Energy Intelligence

VOL. 33, NO. 24
JUNE 16, 2022
WWW.ENERGYINTEL.COM

ENERGY COMPASS®

CONTENTS

THE BIG PICTURE

Europe's Russian Revenue Conundrum

- *An EU ban on Russian oil imports and aggressive plans to cut Russian gas imports are aimed at shutting off hydrocarbon revenues that help sustain Russia's war effort.*

- *But high prices, staggered phaseouts and strong demand mean Russia's revenues have increased in the near term, undermining Brussels' key aim.*

- *Revenue losses compared to a "no-war" scenario start to build from the fourth quarter, according to Energy Intelligence forecasts — assuming that Europe continues to prioritize its cutoffs and sanctions remain in place.*

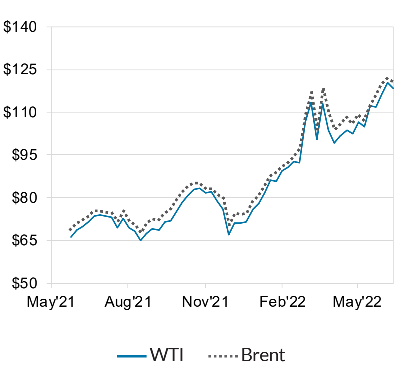
The EU is right now failing in its bid to choke off the revenues Russia receives from oil and gas exports — even if longer term, revenue losses from sustained Western sanctions will mount. But so far, Russian oil and gas export revenues have been on the rise, enjoying the post-Covid-19 surge in global commodity prices.

Moscow has not released full customs data on export earnings this year. But Russia's current account is showing a surplus of $110.3 billion for the first five months of 2022, compared to the $32.1 billion recorded in the same period last year, helped too by declining imports under sanctions, Bank of Russia data show.

Russian data on May tax and duty revenues from hydrocarbons, however, suggest a possible turning point. The combination of discounted crude sales and a drop in crude output mean total export duty and upstream (Met) tax revenues (from crude, products and gas) direct to the Russian government slid in May from April — even if high prices still mean the government take last month far exceeded that from May 2021.

Still, for Moscow, it's a potentially worrying trend — especially with the EU oil embargo set to take hold by end-year and limits to how much additional oil China and India can take. In the current high oil price environment, however, it does not make for an immediate revenue crisis.

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



Source: CME, ICE

The Russian government take from crude, products and gas export duties and the mineral extraction tax (Met) was $71.8 billion during the first five months of 2022 — an average of $14.4 billion per month — compared to $41.8 billion over January-May last year. In comparison, average Russian government take from duties and tax in 2021 was about $10.3 billion per month.

Revenue Outlook: Near-Term Gain, Longer-Term Pain

For Russia, the good news on crude and products revenues — up by a combined $7 billion this year over a no-war scenario, according to Energy Intelligence projections — looks set to fade from end-year.

Energy Intelligence projections of Russian crude oil sales in the current outlook versus a no-war scenario show a boost to earnings in the second and third quarters of this year

>> continued on page 2

PROJECTED VALUE OF RUSSIAN CRUDE AND PRODUCTS EXPORTS

($ billion)	2022	2023
Current (War) Scenario		
Crude	$165	$127
Products	96	80
Total	261	207
No-War Scenario		
Crude	160	169
Products	94	100
Total	$254	$269

Source: Energy Intelligence

(for a net gain for the year) — but a shortfall of $4 billion opening up in the fourth quarter. For full-year 2023, this shortfall could reach $42 billion compared to a no-war scenario.

Projections in the no-war scenario assume a $2 per barrel Urals discount as standard to Brent, and are based on the Energy Intelligence Research & Advisory group's prewar outlook for prices. The current scenario is based on a price outlook adjusted for war, assumes a $6 discount to Brent for Russian crude in the first quarter to account for self-sanctioning in March, and an average $15 discount from the second quarter onward — given that the widely reported $30 discount applies mainly to Urals, and less so to East Siberia-Pacific Ocean crude or pipeline sales to Europe. Revenue projections are also based on Energy Intelligence's outlook for Russian production declines.

On products, revenues in the current outlook outrun the no-war scenario until they equalize in the fourth quarter — for an overall net gain. A loss of income in the current scenario does not appear until 2023. This reflects Europe's dependency on Russian products, a less-steep discount relative to that for Russian crude, and the slightly later deadline for the EU ban on Russian products.

But for full-year 2023 the shortfall in the current scenario is still significant, at a projected $20 billion. Products in the current scenario are discounted at $5 to Brent.

In total, Energy Intelligence sees the value of crude and product sales in the current scenario down some $62 billion in 2023. Revenues over two years, 2022-23, shrink the shortfall to $55 billion.

On gas, market conditions mean Russia's revenues have risen despite falling exports to Europe. Energy Intelligence estimates that state Gazprom, Russia's sole pipeline gas exporter, might have earned about $46 billion from exports to Europe, excluding Turkey, in the first five months of 2022. This calculation is based on gas transmission data and Energy Intelligence's own European border price estimates, which are usually higher than Gazprom's own price estimates.

Still, this is almost as much revenue as the $52.2 billion that Gazprom generated in Europe, including Turkey, in full-year 2021, according to Gazprom's data. It also comes despite a 35% dip in Gazprom exports, by 9.6 billion cubic meters, to Europe in May.

But relative to oil, Russia's ability to fully redirect prewar European gas sales of 150 Bcm/yr is more limited, requiring investment in the tens of billions of dollars over a matter of years — while such volumes may be more than China needs or wants.

Time Is Money

All of this means Europe will fail at its main aim — via its oil bans and turn away from Russian gas — to cut off the hydrocarbon revenues that right now are supporting Moscow's war in Ukraine. Acknowledging that reality, US Energy Envoy Amos Hochstein told a subcommittee of the Senate Foreign Relations panel last week that while Russia may be getting more revenue now, that will unwind as export controls take hold, firms stop doing business in the country and banking controls make accessing the cash harder.

On the flip side of the revenue equation, Russia's war costs are also a factor. A US-based media outlet focusing on military news, Sofrep, last month estimated that Russia is spending about €840 million ($875 million) per day on the invasion, which compares to Russian finance ministry estimates of $300 million per day in April.

A recent report by the Helsinki-based Centre for Research on Clean Energy and Air put Russia's revenue from fossil fuel exports in the war's first 100 days at €93 billion (of which the EU's share was €57 billion) — meaning average daily revenues to Jun. 3 were exceeding war costs.

But shrinking revenues over the longer term mean that ongoing military spending — along with other government supports to the economy, like planned stimulus spending — could start to bite harder. That's especially the case amid wider economic pain as Russia's GDP contracts by an estimated 8%-15% this year, according to various estimates.

Gary Peach, New York, and Julien Mathonniere, London

GEOPOLITICS

Scenarios for an Unraveling Iran Nuclear Deal

Iran's decision last week to remove 27 monitoring cameras in response to a Western-backed resolution by the International Atomic Energy Agency (IAEA) criticizing its failure to cooperate was a major setback for stalled efforts to revive the 2015 nuclear deal. It came amid rising tensions with Israel and the US, stoked by the suspected assassination of Iranian scientists and senior military officials and tit-for-tat oil tanker seizures. The *war in Ukraine and unprecedented Western sanctions pressures, meanwhile, are pushing Russia and Iran closer. Energy Intelligence weighs three possible scenarios.*

• Nuclear talks remain officially still alive, with neither side willing to kill them off but the prospect of a breakthrough greatly reduced.

This has been the case since the talks broke off without being formally suspended in March. Some expect it to remain the likeliest scenario for now (and several more months at least), given that the US administration, already battling the Ukraine crisis and sky-high oil prices, simply doesn't have the stomach for a conflagration in the Middle East.

Under this scenario, according to Behnam Ben Taleblu, with US think tank the Foundation for Defense of Democracies, officials from the administration of US President Joe Biden "never really say the talks collapsed, sporadically issue sanctions" and leave the door open. The approach, in his view, is accompanied by the conviction that more severe sanctions only encourage Iran to accelerate its nuclear activity.

Iran, for its part, has little to lose from repeating its interest in doing a good deal while blaming the US if talks fail, having found a way to keep its economy afloat under US sanctions, supported by high oil prices. Whether and for how long such a scenario is sustainable is a key question, which, for Iran's adversaries, centers on its nuclear program.

Tehran has shown some restraint here lately, after ramping up production of uranium enriched to 20% and 60% earlier this year, although the accumulation of highly enriched material is a concern. Its Jun. 8 decision to limit the IAEA's monitoring capability — the cameras were installed to ensure Iran abided by its commitments under the Joint Comprehensive Plan of Action (JCPOA) — was a clear departure from that policy of restraint.

Alongside other recent actions, notably Iran's expansion of advanced centrifuge deployment and refusal to discuss undeclared nuclear material, it has undermined the idea that Tehran is genuinely interested in a deal, the Eurasia Group think tank noted on Wednesday.

Still, the blow to Iran's economy from the formal collapse of talks could be severe. Just this week, the Iranian rial dropped to its lowest-ever value against the dollar.

• Nuclear talks collapse, causing regional escalation after Israel takes unilateral action and Iran responds by stepping up its nuclear activity and hitting regional energy targets — further roiling oil markets.

The five reported assassinations in Iran that began on May 22, and the capture by Iranian forces of two Greek-flagged tankers carrying Iraqi oil a few days later, in retaliation for Greece's seizure of a Russian-flagged Iranian crude cargo at the US government's request, suggest this scenario is already unfolding. Israel may be suspected of orchestrating the assassinations. But the breakdown in negotiations, and resulting dangers, stem from what Iran analyst Esfandiyar Batmanghelidj calls a "reinforcing escalatory dynamic in Washington and Tehran."

With the negotiations stalled, pressure is building on Biden — not least from Israel and Saudi Arabia, both staunch JCPOA critics — to take the lead in containing Iran militarily when he visits the region in July. "In the face of Iranian belligerence ... what is needed is not just cooperation, but also a regional force buildup, with American leadership," Reuters quoted Israeli Defense Minister Benny Gantz as saying on Tuesday. A foreign ministry spokesman confirmed that this did not refer to a new, formal joint military force.

Provoking Tehran risks a rerun of attacks on Saudi Arabia's oil infrastructure, Israeli-owned ships, or tankers moored off Fujairah, and could choke off Iran's flourishing trade with the United Arab Emirates. Spillover into Yemen and Iraq is also likely.

But the calls for containment are driven by the perception of an increasingly assertive Iran. Israeli Foreign Minister Yair Lapid on Monday advised Israeli citizens to avoid Istanbul amid reports that Turkey had arrested several Revolutionary Guard "operatives" targeting Israeli tourists.

Iran has been emboldened by its relationship with Russia, whose surprise intervention in the Vienna talks three months ago knocked diplomatic efforts sideways at a pivotal moment. Russia's Security Council chief, Nikolai Patrushev, stressed the need to finalize a long-term economic cooperation agreement with Tehran at a meeting in May with his Iranian counterpart. The development of the "north-south corridor" was, he said, a priority for the two countries in the face of massive Western sanctions pressure. How much it might offset even more pressure on Iran is an open question.

• Negotiations collapse, but both sides show restraint, with the US in particular wanting to avoid further oil price spikes ahead of November midterm elections.

IAEA chief Rafael Grossi warned last week, after Tehran's decision to remove the 27 cameras, that within three to four weeks the UN nuclear watchdog would lose all continuity of knowledge over the Iranian program, which would be a "fatal blow" to any hopes of reviving the 2015 deal. If those hopes are finally dashed, international scrutiny of Iran's nuclear "breakout" time — the point at which it has enough fissile material to make a nuclear weapon — will intensify. US officials have said for months that it might be just weeks away.

But that is different from Iran's ability to actually deliver a nuclear weapon. Some experts reckon it would need another 18 to 24 months, which takes some of the pressure off the US to act.

Unclear is whether the US can or would stop unilateral attempts by Israel to sabotage Iran's nuclear facilities, such as the one it was accused of at Natanz last year.

The recent US decisions to blacklist individuals and companies accused of facilitating oil and petrochemical sales that benefited the Revolutionary Guard and the National Iranian Oil Co. — and continued if sporadic US efforts to intercept Iranian oil shipments — hardly encourage the view that both sides will exercise restraint. Some oil traders argue that Washington may turn a blind eye to the flow of sanctioned Iranian oil in the coming months. Claims by Iranian officials that Greece has agreed to release the confiscated cargo could also, if confirmed, offer hope that the reciprocal tanker seizures are not the start of something more serious. If they are, market turbulence could be about to get a lot worse.

Simon Martelli, London, and Emily Meredith, Washington

GEOPOLITICS

Signs of an Israel-Lebanon Maritime Border Deal Emerge

US Energy Envoy Amos Hochstein arrived in Beirut this week to seek a solution to Israel and Lebanon's long-running maritime border dispute amid escalating rhetoric between Israel and Lebanese Shiite militant group Hezbollah — centered on Hezbollah's threats to stop Israeli development of the Karish field. With a fragile economy and surging inflation, Beirut would also like to secure promised Egyptian gas supplies to keep the lights on, which some argue is linked to a border compromise. Israel and Egypt's provisional LNG supply deal with Europe this week could add momentum to a possible resolution.

• Border talks appear to be gaining momentum, with Beirut presenting a proposal to the US this week, perhaps with an eye on unlocking an Egyptian gas supply deal.

The Lebanese press is awash with talk that Lebanon has offered to drop its insistence on waters up to Line 29, which would encompass all of its Qana prospect, largely located in the TotalEnergies-operated Block 9 offshore Lebanon. The Line 29 motion was previously rejected by the Israelis. "There is a proposal handed over to Mr. Hochstein and we are expecting an answer back [from the US]," says a Lebanese official, who declined to provide further detail.

The current proposal may have offered a claim to waters up to Line 23, plus an additional 300 square kilometres including the Qana prospect but not the Karish field — which Beirut insists is located in disputed waters. If Line 23 is now the Lebanese starting position, then one driver could be a desire to advance a provisional Egypt-Lebanon gas supply deal that would allow Beirut to deal with its chronic power problems, impacting its weakened economy.

The deal, struck last year, envisages piping some 650 million cubic feet of Egyptian gas via the Arab Gas Pipeline to a power plant in north Lebanon via Jordan and Syria. The plan was accompanied by a sister project to export Jordanian electricity to Lebanon. The project requires a guarantee that US Caesar Act sanctions against Damascus would not be imposed on all parties to the agreement.

The Lebanese official says the US envoy has repeatedly said that these waivers would be granted but believes that opposition to the Al-Assad regime in the US Congress is causing delays. Lebanese officials have also insisted the two issues are linked, although US officials deny this. But Hochstein's trip may have yielded progress: the envoy told Al-Hurra TV Wednesday that on Egypt and Lebanon finalizing an agreement, Washington could evaluate it for sanctions compliance and then be in a place to "have the gas finally flow."

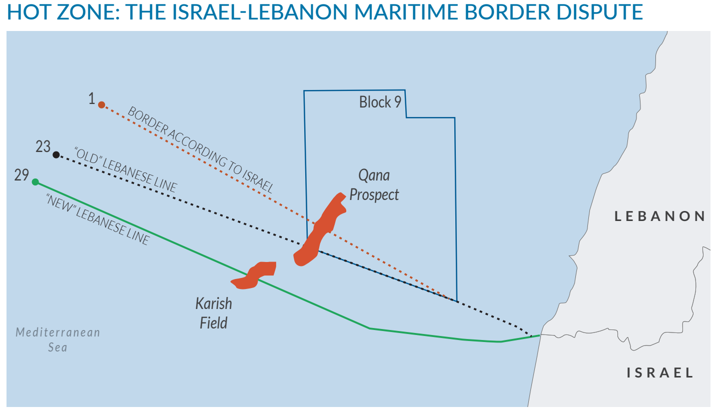
• Escalating rhetoric between Hezbollah and Israel risks a possible conflict.

London-listed Energean's floating production, storage and offloading (FPSO) vessel arrived at the Karish field, 90 kilometers off Israel's coast, in early June. Gas production targeting 630 MMcf/d is expected to start by the third quarter, destined for the Israeli market. On the FPSO's arrival, Hezbollah indicated it might prevent Israel from extracting gas from Karish. "All options are on the table," Hezbollah leader Hassan Nasrallah said on Jun. 9, adding that the group was "not afraid of war." Israeli Finance Minister Avigdor Lieberman the next day said "no one will dictate whether or not we drill for gas in the state of Israel's economic waters."

Israeli diplomats have emphasized that any attack by Hezbollah would be met in kind and that the militant group knows this. But given the group's close links to Tehran and the capabilities of Iranian missile technology, Hezbollah's arsenal could be a threat to critical offshore Israeli gas infrastructure.

Chevron, which operates the 22 trillion cubic foot Israeli Leviathan and 11 Tcf Tamar fields, has some experience of such a risk. The Israelis shut down the offshore Tamar field as a precaution last year when the Palestinian group Hamas clashed with Israel in Gaza, leaving Chevron's gas production off line for 10 days. Any

HOT ZONE: THE ISRAEL-LEBANON MARITIME BORDER DISPUTE



Source: L'Orient Today and Energy Intelligence escalating tensions would also have a ripple effect, given Israeli piped supplies to Egypt and Jordan, and the EU's new interest in LNG supply from the region.

• Israel and Egypt's provisional LNG supply deal to Europe underlines the East Mediterranean gas play's growing importance.

Under the terms of this week's memorandum of understanding, all sides have agreed to ensure a regular supply of natural gas to the EU from Egypt, Israel and other sources using natural gas liquefaction infrastructure available in Egypt. Industry sources have long contended that the most viable commercial option for East Mediterranean LNG exports is to use the existing Egyptian LNG export plants at Idku and Damietta on the Mediterranean coast, supplied by additional piped volumes from Israel and possibly Cyprus.

A study into a potential East Mediterranean Gas Pipeline is due to conclude this year but its commercial and technical viability is in doubt along with its long-term suitability to Europe's evolving gas market. LNG supplies offer more flexibility as Brussels seeks to slash its gas dependence on Russia while also hewing to energy transition goals. Egypt's own LNG exports to Europe have meanwhile soared recently. Its twin terminals shipped about 80% of their output, or 600,000 tons, to Europe in March; 370,000 tons in April; and 570,000 tons in May, data from data intelligence firm Kpler show.

But Israeli LNG by way of Egypt will not be arriving in Europe imminently. A dispute over boundary delineation between Chevron and its Aphrodite partners Shell and Israel's Delek is delaying a decision on a development option for a second phase development of Leviathan that might be combined with Aphrodite.

Any maritime border solution would also have the added bonus of providing security to investors looking at Israel's fourth offshore bid round, while Lebanon's second auction is due to conclude this week. The level of interest could indicate what impact recent escalating rhetoric may have on potential investors.

Tom Pepper, London

POLICY

Will Energy Supply Security Concerns Slow Climate Action?

The energy crisis has changed the conversation around energy policy, with some suggesting energy security concerns will trump climate worries. How countries balance this will be critical for UN climate talks this year, providing an early and unexpected test of the world's resolve to tackle the climate crisis with cooperative solutions. COP27 in Egypt will be different from previous meetings, as negotiators turn to the Paris Agreement's implementation phase, with preparatory talks in Bonn offering a glimpse into some priority issues and hints of where trouble might emerge.

• At their first in-person meeting in Bonn for three years, climate negotiators from around the world have been conducting technical talks over the last two weeks to lay the groundwork for COP27 in Sharm el-Sheikh, Egypt, later this year.

This is also the first time governments have met since the conclusion of COP26 in Glasgow last November, at which the operational details of the Paris Agreement were finalized — ringing in the era of implementation for the agreement. "COP27 in Egypt needs to focus on implementation," UN Climate Change head Patricia Espinosa said at the opening of the Bonn talks. There, nations "must show how they will, through legislation, policies and programs, and throughout all jurisdictions and sectors, begin putting the Paris Agreement into practice in their home countries," Espinosa continued. "It is not acceptable to say that we are in challenging times ... climate change is not an agenda we can afford to push back on our global schedule."

UN Secretary-General Antonio Guterres also warned this week that the energy crisis shouldn't give fossil fuels a green light. Acknowledging that the "energy crisis exacerbated by the war in Ukraine has seen a perilous doubling down on fossil fuels by the major economies," he said that new funding from governments for fossil fuel exploration or production is simply "delusional." The "only true path" to energy security, stable power prices, prosperity and a livable planet lies "in abandoning polluting fossil fuels, especially coal, and accelerating the renewables-based energy transition," he told a conference in Vienna.

• After more than a decade's work, the mechanics of the Paris Agreement are largely finalized, and negotiations are focusing more now on issues such as adaptation and support for developing countries, particularly financial help.

These have been flashpoint issues in the past that many demand be properly addressed at what's been labeled an "African COP" in Egypt. At COP26, developed countries promised to double the share of finance that goes to adaptation, with developing countries pressing now for mechanisms to deliver this, as well as more funding for loss and damage from climate change, which some are already experiencing. Broader finance for the energy transition is another contentious issue — with rich countries still falling short of the $100 billion per year of funding they'd pledged by 2020. "Time and time again, the lack of finance comes up as the main obstacle to collective climate action, also in capacity building, technology transfer or the consolidation of the enhanced transparency framework," said the UN climate head.

Another key task for negotiators is a global stock take of where the world stands when it comes to implementing the Paris Agreement — the review part of that deal's review-andratchet mechanism. With the world still far off course in its efforts to achieve the Paris 1.5°C objective, the stock take will focus on ways to bridge any gaps in order to increase ambition and action on climate change, and is designed to help spur countries to step up climate action to avoid the worst impacts of climate change. This is due to be formally completed at COP28 in the United Arab Emirates in 2023.

Egypt promises also that COP27 will give more of a voice to producers. As conference president, Cairo can set the agenda for important side events that take place alongside the more formal UN negotiations and craft a final COP declaration. The UK did this in Glasgow, making action on coal its big priority there. There will be room in the official program as well for producer countries to raise concerns about the impact on their economies and societies from a potentially faster energy transition, as part of the Katowice Committee on Impacts initiated by COP24 host Poland, which advanced at COP26 and could be more prominent at COP27.

· Although countries aren't formally required to submit new climate pledges until 2024-25, pressure is mounting to boost ambition sooner — with loud warnings coming from scientists that the window for effective climate action is fast closing.

"We can no longer afford to make just incremental progress. We must move these negotiations along more quickly," Espinosa said of the COP talks. That should be reflected in even more ambitious nationally determined contributions (NDCs). So far, however, none of the G20 group of leading economies have come forward with an NDC update since Glasgow, as they scramble for fossil fuels in tight markets. This includes the EU, which is looking to rely more on coal in the short term while it also looks to accelerate renewables deployment, too, hoping this will balance any additional carbon dioxide emissions.

But more broadly, the climate diplomacy line seems to be holding for now. At a first meeting in May of ministers and high-level representatives from over 40 countries to assess the practical steps needed for progress this year, participants noted the uniquely challenging global context. But many also recognized that these challenges strengthen the need to accelerate practical action and support for the just transition to low emission and climate-resilient economies now and through this crucial decade, a meeting communique said.

Progress has also been seen at the G7, with an end-May agreement to phase out coal and end international coal funding — even if the measures adopted were a bit weaker than those originally proposed by G7 host Germany. Climate is also high on the agenda of the G20 in Indonesia this year. Coal has been a more divisive issue there, with many G20 members, like India, also looking to rely more on it now due to the energy crisis.

Ronan Kavanagh, London

COUNTRY RISK

Lourenco's Rocky Path to Elections

- *High oil prices have come too late for Angolan voters, with elections looming in August.*
- *Corruption allegations are taking the shine off Lourenco's early record.*
- *An increase in vote-rigging expected.*

The Issue

For all the benefits likely to accrue from high oil prices triggered by the Ukraine war, Angola faces a potentially unstable period ahead. Many Angolans believe a popular opposition alliance could beat the MPLA, which has ruled since 1975, in a fair contest. However, the government's heightening sense of vulnerability is expected to prompt more election rigging, protests, violent crackdowns and blowback from youth and urban populations.

Oil Price Improves Pre-Election Economy

The Russia-Ukraine crisis has inflated the price of Angola's flagship Cabinda and Girassol grades to more than $130 per barrel in recent weeks and channeled more crude to Europe, where refiners are scrambling to replace Russian oil with alternate crudes. The higher oil price should make it easier for the government to service and amortize its external debt of around $55 billion, improving Angola's fiscal position.

Back in January, using a base price of just $76/bbl, the International Monetary Fund (IMF) projected GDP growth at almost 3%, and exports at $32 billion.

The higher price outlook now should ease the impact of falling production, which has averaged around 1.18 million barrels per day in 2022 according to Energy Intelligence estimates. That's down from 1.33 million b/d in 2020, and 1.9 million b/d in 2007. Angola continues to undershoot its Opec-plus allowance, which averaged 1.435 million b/d over January-May 2022.

The price boom will also provide scope to relax the fiscal discipline exercised during 2020-21 when Lourenco tried to shore up the damage from Covid-19. However, the windfall comes too late for trickle-down policies to benefit ordinary citizens, and appears more likely to be used for elite patronage ahead of August's elections.

IOC Upstream Footprint Just About Holding

Improved efficiency and industry-friendly legislation from 2018 has encouraged international oil companies (IOCs) operating in

Angola to continue investing in short-cycle satellite projects and a few new schemes, which are helping to manage the decline in production. TotalEnergies approved Clov Phase 3 on deepwater Block 17 this week, which will produce 30,000 b/d after 2024. Total is also approaching a final investment decision (FID) on a stand-alone development of around 100,000 b/d for the Cameia Golfinho pre-salt fields on Blocks 20/11 and 21/09, penciled in for 2025.

Italy's Eni is progressing toward FID for a new hub to develop the rest of the Agogo field on the northern section of Block 15/06, which could produce 100,000 b/d from 2026. The reforms have persuaded waverers like Equinor to remain, while BP resolved its dilemma by partnering with Eni in the Azule Energy joint venture launched in March.

However, some IOCs complain that the old practices that defined the era of former President Eduardo dos Santos have crept back in, citing pressure to partner locals with political connections. Angolan sources told Energy Intelligence of some irregularities in the licensing round of onshore blocks conducted in 2021, and in the farm-ins announced recently by state Sonangol. The delayed onshore round, which targeted local firms, had struggled to attract credible investors and was thought likely to be used for election patronage.

Mixed Local Track Record

Some winners in the Sonangol farm-ins have track records and financial credentials, such as Afentra, whose CEO Paul McDade once headed UK independent Tullow Oil. Afentra has taken non-operating stakes of 20% in shallow-water Block 3/05 and 40% in deepwater Block 23. Somoil, a local firm founded by officials linked to Sonangol, has been producing oil for some time.

Others are harder to pin down. Sequa Petroleum and Petrolog, which partnered Namibia's Namcor to bid for a stake in Block 2, have indirect Nigerian connections, as do MTI Energy, Brites Oil and Intank, which won stakes in the 2021 onshore round. While Nigerian-owned firms could bring some expertise from the Niger Delta, they also appear short on funds at a time when the energy transition has already made it difficult to finance fossil fuel projects.

Allegations of mounting irregularities in other sectors have taken the shine off Lourenco's image as a corruption fighter arising from his targeting of the family of his predecessor. Many Angola watchers said it was only a matter of time before Lourenco's inner circle would start to build its own patronage networks.

The circle has been linked to agricultural processing group Carrinho, alleged to have underpaid for a privatized local bank and, to industrial firm Omatapalo, which has been winning works contracts. Omatapalo, said to be linked to Benguela Province Governor Luis Nunes, has teamed up with shadowy London-based Russian-owned Gemcorp to bid to build the 200,000 b/d Lobito refinery.

Opposition Pressure Rising

Such lapses have caused many to forget Lourenco's early openness and pursuit of an extended IMF program, and to blame him for worsening living standards that owe more to Covid-19, the dos Santos corruption legacy, and the oil price crashes of 2015 and 2020.

Desperation, which is prompting the MPLA to row back on the relaxations, could feed a groundswell of anti-government feeling. Angolan elections usually have some element of rigging, albeit short of Nigerian levels. The MPLA has tried to broaden its appeal with patronage and a female running mate.

The opposition FPU alliance has yet to offer a convincing alternative program, but opposition parties appear relatively more united and compelling than in the past. The FPU is led by charismatic Adalberto Costa Jr. Costa, who heads Unita, the largest opposition party, and has teamed up with the PRA-JA Servir Angola Party and Bloco Democratico. The opposition is popular with Angola's burgeoning youth, very strong in urban areas, and commands support in the key provinces of Luanda, Benguela, Huambo and Cabinda.

An Afrobarometer opinion poll in May put the MPLA at 29% of the vote and Unita at 22%, compared with 38% versus 13% at a similar poll in 2019. Some conclude that the FPU alliance could defeat the ruling party if elections were fair, although Afrobarometer said the large number of undeclareds make it impossible to predict the outcome.

Christina Katsouris, London

CLOSING ARGUMENTS

Pakistan Simmers, Turkey Escalates With Greece

Pakistan: Khan's Election Demands Pushing Nation to the Brink

Former Pakistani Prime Minister Imran Khan continues to protest April's no-confidence vote that ousted him from power, threatening continued social unrest unless the current government of Prime Minister Shehbaz Sharif agrees to snap elections Khan believes would put him back in power. Khan has accused Sharif of conspiring with foreign powers to orchestrate a political coup that led to the no-confidence vote. The Pakistani Supreme Court, together with the Pakistani security services, rejected Khan's claims, and Sharif has declared that he will remain in office until August 2023, when general elections are scheduled to take place.

Khan's demands for new elections are a political non-starter, given that any such concession would automatically give credence to the very accusations of outside political interference that underpin Khan's ongoing protest. Void of any snap election, however, Khan has declared he will continue to call for public protests that threaten to tear Pakistan apart politically. Last month Khan had organized a massive rally designed to mobilize up to 2 million protesters for a march on Islamabad, the goal of which was to effectively shut down Pakistan's capital until his demands for a new election were met. Khan canceled this march after the Pakistani military threatened to respond with violence.

The Pakistani military and intelligence services have rejected Khan's claims of foreign involvement in the political intrigues leading up to April's no-confidence vote. In a recent public statement, the spokesperson for the Pakistani military, Maj. Gen. Babar Iftikhar, declared that Khan's claims amounted to little more than "baseless propaganda" against both the Pakistani armed forces and its leadership. Unlike the Sharif government, however, Iftikhar indicated that the Pakistani Army, in close consultation with the Pakistani judiciary, remains open to the possibility of early elections to avoid further domestic political turmoil.

But other factors could help spur unrest. Sharif's government is struggling to cope with a massive energy crisis. Power outages brought on by insufficient generation capacity and soaring fuel prices have shut down large parts of Pakistan's economy. Khan has meanwhile promised he will resume his protest march on Islamabad, hoping to generate support for his cause among an increasingly disgruntled population. If the Sharif government calls upon the army to stop Khan, the potential for large-scale political violence is real — confronting the Pakistani Army with the Hobson's choice of helping to instigate civil conflict or pushing for early elections. Neither bode well for the future of Pakistan.

Turkey: Military Action Threatened Over Greece's Militarization of Islands

Turkish President Recep Tayyip Erdogan last week issued a stern warning to Greece, demanding that it cease militarizing islands located off Turkey's Aegean and Mediterranean Sea coasts, with Erdogan cautioning Greece "not to repeat the mistakes it made a century ago." This is a clear reference to the destruction of Smyrna, now known as Izmir, by Turkish forces in 1922, and the subsequent expulsion of the Greek population from Asia Minor. While Greece has been stationing military personnel on the Dodecanese Islands and small nearby islets since the 1960s, the matter didn't reach a crisis point until August 2020, when Turkey dispatched a survey ship off the island of Kastellorizo to search for offshore gas reserves.

Greece responded by dispatching naval vessels, one of which collided with a Turkish frigate, putting the two Nato members at risk of a direct clash. Turkey announced its intention to continue exploring for oil and gas in the Mediterranean Sea in July 2021. The Greek militarization of the Aegean islands is viewed by Turkey as an impediment to such exploration. "I warn Greece to avoid dreams, acts and statements that will result in regret. Come to your senses," Erdogan said in a televised address as he observed a major Turkish military exercise in the Aegean Sea.

Turkey claims Greece's obligations regarding the demilitarization of the islands are clearly spelled out in clauses in both the 1923 Treaty of Lausanne and the Paris Treaty of 1947. While Turkish diplomats have suggested that Turkey might be amenable to having the issue placed under the jurisdiction of the International Court of Justice (ICJ), Greece introduced reservations on military issues citing "national security" that make ICJ involvement in the present dispute impossible. In letters sent to the UN Secretary-General in July and September 2021, Turkey protested Greece's failure to abide by its demilitarization obligations, linking its failure to do so to Greece's sovereignty rights over the islands. In its own letter to the UN Secretary-General last month, Greece rejected that linkage and called Turkey's arguments "erroneous and devoid of any legal basis."

The time for legal niceties may soon be past. During his televised address, Erdogan made it clear that Turkey was doubling down on its intent to continue to explore the contested Aegean and Mediterranean waters, and that Greece's actions could lead to Turkey seizing the islands by force. "If Greece does not stop this violation, the sovereignty of the islands will be brought up for discussion," Erdogan declared, in the same speech where he made reference to the events of 1922. "I'm not kidding, I'm serious," Erdogan warned. His words constitute an implicit threat that, if implemented, could bring the two estranged Nato allies to blows.