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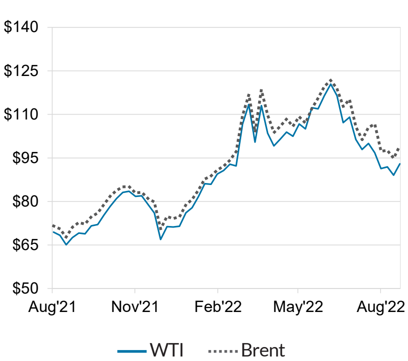
BRENT, WTI PRICES 2021-22 ($/bbl)



Source: CME, ICE

THE BIG PICTURE

Europe's Profound Gas Challenge

- *Europe is facing a perfect energy storm.*
- *Gas storage is building up nicely, but supply challenges — for gas and its alternatives — are mounting.*
- *EU policymakers risk political blowback if they don't find a way to help households and industry weather spiking prices and reduce gas consumption.*

Europe is trying to extinguish any number of simultaneous fires on the energy front. Gas needs to be saved for winter heating amid dwindling Russian supplies. A drought has limited hydro power and dried up rivers needed to transport coal to power plants — and to cool already-underperforming French nuclear reactors. The EU's upcoming bans on Russian crude and products imports will hit efforts by some industries to switch from high-priced gas to fuel oil — although any return of Iran's oil to the market could help ease some of that pain (p2).

Still, Europe is not expected to suffer rolling power blackouts this winter. Industry, however, will take a considerable hit. And for EU leaders, managing the economic and political fallout from the price burden facing households and industry alike is a top concern.

Scenarios

Mike Fulwood, a research fellow at the Oxford Institute for Energy Studies (OIES), said in a recent podcast that Europe can "just about squeak by this winter" assuming Nord Stream flows at roughly current levels (20% of capacity), a normal-to-mild winter, high LNG imports and no Chinese demand rebound. The EU has already cut demand by 45 billion-50 billion cubic meters in 2022 relative to 2021, based on the first seven months of this year, mostly because of high prices, Fulwood told Energy Intelligence.

A full Russian gas supply halt from October would drive down EU demand by a further 60 Bcm in 2023 as a result of demand destruction and reduction measures, OIES modeling suggests. More of that burden would be borne by Germany and Central European countries, given their greater reliance on Russian supply and insufficient gas connections across Europe. Germany would "have to reduce its gas demand by around 25%" over the heating period to April 2023 if Russian gas stopped completely in the coming weeks, Brussels-based think tank Bruegel said in an Aug. 5 report analyzing the economic consequences of such a halt.

The expectation of further Russian gas cuts is meanwhile driving prices to record highs. The front-month September Dutch TTF gas futures contract reached an intraday high of €295 per megawatt hour ($86 per million Btu) following the announcement of a three-day Nord Stream maintenance outage. Before 2021, the front-month TTF contract had never broken above €40/MWh.

The crisis could also easily extend further into 2023 and beyond. Europe is likely to exit this winter with depleted storage, requiring a sustained rebuild of gas stocks next year

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that will keep demand high, supplies tight and wholesale gas prices elevated. This reinforces gas demand curtailment as a key pillar of EU energy strategy. But the effects could be profound for Europe's industrial base, given Germany's vulnerabilities. Political leaders' attempts to manage price pain also have implications for Europe's political make-up — and EU resolve on Russia sanctions.

Industrial Hit

European gas demand from the power and industrial sectors is already falling in the high-price environment, even ahead of government-mandated savings measures. But the industrial sector has been hit especially hard, with factories reducing production or shutting down altogether for lack of alternative fuels.

In the event of a Russian cutoff, "a reduction in consumption will not be possible without temporary declines in production in the manufacturing sector, especially the chemical industry," Bruegel said. Industry should focus instead on sourcing products from countries not reliant on Russian gas, which could be aided by lower import tariffs, it said, while warning of the need to support workers throughout the downturn or even retrain them.

This is already happening. German chemicals company BASF is partly substituting ammonia production with US ammonia imports, Bruegel noted, while Arcelor Mittal is importing some steel components rather than producing them. Slovakian aluminum producer Slovalco is already planning to halt production for lack of affordable electricity supply but has warned that imports of "dirtier" aluminum from China could replace it. Some manufacturers are turning, where possible, to fuel oil and coal as substitute feedstocks — but ahead of EU bans on Russian oil imports, these shifts bring their own price spike risks.

Household Pain

High wholesale gas and power prices have translated into higher household energy bills, sparking concerns of spiraling energy poverty. The Covid-19 pandemic demonstrated the levels of government spending that can be mustered in an emergency to support populations. But all-out support also risks fueling the very demand governments are trying to rein in. It's a difficult needle to thread.

The below-cost price freezes backed by some governments — such as in France and Austria — can be blunt instruments, while some governments will simply be unable to avoid passing on the economic pain. Some also argue that messaging on, and enforcement of, energy savings goals is still lacking. In France, a power and gas tariff freeze will be extended to Dec. 31, and possibly replaced next year by more targeted measures for the poorest households. Paris has also coughed up heating relief funds for poorer households as well as value-added tax (VAT) cuts on transport fuels.

In Germany, the government had to bail out its energy companies from potential bankruptcy — with utility Uniper alone getting a €15 billion rescue package — given the mounting costs of replacing Russian gas with alternative supplies. To finance its bailouts, Germany introduced a new levy on natural gas. Reports say this could cost households close to an additional €500 per year and millions of euros more for industrial users. To ease the pain of the levy, Berlin cut the VAT on gas from 19% to 7% until 2024.

Fears of Populism

The new burden on citizens has already rung alarm bells about potential social unrest, which could bolster populist or nationalist parties in the West, potentially rattling EU unity. German Chancellor Olaf Scholz said German citizens can "count on us not to abandon them" in the face of mounting energy costs. The far-right AfD party is already feeding on rising bills to attract support — and reportedly advocating for a relaxation in Russia sanctions.

The unity government of Mario Draghi in Italy was the crisis' first political victim. It collapsed in July in part over a failure to agree on an aid package to address the cost-of-living crisis. Giorgia Meloni of the far-right Brothers of Italy party, known for more sympathetic views of Russia, is expected to emerge the winner from Sep. 25 elections. Heading into winter, European leaders know the policy stakes couldn't be higher.

Jill Junnola, London, and Jaime Concha, Copenhagen

POLICY

Mapping an Iran Deal's Sanctions Relief

Indirect diplomacy between the US and Iran on a potential nuclear deal that could also bring a million barrels of Iranian oil to market crept forward this week. Expectations of the benefits a revival of the 2015 Iran deal would provide are lower today. Washington is reportedly expecting more limited curbs on Iran's nuclear program, given the advances Tehran has made since 2018. Iran will likely be able to export its oil more easily and see some sales shortly after the deal is reached, but there aren't high hopes for foreign investment in the energy sector.

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• The most tangible benefit for Iran will be liberated oil sales.

Iran's oil exports have fluctuated between and estimated 800,000-900,000 barrels per day for the last six months, and the potential is for those to more than double if an agreement is struck.

A renewed deal is expected to give Iran similar sanctions relief to that granted under the initial 2015 Joint Comprehensive Plan of Action (JCPOA), meaning US President Joe Biden would waive US sanctions targeting Iran's overseas sales of oil and petrochemicals. If Washington suspended the same energy-related executive sanctions it did after the initial deal, the US would no longer threaten foreign banks with being blocked from the US financial system for involvement in oil or petrochemical trade, or for transactions involving the National Iranian Oil Co. (NIOC) or Naftiran Intertrade Co. (NICO). And it would no longer go after non-US firms for trading with NIOC or NICO or transacting with the Central Bank of Iran.

The administration of former US President Donald Trump made things more complicated by targeting the same organizations with different sanctions authorities, but Biden has options for resolving those issues. A deal could add about 1 million b/d of Iranian oil back to the market in about ten months, according to Energy Intelligence's Research and Advisory service estimates.

Oil sanctions relief took six months to materialize after the initial JCPOA was struck in July 2015. Iran first had to reduce its stockpiled enriched uranium, sending the excess amounts to Russia for downblending, and dismantle and store its centrifuges, which it did by so-called "implementation day" in January 2016.

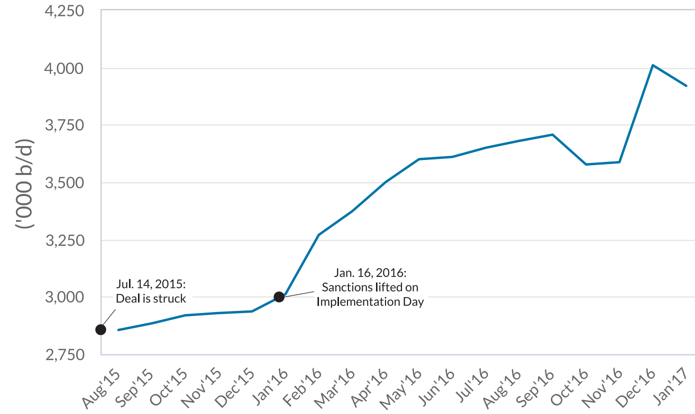
Iran's oil production climbed steadily afterward, as the country was able to reach more customers (see chart). Output briefly topped 4 million b/d, and hovered below that level until Trump announced he would withdraw from the deal in May 2018. Production began falling and declined steadily after November, when the Trump administration stopped issuing waivers for purchases of Iranian crude.

• Implementation could be more complex in a renewed agreement.

The timeline for Iran's ramp-up could be a bit different this time around. Unconfirmed reports indicate a deal could be implemented over a four-month period, rather than six. And the US could provide some sanctions relief earlier in the process. That's a nod to Tehran's insistence that it be able to verify sanctions relief. That could involve exporting up to 50 million bbl of oil during the implementation period — over half of the estimated 90 million bbl of crude the country holds in storage.

There's also more work to be done on the non-proliferation side this time. Iran's nuclear program has evolved. Tehran ramped up uranium enrichment from 20% and 60% this year. Iran has also installed cascades of more technically advanced centrifuges, according to an August International Atomic Energy Agency (IAEA) report seen by Energy Intelligence.

IRAN'S PRODUCTION INCREASES AFTER 2015 JCPOA



Source: Energy Intelligence

Iran is also insisting that it will not implement a new nuclear deal unless the board of governors of the IAEA concludes a probe of Tehran's historic undeclared nuclear activities. "Iran is willing to continue cooperating, but the [IAEA] case must be closed before implementation," Mohammad Marandi, an advisor to Iran's negotiating team said Wednesday.

But the US says Iran must answer questions related to trace amounts of nuclear material before the probe can be closed. "The power to achieve that rests fully in Iran's hands," US National Security Council communications coordinator John Kirby said Wednesday.

• Iran can also be expected to get access to overseas assets.

Once sanctions snapped back into place in 2018, Iran lost access to cash held in overseas accounts that it had regained under the 2015 deal. Iran's overseas reserves totaled about $121 billion in 2020, only $12.4 billion of which was accessible because of sanctions, according to the International Monetary Fund. A new deal could see Tehran gain access to the remainder.

• The increased oil revenues and access to cash will be crucial for Iran, as substantial investments in Iran's oil sector are very likely off the table.

When sanctions were lifted after the 2015 deal, the oil industry geared up for an upstream bonanza. But US firms still had to stay away, and French firm TotalEnergies was the only Western major to sign an upstream deal, for the South Pars gas development. That deal was carefully structured to avoid the remaining sanctions, avoiding drawing on debt for fear of so-called U-turn transactions that briefly touch the US financial system and remained prohibited. The French firm abandoned the deal in 2018 after Trump snapped back sanctions.

Iran was also disappointed with some of the limits to sanctions relief in 2016 and 2017, leading Washington to offer non-US firms reassurances that they wouldn't be targeted for trade and investment.

Today, the challenges are likely even higher for Western firms to sign up to long-term investment. Following Trump's withdrawal from the JCPOA, there's a broad understanding that the deal might last only as long as the remainder of Biden's term. Instead, foreign investment in Iran's energy sector might be confined to interest from mainly Russian firms, with Chinese state majors likely to continue to be cautious around US sanctions risks.

Last month, Gazprom and NIOC signed a preliminary agreement to develop the Kish and North Pars gas field, raising reservoir pressure at South Pars, and developing six oil fields, but that comes on top of earlier, unfulfilled deals dating from 2016 and 2018.

Emily Meredith, Washington

COUNTRY RISK

Russian Economy Feels Sanctions Heat

Sanctions against Russia are starting to bite. The state budget saw a year-on-year drop in income of 26% in July — despite high oil and gas prices. Revenues accruing to the state are set to fall further later this year and in 2023 as the EU embargo on Russian crude and products comes into force. Still, the Russian economy, while facing a long list of challenges, is not about to collapse. Official forecasts now envisage a smaller contraction in GDP in 2022 than previously. Long-term scenarios are less clear.

• Declining production, business activity and imports — alongside a strong ruble — have pushed Russian revenues lower.

Russia remains in the black. Over January-July, there was a budget surplus of 482 billion rubles ($8 billion dollars at the current exchange rate). But energy sector revenues are beginning to comprise a shrinking share of that income. The state's take of oil and gas revenues declined by 22% in July compared to a year ago, to 771 billion rubles. Lower production volumes were a big factor in the drop. Gazprom's output was down 36% last month relative to July 2021, as exports dropped by 58%. This sent the Russian gas giant's export revenue in Europe to a 12-month low, according to Energy Intelligence calculations.

Russia's crude oil and gas condensate output in July of 10.738 million barrels per day was still 275,000 b/d higher than a year ago, when it produced 10.463 million b/d. In the first half of August, however, it dipped to 10.453 million b/d.

That trend looks set to continue. The EU's ban on Russian crude imports from Dec. 5 means the country's crude oil and gas condensate production could fall by 1.5 million-2.5 million b/d from its previous peak of 11.3 million b/d, according to a report by consultancy Macro-Advisory. "Russia will (probably) earn much less from oil exports for a couple of years as it rebuilds its export infrastructure, i.e. more tankers and Central Asian route expansion," the report says. Reorienting gas exports will take longer still.

Energy Intelligence sees the value of crude and product sales down some $62 billion in 2023 compared to a no-war scenario. Revenues over two years, 2022-23, shrink the shortfall to $55 billion.

The fall in revenues last month outside the oil and gas sector, to 990.4 billion rubles, was even bigger than that for energy — amounting to nearly 30%. Russian analysts attributed the drop to the destruction of logistics chains, lower income from the sanctions-hit metallurgic industry, and a slowdown in other manufacturing industries — along with a high comparison base in July 2021, when the economy was recovering from the pandemic. The government is also missing out on taxes on imported goods, as imports drop.

• A strong ruble is creating growing risks for Moscow.

Russia's currency strengthened to about 57 rubles per US dollar in June, after having hit nearly 104 rubles per dollar in March. That's down to restrictive measures (such as on currency outflows) taken by Russia's Central Bank; a big inflow of hard currency from oil and gas sales; and reduced imports under sanctions.

It's also creating problems for Moscow. The mineral extraction tax, which accounted for 40% of oil and gas revenues in the state budget last month, is determined in part by the dollar/ruble exchange rate — and the tax shrinks when the Russian currency strengthens.

Russia's finance ministry stopped buying dollars and euros from the market under the so-called budget rule, which sees income from oil sales above a certain threshold — set at $44.20/bbl for 2022 — deposited into Russia's rainy day National Welfare Fund. To fulfill that budget rule, the finance ministry used to buy hard currency on the market, or sell it if the ruble needed support — but has now lost that exchange rate tool.

Sanctions have meanwhile restricted imports, prompting foreign currency to start accumulating in Russia. This has allowed the ruble to strengthen significantly in recent months, despite the removal of the Central Bank's major limitations on currency outflows. Russian officials say the "optimal" rate should be between 70 rubles-80 rubles to the dollar, but the rate hovered at slightly below 60 rubles to the dollar this week.

• The Russian economy has performed better than expected, but the future looks less bright.

The Economic Development Ministry has adjusted its outlook for next year in its draft socioeconomic forecast for 2022-25, made public last week. The document now envisages the contraction of the Russian economy by 4.2% this year, versus the 7.8% drop anticipated in May. Real income is now expected to fall by 2.8%, against a 6.8% drop in the May document, while inflation is expected to reach 13.4% by end-year, down from the previous forecast of 17.5%.

But it forecasts a worsening outlook for 2023, when GDP is to decline by 2.7% rather than by the 0.7% envisaged in the May document. Recovery is expected in 2024-25, with growth seen at 3.7% and 2.6%, respectively.

Other analysis is slightly less bullish, however. "Russia's economy has not imploded and, although facing a contraction of 5%-6% this year, is in no danger of collapse or likely to experience any form of an economic or financial crisis," the Macro-Advisory report says. It also points to five to seven quarters of "low single-digit decline" and to "a lengthy list of challenges which, if not addressed effectively, will keep growth near stagnation for many years."

A major problem for the Russian economy is the loss of access to technology. Russia claims it can create a local industry alternative or even develop entirely new technologies, but even optimists think this would take ten years or more.

The Center for Macroeconomic Analysis and Short-term Forecasting, a Russian non-profit organization, this month released three scenarios for Russia. The middle scenario scene as most likely, for institutional inertia, envisages financial and microeconomic stability and the government fulfilling its budget obligations. But investment would decline in 2022-23 and then grow by not more than 2.5% per year until 2030, leading to relative stagnation and limiting economic growth to some 1.5% annually. The result would be a lag in technologies, the level and quality of living — and even national security.

Staff Reports

MACRO TRENDS

Skyrocketing LNG Prices Check South Asia's Gas Flow

Russia's war on Ukraine has plunged the price-sensitive South Asian nations India, Pakistan and Bangladesh into a gas crisis — exacerbated by being priced out of the spot LNG market amid competition from deep-pocketed European buyers. All three have cut down on their gas consumption and are turning to polluting fuels like coal and oil, with LNG markets expected to remain tight at least till end-2024. This could hit both gas' reach in the region, and global decarbonization efforts.

• South Asian buyers have mostly exited from spot LNG markets amid a threefold jump in year-on-year prices.

India, Pakistan and Bangladesh, home to 23% of the world's population, have been viewed as key drivers of global LNG demand growth given their dwindling domestic production and lack of transnational gas pipelines. While gas accounts for 68% of Bangladesh's energy mix and 42% of Pakistan's, India has a target to raise its share to 15% by 2030 from 6.3%.

But gas is losing its perch as spot prices have jumped threefold on the year to over $51 per million Btu as Europe scoops up cargoes in the move away from Russian supplies. Comparatively, Brent slope-linked term supplies from Qatar cost around $13/MMBtu. Depreciating local currencies make spot imports costlier still. While LNG meets a fourth of Pakistan and Bangladesh's gas needs, in the case of India, the world's fourth-largest LNG buyer, it satisfies almost half of demand.

India, however, has seen imports of the superchilled fuel decline 16% over January-August from a year ago to 13.7 million tons, according to data from energy analytics firm Kpler. Pakistan's imports meanwhile shrank 19% on the year to 4.5 million tons, and Bangladesh's by 5.5% over the same period to 3.2 million tons, the data showed.

The buyers are now mainly relying on cheaper long-term contracts. Since coal forms backbone of India's energy system, it has been relatively shielded from LNG price spikes compared to Pakistan and Bangladesh. Households and industry in both countries face daily power outages due to the rationing of gas. Bangladesh, which stopped buying spot LNG in June, said Monday it will close schools for an extra day per week and also reduce office hours in response to power shortages. Pakistan in June adopted a reduced five-day work week from six to cut energy demand.

• The energy price crisis is creating political problems for Pakistan and Bangladesh ahead of elections next year — and also reinforcing a lean toward Russia.

Pakistan Prime Minister Shehbaz Sharif's government, which came to power in April after toppling former Premier Imran Khan, is having a hard time managing the economy. Foreign exchange reserves contracted to $7.9 billion for the week ended Aug. 12, barely enough for six weeks of imports. During his tenure, Khan shielded citizens from high oil and gas prices through subsidies, which Sharif cut to comply with the International Monetary Fund's conditions for reviving a loan program. High food and fuel prices are stoking public anger — several cities in Pakistan are witnessing protests over hiked electricity bills — and Khan has been holding massive rallies, drumming up support against Sharif.

Anger is building in Bangladesh, too, where Prime Minister Sheikh Hasina faces elections by end-2023. Just five months ago, she won widespread applause when the nation achieved its 100% electrification goal. But citizens are now frustrated by power cuts.

Ministers and executives from all the three countries have been making the rounds in Qatar, seeking cheaper LNG under term deals, so far without success — although the Qatar Investment Authority said Wednesday it aims to invest $3 billion in Pakistan, after Sharif's visit to Doha.

More broadly, the South Asian nations also feel frustrated that they are paying the price despite having no stake in the Russia-Ukraine war. All three maintain a neutral position but have largely sided with Russia. India has in fact benefited by lapping up discounted Russian crude, although its LNG supplies from Gazprom's German subsidiary have been disrupted. Bangladesh, too, is considering importing oil from Russia. Analysts believe that Asia could emerge as a natural buyer for Russian gas as Gazprom reorients its export flows away from Europe — but that will take time.

• High LNG prices over the long term could lead to structural change in energy demand patterns — shrinking gas' role, putting LNG investment at risk, and undermining decarbonization efforts as nations turn to coal and oil instead.

The lack of spot volumes and additional term supplies is putting a question mark over the billions of dollars being invested by developers in building new LNG import terminals and pipelines in the region. Sam Reynolds, with the Ohio-based Institute for Energy Economics and Financial Analysis, said recently that as long as unaffordable LNG prices persist, $96.7 billion of proposed LNG-related infrastructure projects in Pakistan, Bangladesh, Vietnam and the Philippines will face risk of underutilization or cancellation. India has said that no new gas-based power plants are under development, even as the nation's power generation capacity is expected to double to 820 gigawatts by 2030.

And earlier this month, New Delhi, formalizing its climate pledges ahead of COP27, replaced its target of reaching 500 GW of non-fossil fuel power generation capacity by 2030 with the less ambitious aim of having non-fossil fuels account for half of installed power generation by then. Analysts say this gives India space to expand its coal-based capacity. Bangladesh's adviser to the prime minister on power, energy and mineral resources, Tawfiq-e-Elahi Chowdhury, has meanwhile chastised climate activists for criticizing the government for using coal to meet its power demand, saying they were against the nation's development. In Pakistan, Sharif's government is also focused on mining domestic coal and boosting renewable capacity to cut dependence on gas.

Still, the market remains hopeful that South Asia's LNG demand will return once prices cool. Poten & Partners expects India to be the second-largest growth driver of LNG globally, adding just under 25 million tons a year to its demand by 2032. Pakistan and Bangladesh will together see an addition of 6 million tons to their total 13 million ton demand by 2032, provided they are able to source volumes and the finance to pay for them, the consultancy said.

Rakesh Sharma, New Delhi

GEOPOLITICS

GCC-Iran Rapprochement Faces Test

Kuwait and the United Arab Emirates this week announced the return of their ambassadors to Iran after a six-year hiatus. Moves toward reconciliation won't end all disagreements between Mideast Gulf states and Tehran, in particular on critical issues such as Yemen. But they have the potential to lower regional tensions and create new economic opportunities — perhaps even regardless of the outcome of nuclear talks between Iran and the US. Less clear is the outlook for relations between Iran and Saudi Arabia, which have held lower-level talks without any breakthroughs over the past year.

• For Iran's Gulf neighbors, improved ties offer some clear security wins — and nuclear concerns appear to be secondary.

For the UAE, a December 2021 visit by the National Security Adviser Sheikh Tahnoon bin Zayed Al-Nahyan to Tehran, where he met with Iranian President Ebrahim Raisi, was a critical step toward reconciliation. But the initiative to restore broken relations dates back to 2019, when the UAE reached out to Tehran in a bid to de-escalate after several oil tankers were attacked around the Strait of Hormuz including near Fujairah, and a big chunk of Saudi crude production was knocked out by drone and missile attacks.

The UAE has been targeted on a few occasions, too, by attacks from Yemen's Iran-backed Houthi rebels, driving home a recognition of just how vulnerable the region's vital infrastructure and economies are to such crossfire. The strikes came against the backdrop of spiraling US-Iran tensions in the wake of Washington's exit from the nuclear deal.

"I think the lesson from September 2019 with the Iranian missile attacks on Abqaiq and the missile attack on Abu Dhabi in January this year, that kind of brought the point home that the Gulf states, whether they like it or not, in any kind of confrontation will be frontline states and they can't necessarily depend on anyone to come to their aid, including the US," Alex Vatanka of the Middle East Institute said at a virtual Gulf International Forum event.

"That doesn't obviously mean the Gulf states don't have reservations about Iranian actions in the region or the nuclear issue. But I think the Gulf states are primarily concerned about the

Iranian regional agenda, that's the one that hits them the hardest because of geographic proximity," he added.

• Economic drivers are also in play.

For Raisi, the restoration of diplomatic ties allows him to show that, one year into his term, he is delivering on one of the key promises made during his 2021 election campaign: improved relations with Iran's neighbors. Announcements this week by both Kuwait and the UAE that they would return their ambassadors to Tehran were presented to an Iranian audience as an administration win. For Tehran, one aim is to limit its isolation amid sanctions that snapped back after the US withdrew from the nuclear deal in 2018.

Notably, a private UAE firm in December, on the back of Sheikh Tahnoon's visit to Tehran, expressed interest in investing in Iran's power sector — even if that may have been part of a bid to show Iran the potential benefits of returning to the 2015 nuclear deal.

But there is a recognition that both Iran and the UAE stand to gain from better ties because they are major trade partners, as well as because it might enable them to cooperate in areas of common concern like Afghanistan and Syria.

"More interaction with Tehran by the Emirates is seen as a necessity because of geography and economic recovery from the pandemic and other issues. Both sides will still disagree on policy objectives but at the same time they need the formality in order to cooperate/negotiate/argue over theaters where their interests overlap besides the Gulf," said Theodore Karasik, senior adviser to Washington-based Gulf State Analytics.

Improved ties between Tehran and Kuwait, and possibly Saudi Arabia, could meanwhile facilitate the development of the shared offshore Dorra gas field known as Arash in Iran, which came into focus after the Islamic republic objected to plans by its two Gulf Arab neighbors to develop it.

• Less clear is what the future holds for Iran-Saudi ties — but regionally, the kingdom appears to be bucking the trend.

In recent years, a sense of abandonment by the US prompted Saudi Arabia's leadership to forge stronger ties in the East, particularly with Russia. But it is also seen as having been a key motivation behind entering into dialogue with Iran. Low-level talks held over the past year between the two sides have yet to reach foreign minister level but have at least opened up a channel of communication.

Relations broke down between Saudi Arabia and Iran in January 2016 after an angry Iranian mob stormed the Saudi embassy in Tehran and its consulate in the eastern city of Mashhad following Riyadh's decision to execute prominent Saudi dissident Shiite cleric Nimr al-Nimr. The UAE and Kuwait subsequently withdrew their ambassadors from Iran in solidarity with the kingdom, in what marked a rapid escalation in the ideological and political rivalry between Iran and Saudi Arabia.

Fellow Gulf states Qatar and Oman meanwhile have maintained cordial relations with Iran and acted as intermediaries on a range of regional issues. Tehran backed Doha after a coalition led by Saudi Arabia, the UAE and Bahrain spearheaded a blockade of Qatar — since lifted — in 2017. Doha meanwhile has sought to position itself as a mediator between Tehran and Washington, and in June hosted indirect talks.

What the different countries' approaches to Tehran show is that "it's a series of individual bilateral relations that each Gulf state is taking upon itself to address in order to lower tensions so that economic recovery can occur," Karasik said.

But a key question is whether regional détente can withstand any collapse of nuclear negotiations between Tehran and Washington — that is, whether benefits from improved relations can prevent a return to the escalatory cycle that followed the US' 2018 withdrawal. "I think in the region, the chances for better relations are there, but on the assumption that there will be a [nuclear] deal," said Mohammad Marandi, a professor at Tehran University and adviser to the Iranian negotiating team.

Oliver Klaus, Dubai

CLOSING ARGUMENTS

India's 'Asian Century' Bid, North Korea Still in the Cold

India: Hinting at New Approach to China

India's minister of external affairs, Subrahmanyam Jaishankar, appeared to open the door to better relations between India and China last week. During an Aug. 19 speech, the diplomat stated that relations between the two nations were going through "an extremely difficult phase" and that an "Asian Century" seemed unlikely unless the two nations found a way to "join hands" and start working together. Jaishanker's use of the term echoed the words of former Chinese reformist leader Deng Xiaoping, who, in a meeting with then-Indian Prime Minister Rajiv Gandhi in 1988, underscored that unless China and India develop their economies, there could be no "Asian Century." Beijing immediately picked up on Jaishankar's words, declaring that both India and China "have the wisdom and capability to help each other succeed rather than undercutting each other."

The diplomatic signaling between China and India comes as relations between the two have been strained by an ongoing border dispute in the Ladakh region in the Himalayan mountains. Violent clashes there in 2020 killed and wounded scores on both sides. Talks on resolving the Ladakh crisis have reached a standstill, something Jaishanker pointed out during his Aug. 19 speech.

The relationship between India and China is critical to the future trajectory of geopolitical posturing in the Pacific, where China and the US are facing off in an economic and military competition for influence — and India has increasingly found itself in the middle. It is part of the so-called "Quad," a military association grouping the US, India, Japan and Australia and designed to counter China. It also plays a leading role in the Brics economic forum, a competitor to the US-led G7, and is a member of the Shanghai Cooperation Organization (SCO), which seeks to build a Eurasian economic zone.

In both Brics and the SCO, India works closely with China and Russia in ways that are seen as challenging US policy — for instance, collaborating with Brics on a currency basket aimed at countering the hegemony of the US dollar and joining the SCO in rejecting US pressure to sanction Russia over Ukraine. Jaishanker's embrace of the term "Asian Century" is a signal that India is open to a strategic realignment with China and Russia. While not putting India in direct opposition to the US, it would have India assuming a more neutral position vis-a-vis the ongoing US-Chinese competition in the Pacific. But a resolution to the Ladakh dispute is likely required for India to make this leap.

South Korea: Hitting Reverse on Relations With North Korea

New South Korean President Yoon Suk-yeol has turned his campaign pledge of standing up to North Korea into action — greenlighting joint military exercises with the US on hold since 2018 when the administration of former US President Donald Trump, in concert with Seoul, halted the drills in an effort to help create conditions conducive to denuclearization talks with North Korea. Those talks failed to produce the desired results, and the prospects for their renewal are distant. The new round of military exercises looks the clearest signal yet that the US and South Korea may have closed that chapter on relations with North Korea.

US President Joe Biden referred to the possibility of resuming direct talks with North Korean leader Kim Jong-un as recently as May 2022, when, during a visit to South Korea, Biden declared that meeting with Kim "would depend on whether he was sincere and whether he was serious." But Biden's words were not backed up by any meaningful engagement effort by his administration. Pyongyang then undertook a series of provocative missile tests that appeared designed to highlight its ability to deliver nuclear weapons against regional targets, like Seoul and Tokyo, as well as the continental US.

South Korea did make a gesture toward denuclearization, with Yoon hinting at an "audacious plan" to exchange economic cooperation in return for an end to North Korea's nuclear program during his inauguration speech in May. Yoon has raised the prospects of such a plan several times over the course of the summer. But Kim Yo-jong, a top official and the North Korean leader's sister, blasted Yoon's proposal. "To think that the plan to barter 'economic cooperation' for our honor, nukes, is the great dream, hope and plan of Yoon, we came to realize that he is really simple and still childish."

Yoon's economic outreach did not include any viable security guarantees to offset what would amount to unilateral North Korean disarmament. And while North Korea has been engaged in a process of gradual escalation regarding missile testing, this was only after the US walked away from the denuclearization talks under Trump and failed to re-engage under Biden. Void of any viable plan on how to re-engage with North Korea, South Korea and the US are left with no option other than repeating the failed policy formula of the past, predicated on military resolve and economic pressure. This, of course, is no solution — something the North Korean nuclear arsenal today underscores.