Energy Intelligence

VOL. 33, NO. 25
JUNE 23, 2022
WWW.ENERGYINTEL.COM

ENERGY COMPASS®

COPYRIGHT © 2022 ENERGY INTELLIGENCE GROUP. ALL RIGHTS RESERVED. UNAUTHORIZED ACCESS OR ELECTRONIC FORWARDING, EVEN FOR INTERNAL USE, IS PROHIBITED.

CONTENTS

THE BIG PICTURE

Russia's Gas Weapon Explained

- *The sharp cut in flows via the Nord Stream pipeline to Germany last week — while officially technical in nature — suggests Russia is weaponizing its gas supply amid the EU's deepening embrace of Ukraine.*

- *Moscow's aims likely include provoking division on sanctions and Ukraine policies, amplifying Europe's price pain, undermining EU storage aims for the winter, and simply keeping the EU off-balance.*

- *But a complete cutoff still looks unlikely: Tactical, temporary disruptions better serve Moscow's interests, giving it more political leverage and export revenues.*

The timing of Gazprom's move to cut Nord Stream flows to 40% of normal levels was likely no accident: It coincided with a high-profile visit to Kyiv on Jun. 16 by the German, French and Italian leaders, amid advancing talks for Ukraine to join the EU. "My colleagues and I came here to Kyiv today with a clear message: Ukraine belongs to the European family," German Chancellor Olaf Scholz declared. On Jun. 17, the European Commission said Ukraine should be given candidate status to join the EU, which could be approved at a Jun. 23-24 summit.

Gazprom CEO Alexei Miller's same-day Jun. 16 address to the St. Petersburg International Economic Forum also marked the moment. "Russia is a supplier of energy stability to the friends of Russia," Miller said. The rules of the game have changed, Miller added, insisting that Russia's control of the energy resources and supply allows it to set its own rules in the trade with "unfriendly" Europe. "Our commodity — our rules," Miller said, effectively drawing a line under Gazprom's past denial that it served Moscow's political goals.

Moscow's official explanation for the reduction of Nord Stream gas supply, first to 60% and then 40%, was that a compressor station's Siemens turbine was stranded in Canada after undergoing maintenance, with sanctions blocking its return. It is not clear whether the sharp drop in flows was fully justified from a technical point of view. Moreover, Gazprom made no move to compensate by increasing flows via other pipeline routes to Europe. Should Gazprom do the same during scheduled Jul. 11-21 maintenance on Nord Stream when flows will stop completely, Europe's gas crisis will intensify.

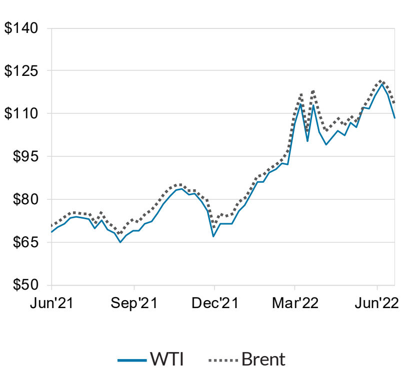
Moscow appeared to leave the door open to further disruption. Miller noted that Gazprom has additional turbines that require crucial maintenance work at the Montreal factory. Russia's EU ambassador suggested to Ria Novosti that the turbines problem could halt all Nord Stream supplies — a "disaster" for Germany.

Behind the Cut

Ahead of the Ukraine invasion, Energy Intelligence analysis indicated that between the binary cutoff or no-cutoff outlook for Russian gas supplies in the event of a conflict lay a middle, more likely, option, where Moscow could more subtly use partial cutoffs for

>> continued on page 2

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



Source: CME, ICE

political leverage against the West. That seems to be exactly how things are playing out.

Beyond the opportunity to challenge the EU's embrace of Kyiv, a number of deeper motives could be at play:

- First, and most obviously, Moscow is making full use of the opportunity to show — as the conflict drags on — that sanctions will cause pain to the West, not just Russia. Political divisions in Europe could not only erode its appetite for sanctions, but potentially temper its enthusiasm for arming Kyiv. Stirring EU-US divisions or shifts within the US on sanctions measures, policy actions and their price impact would come as a bonus (p2).

- An exacerbated energy crisis should also spur inflation and social discontent, potentially making EU leaders more amenable to concessions, including territorial, in any peace talks between Ukraine and Russia — perhaps even facilitating such talks. Both Miller and Russian President Vladimir Putin insisted at the St. Petersburg forum that Moscow's "special military operation" has nothing to do with high gas prices in Europe and globally, arguing price rises began before the conflict. European gas prices indeed started their rally last year, but many believe that Gazprom was a major contributor through its earlier supply restrictions.

- From a market perspective, the limited gas flows make it harder for Europe to refill its storage. Thanks to LNG supplies, this had gradually risen to 55% of capacity, up from 45% a year ago but still down from 78% in 2020. This will increase Europe's dependence on Russian gas in the months ahead, with obvious political consequences.

- The squeeze on Nord Stream supplies also helped arrest a decline in European spot prices: Spot prices had almost reached prewar levels in early June, but jumped 40% last week and now exceed €125 per megawatt hour ($38.80 per million Btu) — the highest since mid-March. Some 80% of Gazprom's long-term contract portfolio is priced off the spot market. Any decrease in spot prices translates into a reduction in Gazprom's broader export prices, with implications for revenues. Russia has so far managed to keep oil and gas revenues buoyant, as higher prices more than compensate for lower volumes.

Tactical Restrictions

So what should Europe expect next? A first clue could come if and when a solution is found for the return of the Siemens turbine — be it a sanctions waiver or some other workaround. Will Gazprom move to restore flows to full capacity? If so, for how long?

Despite Miller's tough tone, Gazprom might not want to push things too far. Russia earlier took a hard line in demanding that European buyers pay for gas in rubles, threatening to cut off supplies if they didn't. But it ended up reaching a compromise.

What's more, Moscow right now lacks options to redirect European gas flows to "friendlier" countries. China is ramping up Russian pipeline imports to 15 billion cubic meters this year, but Russia's gas infrastructure largely points west.

The scale of disrupted flows could yet hew to Gazprom's contractual obligations. Export volumes to Europe including Turkey dropped by 30% over January-May. Under its contracts, Gazprom has the right to reschedule some volumes for later months of the year. But if gas flows remain low for too long, it might start failing to meet contractual requirements, sources say. That could test whether, under the "new rules" of energy supply, such commitments no long matter.

Rather than cut Europe off, simply keeping it (and the market) off-balance might best suit Russia's political and revenue aims. Moscow is keen to see huge windfall revenues keep coming. Russia ultimately has no interest in pushing Europe away from its gas faster than the EU already plans. Gas flows cannot be as easily redirected to alternate markets as oil exports. And some dependence is necessary for leverage to exist.

Tactical, temporary restrictions on gas supply in certain conditions — if spot prices fall, storage starts to build, or a political message needs to be delivered — could continue to serve Moscow's interests well.

Staff Reports

POLICY

Joe Biden's Energy Crisis — and Implications for Foreign Policy

Oil prices are a perennial political concern for US presidents, but US President Joe Biden is facing a uniquely complex energy crisis. After the pandemic-induced collapse in oil and products output, resurgent demand and the fallout of Russia's invasion have sent prices surging. Calls for new supplies face industry and investor concern over the long-term payoff of financing new oil and gas supplies amid the energy transition. The Biden administration is pulling different domestic and foreign policy levers to try and find relief, but their impact only goes so far. Meanwhile, energy prices themselves are a factor in how far US sanctions can go in undercutting Russian financial power.

Chairman: Raja W. Sidawi. Vice Chairman: Marcel van Poecke. Chief Strategy Officer & Chairman Executive Commitee: Lara Sidawi Moore. President: Alex Schindelar. Editor-in-Chief: David Pike. Executive Editor: Noah Brenner. Editor: Jill Junnola (ec@energyintel.com) Editorial: Dubai: Amena Bakr, Oliver Klaus. India: Rakesh Sharma. London: Christina Katsouris, Peter Kemp, Simon Martelli, Tom Pepper, Paul Sampson. Moscow: Gary Peach, Nelli Sharushkina, Nadezhda Sladkova, Vitaly Sokolov. Singapore: Maryelle Demongeot, Clara Tan, Freddie Yap. US: Michael Deibert, David Knapp, Frans Koster, Emily Meredith, John van Schaik. Data: Haissam Akhras. Production: Michael Win. Contact Us: New York: Tel: +1 212 532 1112. London: +44 (0)20 7518 2200. Sales: sales@energyintel.com. Customer Service: customerservice@energyintel.com. Bureaus: Beirut: +961 3 301278. Dubai: Tel: +971 4 364 2607/2608. Houston: Tel: +1 713 222 9700. Moscow: Tel: +7 495 6048279/78/77. Singapore: Tel: +65 6538 0363. Washington: Tel: +1 202 662 0700. Copyright © 2022 by Energy Intelligence Group. ISSN 0962-9270. *Energy Compass*® is a registered trademark of Energy Intelligence Group. All rights reserved. Access, distribution and reproduction are subject to the terms and conditions of the subscription agreement and/or license with Energy Intelligence. Access, distribution, reproduction or electronic forwarding not specifically defined and authorized in a valid subscription agreement or license with Energy Intelligence is willful copyright infringement. Additional copies of individual articles may be obtained using the pay-per-article feature offered at www.energyintel.com

• At home, Biden has the bully pulpit, but his policy tools are limited.

Prices at the pump have risen dramatically — 48% in the year through May, according to government data — driving inflation higher. Natural gas prices are compounding the economic pain, and are expected to rise further this year.

This week, executives from refining and oil companies met with US Energy Secretary Jennifer Granholm, following a public letter from Biden upbraiding them for "well-above normal" profits. Momentum for a windfall tax on the industry is also building among some Democrats in Congress, which the Biden administration has stopped short of endorsing.

But it's not as though Biden can simply order refiners to increase output. For one thing, they're already running at 94% capacity. For another, shuttered facilities are either being converted into renewable diesel plants, or would face expensive and lengthy restarts that aren't certain to pay off. Curbing products exports, which some administration officials are reportedly considering in the bid to tame prices, would likely backfire. The meeting will focus on whether the US government can do anything to facilitate increased capacity, a senior administration official said.

To deal with the pain at the pump in the meantime, Biden is pushing for a three-month gas tax holiday. But Biden can't act alone — he needs lawmakers on board to offer a reprieve. The White House's most impactful executive actions were taken earlier, with the administration tapping the Strategic Petroleum Reserve at a rate of about 1 million barrels per day, and authorizing the sale of gasoline with a higher ethanol content over the summer.

• The president has more flexibility when it comes to setting foreign policy with other producers, but shifts here can only go so far as well.

The most notable change when it comes to the current administration's energy-related foreign policy is the decision for Biden to travel to Saudi Arabia for high-level meetings next month, amid a broader rapprochement between the two countries. That announcement came alongside the Opec-plus decision to augment planned output increases in July and August.

There are incremental changes when it comes to Venezuela as well, with the administration allowing European firms Repsol and Eni to take payment for investments in the country in the form of crude. That move could add some barrels to the market, too. Venezuelan exports averaged about 280,000 b/d lower after the US in 2020 began threatening economic retaliation against firms for taking payment in kind.

But the largest diplomatic source of additional barrels — those from Iran — might not come on line as attempts to revive the 2015 nuclear deal appear increasingly precarious.

• Energy prices are serving as a limit to how aggressive the administration's sanctions policy toward Russia can get.

At the outset, the administration tried to limit the extent to which sanctions would cause economic pain, focusing on financial sector measures that blocked Russia's access to cash in part

to reduce the risk Russia would halt energy exports. That rapidly changed, with the US enacting an embargo on Russian oil imports within two weeks of the invasion and Europe, more heavily dependent on Russian supply, deciding last month to put forward its own ban.

Energy price and supply considerations may serve to limit the sanctions, but so far are not prompting a dramatic shift in Washington's policy when it comes to how it supports Ukraine against Russia's war. A tough stance toward an invading Russia remains a rare bipartisan issue in the US, and Washington is continuing to defensively supply Ukraine. Ukrainian President Volodymyr Zelensky's stance that Russia's position should be pushed back to where it was before the Feb. 24 invasion is not particularly controversial.

Moreover, Biden frames the stance toward Moscow in existential terms, acknowledging Wednesday that sanctions are causing pain at home. Without energy sanctions, "the price of gas wouldn't have spiked the way it has," he said. "I believe that would have been wrong. I believed then and I believe now: The free world has no choice ... if we did stand by, Putin wouldn't have stopped. Putin would have kept going." That hardly points to a relaxation of Washington's current positioning toward Russia, in spite of the economic pain.

"Historically for the US, significant national security concerns have always trumped economic concerns," says David Goldwyn, a former State Department energy envoy who now runs a consultancy. "The US is going to continue to find ways to support Ukraine in its defense and to find ways to punish the Russians for their invasion. The question is can they go any farther [on energy sanctions] given where prices are right now, or have they reached a limit?" he adds. "And I think they are reaching a limit, and that is why they have to be much more creative."

• Differences in the approach to energy sanctions between Brussels and Washington are emerging.

Brussels is pushing forward on its embargo of most Russian oil exports, buttressed by shipping and insurance sanctions that take effect in parallel (p4). But concerned about the price impact, US officials are increasingly making the case for an oil price cap in public. "We are talking about price caps or a price exception that would enhance and strengthen recent and proposed energy restrictions by Europe, the United States, the UK and others," US Treasury Secretary Janet Yellen said this week. The objective is to "push down the price of Russian oil and depress Putin's revenues, while allowing more oil supply to reach the global market," she reportedly said.

A price cap has been discussed for months and is favored by the US and Italy publicly. But European views on that are mixed, with some concerned over how such a move — which likely requires complex integration with other sanctions — would be executed.

Emily Meredith, Washington

POLICY

EU's Russian Oil Insurance Ban Would Have 'Massive Impact'

- *An EU ban on insuring Russian oil shipments, due to come into force by the end of the year, could send oil prices soaring.*
- *The US Treasury is advocating a "price cap" on Russian oil shipments that is so far light on detail but would tweak existing EU sanctions.*
- *The big winner from the stand-off is Russia, which has kept its oil exports stable by selling more discounted barrels to India and China.*

The Issue

The US is urging Brussels to consider a price cap in tandem with its ban on the insurance of Russian oil shipments, in a sign that Western unity against Moscow might just be fraying at the edges. The ban, which is part of the EU's sixth sanctions package introduced on Jun. 3, would prohibit insurance companies from underwriting any Russian oil cargo by a deadline of Dec. 5 for crude oil and Feb. 5, 2023, for products — on top of an embargo on EU imports of Russian oil that comes into force on the same dates. The EU argues that Russia needs to be hit where it hurts, regardless of the wider economic consequences.

Devil in the Detail

Washington's concern is that the insurance ban, when it kicks in, would take so many barrels off the market that prices would go through the roof — and put further pressure on the global economy. A blanket ban would force the London-based International Group of P&I Clubs, which provides liability coverage for around 90% of the world's ocean tonnage, to fall into line and stop underwriting any Russia-related business. "It would have a massive impact," a UK-based ship charterer says. "No European shipowners would risk carrying a Russian oil cargo uninsured, they would have no protection."

US Treasury Secretary Janet Yellen is pushing the idea of a price cap, but the mechanism would likely be extremely complex — and there is skepticism in Europe about the extent to which it will help strangle Russia's dollar revenues.

Flying the Russian Flag

For Russia, the obvious solution to the EU's insurance ban is to use more of its own vessels with insurance guarantees issued by the Russian government. This is already happening, with state shipping company Sovcomflot (SCF) mobilizing its fleet of tankers for the benefit of producers such as Rosneft, Gazprom Neft and Surgutneftegas. In recent months, more SCF ships have appeared at the Far Eastern port of Kozmino to load East Siberia-Pacific Ocean Blend crude destined for China, while they also do regular journeys from the Baltic and Black Seas to the Far East and India, according to shipping sources. "If they're using their own ships, there's nothing much to worry about as long as government support is there," another UK-based shipbroker says. "This is what the Iranians did to get around sanctions, and they did it very effectively."

India has also stepped in by providing certification for a group of SCF tankers operated by its subsidiary in Dubai, SCF Management Services. This is done by the Indian Register of Shipping, a publicly-owned company in existence since the mid-1970s that is recognized by the London-based International Association of Classification Societies, whose certification standards apply to more than 90% of the world's cargo.

More Russian crude is also now being transported by ships belonging to Chinese-state shipping company Cosco, which owns around 5% of the world's very large crude carriers. But, having been briefly blacklisted by the US for transporting Iranian crude before the former Trump administration reversed course and removed sanctions in February 2020, Cosco and its subsidiaries will not want to risk being punished for a second time. Russian exporters are also using some Turkish-owned ships to transport their oil, but the available tonnage is limited.

In for the Long Haul

Russia's response to the EU sanctions imposed so far has been dismissive — and there is no indication the latest measures will prompt President Vladimir Putin to rethink his military strategy in Ukraine (p5). Since the campaign was launched on Feb. 24, Russian oil exports have held their course and are set to remain stable at least for the rest of the summer, sources with access to port data say. "Volume-wise, not much has really changed," a port agent says, but notes it is becoming much harder to ascertain who is lifting the seaborne cargoes and who the end-users are. "We get much less information these days, and it will only get harder."

What is beyond doubt is that Russia is selling more oil into India and China, thanks largely to the heavy discounts on offer. In May, Russia replaced Saudi Arabia as China's top crude supplier, with shipments rising 55% year on year to around 2 million barrels per day, according to Chinese state data. India has upped its intake of Urals crude by a similar proportion, with state refiner Indian Oil Corp. now receiving three to four cargoes a month directly from Russia's state-controlled Rosneft. The Nayara Energy refinery (formerly Essar Oil), which is part-owned by Rosneft, is also increasing imports.

As for Russian oil shipments into Europe, there is still a regular flow to refiners in the Black Sea and Mediterranean, although exports to Northwest Europe appear to have tailed off over the past weeks. One of the biggest suppliers of Urals remains Litasco, the trading arm of Russian giant Lukoil, which owns three refineries in Italy, Romania and Bulgaria. And given that there is another five-plus months before the EU crude embargo comes into force, there is nothing to stop Russia from continuing to supply Europe with crude.

Paul Sampson, London

GEOPOLITICS

Russia Proves Resilient, But Future Hangs on China

Discussions at the St. Petersburg International Economic Forum last week confirmed that Russia's reliance on Asia-Pacific countries and especially China are set to grow as Moscow looks for ways to resist Western sanctions. State finances are now sustainable, President Vladimir Putin told the forum, while Gazprom boss Alexei Miller laid out Russia's new rules for energy supply, which prioritize "friends of Russia" (p1). But the stability of Russia's oil and gas production, exports and revenues rely on the effectiveness of new trading routes — and here the redirection of oil flows could require a new level of market cooperation or understanding within the Opec-plus producer group.

• Russia's energy sector has proved resilient to sanctions and Europe's move to sever oil and gas ties in the near term.

The redirection of Russian oil exports to Asia-Pacific and other markets would help support production, with any decline in output more likely the result of moves to refine lower volumes at home. Deputy Prime Minister Alexander Novak said that the country could even send more crude to global markets at the expense of domestic refining, which could decline by 10% this year from 5.6 million barrels per day in 2021. Russia doesn't need all the fuel oil it was producing as a significant part of it destined for exports, particularly to the US, that are now sanctioned. As opposed to crude, the reorientation of oil products to other markets is more complicated.

Russian crude exports in the first five months of the year were up 12% over the same period in 2021, according to Novak. More than 50% of export volumes now go to Asia-Pacific markets, versus the beginning of the year, when 75% of Russian crude exports were destined for Europe, Gazprom Neft CEO Alexander Dyukov said. And in May and the first two weeks of June, Russia managed to recover more than 600,000 b/d of the 950,000 b/d it had to cut in April. Novak said that production is expected to grow further in July.

On the gas side, Gazprom is counting on higher prices bringing in bigger revenues from lower sales to Europe — as reflected in last week's move to reduce Nord Stream supplies. But a longer-term strategy in response to Europe's plan to phase out Russian gas by 2027 lacks clarity.

This could partly reflect Gazprom's view that EU targets are unrealistic. But it also speaks to the reality of stalled talks with China on new gas supply contracts, and the steep cost of building out any new pipeline infrastructure to eastern markets. Developing domestic demand won't do much to replace export volumes.

Some in Russia, including Novatek CEO Leonid Mikhelson, recognize that Russian piped gas exports to the EU face a sharp reduction in the longer term, which he argues increases the importance of LNG. Russia is sticking with plans to export 120 million-140 million tons of LNG per year by 2035, up from about 30 million tons now, according to Deputy Energy Minister Pavel Sorokin — despite sanctions on LNG technology that constrain Russian LNG development.

• Russia's ties with Saudi Arabia remain tight, ahead of a new Opec-plus deal in the making.

Saudi Energy Minister Prince Abdulaziz bin Salman briefly attended the forum to hold talks with Novak that lasted just over an hour. The meeting was an indication of Riyadh's intention to maintain good relations with Moscow ahead of the planned visit by US President Joe Biden to Saudi Arabia in mid-July, which Moscow will be watching closely.

But also on the horizon is a possible conflict of interest between Russia and Saudi Arabia over market share in the kingdom's traditional markets, such as China. Russia became the No. 1 supplier to China in May with shipments of 1.99 million b/d, pushing Saudi Arabia into second place. Novak told the forum there would be a natural redirection of flows globally as Russia is forced to reroute shipments to the east because of Europe's oil embargo, with Mideast producers then sending more crude to Europe to replace Russian barrels.

Novak also said that he discussed with Prince Abdulaziz the redirection of diesel from Asia to Europe by Saudi Arabia to cover the deficit in the EU. But Russian officials refused to comment on any possible market coordination between the two producers. Novak also said that the Opec-plus deal is here to stay — although the form of cooperation after the current pact expires is still to be discussed.

• China's support is key, but also has limits.

The absence of major energy deals at the forum is down to Chinese companies' cautious approach to Russia and wish to avoid possible secondary sanctions. The sum total was a technical agreement Gazprom inked with state China National Petroleum Corp. outlining parameters for the 10 billion cubic meter per year "Far Eastern route" gas supply contract agreed in February.

However, Beijing's political support is important to Moscow — and has prevailed despite Russia's growing diplomatic isolation over the Ukraine war. Chinese President Xi Jinping addressed the St. Petersburg Forum via a video link. That followed a Jun. 15 phone call between the two leaders, on the occasion of Xi's birthday, in which Xi said bilateral relations had "maintained a sound development momentum in the face of global turbulence and transformations" and noted the two would continue to support each other's "core interests concerning sovereignty and security."

China's increasing imports of Russian oil and gas meanwhile offer tangible support. Record-high volumes of Russian crude imports signal that Chinese refiners have been given free rein to buy discounted Russian barrels at a time of surging oil prices, while helping support the Russian war effort. China's May Russian crude imports were worth $5.76 billion, according to Chinese customs data, even though the oil traded at an average discount of $16 per barrel to rival Saudi crude.

Chinese customs data has ceased disclosing gas import volumes for all countries. But Chinese customs data show that China imported $1.32 billion worth of Russian gas over the first five months of this year, against $1.51 billion for the whole of 2021 — when gas prices were admittedly much lower. Such revenues also pale in comparison to Europe's estimated $46 billion in spending on Russian gas over January-May.

Staff Reports

COUNTRY RISK

Petro Victory Sets Colombia on Uncertain New Path

The election of Sen. Gustavo Petro as Colombia's next president represents a sea change for a nation that has been run by right-wing politicians for much of its modern history. The left-leaning Petro, who previously served as a deputy in Colombia's lower house of Congress and as mayor of its sprawling capital Bogota, ran on a platform of environmentalism — famously pledging to halt new oil and gas exploration — and social inclusion. But once in office, he may face limits to his room to maneuver.

• Petro's vows to stop domestic oil exploration and ban open-pit mining have attracted a lot of attention — and sparked concern.

Petro's campaign platform pledged to not grant any new licenses for hydrocarbon exploration during his term in office and to "undertake a gradual de-escalation of economic dependence on oil and coal." He has also pledged to set up a national institute for clean energies. Some have been rattled by the calls, with Colombia's oil sector long seen as stable place for foreign investment. The stock of state oil firm Ecopetrol fell 13% on Tuesday. That's despite the firm posting bumper first-quarter revenues of over $8.3 billion — almost double that from a year ago — on the back of soaring energy prices and refining margins.

The government will need to tread carefully. Crude oil accounts for some 30% of export revenues and around 3% of GDP, oil and gas prices are currently booming and the public is in a restive mood. Protests last year against proposed changes in Colombia's tax code mushroomed into a more general expression of grievances against the centre-right government of President Ivan Duque, including economic inequality, abuses by security forces and other issues all exacerbated by the pandemic. Colombia's security forces — sometimes in collaboration with illegal armed groups — responded violently, committing what human rights groups said were egregious abuses.

"Doing away with oil exploitation, banning open pit coal mining and gold mining, will mean quickly running out of inflows and running into the red," says Sergio Guzman, director of Colombia Risk Analysis, a Bogota-based political risk consultancy. "Congress is probably not going to pass reform unless it is significantly watered down." Petro's Pacto Historico coalition has the largest share of seats in Colombia's Congress but not a majority. The center-left Partido Liberal — one of Colombia's biggest traditional parties — said Wednesday that it would join forces with Petro, taking his coalition to 53 senators out of 107.

• Petro appeared to seek to soothe such concerns but also faces steep governing challenges.

In his acceptance speech, Petro said his government would "develop capitalism" by moving from the "old extractivist economy to a productive one" in order to overcome the country's "pre-modernity" and "feudalism." And in her first interview as vice president-elect, Francia Marquez, a well-known environmental activist, told the television station Noticias Caracol, "We are not going to expropriate anything."

As a teenager, Petro was a member of the left-wing M-19 guerrilla movement and spent two years in prison in his mid-20s. He was first elected to public office in 1991, to the Chamber of Deputies, Colombia's lower house of Congress, and then the Senate in 2006, where he became a bitter foe of the government of then-President Alvaro Uribe, assailing the latter's alleged links with right-wing paramilitaries. Elected mayor of Bogota in 2012, Petro ruled with a moderate leftist program heavy on pro-environment, pro-feminist and pro-LGBTQ issues. While mayor, Petro developed a reputation for being headstrong and often difficult, cycling through more than 60 employees for 19 positions in his immediate cabinet in just a few years. He returned to the Senate in 2018.

"He will test the limits of power, and Colombia's political framework and institutional framework will be tested like its never been tested before [but] he doesn't have free rein," says John Padilla, managing director of IPD Latin America. "He doesn't have Congress, military support is certainly not in his camp and that is going to create a different dynamic. He's going to have to make concessions if he wants to govern effectively."

Petro promised to respond to the needs of poor and other Colombians who have increasingly viewed the federal government as repressive, high-handed and unresponsive to their needs. In 2021, Colombia's poverty rate stood at 39.3%, with extreme poverty reaching 12.2%, numbers not seen in a decade. Government data showed an unemployment rate of 11.2% at the beginning of 2022, with the rate for young people even worse at 20%. Petro has also pledged to recommence negotiations that Duque had suspended with the ELN, Colombia's main leftist rebel group.

Petro's electoral success over former Bucaramanga Mayor Rodolfo Hernández saw the cobbling together of a diverse coalition encompassing Colombia's Caribbean coast, Bogota and the heavily Afro-Colombian Pacific Coast. Marquez, Petro's vice president, will be the first Afro-Colombian to ever hold that office. But these same forces may not sit quietly if Colombia's political interest groups seek to block Petro and his reforms. On the night of his electoral victory, one supporter tweeted out, in a common sentiment, "Those of us who voted for Petro should and will be the biggest critics of his government. This is how change is built."

• Petro's focus on the energy transition in part reflects the reality of Colombia's constrained hydrocarbon future.

The government last month put Colombia's proved oil reserves at some 2 billion barrels, equivalent to 7.6 years of consumption. The country produces an average of 748,000 barrels per day. High gas prices have raised the profile of mainly gas-prospective offshore reserves, but plans for hydraulic fracturing have met with sustained public opposition.

Among Petro's environmental proposals, there will be a push to protect and preserve strategic ecosystems by signing community agreements for their restoration and preservation, a plan to protect environmental activists (according to the UK's Global Witness, Colombia topped the list of the most dangerous countries for environmental leaders in 2020-21) and a push to stop illegal appropriation of land, drug trafficking and mining in Colombia's vast Amazon region. He has also pledged to turn the impoverished, largely indigenous department of La Guajira, which skirts the Caribbean, into a hub for solar energy projects. Colombia relies mainly on hydropower, which can be crimped by drought.

Michael Deibert, Washington

CLOSING ARGUMENTS

Taiwan Escalation, Mali's Cold War

China: Military Tensions Rise Over US-Taiwan Relations

Chinese Defense Minister Wei Fenghe this month warned his US counterpart, Secretary of Defense Lloyd Austin, that China would "not hesitate to start a war" over Taiwan, declaring that China would "smash to smithereens" any effort by Taiwan to assert its independence from China. Wei's unprecedented threats were made as Austin demanded China "refrain from further destabilizing actions toward Taiwan," voicing the ongoing concern on the part of the administration of US President Joe Biden that China might be seeking to "change the status quo" regarding Taiwan through "military aggression." With the two defense leaders seemingly talking past each other, the trajectory of US-China relations over Taiwan appears at risk of heading for direct military confrontation.

China has for some time expressed concern over what it views as a dangerous shift in US policy regarding Taiwan. The Biden administration has appeared to move away from the decades-old "strategic ambiguity" derived from the 1979 Taiwan Act, which endorsed a "one-China" policy while continuing to support Taiwan's ability to defend itself from Chinese attack, and toward a policy that has the US playing a direct role in Taiwan's defense. Even before Biden gave voice to this policy shift — publicly declaring that the US would come to the defense of Taiwan if attacked by China, points that were later walked back by White House officials — China had been critical of the changing US posture vis-à-vis Taiwan. In January 2022, the Chinese ambassador to the US publicly voiced concern of a war over Taiwan if the US did not change course.

China has since reached out on at least two occasions to warn the US about what it views as dangerous rhetoric. Chinese Foreign Policy Adviser Yang Jiechi in May told US National Security Adviser Jake Sullivan that the US was "on the wrong path" regarding Taiwan, and in June relayed to Sullivan China's objection to a major policy address made by Secretary of State Antony Blinken that characterized the US-Chinese relationship as a "political competition."

US Sen. Tammy Duckworth's trip to Taiwan in May, in support of legislation she is sponsoring to expand US-Taiwan military cooperation, is yet another point of tension. Beijing condemned the visit as a violation of the "one-China" policy. The US declaration earlier this month that the Taiwan Strait was an international waterway, challenging China's claim of sovereignty over those waters, has only further fueled the flames — and China's recent surging of 29 combat aircraft into waters off the coast of Taiwan may be a sign of things to come.

Mali: Post-Colonial Blues

France's withdrawal of its military forces from Mali to neighboring Niger is expected to wrap up this month, a year after President Emmanuel Macron announced the end of the France's military intervention in Mali dating from 2013. That announcement, in June 2021, came as Mali was still reeling from its second coup within a year that resulted in the installation of a military junta led by Col. Assimi Goita. Macron's announcement was supposed to mark a shift from a purely French external military effort to one that incorporated Malian and other regional forces. But by February 2022, when France began the actual withdrawal of its 2,400-strong contingent from Mali, it was clear that the Malian government had other ideas: It contracted the services of the Wagner Group, a Russian private military contractor with close ties to the Russian government, to replace the French soldiers.

French combat capabilities, especially in the form of air power, had been critical in supporting the ongoing UN peacekeeping mission in Mali, known as Minusma. But anti-French sentiment in Mali had been rising and public opinion in France had turned against the military operation. The UN Security Council unanimously supports the extension of the Minusma mandate, but the issue of retaining French air support for the UN peacekeepers once the French withdrawal from Mali is complete has been at the heart of an intense debate within the Council. Supporters of Minusma, citing ongoing fighting that has claimed the lives of hundreds of UN peacekeepers, believe the mandate cannot be responsibly implemented without viable air cover.

Mali, citing previous allegations of atrocities committed by the French Air Force, has opposed any continued presence of French air power on its territory. France and its allies meanwhile accuse Russia of exploiting regional instability to insert itself, via the Wagner Group, in the Sahel. Russia has in turn slammed the "neocolonialist approaches" of France and its allies — and claimed it has no official link to Wagner. But Wagner has close ties with the Russian military and is widely viewed as a direct proxy of the Russian government.

While the debate over the future of Minusma continues, the violence in Mali rages on, with France capturing a senior Islamic State figure along the Mali-Nigerian border, and Malian fighters affiliated with Al-Qaeda killing more than 130 civilians in central Mali. Islamist-inspired insurgencies have spread to neighboring Burkina Faso, where the Wagner Group is reported to be operating, and Niger, where France is retrenching its forces, lending a Cold War-like character to the Sahel's ongoing human tragedy.