to its Opec membership, with Abu Dhabi seen as wishing to fast-track monetization of its oil as a result of stranded assets concerns.

UAE energy transition concerns may not have entirely gone away, but they are ceding ground to other strategic priorities, such as a desire to strengthen the relationship with Riyadh at a time when the traditional US security guarantee to the region's oil producers seems shaky. Likewise, Abu Dhabi's new alliance with Israel has perhaps not delivered as much as originally anticipated. Recent close UAE-Saudi coordination in Yemen underlines how effective their partnership can be in de-escalating tensions. Meanwhile, Kuwait's commitment to the producer group will have been buttressed by recent joint Kuwait-Saudi partnering in the Neutral Zone.

Most critically, Russia might be grateful for the group's supply inertia of the past few months, with Opec-plus being one of the very few international organizations in which it still has a powerful voice. If Moscow was previously unconvinced of the value of Opec-plus membership, the strong producer-engineered post-Covid-19 price recovery will likely have impressed. Moscow will be aware that Opec-plus has taken some risks since the Ukraine war with its refusal to heed consumer calls for more oil. This month, for example, saw a renewed effort in the US Congress to enact anti-producer "Nopec" legislation.

Rafiq Latta, Nicosia

POLICY

War Takes EU Climate Ambition to 'Another Level'

The European Commission last week released documents setting out how the EU plans to reduce its dependence on Russian gas imports under its REPowerEU initiative, which aims to cut Russian gas use by two-thirds this year and end it by 2027. Below, Energy Intelligence looks at the extent to which its Brussels' directives (and funding pot) can accelerate the policy directions of EU member states and also help industry deliver on ambitious renewables and other targets.

• Brussels is getting more hands-on in shaping the agenda for member states, going beyond setting renewables targets to streamlining regulations in order meet them.

Key here is the commission setting out certain "go-to" areas on land and at sea where permitting times can be slashed for renewables build-out in areas of low environmental impact by waiving requirements for environmental impact assessments. This should allow projects in such areas to get planning permission within a year, which compares to the six to nine years permitting normally takes for some offshore wind projects, European Commission President Ursula Von der Leyen said last week.

The move addresses ?one of the single biggest factors delaying the rollout of renewables projects, and sends a clear signal of Brussels' priorities. While individual member states have leeway to set their own planning procedures, the EU's directive enshrines the principle that renewables are "in the overriding public interest." This reflects Brussels' current war-footing urgency and provides new impetus for member states to fall into line. As Von der Leyen told the World Economic Forum in Davos this week, Russia's war has prompted the EU to take its climate ambition "to yet another level." This war "has only strengthened Europe's resolve to get rid of Russian fossil fuel dependency, rapidly," she said, adding: "The climate cannot wait. But now, the geopolitical reasons are evident, too." Overall, the EU accelerated its target for renewables' share in the energy mix to 45% in 2030, up from a previous target of 40%, and from 22% now.

No pushback has yet been seen from the countries that are going to do the heavy lifting — largely because they are already supportive of renewables. Member states can also play to their strengths: Belgium, Denmark, the Netherlands and Germany last week inked a cooperation agreement targeting 65 gigawatts of new offshore wind by 2030, rising to 150 GW by 2050, which Von der Leyen said could be a "go-to" area. Norway recently announced its own 30 GW offshore wind target. Sunny southern Europe, meanwhile, can skew toward solar photovoltaic (PV). Spain and Portugal are likewise promoting green hydrogen as they have cheap wind and solar PV and available areas for huge deployment of capacity.

• Can industry scale up quickly enough to meet the EU's more ambitious targets?

Industry lobby groups SolarPower Europe and WindEurope welcomed the new measures, noting permitting problems are one of the biggest hurdles facing their respective sectors. But breaking down permitting delays now means the focus will be on such sectors — along with more nascent biomethane, heat pump and hydrogen industries — getting as big as possible, as quickly as possible. This will invariably trigger some bottlenecks along the way — both in the supply chain and in human resources.

But many argue such bottlenecks are primarily short-term hurdles to the energy transition build-out. As Enel and other industry voices have said, forecasts on the sector's cost decreases and market growth have consistently been underestimated and that should continue even in the current climate. High fossil fuel prices also allow renewable developers to remain competitive, while higher prices for energy transition minerals will encourage more investment. That said, the European biomethane and heat pump associations have indicated they will struggle to reach the targets set for them. Both are smaller industries and having to grow much faster than expected.

Available to help are some €300 billion ($321 billion) in loans and grants via the EU's Recovery and Resilience Facility, 95% of which are targeted at low-carbon projects, versus less than 5% to address gaps in LNG, gas and oil infrastructure as Europe pivots away from Russian imports.

• Energy efficiency measures are the EU's silent weapon in the bid to end dependency on Russian gas, but member states will need to step up with supportive fiscal policies.

Describing energy savings as the "quickest and cheapest" way to address the current energy crisis and help supplies go further, Brussels has proposed a range of energy efficiency measures — both near and longer term. Short-term measures like turning down thermostats and installing smart meters could achieve a 5% annual reduction in the demand for gas (around 13 billion cubic meters). But they will also require governments to effectively promote them.

The commission also encouraged member states to "consider additional tax measures" and the phasing out of "environmentally harmful subsidies" to "incentivise energy savings and reduce fossil fuels consumption." This is perhaps the most trickiest political path EU member states will have to navigate. Will governments target or end subsidies for fossil fuel consumers — even as high prices have prompted some to cut taxation at the pump? Will they help make switching to heat pumps and electric vehicles affordable?

It comes down to the challenge of achieving a "just transition," and the next few years look critical with energy poverty set to worsen as inflation kicks in across the EU. Governments will tread a difficult line: Expensive fossil fuel prices are helping to drive the transition, but poorer citizens will need support. Combined, some €672.5 billion in grants and loans from various funds will be made available to EU member states, including for energy efficiency, through 2026.

- **On gas, being prepared is key.**

In apparent recognition of the tough challenge it faces, Brussels also wants to reinforce preparedness and supply diversification in case of insufficient gas supplies to cover demand next winter. The commission has called on member states to update contingency plans and set up a coordinated EU demand reduction plan with pre-emptive voluntary curtailment measures. Separately, compulsory storage targets are also now higher. And Brussels has also set up a task force to support the EU Energy Platform, which plans to bring together the bloc's voluntary joint procurement of pipeline gas, LNG and hydrogen. Guidance on how the voluntary purchase mechanism could work is expected by Aug. 1.

Staff Reports

POLICY

India Sticks With Fossil Fuels, But Gas Struggles

- *War and a heat wave have exposed India's energy security vulnerability.*
- *Spiking energy import prices and a heat wave-related demand surge mean India has found comfort sticking with cheaper coal, with gas sidelined.*
- *Longer term, India's transition will focus on building local supply chains and lowering the cost of renewables and green hydrogen.*

Prime Minister Narendra Modi's earlier focus on making gas one of his key planks to cut carbon emissions is right now falling by the wayside. In September 2016, his government launched the Gas4India campaign and set a goal of more than doubling gas' share in the energy mix to 15% by 2030 from 6.7%. But Russia's war on Ukraine has upended those goals, with a sharp spike in spot LNG prices crowding out price-sensitive buyers like India, which meets half of its demand via imports.

India's LNG imports have been falling year on year since September due to unaffordable prices. Nor did gas come to the rescue during the country's recent energy crisis, when power demand jumped to a record high during a heat wave. As coal stockpiles dwindled, Modi's government leaned on imported coal and showed little inclination to revive languishing gas-fired power plants, underlining how prices determine energy choices.

While coal-fired plants operated at 72.6% of their load factor last month, gas plants were running at just 16.2%. In March, against an allotted 92.27 million cubic meters per day for gas supply to power plants, actual feedstock was just 17.9 MMcm/d due to lower-than-estimated local production and unaffordable LNG.

Finance Minister Nirmala Sitharaman on Saturday cut import duty on coal to zero from 2.5%. The government has also kept coal under the category of a goods and services tax, which means it attracts a uniform nationwide tax of 5%. By contrast, gas is subject to a value-added tax, which can be as high as 26%, a central sales tax, pipeline tariff, marketing margin charge and regasification charge — all of which add to its unattractiveness as fuel source for power.

India's preference for coal is also down to abundant cheap domestic reserves of 352 billion tons, which will last for decades. While coal production increased 44% in the 2021-22 fiscal year from a decade ago to 777 million tons, gas production has declined 29% over the same period to 91 MMcm/d amid a lack of investment.

Renewables' Mixed Pace

Compared with gas, renewable power, which is another plank of Modi's decarbonization plan, has thrived. It now accounts for 28% of the generation base and 20% of actual power production, while gas languishes at 6% of total capacity and 1.5% of actual power production, according to the power ministry's May 23 generation data. Modi has set an ambitious goal of ramping up renewable capacity fourfold to 450 gigawatts by 2030 from 110 GW now.

But Modi's government has missed its nearer-term milestone of achieving 175 GW in renewable power by March 2022. That means that hitting the 450 GW by 2030 target requires adding 42.5 GW of renewables capacity every year — a big jump from the previous fiscal year's capacity growth of 15.4 GW.

And as with gas, conflicting policies are undermining growth. Most of India's solar capacity has come on the back of cheap imported solar equipment from China. But to boost domestic manufacturing, the government imposed a 40% customs duty on solar photovoltaic imports and a 25% import duty on solar cells from Apr. 1. That move will both undermine capacity additions and make renewable power costlier.

India wants to leverage its renewable capacity not only to clean the grid but also to produce green hydrogen, which will help fuel everything from steel mills to refineries to transport, Amitabh Kant, chief executive officer of Niti Aayog, a government think tank headed by Modi, said last month. For green hydrogen to be adopted at mass scale, prices would need to fall to $1 per kilogram from $3.50/kg now, he said. That would require a steep drop in the renewable power price, he added, which accounts for 70% of the cost of green hydrogen — and which looks challenging. Billionaire Mukesh Ambani, chairman of Reliance Industries, has promised to bring down the green hydrogen cost to $1/kg by the end of this decade.

Pragmatic Transition — and Politics

India will continue to see fossil fuel demand grow for at least the next two decades. As such, it is investing billions of dollars to raise refining capacity to 8 million barrels per day from 5 million b/d, and to build out gas pipeline and LNG import infrastructure. But gas demand rising threefold to over 600 MMcm/d by 2030 as earlier envisaged looks impossible under current policies — and prices. India is also opening up new coal mines, with demand seen as doubling by 2040.

"We have to effect energy transition while still being conscious that we are going to be anchored in existing energy — that is, petrol, diesel, etc.," Federal Oil Minister Hardeep Puri said Monday at the World Economic Forum in Davos. About 60 million people, equal to the population of Italy, visit fuel stations every day to get their tanks filled with diesel and gasoline, and the government needs to ensure there is no shortage in a country of 1.3 billion people, he added. But the government is still making noises on decarbonization, last week accelerating the target for 20% ethanol blending in gasoline by five years to 2025, and in April unveiling a draft battery swap policy to boost electric mobility.

But it is affordability and not emissions that are weighing on the government's mind now. On Saturday, Sitharaman announced a cut in excise duty on diesel and gasoline, bringing down prices from near historic highs. She also revived subsidies on cooking gas for the poor and reduced import duty on coal. Low energy prices are crucial for Modi's Bharatiya Janata Party to win elections in seven states that head to the polls next year. General elections follow in 2024.

Rakesh Sharma, New Delhi

COUNTRY RISK

Geopolitics Stymie Iraq's Oil and Gas Plans

- *Baghdad is reluctant to let Chinese state majors expand in its upstream as more Western oil firms eye the door.*

- *Missile attacks in Iraqi Kurdistan show Iran's willingness to destabilize the region's energy sector.*

- *Baghdad-Erbil tensions have escalated since a federal court ruling rejected the Kurdish oil sector's independence.*

The Issue

As windfall hydrocarbons revenues help other producers in the region fast-track upstream projects and energy transition plans, geopolitics are complicating potentially transformative oil and gas developments in Iraq. The country may be on surer financial footing: Its crude output hit a two-year high last month, of around 4.4 million barrels per day, with prices averaging $104 per barrel. But political paralysis is hampering progress on megaprojects in Basrah, Iran appears determined to block new gas plans, and Chinese companies are waiting to snap up any assets that frustrated international oil companies (IOCs) put up for sale.

East-West Dilemma

The political uncertainties plaguing Iraq risk accelerating a trend of exiting IOC operators being replaced by Chinese state oil firms. That has rattled the government, which wants a balanced portfolio of partners, sources say, with the presence of Western IOCs seen as a kind of guarantee of continued Western support for Iraq, and a way of limiting its dependence on China. Exxon Mobil — very much a symbol of US commercial interest in Iraq — revealed last year that it was exiting the West Qurna-1 oil field, which it picked up in the first postwar bid round.

The US supermajor wanted to sell its operating stake in West Qurna-1 to PetroChina and China National Offshore Oil Corp. But Baghdad blocked the sale, which led to Exxon launching arbitration proceedings. BP's new joint venture spinoff with partner PetroChina to manage its supergiant Rumaila field meanwhile prompted some speculation that the move might be part of an exit strategy for the British major, which it denied. But BP did in fact consider selling its 47.6% stake in Rumaila to a state-run Chinese oil firm last year, and Lukoil its 75% stake in the West Qurna-2 field to Sinopec, Reuters reported last week, but Iraq officials dissuaded them from doing so.

"I think it is dangerous to put all your grapes in one basket, as the Arabic proverb goes. You know, all Chinese companies are state-owned and any dispute with any one of them means a dispute with the Chinese government directly," says an Iraqi industry source familiar with official thinking. "On the other hand, Iraq won't want to lose US and Western support … which the oil and gas links with these Western companies will [help to maintain]." But it is unclear how long the oil ministry will be able to stem the Chinese tide: "Everyone is trying to leave," says an IOC source.

Rocket Diplomacy

In Kurdistan, meanwhile, the recent rocket salvos targeting Kurdish oil and gas firm the Kar Group are seen as illustrative of Iran's meddling in Iraqi politics and its energy sector. The Barzani family, which controls Kurdistan's ruling KDP party, is behind the company, which is extending the region's gas pipeline network to the northern city of Dohuk. From there, it could be linked to Turkey for exports, which would also facilitate the development of Khor Mor, Iraq's largest producing gas field. That seems to have put Kar in the crosshairs of Iran, which openly claimed the first attack on the villa of its CEO Sheikh Baz Karim

"The fact is, Iraq's central government pays more than $6 billion to Iran every year for natural gas and electricity supplies. So any [new] production in Kurdistan would be directly affecting Iranian interests in the energy sector," says a Kurdish political analyst. Another well-placed Kurdish source agrees. "Iran is lobbying for gas fields near them not to be developed," including for export to Turkey, which Iran also supplies.

Upstream Inertia as Deadlock Deepens

The rocket attacks come against the backdrop of failed attempts by Shiite cleric Moqtada al-Sadr to form a new coalition government that would bring together his Sairoon alliance, loyal Sunni MPs and the KDP — and exclude the Iran-backed Shiite alliance led by former premier Nouri al-Maliki. They also come amid the ongoing US pivot away from the region, which prompted KRG Prime Minister Masrour Barzani to warn this week, without actually naming Iran, that "the gap being left behind is filled by others." Exxon last week confirmed it had terminated its Pirmam gas license, the last of six production-sharing contracts in Iraqi Kurdistan. Reflecting a changed outlook, Baghdad has been intensifying efforts to bring the region's independent crude exports and IOC contracts under its authority since a bombshell Supreme Court ruling in February.

There is a growing sense that the drift caused by Iraq's political deadlock is starting to cause more serious problems, including for its vital oil and gas sector in the south. "The KDP, the Sunnis and Sairoon couldn't get the quorum they needed. So it's drifting apart … It seems to me that we're looking at another election by the end of this year," says the Kurdish analyst. The absence of leadership was compounded by another Supreme Court ruling on May 15 that the caretaker government of Prime Minister Mustafa al-Kadhimi did not have the authority to enact legislation, take significant decisions on the country's future or make senior appointments.

The ruling is a blow for big upstream projects that have yet to be finalized, like the $10 billion deal that TotalEnergies signed last September or the Mansuriyah gas development, awarded to China's Sinopec five months earlier. The 4.5 trillion cubic foot Mansuriyah gas field lies in Diyala province, through which Iran pipes much of the gas it exports to Iraq, while the Total deal involves capturing 600 million cubic feet per day of associated gas from oil fields in Basrah. Tehran has a clear interest in seeing both those projects stall. The political impasse is also fueling Baghdad-Erbil tensions, which spilled into accusations — and denials — earlier this month that Kurdish forces had occupied the disputed Bai Hassan oil field in Kirkuk.

Simon Martelli, London

CLOSING ARGUMENTS

Israel-Iran Tensions, Serbia-Kosovo Threats

Israel-Iran: Escalating Tensions Send Mixed Signals

Month-long Israeli military exercises that include simulating a large-scale aerial attack on Iran's nuclear infrastructure have coincided with the assassination of a senior Revolutionary Guard commander that Iran has signaled was masterminded by Israel. Both point to a more assertive posture by the Israeli government amid the diplomatic impasse over the US' return to the 2015 Iran nuclear deal. Still, while Israel has long publicly opposed the deal, advances in Iran's nuclear enrichment capabilities since the US' withdrawal from the Joint Comprehensive Plan of Action (JCPOA) in 2018 have convinced some Israeli intelligence officials, according to the *Jerusalem Post*, that the restrictions imposed by the agreement represent a better alternative to an Iranian nuclear program absent any constraints. Ironically, the Israeli actions could serve both as a deterrent to Iran and to pressure the US to successfully conclude the ongoing JCPOA talks, by highlighting the consequences of failure.

Nearly all units of the Israel Defense Forces are expected to participate in the exercise, known as "Chariots of Fire," the final week of which will test both Israel's ability to attack Iran and to counter any Iranian retaliation. The exercise is the culmination of a more than year-long effort triggered after senior Israeli military officials announced that the Israel Defense Forces had been given instructions to develop new attack plans against Iran that considered both advances in Iranian air defenses and the fact that much of Iran's nuclear infrastructure is buried deep underground. The exercises will incorporate new Israeli weapons designed to defeat underground targets and protect Israel from missile attack.

Col. Hassan Sayad Khodayari, a member of Revolutionary Guard's elite Quds Force who is linked to Iran's ongoing military efforts inside Syria, was gunned down in his car in Tehran on May 22. The Iranian government has blamed Israel for the attack. If the Iranians are correct, then the ongoing Israeli campaign to weaken Iran's presence in Syria has entered a new phase. Previously, Israel limited its anti-Iran activities to air strikes against targets inside Syria, and in neighboring Lebanon and Iraq. Israel had previously informed the US of its plans to deter Iranian nuclear advances through a program of covert direct actions, which in the past have included the targeted assassination of Iranian nuclear scientists. The killing of Khodayari suggests that the target list for such actions is expanding to include non-nuclear threats.

Serbia-Kosovo: Europe's Other Threat to Peace and Security

Serbia's announcement last week that it would resume its campaign of derecognition of Kosovo's independence has raised new tensions in the Balkans. Belgrade never recognized the former Serbian territory's 2008 declaration of independence and had long campaigned to have other European nations take a similar position. The resumption of its derecognition campaign follows Kosovo's application to join the Council of Europe, a human rights organization dating from 1949. Serbia's president threatened a "strong and serious" response if Kosovo advanced its application.

In September 2020, Serbia and Kosovo signed separate, US-brokered texts — in which Serbia pledged to suspend its derecognition campaign in exchange for a commitment by Kosovo not to join any international organizations. The flawed arrangement never really got off the ground. But Serbia argues Kosovo's bid to join the Council of Europe, made last month, invalidates it. The standoff could open the door for a renewal of hostilities that had ended in 1999 on Nato's intervention on the side of Kosovo.

The immediate trigger for Kosovo's move was Russia's invasion of Ukraine, which prompted the Council to suspend Russia's membership, and Russia in turn to withdraw from the Council. This opened the door for Kosovo to initiate application proceedings, as Russian opposition would have threatened the viability of any Kosovar application. Kosovo has also announced its desire to join Nato and the EU, and called Serbia a threat to peace and security in the Balkans, citing Serbia's close ties with Russia.

Tensions are also rising in neighboring Bosnia, where the Serbian minority has been for some time threatening to dismantle the 1995 General Framework Agreement for Peace in Bosnia and Herzegovina, also known as the Dayton Accords. Bosnian Serbs since 2019 have dangled the threat of declaring independence from Bosnia. Doing so could pave the way for the formation of a so-called greater Serbia, with implications for Kosovo's northern Serbian-majority provinces.

Prior to Russia's invasion of Ukraine, few gave such designs any chance of success: A push to do so by either Serbia or the Serbian minority in Bosnia would put them at odds with Nato, which maintains a military presence in Kosovo, and the EU, which took over Nato's peacekeeping mission in Bosnia in 2004. However, the new geopolitical environment in Europe since Russia's war in Ukraine has opened the door to potential Russian meddling in the Balkans that could breathe life into the dreams of a greater Serbia. The prospect of a renewed Balkan conflict represents a real threat to European security that may not be given the attention it warrants amid the war in Ukraine.