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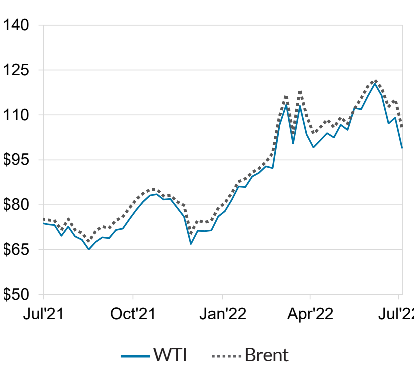
BRENT, WTI PRICES 2021-22 ($/bbl)



Source: CME, ICE

THE BIG PICTURE

Energy Transition Hits Speed Bumps But Maintains Momentum

- *At face value, the low-carbon transition appears to be stalling – with coal-burning on the rise, US climate policy constrained and parts of the financial community toning down climate action.*
- *This overlooks underlying momentum from technologies and corporations, as well as overlap between energy security and transition goals for many governments.*
- *Factor in the market forces impact of high fossil fuel prices, and the net outcome looks set to be a "slower now, faster later" transition.*

The low-carbon transition has hit some major speed bumps this year – that much is certain. Surging oil and gas prices appear to have vindicated arguments that the low-carbon transition was moving too quickly. Investors such as BlackRock are easing off calls for rapid climate action in the face of domestic challenges. And consumer countries, from China to Europe, have upped coal-burning as high gas prices and disruptions distort the market.

But individual data points do not make a complete picture. For consumers, high and volatile fossil fuel prices also reinforce the cost advantages established by wind and solar power – even accounting for inflation and supply chain bottlenecks. Those technologies appear to have established an unassailable lead on cost, particularly in Europe and Asia. Electric vehicles are slightly behind on the cost parity curve, but sales are quickly rising in Europe and China – and could now get a boost from pump prices. Energy and other companies show no signs of abandoning longer-term strategies, even if they are making space for more oil and gas supply in the nearer term.

Putting all of this together, a recent report from Energy Intelligence's Research & Advisory unit concluded that the transition will remain uneven and untidy. In the near term, progress toward decarbonization may slow. But from the mid-2020s, as policy pressures rise and clean energy technology costs fall further, this trend is likely to reverse.

Shift in Sentiment

Coal is certainly seeing near-term gains. A number of European governments have unveiled plans to use more coal at existing plants if needed, as they focus on injecting gas into storage ahead of winter. But moves to phase out coal will continue. German Economy Minister Robert Habeck called the use of more coal for a transitional period "bitter" but "necessary." In India, high prices are marginalizing gas usage relative to coal, while in China, energy security needs after last autumn's power shortages and Russia's Ukraine invasion are keeping coal in business.

Investor sentiment in support of the energy transition also appears less robust. G7 leaders last week shifted from a blanket ban on financial support for unabated fossil

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fuel projects to saying that such projects could be acceptable "in limited circumstances." Industry has seen weaker support for activist investor proposals amid rising concerns around energy security and inflation risk. But that also reflects the farther-reaching nature of some proposals.

Meanwhile, legal and political constraints have reined in US President Joe Biden's climate agenda – from congressional gridlock to last week's Supreme Court ruling limiting federal government tools to curb power sector emissions (p4).

Underlying Momentum

On the other side of the ledger, technology advances continue to add to momentum. Renewables have repeatedly beat expectations on cost over the decades, leading to faster-than-expected deployment. Energy Intelligence's levelized cost of energy analysis shows lifetime generation costs for new wind and solar capacity falling by around 50% and 85% respectively since 2010. True, renewables are currently facing headwinds on cost – but fossil fuels even more so. In Europe and Asia, onshore windand solar PV costs are far below those for gas and coal.

China continues to advance plans to more than double its renewables' capacity to 1,200 gigawatts by 2030, despite increased coal usage. Some believe it will get close to that level as early as 2025. The Ukraine war has meanwhile prompted the EU to step up its climate ambitions "to yet another level," according to European Commission President Ursula von der Leyen. Europe has accelerated its target for renewables' share in the energy mix to 45% in 2030, from a previous target of 40% and 22% now. Permitting, which has long been a bottleneck, is to be streamlined. The war has also spurred less glamorous but critical energy efficiency efforts. Energy Intelligence estimates suggest that energy efficiency measures could realistically slice 15 billion cubic meters off EU demand for Russian gas in 2022.

Bottlenecks and supply risks for key materials for low-carbon technologies are often cited. The counterargument is that lithium, aluminum, copper, nickel and cobalt are widely distributed, and higher prices will encourage more investment in mining and equipment. Technological advances – including on electric vehicle (EV) battery materials and recycling – could also be game-changers.

EVs, a slightly less mature technology, have seen some of the biggest input cost increases. But EV sales are already at the top end of Energy Intelligence's earlier forecasts in China and Europe, supportive subsidy and other policies remain in place, and sustained high fuel prices should boost their appeal. Increasingly, the central question is not what support is needed for EV take-off, but what might slow EV take-up.

Market Forces Now a Driver

In China, EV sales more than doubled in May from a year ago, and accounted for 24% of overall auto sales – ahead of the government's target of 20% by 2025. In Europe, fully battery-electric cars rose to 10% of cars sold in first-quarter 2022, while all kinds of electric passenger cars – including hybrids – hit 44%, versus nearly 53% for gasoline and diesel cars combined. Crucially, EVs offer consumers an alternative that didn't exist in previous oil price spikes, argues Aidan McClean, CEO of electric car rental company UFODrive.

High fossil fuel prices could also spur take-up of rooftop solar and heat pumps among consumers, especially in Europe. The International Energy Agency's (IEA) recently released *Renewable Energy Market Update* found that renewable power growth this year has been "much faster than initially expected," amid strong policy support in China, the EU and Latin America – but slower than anticipated in the US.

As highlighted by the IEA report, the US will likely remain an outlier on climate policy, given polarized politics and legal dynamics. But Congress could still take action before November midterm elections, and state-level policies will continue to drive change – albeit divided along political lines.

So what does this all mean? The transition's progress was never expected to be smooth, but this year's events have made it more disjointed across regions and technologies. Similar warnings of stalling were common at the start of the Covid-19 pandemic two years ago, only for the transition to gain momentum as the dust settled. This time, there has been a clearer near-term swing in sentiment back toward fossil fuels; less so in the underlying momentum toward low-carbon alternatives.

Jill Junnola, London

GEOPOLITICS

Black Sea Oil Pipeline Stoppage Spooks Kazakhstan

- *Kazakhstan's oil exports are under serious threat after a Russian regional court ordered the closure, for one month, of the 1.4 million barrel per day CPC terminal on the Black Sea.*

- *The court ruling cited numerous "violations" by the CPC consortium, but analysts believe there are political motives behind the decision.*

- *Two days before the ruling, Kazakh President Kassym-Zhomart Tokayev offer to expand energy ties with the EU may have raised Moscow's hackles.*

The Issue

The Jul. 6 decision by a court at the Russian port of Novorossiysk ordering the one-month closure of the 1.4 million b/d Caspian Pipeline Consortium (CPC) terminal could have serious long-term implications for Opec-plus member Kazakhstan, which depends on the Black Sea outlet for most of its oil exports. The violations were flagged by Russia transportation watchdog Rostransnadzor. CPC – in which Russia and Kazakhstan are the two largest shareholders alongside Western majors including Chevron, Exxon Mobil and Shell – says it will appeal the ruling. Few observers believe the official version, however, and see the closure of the pipeline as a likely act of political revenge by Russian President Vladimir Putin against Tokayev, his Kazakh counterpart.

Poking the Bear

Tokayev, a polished former diplomat who became president over three years ago, appears to have underestimated Moscow's apparent ruthlessness. Just two days before the court ruling, he had a conversation with the head of the European Council, Charles Michel, in which he said Kazakhstan was ready to use its "energy potential" to help stabilize global markets. Last month, at the St. Petersburg Economic Forum, Tokayev shared a panel with Putin and said Kazakhstan would never recognize the breakaway regions of Luhansk and Donetsk in eastern Ukraine as independent states. He also reiterated Kazakhstan's position that it would not violate sanctions against Russia. Putin, who at the forum referred to the Soviet Union as "historical Russia," nevertheless said Russia had "brotherly" ties with Kazakhstan.

Kazakhstan is now in a perilous position, and Tokayev may be forced to make concessions to Russia to defuse the crisis, analysts say. Putin loyalists have attacked the Kazakh leader for showing no gratitude for the military assistance that Moscow provided in early January, when Russian troops were dispatched to the Kazakh commercial hub, Almaty, to quell anti-government protests. And, more ominously, they have pointed to the fact that there is a sizable Russian minority in northern Kazakhstan that could become restive. "Tokayev has seen what Putin is doing in Ukraine, he knows the same thing could happen with Kazakhstan, so he needs to act very carefully," a veteran Kazakh observer says.

CPC PIPELINE

Source: Energy Intelligence

Tokayev, who has a Russian wife and served and has always sought a modus vivendi with Moscow, also favors closer ties with the West and neighboring China. While Russia remains the most influential external player in Kazakhstan and Central Asia as a whole, China is both a prolific investor in the country and a key market for its raw materials. China is locked into a long-term alliance with Russia, but it would not want to see Kazakhstan disintegrate and be at risk of becoming a second Ukraine.

Russia Holds the Aces

Since it became independent in 1991, Kazakhstan's Achilles' heel has always been its dependence on Russia as a transit route for its oil and gas exports – mostly to the Western market. At present, over two-thirds of its oil exports of around 1.5 million b/d are shipped via Russia, of which the CPC route is by far the most important "This is the one big mistake Kazakhstan made," a Russian oil executive with long experience working in the country says. "They staked everything on Russia, when they should have invested in long-term alternatives."

With CPC set to close for at least a month, Kazakhstan will have to reroute its oil via other routes, where spare capacity is limited. One option is to move more oil by pipeline to neighboring China, which has been receiving Kazakh crude on a regular basis for more than 20 years. There is also scope for Kazakhstan to move more oil across the Caspian Sea, but ship sizes are small and there is a need to expand port infrastructure. In an announcement the day after the court ruling, Tokayev said he had instructed state oil firm Kazmunaigas to take steps to expand the capacity of the pipeline system supplying China, and also look into developing a larger trans-Caspian transportation network.

Majors Caught in the Crossfire

The court ruling also has severe implications for the Western majors that are developing Kazakhstan's three giant fields – Tengiz, Karachaganak and Kashagan – that account for the bulk of the oil that is transshipped from the CPC terminal. By far the most exposed is Chevron, operator of the Tengizchevroil joint venture with a 50% stake alongside Exxon (25%), Kazmunaigas (20%) and Russia's Lukoil (5%). Chevron and its partners are in the finishing stages of a $45 billion expansion of the Tengiz field, now producing 650,000 b/d, that is due for completion in 2024 and will push up production beyond an 800,000 b/d plateau. The original plan was for most of the extra oil via CPC, but this will now need to be revised. Chevron and its partners now face the prospect of having to invest heavily in new export infrastructure to allow their oil to get to market.

Adding to the headache, the court ruling came on the same day as a blast on a pipeline at Tengiz. Reports say two workers were killed and at least three injured. Production at the field had not been affected in the immediate aftermath, but a state of emergency remains in force.

Kashagan, one of the world's largest offshore oil fields that produces around 400,000 b/d of crude and includes Eni, Shell, TotalEnergies and Exxon among its shareholders, is also dependent on CPC as an export outlet. Two months ago, Kashagan barrels began flowing by pipeline to China in a test run, and deliveries are now set to increase. Equally vulnerable is the Eni/Shell-operated Karachaganak gas project, which has Russia as the sole market for its gas and is reliant on CPC for its oil exports.

Paul Sampson, London

POLICY

Supreme Court Ruling Poses New Snags for US Climate Policy

The US Supreme Court took a major swipe at US decarbonization policy last week, in a highly anticipated ruling that limits how the administration of President Joe Biden can tackle power sector emissions. The 6-3 decision still largely left federal climate authority intact and even preserves several pathways for curbing greenhouse gas pollution from utilities. But it raises menacing new constitutional concerns for the Biden administration's clean energy agenda. Among other knock-on effects, the ruling further complicates difficult congressional talks over climate legislation and puts more pressure on US states and public utility commissions already embroiled in the clean energy debate.

• The Supreme Court ruling renders Biden's climate agenda significantly more vulnerable to legal challenges.

The Jun. 30 ruling in West Virginia v. Environmental Protection Agency (EPA) scraps the Obama-era Clean Power Plan and takes fuel-switching to cleaner-burning sources like wind and solar off the table for the Biden administration's pending utility climate regulations. But it's the grounds on which the power plan was vacated that could spell trouble for other pieces of Biden's climate strategy. Writing for the court's conservative majority, Chief Justice John Roberts held that it is "highly unlikely" the court would leave to agency discretion a "major social and economic policy decision" like determining sources of energy generation for the coming decades.

The ruling is widely viewed as expanding and empowering the fairly nascent "major questions" doctrine, under which agencies must point to "clear congressional authorization" when they claim the power to make decisions of vast "economic and political significance." The aftershock of the ruling could mean industry opponents to Biden's clean energy policies have a new legal weapon for challenging them.

Historically, courts have deferred to federal agencies for interpreting policy details within their general veins of statutory authority. "That framework has been in flux recently, and West Virginia further upsets that balance," a recent Clean Air Task Force analysis says. The ruling indicates the court intends to scrutinize regulations if they seem too important, novel or costly, which could affect much of Biden's "whole of government" climate plan.

The "major questions" doctrine has already come up in the context of the US Securities and Exchange Commission's (SEC) forthcoming climate disclosure rules, and in litigation over Biden's clean car standards for model years 2022-26. Shell, for example, in Jun. 17 comments on the SEC rulemaking said "our attorneys are concerned that there may be an issue under the Supreme Court's announced major questions doctrine" given the economic significance of the rule.

• An already-uphill congressional battle over climate legislation potentially just even got steeper.

A hazy outlook for securing a package of clean energy investments and tax incentives in Congress had already put more pressure on Biden's regulatory agenda, made shakier by the West Virginia ruling. The legislative track, rife with partisan discord, also now faces timing issues as the clock begins to run down to US midterm elections in November. Here the ruling could lend a sense of urgency for Democrats: Lawmakers immediately began urging legislative fixes to the ruling, stressing the importance of cementing the full scope of the EPA's authority to address greenhouse gas emissions. Senate Majority Leader Chuck Schumer said the ruling makes "it all the more imperative that Democrats soon pass meaningful legislation to address the climate crisis."

Senators were rumored to be preparing to possibly release a draft framework ahead of the Jul. 4 holiday recess, which came and went without such a draft. There is still reportedly a target of moving forward with piecemeal climate and energy bills ahead of the summer recess, which begins on Aug. 5 for the Senate. But there were already tangible sticking points in talks, with Sen. Joe Manchin at odds with Democratic leadership over certain policy provisions related to renewable and electric vehicle tax incentives.

To that end, the Supreme Court ruling could throw another wrench in the works: Manchin, a longtime critic of the 2015 Clean Power Plan, will likely block any legislative efforts to blunt the ruling's impacts. That could widen the gulf between Manchin, who has so far held out in Democrats' efforts to push through energy legislation and party leadership.

• More focus will shift to states, some of which were already struggling with balancing grid reliability and clean energy goals, and where action could reflect political divides.

The Biden administration has set a target of 2035 for decarbonizing the US power sector, although much of the legislative action underpinning that goal is still a question mark, and the Supreme Court ruling casts more doubt. On a practical level, the ruling removes fuel-switching as a possible lever for the EPA to regulate the power sector's emissions. That still leaves pathways on the table, including a nationwide cap on carbon dioxide, said Maya Golden-Krasner, deputy director of the Center for Biological Diversity's Climate Law Institute. Other possible tools include co-firing natural gas plants with hydrogen, and turning to carbon capture and storage (CCS), although CCS commerciality is problematic.

Absent a federal edict to shift to cleaner generation, responsibility piles onto state governments, many of which are already grappling with grid reliability and climate issues. An EPA mandate could have given states some political cover. More than half of US states, 31 plus the District of Columbia as of December, have clean electricity "targets" set by state legislatures or governors. But a tangled web of local, state and regional regulators – many of which are only statutorily allowed to consider costs to consumers – and crumbling transmission infrastructure has complicated those objectives. Such targets also tend to split along red state-blue state political divides.

Recent widespread power outages in the wake of wildfires, droughts, US Gulf storms and the historic, deadly Texas deep freeze in 2021 have only served to entrench existing battle lines around grid reliability and clean energy. And while the Federal Energy Regulatory Commission is advancing a proposal for smoothing regional transmission planning and clarifying who pays for it, which could help get more renewables generation up and running, that policy isn't expected to be a cure-all for long-term transmission planning.

Bridget DiCosmo, Washington

COUNTRY RISK

Libyan Protests Could Mark New Phase in Conflict

Angry protests sweeping across Libyan cities could herald another revolution or a new level of political unrest feeding into the country's already-fractious political landscape. Any chance of stability for the oil sector looks bleak as UN-sponsored talks in Geneva in late June failed to unlock stalemate between rival governments and national assemblies. At the same time, Libya's reliability as a supplier to currently tight global oil markets took a knock this month with the shutdown of another two key ports, roughly halving the country's 1.1 million barrel per day export capacity.

• Protests spreading across Libya appear to have no clear leader and are united by a shared sense of anger and exhaustion with Libya's dysfunctional politics.

Demonstrations appear to have started in Tripoli on Jul. 1 after a youth movement calling itself "Baltris Libya" called on social media for demonstrations in the capital against chronic power cuts and the political stalemate between the government headed by Prime Minister Abdulhamid Dbeibeh in Tripoli and a rival eastern administration, led by former Interior Minister Fathi Bashagha. Libya's parliament, the House of Representatives, was stormed by protesters the same day. The unrest has spread rapidly beyond Tripoli, engulfing Tobruk and Benghazi in the east, Misrata and Zawia in the west, and Sebha in the southwest.

For now, protesters appear to lack political backers or foreign direction. "Power cuts in summer seem to be the trigger but no leaders have emerged," notes a former European defence attaché and risk consultant. The eastern-based renegade Gen. Khalifa Haftar has tried to hijack the protests, with his Libyan National Army (LNA) command declaring "full support for the popular will and for the demands of the citizens." But protesters are rejecting the political class and structures across the country. "The lack of leadership does remind me of 2011 – if the protests continue over the weekend and persist there is the risk of escalation from militias guarding government buildings in the capital," the consultant says.

• Amid the latest upheaval, Libya's export capacity of 1.1 million b/d has roughly halved and a prolonged oil sector shutdown across the country remains a possibility.

Force majeure was imposed on Jul. 1 on the twin eastern ports of Es Sider and Ras Lanuf, three days after both ports were shut in, and has been in place on the eastern ports of Zueitina and Marsa al-Brega and the Eni-operated Elephant field since late April. A shipping source with access to state National Oil Corp. (NOC) exports and production data provided a snapshot of total output on Jul. 2 of some 626,000 b/d, with the giant El-Sharara field in the southwest producing some 245,000 b/d, and the Sarir and Messla fields in the east together contributing the bulk of some 295,000 b/d.

NOC did not clarify the reason for imposing force majeure on Es Sider and Ras Lanuf, which followed a 72-hour deadline it had set for their reopening. NOC Chairman Mustafa Sanalla instead cryptically referred in a statement to "politicians [with] false beliefs about the oil issue" and noted it "a mistake to use oil 'the lifeblood of Libyans' as a bargaining chip."

But the risk consultant told Energy Intelligence that "The Es Sider and Ras Lanuf shut-in is led by [state] Petroleum Facilities Guard militias from local tribes who are likely to continue as they distrust Dbeibeh's promises and have their own local grievances. Force majeure could last for months." In 2020, Libya's 1.2 million b/d output was at times reduced to under 100,000 b/d during a lengthy shutdown imposed by Haftar's LNA from late January to October.

• Libya's status as a wild-card supplier to global oil markets persists, although its minor role as a gas supplier to Europe via Italy remains fairly constant.

Mediterranean refiners have long complained that Libyan term contracts are not worth the paper they are written on and have sought out alternative supply from Azerbaijan, Kazakhstan, Nigeria, Algeria and the US. But in a tightly supplied global oil market, missing Libyan volumes still matter even if traders and refiners factor in intermittent closures. Benchmark Brent closed above $111 per barrel on Jul.1 on news of the terminals' shutdown, up more than 2%.

And Libyan barrels are still attractive, as shown by NOC loading skeds. Oil majors Eni, TotalEnergies, Repsol, Exxon Mobil, BP and Shell all lift Libyan crude grades when available, while China's Unipec has often lifted the bulk of volumes each month.

Libya exports small volumes of gas to Italy via the Eni-operated Greenstream pipeline, and these volumes continue uninterrupted for now. NOC flowed 1.15 billion cubic meters so far this year and 2.7 Bcm over 2021 (far below the pipe's original 8 Bcm/yr capacity), discounting incomplete September data from Italian grid operator Snam.

• The UN-led peace process has stuttered while foreign powers are maintaining their positions inside the country and monitoring events.

Libyan legislative leaders from the House of Representatives and the High State Council failed to reach a compromise in late June on a constitutional basis for long-planned nationwide presidential and legislative elections, originally scheduled for December last year. Disagreement centers on the eligibility requirements for presidential candidates, UN Libya Adviser Stephanie Williams said in Geneva. Libya's rival governments - both backed by different armed forces - remain at a standoff that could yet escalate into renewed civil war.

That said, regional powers for now appear to be hedging their bets amid a political landscape that looks particularly fluid. Turkey, which has the most at stake given the size of its military footprint and economic interests in Libya, could yet throw its weight behind either Dbeibeh or Bashagha, depending on who is in the ascendancy; both are seen as acceptable to Ankara. Egypt now favors Bashagha, given his backing in the east and Cairo's wish for stability along its border. The United Arab Emirates, increasingly lukewarm toward Haftar and the LNA after their failures, is seen as backing Dbeibeh, relatively confident about his distance from Islamists.

Tom Pepper, London

GEOPOLITICS

Iran Fires Warning Shots as JCPOA Hopes Fade

• Fresh US-Iran talks last week failed to break the deadlock, despite the global energy crisis and spiraling inflation in Iran incentivizing a deal that would ease sanctions.

• Risks are evident across the region, from tensions over Israel's disputed maritime border with Lebanon to attacks on a US-backed gas project in Iraqi Kurdistan.

• A more united front against Iran could emerge, with US President Joe Biden's visit to Jeddah next week due to mark a reset in US-Saudi relations, and Israel-UAE ties tightening.

The Issue

The EU-brokered talks in Qatar were unable to breathe new life into the moribund indirect negotiations between the US and Iran to resurrect the 2015 nuclear deal that have been on hold since March. A revived agreement would benefit both energy prices and regional tensions. Doubts about the prospect of success continue to grow, however. Iran is clearly unafraid to flex its muscles, recently targeting contested energy projects via its proxies, even if it has so far shown relative restraint, while the US this week blacklisted more companies allegedly involved in the sale of Iranian oil.

Deepening Pessimism

Reflecting the dwindling optimism, US negotiator Rob Malley called the Doha meeting "more than a little bit of a wasted occasion," saying Tehran still didn't appear to have decided whether or not it was interested in returning to the deal, the details of which have been all but finalized for months. Speaking in a radio interview broadcast on Tuesday, he accused Iran's delegation of bringing up issues from the past that had been settled. That appears to include the vexed question of guarantees against any future US withdrawal from the deal.

Indeed, some analysts argue that Iran revealed its inability to forge a united negotiating position by not seeking in Doha to resolve what was thought to be the last major outstanding issue, namely its demand that the US remove the Revolutionary Guard from its list of foreign terrorist organizations. Iran may in fact have decided to soften its position here, insisting instead on sanctions being removed from Khatem al-Anbiya, the Guard's sprawling construction conglomerate. Under the original nuclear deal, or Joint Comprehensive Plan of Action (JCPOA), it was removed from a blacklist that exposed organizations outside the US for transacting with it, but remained the target of earlier sanctions.

Either way, Iranian Foreign Minister Hossein Amir Abdollahian echoed Malley's words on Tuesday when he blamed the US for the impasse, saying it "must decide if it wants a deal or insists on sticking to its unilateral demands."

Limbo serves its political purpose in Washington and Tehran, for now. But it cannot continue indefinitely. Malley restated the US assessment that Iran was weeks away from having enough fissile material for a nuclear weapon. The head of the International Atomic Energy Agency (IAEA), Rafael Grossi, this week warned that the lack of visibility on Iran's nuclear program – after Iran's removal of IAEA surveillance cameras a month ago – meant that Iran's neighbors "could start to fear the worst and plan accordingly."

Growing Dangers

Beyond its lack of cooperation with the IAEA and alleged foot-dragging, Iran and its proxies continue to keep up the pressure on their adversaries. This led to Israel shooting down three "hostile" surveillance drones last weekend launched by Hezbollah toward the Energean-operated offshore Karish gas field, which lies in disputed waters. Karish is due to start sending gas to the Israeli market in the third quarter.

A week earlier, the Khor Mor gas field in Iraqi Kurdistan was targeted in the latest wave of rocket attacks on the region's energy sector. No one claimed the attacks, but Iran-backed militia groups in Iraq were widely suspected of being responsible, and Tehran in March openly claimed responsibility for missile strikes on the region. The US government is helping to finance the development of Khor Mor, which was temporarily suspended, and which is a key component in plans, drawn up in a recent study commissioned by the US Department of Energy, that aim to export Kurdish gas to Turkey by 2026, potentially displacing gas from Russia and Iran.

While the incidents do reflect the rising risks, no damage was done and it seems likely that they were essentially warning shots to remind Iran's adversaries of what it is capable of if the situation deteriorates. They come at a time when the energy crisis is hurting the West, and Saudi Arabia is expected to up pressure on the US to formally abandon efforts to revive the nuclear deal during Biden's Jul. 15-16 visit.

The region's security deteriorated dramatically in 2018, after the then-Donald Trump administration pulled out of the JCPOA and reimposed sanctions on Iran. If diplomacy fails this time, Iran could force that diplomacy, as it did in the past with some success, argues Riccardo Alcaro, a senior fellow with Italian think tank Istituto Affari Internazionali. "Then you will start seeing more attacks on US allied forces in Iraq, you will see more problems in Lebanon, perhaps in Syria too, in Yemen. You will probably see a surge in attacks against the Emirates and the Saudis. And, you know, chain reactions are difficult to control," Alcaro notes.

Regional Recalibration

It is striking that, so far at least, there has been no such escalation. Even in federal Iraq, Tehran has been treading carefully in recent months, says Iraq expert Sajad Jiyad. This is partly because Tehran received strong blowback for past political interference, and partly because the caretaker government, the Revolutionary Guard and the office of Iran's supreme leader are currently aligned, while uncertainty plagues the protracted government formation process, Jiyad argues. Prime Minister Mustafa al-Kadhimi actually visited Tehran just before the Doha talks, seeking to revive the on-off dialogue between Iran and Saudi Arabia that Baghdad has hosted.

By keeping the door to nuclear negotiations, the US and Iran have managed to prevent the anti-Iran coalition Israel has called for from hardening. The energy crisis has helped, with high oil prices enabling Tehran to cope with US sanctions, and the EU desperate to revive a deal that could add 2 million barrels per day to the market. But the longer the talks drag on, the more vulnerable they are to being derailed.

Simon Martelli, London

CLOSING ARGUMENTS

Syria's Airspace War, Central Asia's Latest Tensions

Syria: Israel and Iran's Battle to Control Airspace

Recent activity by the Israeli Air Force has been directed against a new range of targets inside Syria - air defense systems being deployed by Iran to defend Iranian infrastructure from Israeli air attacks. Two recent high-profile attacks, one on Damascus International Airport, the other on facilities near the Syrian port city of Tartus, have drawn condemnation from Russia. That Israel would risk raising the ire of Russia, whose ongoing presence in Syria must be considered regarding any Israeli airstrike, reinforces the seriousness Israel attaches to halting Iranian efforts to establish a stand-alone air defense network inside Syria.

For 10 years now, Israel has been engaged in an intensive aerial bombing campaign targeting what it claims to be a network of sites used by Iran to support an expanding military presence inside Syria. Many of these strikes have targeted pro-Iranian militias and the forces of Hezbollah to curtail the buildup of military capability near Syria's border with Israel. Other strikes have been focused on interdicting Iranian arms shipments to Hezbollah that pass through Syrian territory.

The Israeli efforts have been aided in large part by the confusing air defense system in operation in Syria. While Syria maintains a stand-alone air defense capability, its most advanced anti-air weapons - Russian S-300 surface-to-air missiles - are part of the Russian air defense network. As such, they are geared toward protecting Russian military assets and strategic Syrian facilities,, not Israeli strikes targeting locations affiliated with Iran. In 2020 Iran signed a protocol with Syria in which it undertook to provide advanced Iranian-made air defense systems to the Syrian military to fill the gap. The specific systems being deployed by Iran include the Khordad-3, which was used by Iran to shoot down an advanced US military drone over the Strait of Hormuz in 2019.

But Syrian-operated air defense capabilities, including advanced Iranian air defense weapons, have not proven effective in protecting Iran's military infrastructure from Israeli attack. To compensate for what appears to be a command and control failure, Iran has undertaken to build a stand-alone air defense network on Syrian soil to protect its assets from Israeli air attack. This network would operate independent of both the Syrian and Russian air defense systems, and under the command of Iran's Revolutionary Guard. While past clashes between Israel and Iran in Syria have been characterized as more of a proxy conflict, the current campaign pits the Israeli Air Force directly against the Revolutionary Guard, and as such represents a dangerous escalation with consequences that could extend beyond Syria.

Uzbekistan: Ethnic Violence Exposes Regional Tensions

Soviet-era nationality issues, where policies were implemented to deliberately weaken ethnic majorities, continue to haunt Central Asia today. Soviet-era divide and conquer objectives were accomplished by artificially fixing internal boundaries in a manner that infused regions possessing a clear ethnic majority with often unruly minorities. The impact of these national policies remains, producing domestic political turmoil born of decades-old ethnic divisions that have no ready solution. The most recent example of this is the violence that broke out this past week in the Uzbek province of Karakalpakstan, where the minority Karakalpak population held massive demonstrations protesting planned changes in the Uzbek constitution that would have stripped Karakalpakstan of its autonomous status within Uzbekistan. Uzbek authorities ordered a violent crackdown by security forces, killing 18 and injuring nearly 250 others.

Initially integrated into Kazakhstan, Karakalpakstan was eventually joined with the Tajik Soviet Socialist Republic and remained in that status after the collapse of the Soviet Union. Although the territory of Karakalpakstan encompasses nearly half of Uzbekistan, the Karakalpak population remans a distinct minority, comprising less than 2 million of Uzbekistan's overall population of 34 million.The unrest in Uzbekistan follows on the heels of an earlier outbreak of political violence in neighboring Kazakhstan earlier this year. Although the precise cause for the Kazakh turmoil remains under investigation, old political rivalries among the Kazakh clan structure dating back to Soviet times more than likely contributed. Another Uzbek neighbor, Tajikistan, faces ethnic unrest in its autonomous Gorno-Badakhshan region, where thousands were killed in the civil conflict of 1992-97, and in the strategic Fergana valley, where ethnic violence between Tajiks and Kyrgyz broke out in 2021. Kyrgyzstan saw major ethnic fighting between its majority Kyrgyz population and its restive Uzbek minority in 2010.

Central Asia plays a critical role in the plans of both Russia and China, who together envision the former Soviet republics of the region joining them to create a wider trans-Eurasian economic union that they hope will eventually play a dominant role in the global economy. Key to this vision, however, is the need for the kind of stability that fosters long-term economic growth. The precipitous withdrawal of the US and Nato from Afghanistan last year has created a vacuum of instability that threatens the wider region. Factoring in the legacy issues of unresolved ethnic tensions inherited from the Soviet Union, Central Asia better resembles a short-fused powder keg than a region where economic and geopolitical dreams are made.