Energy Intelligence

VOL. 33, NO. 26
JUNE 30, 2022
WWW.ENERGYINTEL.COM

ENERGY COMPASS®

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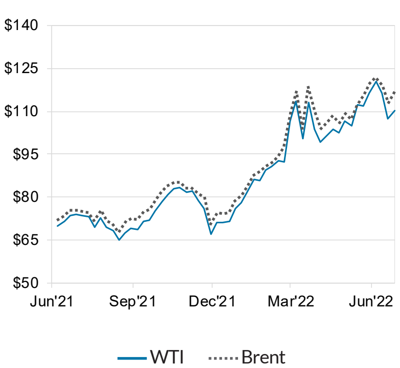
BRENT, WTI PRICES 2021-22 ($/bbl)



Source: CME, ICE

BIG PICTURE

A New Oil Architecture

- *Russia's invasion of Ukraine is completely reshaping energy investment and trade flows.*
- *Much remains murky, but two things seem certain: Europe will cut its long-term reliance on Russian energy and Russian sales will pivot to Asia.*
- *This rewiring of the global energy architecture will feed into Opec-plus power dynamics.*

It took a while for the inevitable to show up in the data, but new official import statistics for May now show the massive inroads that discounted Russian crude is making into Asia-Pacific's lucrative market.

From minimal volumes prior to the Feb. 24 invasion of Ukraine, Indian imports of Russian crude rose to 277,000 barrels per day in April, before storming to 819,000 b/d in May. June flows may have topped 1.1 million b/d, Kpler data to Jun. 28 suggest. Chinese imports of Russian crude hit a record 1.99 million b/d in May, up by around 400,000 b/d from last year's average.

In 2020, when the Covid-19 pandemic had its most dramatic impact on oil balances, China managed to boost imports from both Russia and key Mideast suppliers. But now the volumes being reconfigured are simply too big to accommodate everyone. In May, Russia displaced Saudi Arabia as Beijing's top crude supplier. Preliminary Kpler data for June show a further big drop in Saudi flows, with tepid China showings for Iraq, Kuwait and the United Arab Emirates. Even Iran is feeling the heat from ultra-cheap Russian crude.

Growth Market

Asia is the last place Mideast producers would want to have a battle for market share, and Russia is probably the last oil exporter they would choose to go head-to-head with. The scars of the mutually disastrous Saudi-Russian price war of March-April 2020, which saw the Opec basket price tumble to just $12.41 per barrel, are still raw. The revenue trauma of 2020, coupled with the fact that Russia is a valued Opec-plus leadership partner for Saudi Arabia, makes a repeat of any direct contest unlikely.

For now, prices are so high that Opec's Gulf heavyweights can afford to look the other way for a few months and absorb the hit to their Asian sales. But longer term, there could be more of a problem. Asia is all-important for Gulf producers, whose economic destinies have depended on the region's oil demand growth for over two decades. This dependency on core Asian markets, such as China, has deepened in recent years.

There are many reasons to doubt the tenacity and effectiveness of Europe's sanctions efforts, and Russia's crude export future, both volumetrically and directionally, remains very much an unknown. But at the core, no matter what, Europe is going to significantly slash its reliance on Russian oil and gas imports. When EU sanctions on crude

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imports take effect in December, that could displace more than 1.3 million b/d of Russian crude that Europe is currently importing, which would need to find another home. Russia will push harder and deeper into the Asian market. Even an end to the Ukraine conflict will not change this. For oil markets, a return to the world as it was before Feb. 24 looks improbable, perhaps impossible.

The obvious response would be for Opec's big Gulf producers to pivot toward Europe. Certainly, more Gulf crude is heading west of late, notes a trading source. But as a long-term outcome this is not an appealing prospect.

First, there is the loss of the traditional Asian price premium, which typically adds around $1-$2/bbl to the value of sales, reflecting the region's stronger demand. More significant is the fact that, by tilting west, Gulf producers would be trading booming economies with significant long-term oil demand prospects for a market in structural demand decline. They would, in effect, be committing themselves to a region that has committed itself to fast-track the energy transition and move away from oil and gas. Europe might be clamoring for hydrocarbons now, but it has made it crystal clear that it does not want to shift from its long-term trajectory.

LNG does appear to be an exception. Europe is especially keen on boosting the security of supply that LNG offers. Qatar now appears to be targeting a 50-50 east-west split in the sales strategy for its 32 million ton per year LNG mega-expansion that is due to come on stream between 2026 and 2028. That said, even on gas, Europe is equivocal on gas' role in the post-2030 timeframe.

Opec-Plus 2.0

The war, sanctions and heightened competition in Asia all come as Opec-plus' Covid-19 supply response deal draws to an end in August. A producer ministers' meeting on Thursday declined to address what comes next. In truth, a combination of sensitivity to Russian concerns and spare capacity limitations rules out any major supply ramp-up.

How to incorporate Russian oil in any post-August arrangement will be critical. Any tensions over competition for Asian market share will probably not be allowed to negatively impact Opec-plus policy coordination.

If prices remain buoyant, producers can afford to take a laissez-faire approach to market management. It is possible that the organization will ditch individual production quotas in favor of what an overall group production target would bring. But if demand destruction starts to take hold, pressure prices would perhaps trigger a need for supply cuts, then, more output discipline and individual quota accountability will be required.

The biggest wild card would be a breakthrough on an Iran nuclear deal. A growing realization of the ramifications of oil sanctions on Russia appears to have breathed fresh life into a moribund process, with US and Iranian negotiators resuming indirect talks in Doha this week. The odds remain long, but a deal here would be a game changer, and further disrupt Opec-plus relations, including the traditionally close ties between Russia and Iran.

Assuming European sanctions proceed as planned, Russia will push deeper into Asia, where buyers may be reluctant to replace reliable Mideast term suppliers but will find it hard to ignore the massive price discounts on offer.

Gulf producers will not like this. But they won't all be impacted equally. It might have had a wobble, but Saudi Arabia's market muscle means that Asian refiners will continue buying its crude for baseload needs. "The East is not going to cut Saudi crude because there is cheap Urals. No way,'" argues the trader. Asian customers "are scared of Saudi market power." Riyadh's relative insulation from Ukraine-related disruptions is another reason why it will prioritize keeping Russia inside the Opec-plus tent.

Rafiq Latta, Nicosia

GEOPOLITICS

US Centers the Middle Kingdom

The US is trying to execute its perennially stalled pivot to Asia, this time with an international flavor, drawing the G7 and Nato in on criticisms of China's strategic aims. Diplomatic channels remain open, but rhetoric is sharp — especially around Taiwan. Still, the administration of US President Joe Biden is notably contemplating a softening of the protective trade stance implemented during his predecessor's tenure, and energy trade remains high.

• Washington pushed a focus on the "China challenge" at both the Nato and G7 summits in Europe this week.

"China does not share our values and, like Russia, it seeks to undermine the international rules-based order," Nato Secretary-General Jens Stoltenberg said on Wednesday. Leaders from Japan, South Korea, Australia and New Zealand attended the Nato summit as part of efforts to broaden the alliance's

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focus, which dovetails with the US push to deepen relationships in the Indo-Pacific region. G7 countries also re-upped their infrastructure and investment commitments meant at least in part to be a bulwark against China's Belt and Road Initiative, to the tune of some $600 billion in funding for infrastructure, health and energy projects outside their countries.

Beijing did not take the new focus lightly. "This shows that the G7 has no intention of having dialogue and cooperation on the basis of equality and respect," China's Foreign Ministry spokesperson Zhao Lijian said in a press conference on Wednesday. Others were far more acerbic. "The sewage of the Cold War cannot be allowed to flow into the Pacific Ocean — this should be the general consensus in the Asia-Pacific region," the jingoistic state-owned *Global Times* spat out in an editorial on Tuesday.

• Taiwan remains a strategic irritant in the US-China relationship, although recent meetings have kept diplomatic channels open.

Biden's suggestion in May that the US would get involved militarily to defend Taiwan has raised the specter of conflict. The White House walked back the remark — officially, the US maintains a "one China" policy in which Taiwan is not recognized as sovereign. But Beijing's rhetoric has nevertheless turned explicitly threatening.

"Let me make this clear. If anyone dares to secede Taiwan from China, we will not hesitate to fight. We will fight at all costs and we will fight to the very end. This is the only choice for China," China's Defense Minister Wei Fenghe warned at last month's IISS Shangri-La Dialogue in Singapore. The strongly worded statement marks a sharp rhetorical escalation from 2019, when, at the same forum, Wei invoked US history to explain China's position, citing Abraham Lincoln as the US president who "led the country to victory in the Civil War and prevented the secession of the US," drawing a parallel to China's inability to let go of Taiwan.

• Despite the tensions over politics and security, there could be a shift in the trade relationship.

The Biden administration is considering eliminating or lowering tariffs imposed on China by the Trump administration. US Treasury Secretary Janet Yellen last month said that some of the tariffs "imposed more harm on consumers and businesses."

Advocates of tariff cuts argue that a repeal would go some way to fighting the Biden administration's battle against politically-sensitive inflation. The Peterson Institute for International Economics estimates a reduction in inflation of approximately 1 percentage point with a relaxation of tariffs on China, with a stronger reduction potentially leading to a 2% decrease. US National Security Adviser Jake Sullivan said on Tuesday that Biden was still "analyzing" the merits of relaxing tariffs on China. "The president wants to be sure that he's put together the right approach." Scrapping them is politically difficult for a president who promised to be tough on China while on the campaign trail but who has been consistently critical of his predecessor's trade war against Beijing.

China's slowing economy and growing concerns over a global recession may prompt Beijing to de-escalate its tone in talks with the US as it seeks to stimulate its economic growth with exports, amid tepid domestic demand. Repeated and widespread Covid-19 lockdowns in April and May are likely to leave China's second-quarter GDP growth only marginally positive, forcing the leadership to tread cautiously ahead of this autumn's Chinese Communist Party congress that is expected to re-elect its leader Xi Jinping for another five-year term.

But while this may see China adopt more constructive language in private discussions with US officials, more belligerent rhetoric against the US could be allowed at home to deflect criticism of its zero Covid-19 policy and economic mismanagement.

• Bilateral energy trade continues apace, but attention to China's imports of discounted Russian oil is growing as G7 countries contemplate a price cap.

China eliminated import tariffs on US crude, LNG and liquefied petroleum gas in 2020, prompting a rebound in its imports of the three products, even though the goals set out in the Trump-era US-China agreement did not pan out. Surging energy prices and the Ukraine crisis are changing these trade flows. But the value of US energy products sold to China is holding strong. US LNG exports to China fell to 928,000 tons in the first five months of this year, a third of sales for the same period in 2021. But record LNG prices mean those exports have more than quadrupled in value, to $1.1 billion. Chinese buyers, faced with limited domestic demand, are doing a brisk business reselling contracted US LNG to desperate European buyers at strong profits.

US crude volumes to China are also down so far this year, as Chinese refiners ramp up their purchases of discounted Russian barrels, but at $2.64 billion, they still amount to almost half of last year's total export value. Chinese imports of Russian oil will be a key area to watch, as G7 leaders work to implement a price cap on Russian crude. Beijing has shown little appetite for publicly confronting Moscow over its invasion of Ukraine. But Chinese buyers have long sought to benefit from geopolitics-induced discounts on restricted barrels.

Emily Meredith, Washington, and Maryelle Demongeot, Singapore

GEOPOLITICS

Saudi Crown Prince's Tour Signals Regional Reset

Saudi Crown Prince Mohammed bin Salman's regional tour last week has underlined his position as king in waiting, ahead of his scheduled meeting with US President Joe Biden at the Gulf Cooperation Council (GCC) summit in Jeddah in mid-July. Prince Mohammed's trip to Egypt, Jordan and Turkey also reflects his desire to strengthen and rebuild alliances as Washington scales back its engagement in the region, while Russia and China look to grow their influence. The diplomatic outreach comes as high oil prices fill state coffers, enhancing the kingdom's economic position and ability to project its soft power through strategic regional investments.

• Saudi Arabia's rapprochement with Turkey is a notable foreign policy achievement.

Of the three countries visited by the Saudi crown prince, his stop in Turkey was certainly the one most closely watched. After the grizzly murder four years ago of *Washington Post* columnist Jamal Khashoggi inside the Saudi Consulate in Istanbul, ties between Ankara and Riyadh — already sorely tested by the two countries finding themselves on different sides in the 2011 Arab Spring uprisings — hit rock bottom. It was therefore no exaggeration to say that the trip heralded "a new era of cooperation in bilateral relations," as Prince Mohammed and Turkish President Recep Tayyip Erdogan did in a joint statement after their meeting.

Improved ties with Turkey would support Saudi trade and investment, but also its foreign policy objectives, not least in helping counter Iran's influence, especially if it gives Riyadh access to sought-after Turkish military technology such as drones, some analysts say. "The king to be is showing that he is in charge and making foreign travel an important part of his reign to be. The trip to Turkey and before that Jordan and Egypt is part of the larger regional dynamic for security purposes," says Theodore Karasik, a senior analyst at Gulf State Analytics in Washington. "Saudi support to these countries is key now, especially when looking at the Red Sea and Mediterranean zones."

• Windfall oil revenues allow Riyadh to burnish its image with regional allies in economic difficulty.

From Saudi Arabia's perspective, the timing of the crown prince's first trip since 2019 could not have been better, coming just weeks before his planned meeting with Biden at the GCC summit. The kingdom's economic and geopolitical leverage have strengthened dramatically this year. Oil prices above $110 per barrel have not only reinforced Riyadh's spending power, but have highlighted its unique role in world oil markets during a global energy supply crunch, and at a time when Russia's future role there is in doubt. Its windfall revenues will allow the kingdom to pursue its economic diversification and energy transition plans at home, and to invest strategically beyond its borders.

Numerous deals were signed in all three countries that Prince Mohammed visited. Details remain sparse and some of the agreements were preliminary. But they could materialize into substantial Saudi investments, and deliver very welcome shots in the arm for the economies of Egypt, Jordan and Turkey, which are all struggling. In Egypt, the kingdom may invest as much as $7.7 billion under the 14 agreements signed, including in green hydrogen and renewables, sectors that Riyadh is particularly keen on developing. During the crown prince's visit to Jordan, numerous agreements were signed between Saudi and local companies, including in the fertilizer and nuclear sectors.

• After years of strained ties, and with its finances deteriorating, Turkey stands to reap the rewards of Saudi investment and trade.

Both Egypt and Jordan are long-term partners for Riyadh and major recipients of Saudi — and other Gulf states' — financial support. But the warmer ties with Turkey represent a transformation in bilateral ties which, for Ankara, offers significant benefits at a time when its domestic economy is in crisis, reeling from runaway inflation. Reconciliation with Riyadh could also be another step toward ending Turkey's isolated position in the Eastern Mediterranean. Ankara has already begun improving ties with Egypt, Israel and the United Arab Emirates which — along with Cyprus and Greece — have been strengthening their cooperation in the area, notably on gas developments.

The reset in Turkey's relations with these three countries was made possible by the resolution last year of a major rift between Saudi Arabia, the UAE and Egypt on the one hand, and Qatar, a close Turkish ally, on the other. But the diplomatic détente, at least on the Saudi side, does also appear to be driven by its underlying concerns about containing Iran, in view of US foreign policy increasingly pivoting to Asia and negotiations to revive the nuclear deal, which resumed on Tuesday. "While a Riyadh-Ankara axis or partnership may be aspirational and a long way off, it could significantly alter regional dynamics, especially regarding possible security cooperation against common threats," the Arab Gulf States Institute in Washington said in a note last week.

• The much-anticipated meeting between Biden and Prince Mohammed would go some way to completing the kingdom's rehabilitation.

The Jeddah summit on Jul. 15-16 will be of particular importance for both Saudi Arabia and the US, with Biden scheduled to meet with King Salman and, for the first time, Prince Mohammed. This would mark a profound change in the position of the US president who, on the campaign trail, described

Saudi Arabia as a "pariah," and whose emphasis on diversifying away from fossil fuels — at least until Russia's invasion of Ukraine triggered a global energy crisis — had further fueled Saudi frustrations.

Riyadh wants more cooperation from Washington over its security concerns and more high-profile recognition of Prince Mohammed as de facto leader. For its part, the US wants Saudi Arabia to commit to helping cool oil prices, after it rebuffed Washington's earlier pleas to increase production. How far the kingdom can or is prepared to go on that front is unclear, especially as maintaining good relations with Russia remains one of its key priorities, in order to keep the Opec-plus alliance alive. But however the meeting goes, sustained high oil prices have clearly turned the tide in the crown prince's favor.

Oliver Klaus, Dubai

COUNTRY RISK

Germany Scrambles to Mitigate Russian Gas Cuts

- *Germany has moved to implement measures aimed at slashing gas consumption as a full Russian gas halt appears imminent.*
- *Other European countries have launched similar plans, which include turning to coal or nuclear to limit gas use and refill storage ahead of winter.*
- *Reliance on short-term energy security measures could have ripple effects on the EU's climate targets and the role of gas in the medium term.*

The Issue

Renewed fears of a sudden halt to Russian natural gas flows have forced many European countries to double down on emergency plans to curb demand. Gazprom has reduced volumes to just 40% of the Nord Stream pipeline's transport capacity to Germany since mid-June. Many expect volumes not to resume after stopping completely for planned maintenance in July. The earlier-than-expected Russian stoppage hampers EU plans to fill gas storage tanks ahead of winter to prevent acute shortages. The measures taken by Germany, Europe's main Russian gas buyer, indicate how far the region is willing to go to keep the lights on.

More Coal, Maybe Nuclear

Berlin has been on a war footing since the Russian supply reductions began in June, urging businesses and consumers to cut cooling and heating consumption to save energy and prepare for tough — and expensive — autumn and winter. Measures launched include cutting gas use in power generation by temporarily relying on more coal and lignite plants until March 2024. The plan extends the life of coal plants marked for closure and puts those in reserve on a higher state of readiness, bringing online as much as 10 gigawatts of additional capacity if needed.

Casimir Lorenz from consultancy Aurora Energy Research expects Germany to be able to reduce its gas demand by 6 billion-10 billion cubic meters between April 2022 and April 2023 if Russian supply completely stops. Coal is expected to account for around 4-6 Bcm of these reductions. That compares with Nord Stream's current nameplate capacity of 55 Bcm/yr.

Reviving coal confirms what Energy Intelligence previously reported — that Germany's plan to close all coal plants by 2030 would likely need to be re-evaluated as it seeks to reduce its Russian gas dependency. Economy Minister Robert Habeck called it a "bitter" decision, but warned that Germany is in the midst of a gas crisis and must prepare for supply halts and more gas and power price increases. The 2030 coal exit also depends on the speed of Germany's renewable capacity expansion.

Coal usage in Europe was already on an upswing as record gas prices have made the dirtier fossil fuel economically more attractive and disincentivized gas use. German gas consumption in the first five months of 2022 dropped 14% year on year to 460 billion kilowatt hours, according to German utilities association BDEW. Italy, Austria, the Netherlands and France have also planned to extend the life, reopen or lift generation caps on coal plants.

Reconsidering coal power puts pressure on Berlin to re-examine the planned closure by year's end of its three remaining nuclear reactors, with a total 4 gigawatt capacity. The nuclear question was always a political decision rather than an economic or technical one, which Berlin is still reluctant to execute. And the political tide could be close to turning. A recent poll showed a 61% majority in favor of extending the life of nuclear plants beyond 2022. Leading politicians have also led the charge, with Bavarian Prime Minister Markus Soeder calling the government's arguments against nuclear "technical nonsense."

State-Backed Responses

The German government has also stepped up its role in the energy markets, either by providing funds or by intervening directly to ensure energy security. This contrasts with its pre-Ukraine war view that state intervention in the energy crisis should be avoided. The amendment of the Energy Security Act in May has given the government extra powers, including nationalizing companies operating critical infrastructure when there is a risk to supply security.

The German state took over the administration of Gazprom Germania after its previous owner Gazprom tried offloading the company to an unknown Russian firm. Now renamed Securing

Energy for Europe, the company still controls several trading and gas distribution assets in Europe, including gas storage facilities in Germany. State bank KfW propped it up with up to €10 billion in loans as sanctions on Russia forced it to buy non-Russian replacement gas supplies at extremely high prices.

Germany is also coughing up funds to prevent energy companies from going bust. The economy ministry launched a scheme to finance the collateral margins needed by companies trading in energy commodities to ensure they have enough financial liquidity to weather pricing volatility through credit lines via KfW. This week, utility Uniper said it has entered discussions with the German government on potential ways to guarantee liquidity, including new KfW loans and equity investments. Earlier this year, Uniper got a KfW credit line for €2 billion.

Urgent Storage Refill

Most of these measures have one laser-focused, short-term objective: refilling Germany's gas storage facilities as fast as possible to avoid winter shortages. Berlin has set a legally binding target to fill storage by 80% by Oct. 1 and 90% by Dec. 1, from current levels of around 60%. If the energy companies are not on track to meet the refill objectives, market area manager Trading Hub Europe (THE) is then obliged to tender for or procure the gas itself.

THE has already awarded two storage tenders for 7.5 Bcm of gas, and KfW has made a €15 billion credit line available for THE to procure gas for storage injections. An early June decree also gave the power to THE to fill up the Gazprom Germania-controlled 4.2 Bcm/yr Rehden storage facility, Germany's largest, as it was just 2% full.

Further, with state funds Berlin has already backed the procurement of four floating storage and regasification vessels to provide the country with LNG import terminals, the first of which are expected to be operational by the winter. KfW also holds half of the shares in the Brunsbuettel LNG terminal project.

Jaime Concha, Copenhagen

COUNTRY RISK

Can Israel Seize Its Golden Gas Opportunity?

- *Israel has a unique opportunity to advance gas exploration and production to supply Europe, which is urgently seeking alternative options to Russian gas.*
- *However, there are fears of political drift on gas policy just when continuity is badly needed.*
- *The unraveling of the government coalition has plunged Israel into fresh political uncertainty and could lead to renewed tensions over its disputed maritime border with Lebanon.*

The Issue

Israel's provisional deal with the EU to supply LNG via Egypt could herald an era of closer diplomatic and commercial ties with the bloc that have often been complicated by the lack of progress on the Israeli-Palestinian peace process. Israeli gas could provide some relief to a Europe trying to slash its dependence on Russian piped gas by two-thirds this year. Israel and EU members France, Greece, Italy and Cyprus are already developing gas cooperation ties through the East Mediterranean Gas Forum. But Euro majors will be seeking clarity on Israel's gas export policy ahead of its new offshore bid round.

Opportunity Knocks

The European Commission heralded a provisional LNG supply deal with Israel and Egypt this month as it urgently scours the globe in search of new gas supply. Europe has reached out to alternative suppliers in the East Mediterranean, the US, North Africa and sub-Saharan Africa as it advances its REPowerEU plan, which aims to reduce Russian gas dependence from 150 billion cubic meters per year to 50 Bcm/yr this year.

The deal could lead to deeper commercial ties between Israel and Europe. "This is a historical moment ... the [deal] will enable Israel, for the first time, to export Israeli natural gas to Europe," said Israeli Energy Minister Karine Elharrar at the Jun. 15 signing in Cairo.

Europe's dilemma could prove fortuitous for Israel. Last year, before the war in Ukraine roiled global energy markets, Israel's Energy Ministry was arguing that the country had a limited window of opportunity on gas. It warned about stranded gas assets, using International Energy Agency forecasts that Israel had about 20-25 years before demand would decline. It also argued that Israel's plan to hike its renewables target for power generation from 17% to 30% by 2030 meant more gas would be freed up for export.

The ministry has proposed relaxing the current gas export policy, under which producers are required to allocate 60% of gas volumes to the local market, with the remaining 40% available for export. The ministry believes 60% could instead be exported.

Policy Reversal

Contradicting this view, Elharrar had said in December that Israel should focus on green energy and "put aside the development of natural gas." Ministry officials quickly clarified that existing gas projects — such as the second phase development of the 22 trillion cubic foot, Chevron-operated

Leviathan field or Energean's development of the Karish field — would continue, although new exploration and gas export reform would be shelved.

Fast forward to late May, and Elharrar announced plans for a new offshore bid round, in response to a global energy crisis that created opportunities "to export larger quantities of natural gas." The ministry says it is currently preparing for the next auction. But it still has no launch date, and it declined to comment on gas export reform plans. Meanwhile, with Chevron yet to select a second phase development option at Leviathan, it remains unclear when Israeli LNG might first arrive in Europe but is three years off at least.

The latest auction could rekindle the interest of other Western majors. TotalEnergies, BP and Exxon Mobil all previously considered upstream investment in Israel before ultimately declining. However, under the latest three-year LNG deal, the commission committed to encouraging European firms to invest in Israel and Egypt's upstream while it drafts a review of existing Egyptian infrastructure including the possibility of building "new liquefaction plants." That could prove attractive to upstream investors.

Domestic Political Obstacles

But recent political developments are hardly helping matters. The country is set to hold its fifth election in less than four years, after the fragile governing coalition of hard-right, liberal and Israeli Arab parties collapsed over the renewal of regulations allowing the legal administration of settlers in the occupied West Bank. Israeli Prime Minister Naftali Bennett announced on Jun. 20 that he would dissolve the Knesset and call an election.

Foreign Minister Yair Lapid is expected to assume the premiership as caretaker leader. With elections likely to be held by November, the possibility of former Prime Minister Benjamin Netanyahu making a comeback cannot be ignored.

This may in fact mean little change for the gas sector, argues an Israeli industry official. "Lapid understands the power of gas politics — it is unusual for Israel to have Europeans come to ask for energy," he points out. Israel estimates that it has 850 billion cubic meters (30 Tcf) of recoverable gas reserves, while some companies believe the real figure is closer to 1,000 Bcm. Former Energy Minister Yuval Steinitz, who served under Netanyahu, understood what was needed, and so does Lapid, the official notes. "ElHarrar cannot really go back on the bid round talk if she is still around."

However, for an industry seeking clarity on gas exports, the time it may take to form a new government after the elections and appoint a new energy minister is a potentially serious setback that risks delaying policy work and decision-making on key projects.

Regional Conflict Risks

A new government would be very unlikely to change Israel's current policies on major regional issues, like Iran's nuclear ambitions and closer relations with Mideast Gulf states, although there may be a different emphasis on covert operations against Tehran, says an Israeli diplomat.

Nevertheless, the Israeli-European gas partnership could be severely tested if Israel and Hezbollah went to war over the disputed Israel-Lebanon maritime border. Hezbollah rhetoric has risen recently, with the Shiite group threatening to prevent Energean from developing the Karish field. Unlike the US, the EU does not offer Israel unqualified backing, and even if Europe's energy needs have changed the calculus in Brussels, a prolonged conflict could test its commitment to the gas-rich country.

Tom Pepper, London

CLOSING ARGUMENTS

Brics Dollar Resistance, G7 Pushes BRI Alternative

Brics: Toward a New World Reserve Currency

Russian President Vladimir Putin told the Brics Business Forum on Jun. 22 that the five-member organization of major emerging economies was considering creating a new global reserve currency designed to supplant the US dollar as the world's dominant monetary unit. The basket-based currency, presumptively comprised of the Brazilian real, Russian ruble, Indian rupee, Chinese renminbi and South African rand, would seek to provide an alternative to the Special Drawing Right (SDR) of the International Monetary Fund (IMF), a system of claims against the world's leading reserve currencies, namely the US dollar, British pound, Japanese yen and the euro, but also including the renminbi. It is used to supplement the reserve currencies of IMF member states. By creating a new reserve currency basket, the Brics nations are seeking to create a direct competitor to the SDR, designed to weaken the dominant position enjoyed by the US in the global economy through the US dollar's status as the world's reserve currency of choice.

Critics of the existing system view the SDR as little more than a vehicle to prop up the rules-based international order that has governed relations between the US and the rest of the global community since World War II, a system, those critics argue, that has secured US global economic hegemony for decades.

Ever since Russia and China in February formally announced the consummation of a new relationship that, according to officials in both countries, far exceeds what one would find in a conventional treaty-based alliance, they have singled out this rules-based international order as a relic of history. By creating a new reserve currency basket, the Brics nations are building on — and seeking to exploit — global frustration toward the US for its ability and willingness to levy economic sanctions on governments, people and organizations that have run afoul of US policies and sensibilities.

If the Brics countries do manage to field a viable reserve currency that is capable of challenging the role played by the dollar and other reserve currencies in the global economy, it could bring an end to the era of dollar-driven US hegemony. Among its biggest obstacles are the long-term stability of the currencies that comprise the proposed basket and their credit quality, highlighted by Russia's "enforced" default on its foreign-currency sovereign debt this week, for the first time in a century. According to a report by Dutch bank ING, the weighted average of five-year sovereign credit default swaps (CDS) trades at least 20 times wider than a similar CDS average for SDR currencies. Overcoming this disparity is essential if Putin's financial gambit is to succeed.

G7: Another Attempted Belt and Road Alternative

In June 2021, the G7 unveiled a multibillion-dollar infrastructure development program known as the Build Back Better World (B3W) initiative. Modeled after a similarly named domestic infrastructure proposal then being promulgated by the administration of US President Joe Biden, B3W was seen as the foreign policy extension of a US values-based resurrection at home and abroad. B3W never got off the ground, however, and at this year's G7 summit, Biden was compelled to relaunch a more modest infrastructure development program, rebranded the Partnership for Global Infrastructure and Investment (PGII). This scaled-back endeavor is more promise than program, in which the G7 members pledged to raise $600 billion in private and public funding over the next five years to tackle the problem of infrastructure needed in the developing world.

The US-led G7 infrastructure initiatives, whether in the form of the B3W or the PGII, have essentially always had one purpose — to provide an alternative to China's Belt and Road Initiative (BRI), the multitrillion-dollar global infrastructure development program launched in 2013. The B3W plan was a de facto recognition by Western powers that they had, for years, ceded the global development field to Beijing and the BRI. In the process, they were losing leverage in critical economies that China was busy connecting to a supply chain system that fed Chinese domestic manufacturing, which in turn sold its products to the growing network of BRI-affiliated nations. But the Biden administration's failure to get its own domestic economic recovery plan through Congress and the distraction for G7 countries caused by the Ukraine crisis effectively doomed B3W's chances.

The question now is how its successor, the PGII, will get funded. Since its inception, the BRI has allocated an estimated $4 trillon-8 trillion in investments, many of which have matured and are paying dividends to China. Trillions of dollars more will be allocated in BRI-related investments over the next five years. Under the G7's new plan, most of the $600 billion will come from yet-to-be-realized private funding, and given the current economic crisis triggered by the Ukraine conflict and Western sanctions on Russia, it seems highly unlikely that the private sector will be able to generate the investments envisaged. Underscoring the uphill struggle faced by the G7, the centerpiece of its infrastructure development efforts in Africa is currently a $2 billion solar farm being built in Angola. China, however, has invested more than $160 billion on the African continent since 2000, with billions of dollars more of investments on the way. PGII, simply put, is inadequate to the task of challenging BRI.