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THE BIG PICTURE

All-Out Energy War

- *Western sanctions against Russia have escalated into an all-out energy war, as Moscow uses supply as a key tool to hit back.*

- *Sporadic disruptions in Russian gas supply are becoming more entrenched, and now seem likely to spill over into oil as the West ratchets up its sanctions.*

- *Raising the stakes is an intense producer-consumer struggle over control of the market and the energy sector's trajectory.*

Western sanctions on Russia after its Feb. 24 invasion of Ukraine were swift and sharp but initially steered clear of Russian energy exports, for fear of shocking the global economy. That plan is quickly unravelling, however, as the two sides engage in steady escalation. Gas supplies to Europe have become precarious, and oil disruptions look increasingly likely as sanctions pressures intensify.

Brussels initially set out an ambitious plan to cut its prewar reliance on Russian gas of 150 billion cubic meters per year, but without any specific sanctions. No such plan immediately emerged for oil. Even sanctions against Russia's central bank were undertaken with the aim of keeping oil and gas flowing, by making export revenues more critical to Moscow.

Those early positions were unable to survive the realities of war. On gas, Europe proved naïve in thinking it could wean itself off Russian supply at its own pace, without recrimination. Moscow beat Brussels to the punch by restricting or cutting pipeline gas flows — spiking prices and plunging Europe into an energy crisis.

Then, oil supplies fell foul of the emotions of war. After reports of civilian killings emerged in early April, the EU announced an oil embargo, albeit with start dates — Dec. 5 for crude and Feb. 5 for products — allowing it time to prepare.

The cycle of escalation continued. A parallel European ban on shipping insurance and financial services stoked US fears of a major supply disruption and price hike, prompting plans for a G7-backed price cap on Russian oil designed to keep supplies flowing (p2). Moscow is now starting to fight back, and will likely use the same playbook as for gas — tapering oil supply to the market as it, not the West, sees fit.

Opec-plus' decision this week to cut supply by 100,000 barrels per day was prompted to some extent by annoyance with the West's interference — via stock releases, sanctions and price caps — in oil markets. Going forward, Moscow seems likely to subtly use its influence in the producer group to exert market pressure, while also deploying tactical cut-offs of oil supply — directly or indirectly.

As with gas, these would squeeze the West with higher prices, supply crises and economic pressures, without hitting Russia's own income too hard near-term.

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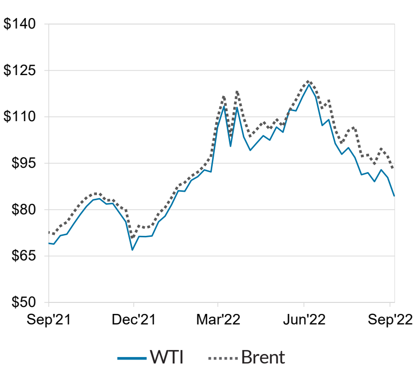
BRENT, WTI PRICES 2021-22 ($/bbl)



Source: CME, ICE

Gas Weapon Playbook

The gas market is a good guide for what to expect in oil markets as sanctions tighten. Looking back, the linkage is clear: Moscow has squeezed pipeline gas supplies to Europe in reaction to growing Western pressure. Gazprom's move to cut Nord Stream flows to 40% of normal levels in June coincided with a high-profile visit to Kyiv on Jun. 16 by the German, French and Italian leaders as the EU advanced talks for Ukraine to join the EU.

The next cut in Nord Stream supply, to 20% of normal flows, came in late July, as the EU was pushing ahead with a 15% voluntary reduction in gas consumption. Most recently, Gazprom's Sep. 2 announcement of an indefinite complete halt to Nord Stream flows came hours after the G7 agreed to proceed with a price cap plan for Russian oil.

Russia's next turn of the ratchet, as the EU pursues a plan also to impose a price cap on Russian gas imports, could be to further limit supplies via Ukraine. Dmitry Medvedev, deputy chair of Russia's national security council and a former president, threatened such a cut-off last week, saying "there will simply be no Russian gas in Europe." This week, Russian President Vladimir Putin upped the ante, saying Russia won't supply anything if that's not in its economic interests: "We will supply neither gas nor oil, nor coal, nor fuel oil."

Oil Squeeze to Follow?

The gas cut-offs mean that Russia's pledge to halt oil supplies to those participating in an oil price cap scheme should be taken seriously. The oil price cap revolves around blocking tankers carrying Russian crude and products from obtaining maritime insurance and financial services from G7 countries unless their cargoes are priced under a certain level. The West's dominance of the shipping sector in theory gives the plan heft.

Moscow is unlikely to accept this lying down. Firstly, it will look for workarounds. Energy Minister Nikolai Shulginov said Tuesday that Russia is talking to shippers about using insurance companies from friendly countries or setting up a new national insurance company in Russia — although sources say both options are at initial stages. Shulginov also noted a 140,000 b/d increase in crude export capacity through the Pacific Ocean port of Kozmino by October.

Still, analysts believe the potential for disruption to oil markets is significant. Consultancy Macro-Advisory put the potential loss to the market at 2 million b/d of crude from the EU ban alone. Product shipments are seen as facing a bigger pinchpoint.

This leads to Russia's second option, retaliation. Targeted measures seem more likely than a fullscale export halt. Market expectations are Druzhba pipeline flows to central Europe, now at some 800,000 b/d, won't face a full cut-off given both EU exemptions granted to Hungary, Slovakia and the Czech Republic, and Russia's revenue needs. But a squeeze on those flows, to raise prices and rattle EU unity, is still possible.

Seaborne exports could also in play, including in the run-up to the cap, although G7 member Japan hasn't taken Russian crude since April, and possible price cap supporter South Korea takes little. But restricting shipments to the market more broadly — even to "friendly" countries — would bring price gains to Moscow, and more pain for the global economy.

Moscow also has other oil market levers. Its hand is already apparent in some disruptions — chiefly the repeated closures of Kazakhstan's main export route on Russia's Black Sea coast. It can influence the Iran nuclear talks as a signatory, potentially throwing a wrench in the works, as it did in March. And it can tap into strong relationships to influence Opec-plus' deliberations (p6).

Traders are generally loath to project any price impact from Russian retaliation, although some bullish forecasters see prices rising by \$20-\$25/bbl for every 1 million b/d loss of supply. But more disruption, volatility and uncertainty seem certain in oil markets in the coming months, as both sides continue to ratchet up the stakes on Ukraine.

Jill Junnola, London

POLICY

How Will the Price Cap on Russian Oil Work?

Finance ministers from the G7 group of nations agreed last week to push a controversial plan to put a price cap on Russian oil, although some details are still being worked out at the national level. The cap is meant to reduce Moscow's oil revenues without limiting the flow of Russian oil to the market — a goal that has been met with considerable skepticism in the market. If that bet doesn't pay off and Russia retaliates with oil supply cuts as it has done with gas, prices could spike (p1). Below, Energy Intelligence addresses key questions related to sanctions on Russian oil.

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What are the current restrictions on Russian oil?

After the invasion, the US and Canada quickly implemented a ban on Russian oil imports at home. But Washington — which in the past has severely restricted exports of sanctioned countries like Iran and Venezuela — sought to keep Russian oil flowing to other nations so as to minimize damage to the global economy.

The EU adopted a ban on imports of Russian oil at home in June as part of its sixth sanctions package. The ban will block EU imports of most crude from Dec. 5 and most products from Feb. 5, although there are some exceptions. The EU is still importing Russian oil — taking 2.71 million barrels per day of crude and products in August.

Europe also passed a second ban, effective from Dec. 5, blocking its companies from providing maritime insurance and financial services for Russian crude and products going to non-European countries, a measure US officials have publicly said they fear could have widespread impact on oil markets by restricting Russian flows to third-party countries.

How is the price cap different from embargos on Russian Oil?

The price cap is intended to keep oil flowing largely to third-party countries at a lower price point, rather than block Russian exports. Officials say this will largely be crafted by making exceptions to EU-style bans on maritime services for Russian oil for shipments that come under the price cap — with the price cap effectively setting the discount for Russian oil sales. This is seen as broadly achievable because the bulk of the world's fleet has ties to the EU — and UK — banks, brokers and insurers.

When will the price cap take effect?

The idea among G7 officials is for it to be ready to take effect by Dec. 5, when the EU ban on maritime insurance and fiscal services is slated to go into force. Creating an exception for oil priced under the cap — for non-EU buyers — will require unanimity among the bloc's 27 members. The US Treasury Department is planning to issue new guidance this month that will outline legal changes to reflect the cap. The G7's other non-EU countries — Canada, Japan and the UK — may need to take similar steps.

What will the price be?

G7 officials haven't revealed a specific price yet, but have been clear they want it to above the cost of producing Urals crude but below its free market value. Russia was making "plenty of money" at $60 per barrel, a US Treasury official said last week. Another senior US Treasury Department official said on Sep. 2 that the plan calls for three price caps: one for crude, and two for products. The price caps will be reviewed periodically and widely publicized.

The idea, according to US officials, is for a flat price. Traders think in terms of spreads versus benchmarks and have a psychological issue with flat prices. But they can hedge that discount and lock in their profits.

Who is taking part in the price cap?

For now, just the G7 — Canada, France, Germany, Italy, Japan, the UK, and the US — along with the EU. Officials said other countries plan to join, but declined to name them.

Russian Deputy Prime Minister Alexander Novak said last week that Russia would halt supplies to countries that support the initiative. Indian Oil Minister Shri Hardeep Singh Puri said on CNBC this week that Indian oil companies will continue buying from Russia. India's imports of discounted Russian crude have surged since the war started.

US officials for months have said that success isn't necessarily about who publicly joins onto the cap, but whether the cap forces a discount, including from buyers like India, China, Indonesia and Malaysia — who would benefit by gaining bargaining power. Here they are already claiming some victories, with Russia reportedly pursuing term contracts at steep discounts ahead of the price cap taking effect. That said, Russia was already heavily discounting spot and short-term crude sales to such buyers.

How will officials know what price is being paid?

The plan from G7 officials is to rely on attestation — essentially, for the insurance and financial service companies involved in trade to "attest" that the price is under the cap. That comes out of meetings with industry and "making sure that the way we're designing this will make it as easy as possible for them" to comply, a US official said.

They are also focused on a broad set of participants in oil trade — not just insurance providers. The idea is that a bank providing finance for a trade, for example, will know the price at which the oil is being traded.

But this is new territory for market participants, who already face being overwhelmed by sanctions compliance. More risk-averse companies could opt not to participate in the price cap scheme at all — thereby shrinking oil flows and raising prices.

How else could it backfire?

There's deep skepticism in oil markets about whether the cap will achieve its twin goals of reducing receipts to Moscow while keeping Russian oil on the market. Some point to the potential for workarounds to tanker insurance, or a system of side payments cropping up that facilitates additional money going to Russia. Ship brokers also say the world does not have enough tankers outside the Western system to keep all of

Russia's oil flowing, should Russia avoid the use of Western services entirely when shipping oil to third-party countries. This would cause prices to spike.

Alternatives are developing, but brokers say those might mostly cover Russian crude, less so products. The US Treasury Department reckons that 75% of Russian product exports via its European ports are still linked to the Western financial system, and about 90% of protection and indemnity insurance is provided through the UK and EU.

Emily Meredith, Washington, and John van Schaik, New York

POLICY

Political Winds Shifting on Democrats' Climate Policy Win?

- *Democrats' fortunes are on the upswing, after big legislative wins and as prices at the pump have eased.*
- *Recent polls indicate they could fare better than anticipated in midterm elections this November, but retaining control of the US Congress remains an uphill battle.*
- *For the massive climate spending bill struck last month to translate into a midterm boost, Democrats will need to focus on getting the messaging right.*

The Issue

Political winds seem to be shifting in Democrats' favor in recent weeks. Falling energy prices, passage of the Inflation Reduction Act (IRA) housing the most substantial US climate legislation to date, and voters rallying to protect abortion access after a controversial Supreme Court ruling are all possible factors that seem to be turning the tide for Democrats. Several national polling averages now show Democrats taking the slimmest of leads, brightening a once-dismal forecast for the party in November. But questions hang over the extent to which the administration of US President Joe Biden can capitalize on policy victories.

On the Rise

A Yahoo News/YouGov poll this week showed Democrats seizing a three percentage-point lead over Republicans on voter turnout and a four-point lead on a generic congressional ballot among registered voters. "We're betting a lot on the fact that voters will be much more motivated," said Megan Jacobs, senior national campaign director for the League of Conservation Voters. The group, along with Climate Power Action, launched an initiative last month aimed at galvanizing climate voters at risk of not voting in the midterm election. Polling showed the program yielding a 7.3% average effect on enthusiasm to vote and 15.7% average effect on strength of support for Democrats.

Polling website FiveThirtyEight sees Democrats leading on average in generic congressional ballots by 44.8% to 43.8% over Republicans; a Morning Consult poll published Tuesday had Democrats leading 47% to 45%, and conservative pollster Real Clear Politics gives Democrats a 0.1% lead in the national average. Other national polls show similar or slightly higher advantages to Democrats, a noticeable shift from August polls that had a dead tie and July polls showing a Republican lead. Biden's approval rating has also seen an uptick of about 5% after plunging to an anemic 37.5% in July.

Driving Forces

Biden's approval rating is coasting upwards amid a series of policy wins for the administration as it fulfills campaign pledges that had been gathering dust: comprehensive climate and economic legislation, lowering drug costs for senior citizens and most recently, student debt forgiveness. US gasoline prices are also continuing to fall after hitting record highs earlier in the summer driving season, dipping to $3.76 per gallon nationally as of Wednesday, according to the American Automobile Association (AAA) — which may carry the biggest impact for Biden's approval ratings. A Data for Progress analysis highlighting the correlation between fuel prices and Biden's approval rating finds that "Biden's struggles with voter approval have been mostly unrelated to his actual domestic policy agenda," even as Republicans sought to link Biden's energy policies to high fuel prices.

Democrats also got a noticeable boost from the Supreme Court decision in June (Dobbs v. Jackson) that overturned Roe v. Wade, the landmark 1973 ruling that barred US states from outlawing abortions. A CNN tracker shows Democrats are spending heavily on fundraising efforts targeted toward protecting abortion rights, and the decision has been widely read as helping to juice voter turnout. "Democrats are newly energized for several reasons, including the Dobbs decision, but among them is this long overdue federal action to help speed up the clean energy transition," said Denis Dison, spokesman for the Natural Resources Defense Council Action Fund.

Climate Credit

But Democrats must demonstrate that they can convey the benefits of their legislative victories to voters — something the Biden administration, and the Democratic Party, has not always excelled at doing. For example, the massive infrastructure bill passed last year included billions of dollars in climate spending, but a July poll by center-left think tank Third Way and Impact Research indicated that less than a quarter of US voters were aware it was even signed into law.

Part of that was timing: Passage of the legislation got overshadowed by the surge of the Omicron variant and Russia's invasion of Ukraine.

With the IRA, transcribing the climate wins to voters may be even trickier, given that much of the clean energy investment and supply chain buildout it will bring are still years off, meaning voters won't see tangible benefits for some time. Still, the bill has so far played pretty strong with Democrats and Independents, early polling showed, said Danielle Deiseroth, lead climate strategist for Data for Progress. But focusing on the sheer scale of the bill, in terms of the political achievement it marks for Democrats, and raking oil companies over the coals for fighting against climate action — talking points that the Biden administration has frequently used in the past — may fall flat with voters.

More effective would be tying the bill directly to inflation numbers, grid reliability and lower energy prices — and resisting the urge to underscore the bill's electric vehicle tax incentives, which play poorly with many voters, Deiseroth added. In a catch-22, however, EV policies are among the easiest for politicians to play up because they are currently being manufactured, unlike many of the clean energy technologies underpinned by the IRA bill. For example, Biden plans to head to the Detroit Auto Show next week to showcase the EV "boom" that will result from the IRA bill, according to the White House. But to the extent that Biden can tie his remarks to economic and job growth, and avoid an EV sales pitch, the more that may resonate with voters.

Despite the positive swings for Democrats in recent weeks, the party still faces a steep uphill climb to retain control on Capitol Hill. Democrats' control of the House is seen as especially vulnerable, with all 435 House seats up for election and Republicans needing only five seats to flip the chamber. However, what months ago was being predicted as a blowout is now looking like a much closer contest.

Bridget DiCosmo, Washington

COUNTRY RISK

Europe's Gas Crisis Elevates Algeria

- *Russia's energy war with Europe is creating extraordinary opportunities for Algeria — and its gas resources — after years of political and economic uncertainty.*
- *Its newfound importance is evident from the queue of leaders visiting Algiers, notably including French President Emmanuel Macron last month.*
- *Red-hot European gas demand has invigorated investor interest, even if doubts persist about how much additional gas Algeria can supply in the short term.*

The Issue

Fortune favors the gas producers these days, at least if Algeria's transformed outlook is anything to go by. In the upstream, where questions were being asked just a year ago about future foreign investment, international oil companies (IOCs) are now lining up. Windfall revenues have eased the pressures on President Abdelmadjid Tebboune, while the EU's scramble to secure non-Russian gas supplies has bolstered the country's regional clout. But the diplomatic outreach by Western leaders has another dimension to it. Algeria is a historic ally of Russia and there is no sign of those ties cooling. That sits awkwardly with its elevated strategic importance to Europe.

A New Golden Age

Eni's acquisition of BP's stakes in the In Amenas and In Salah gas projects, announced on Wednesday, has been in the works for over a year. During this time, the case for doing the deal — to further contribute to Europe's gas needs and strengthen Eni's presence in Algeria, as the Italian firm put it — has only become more persuasive.

The fields produced 11 billion cubic meters of gas last year and Eni says that, together with its new contracts in the Berkine South and Block 404/208, they will allow it to raise its gas production in Algeria — Europe's third largest supplier.

Eni's deeper footprint comes with strong political backing. Italy's prime minister, Mario Draghi, flew to Algeria in April to attend the signing of an agreement by Eni and Sonatrach to supply an additional 9 Bcm/yr of gas to Italy by 2023-24, an increase of around 40% on last year's levels.

For decades, Algeria struggled to attract the kind of foreign investment needed to raise gas exports — its ageing fields, rising domestic consumption and tough fiscal terms all dampening its prospects. But a new hydrocarbons law adopted in December 2019, followed by the European gas deficit and price surge, have turned that picture on its head, with other IOCs also scaling up their commitments in Europe's Mediterranean neighbor.

TotalEnergies and Occidental Petroleum will partner Eni in the development of Blocks 404/208 in the prolific Berkine Basin under the new-look contract they signed in July. Total investment is estimated at $4 billion and should enable the recovery of at least 1 billion barrels of oil equivalent. Repsol recently exercised pre-emption rights to buy some of Edison's stake in the 2.8 Bcm/yr Reggane Nord gas project, where Wintershall has also increased its share.

Algeria: Country Risk Assessment

Algeria is seeing a revival of investor interest as of one of the few areas where Europe can obtain new short-term gas supplies as it seeks to rapidly replace Russian volumes. Oil and gas sector reforms — which were passed in 2019, but only fully implemented last year — are further sweetening the investment climate, driving improvements in areas like fiscal terms and licensing. However, the country remains an overall comparatively risky investment, driven by Algiers's opaque decision making process and broader macroeconomic and political risks. While increased hydrocarbon revenues are alleviating some of these pressures in the near term, they are also driving Algeria to further delay badly needed fiscal and economic reforms elevating future risks when prices decline.

Risk Score:	5.6 (54th of 71
Risk/Reward Score:	-0.4 (39th of 71)

Country Risk Assessments are provided by Risk Research, the Research & Advisory unit of Energy Intelligence's Risk Service. Our Country Risk Index assesses aboveground Risk on a scale from 0 (least risk) to 10 (greatest risk), and Rewards from 0 (lowest rewards) to 10 (greatest rewards). The resulting Country Risk Index Risk vs. Rewards scores range from -10 to +10 (positive scores = rewards outweigh risks).

Non-Aligned Priorities

Alongside the renewed interest in Algeria's gas riches, European leaders continue to wage their charm offensive, with Charles Michel, the President of the European Council, praising the country as a reliable energy partner during a visit on Monday. But Algeria's refusal to back the West over the war in Ukraine — it was one of 35 countries to abstain from a UN vote in March condemning Russia's invasion — and a diplomatic bust-up with Morocco and Spain over Western Sahara raise legitimate questions about how reliable an emboldened Algeria really is.

Algiers stopped supplying gas to Morocco last November — halting flows via the Maghreb-Europe pipeline to Spain — and in June it suspended a 20-year-old friendship treaty with Madrid to cooperate on migration flows. It still supplies Spain — a major buyer of Algerian gas — via the Medgaz subsea pipeline that directly links the two countries. But there is speculation that, given its presumed inability, at least initially, to pump all of the additional gas it needs to meet its commitments to Italy, it may seek to divert some volumes from Spain.

Of greater concern to Washington will be Algeria's alliance with Russia. This may not be new. Algeria has pursued a non-aligned foreign policy since independence and has long been one of the top importers of Russian arms. But at a time when Europe and the US are lining up against Russia in opposition to its invasion of Ukraine, Algeria is an outlier, says North Africa expert Geoff Porter. "It's not only maintaining ties to Moscow, but it's strengthening them." The two countries are due to hold joint military exercises in November on Algeria's western borders, near Morocco. And on a surprise trip to Algiers in May, just weeks after US Secretary of State Antony Blinken's visit, Russian Foreign Minister Sergei Lavrov invited the president to Moscow. Tebboune has since said Algeria is interested in joining the Brics countries — Brazil, Russia, India, China and South Africa — describing them as "an economic and political force."

Gas Curse?

There is no doubt that Algeria is in a far better position now to defuse the threat of social unrest that shook the country in 2019 and toppled former President Abdelaziz Bouteflika, with greater resources at its disposal to raise salaries and subsidize food. Sonatrach CEO Toufik Hakkar said in June that revenues should reach $50 billion this year, compared with $35.4 billion in 2021. But underlying vulnerabilities remain, especially with soaring global food inflation. Algeria is one of the world's largest importers of wheat and one of Africa's top food importers. As long as gas prices remain high, the government should be able to head off those inflationary pressures. But that points to another risk, namely that windfall revenues will disincentivize planned reforms to diversify the economy, develop the country's vast renewable energy potential and create jobs, for when the gas boom ends.

"Yes, of course, the situation looks very nice today. But how long will it last? ... Do you think Russia's gas is going to be shut in forever?" asks a former Algerian minister. "My experience clearly tells me that when you get unexpected revenues, it is not an encouragement to implement reform."

Simon Martelli, London

OPEC-PLUS

Message From Producer Groups Outweighs Cut

- *Opec-plus this week surprised markets by reverting to August oil production levels for October, implying an official 100,000 barrel per day output cut.*
- *The decision will have a negligible impact on the physical oil market, but delivers a strong message that the alliance will do what it believes is needed to ensure market stability.*
- *Sanctions pressures on key member Russia, consumer calls for higher output, and a creaking quota system meanwhile present challenges the group may need to address in the coming months.*

Opec-plus's decision to pump at August levels in October, officially representing a cut of 100,000 barrels per day versus September's levels, was a surprise to many market watchers.

It came within days of G7 finance ministers agreeing to move forward with their plan to put a price cap on Russian oil and their call for producers to increase output "to decrease volatility in energy markets."

Ministers, in a statement after their Sep. 5 meeting, argued that the "adverse impact of volatility and the decline in liquidity on the current oil market" had required it to support the market's stability and its effective functioning. The statement also noted that the September's cut had been intended only for one month, echoing the Opec secretariat's statement in August.

But Opec-plus also seemed to be sending an unspoken message to market participants: The group is ready to defend its influence over oil markets from what many members states see as excessive, "negative" Western intervention — in particular the proposal to implement price caps on Russian oil, but also stock releases and sanctions in general (p2).

The cut won't have any meaningful impact on balances. Opec-plus has been producing significantly below target, with preliminary Energy Intelligence assessments for August output showing underproduction running at a staggering 3.3 million b/d. As such, the only tangible cuts in real barrels might come from Saudi Arabia, the United Arab Emirates and Kuwait — amounting to a paltry 40,000 b/d.

Opec-plus did not announce a policy plan on how it will proceed beyond October, but ongoing monthly meetings will allow it to be flexible and respond to market needs. Russian Deputy Prime Minister Alexander Novak said that further decisions by the alliance would depend on market volatility — pointing to sanctions against Russian, Iranian and Venezuelan oil, as well as the price cap plan, as the main contributors to uncertainty.

Need For Deeper Cuts?

The oil price rallied after the Opec-plus announcement, with benchmark Brent crude rising to nearly $97 per barrel, but soon after went on a decline. Within days, benchmark Brent crude had fallen below $90/bbl for the first time since February this year, weighed down by mounting economic woes, inflation pressures and recession fears. Other factors, from the potential increase in Iranian oil exports if a nuclear deal is struck to the EU's embargo of Russian crude from Dec. 5, are also looming in the background. What's clear is that there is plenty for Opec-plus to consider in the coming weeks and months — and good reasons for the alliance to keep all its options open.

Concerns about the impact of sanctions on Russian supply have been augmented by other supply-side worries, including ongoing political unrest in Iraq and Libya, which has the potential to disrupt exports from those countries. At the same time, the US is approaching the end of its program to release oil from its Strategic Petroleum Reserve. At the other end of the spectrum, a possible deal to revive the 2015 Iran nuclear agreement could eventually unleash as much as 1 million b/d of crude exports from Opec's former No. 2 producer.

On the demand side, concerns remain that a global economic slowdown could put a serious dent in the world's appetite for oil, with China's zero-Covid-19 policy along with sustained high inflation and rising interest rates across the globe being primary concerns.

If these trends persist, Opec-plus may feel compelled to make even deeper cuts later this year. "Should prices continue to edge lower into the end of Q3 or into the final months of the year, we would expect Opec-plus to approve more meaningful production cuts, say 500,000 b/d to 1 million b/d, to prevent any disorderly sell-off," said Edward Bell, senior director at Dubai-based Emirates NBD.

Unity Remains Priority

Either way, maintaining unity among alliance members will likely be a top priority for Opec-plus. Russia, for one, has already signaled this to be the case. Novak said last week that Moscow supports extending cooperation to manage markets beyond 2022.

The group's historic cuts under its Declaration of Cooperation expired at the end of August. Saudi Arabia has been balancing a strong desire to preserve this relationship with Russia and cohesion within the broader Opec-plus group against US pressure to temper prices with more supply. The former consideration seems to have the clear upper hand.

But Russia's combined output of crude oil and condensate gas is expected to fall by 2% this year versus 2021, Russian Energy Minister Nikolai Shulginov said this week, and further declines cannot be ruled out as new sanctions measures and price cap moves unfold — which could also spike prices. Addressing this capacity decline could be a tricky balancing act. Conversely, the UAE is sitting on large spare capacity relative to its production capacity of around 4.3 million b/d and is looking both to use more of that capacity and to accelerate its expansion plans.

This links to another thorny issue that arguably needs addressing — the quota system under which most of the group's members cannot meet their targets. But Opec-plus has form for creative arrangements, and may yet find a solution that's both effective and face-saving for those countries that can't pump at capacity — whether that's reverting to a group-wide production target without individual quotas or some other system.

Oliver Klaus, Dubai

CLOSING ARGUMENTS

Eyeing Rapprochement: Turkey-Syria, Armenia-Azerbaijan

Turkey-Syria: Bring Back that Loving Feeling

Syria featured prominently in a recent pair of meetings between the Turkish and Russian presidents, amid a threatened Turkish military offensive targeting Syrian Kurds that could risk a direct conflict between Turkish and Syrian government forces. Should that come to pass, Russian forces allied with the Syrian government would likely be compelled to intervene against Turkey. To avoid such a scenario from becoming reality, Russian President Vladimir Putin has been promoting the concept of a direct dialogue between Turkish President Tayyip Recep Erdogan and Syrian President Bashar al-Assad. While a face-to-face meeting between the two estranged leaders appears to be premature, there is talk of the two leaders speaking by phone.

There was a time when the relationship between Erdogan and al-Assad resembled a Hollywood bromance. The two leaders would meet on a regular basis to discuss regional affairs, putting a personal face to the "zero problems with neighboring countries" policy that was a flagship concept for Erdogan early in his presidency. But it has been a decade since Erdogan sided with the political opponents of Bashar al-Assad, condemned the Syrian leader for violently suppressing domestic political dissent and openly called for regime change in Damascus. Since that time, Turkey has engaged in direct conflict with both Islamic State and Kurdish separatist forces inside Syria, as well as Syrian government forces and their Russian allies. The incessant warfare in Syria has generated a refugee crisis at the Turkish-Syrian border that has seen nearly 4 million Syrians flee to Turkey. The presence of these refugees has become a political hot potato inside Turkey that will become even hotter as Turkey heads toward national elections in 2023 that could threaten Erdogan's two-decade hold on power. This political reality plays as much a role in Erdogan's decision to pursue reconciliation with Syria as do considerations of national security. For Erdogan, engaging with al-Assad is seen as potentially facilitating the return of Syrian refugees to their homeland.

Put simply, geopolitical reality dictates that Erdogan find a solution to the Syrian crisis. Having failed in his regime change gambit, Erdogan cannot on his own remedy the consequences of that failure — that is, the establishment of a pro-Turkish Islamic enclave in northern Syria and the political empowerment of anti-Turkish Kurds. A military offensive could lead to a possible clash with Russian forces, something Erdogan wants to avoid at all costs. The only path forward is through direct talks between the former friends, in hopes that their previous shared vision of regional stability can be rekindled.

Armenia-Azerbaijan: Give Peace a Chance

Since the collapse of the Soviet Union, the Caucasus region has been the source of numerous conflicts that have threatened regional stability while also resonating globally, given the region's strategic location. The conflict between Armenia and Azerbaijan over the status of Nagorno-Karabakh stands out in terms of its longevity, brutality and resistance to efforts at mediation. But in the aftermath of Azerbaijan's decisive military victory over Armenia in the short but bloody war that broke out in the summer and fall of 2021, the calculus for peace has changed for the better. Peace talks between the two warring nations, brokered by the EU, appear to be gaining traction, putting Armenia and Azerbaijan on a path of potential reconciliation that could have lasting geopolitical consequences.

Still, achieving that objective remains a tricky proposition. Nagorno-Karabakh has been at the center of Armenian-Azeri violence since 1988, when the Armenians of Karabakh voted to secede from Azerbaijan and join Armenia. This led to pogroms targeting Armenians in Azerbaijan and, ultimately, to the military conflict that became known as the Nagorno-Karabakh War. Armenia's victory in that conflict secured Nagorno-Karabakh and created a land bridge connecting that enclave with Armenia while occupying a significant expanse of Azerbaijani territory.

Efforts to broker a lasting peace settlement faltered in the face of Armenian recalcitrance over any solution that entailed giving up hard-earned territorial gains, or which did not have Nagorno-Karabakh certified as belonging to Armenia. Azerbaijan, meanwhile, became increasingly focused on regaining control of its lost territory. Having built up its military capabilities with Turkey's help, Baku last year carried out offensive military operations that resulted in the strategic defeat of the Armenian military. This prompted the Armenian leadership to accept the need for a lasting peace. The price to be paid, however, is high: Nagorno-Karabakh would revert to Azerbaijani control, albeit under some form of autonomy for the Armenians living there.

If Armenia can overcome domestic political opposition to a deal on those terms, there is a real chance for peace and stability in the southern Caucasus that would bring with it a new geopolitical reality. What was previously an exclusive Russian sphere of influence would now be jointly shared between Russia and Turkey, while Iran and the EU would gain increased access to a region previously closed off to any meaningful engagement. In short, the southern Caucasus could become a poster child for stable multipolar relations — if peace is given a chance.