Energy Intelligence

VOL. 33, NO. 31
AUGUST 4, 2022
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THE BIG PICTURE

US Climate Policy Gets Real

- *The surprise agreement on US climate legislation appears to codify a "more now, less later" strategy for oil and gas production while still funding massive investments in clean energy.*
- *This type of balancing act could play out elsewhere as OECD producers grapple with high prices and supply shocks that have made low-carbon policy a trickier needle to thread.*
- *The hard-fought Democratic compromise still yields net climate gains despite its oil-friendly trade-offs — and would give the US a stronger foothold in global climate diplomacy.*

Global supply shocks and high fuel prices in recent months have given more currency to arguments that advancing the energy transition should not come at the expense of focusing on traditional fuels. That shift may have created inroads for US Senate Democrats to hammer out last week's agreement on climate legislation with Democratic Sen. Joe Manchin, who represents fossil fuel producer West Virginia, at a time when energy is more divisive than ever on Capitol Hill.

The administration of US President Joe Biden first set out the two-track idea of increasing short-term supply while committing to a faster transition last autumn, after six months of struggling with its messaging to the oil industry as prices rose. But translating it into policy action has proved a tall task, with congressional climate legislation repeatedly hitting the buffers — until now.

"It's not a vision of leave it in the ground," Jennifer Wilcox, head of the US Department of Energy's office of fossil fuels and carbon management, tells Energy Intelligence. "It's about making sure everybody first has access and then that it is clean," which in some cases means decarbonized fossil fuel, and others, renewables or nuclear, she explained.

The US breakthrough comes as Norway, the UK, and Canada also walk the tightrope — albeit in a relatively less polarized political environment — of advancing the transition while managing oil and gas resources in anticipation of more supply shocks in coming months.

Surprise Breakthrough

The legislative breakthrough, unveiled Jul. 27, stops short of giving Biden everything he wanted. The bill expands upstream access, which flies in the face of Biden's campaign pledges to end federal oil leasing. A handshake deal brokered between key swing vote Manchin and Democratic leadership could lead to new oil and gas pipelines being constructed.

But the legislation, if passed absent major changes, would also lock in tens of billions of dollars in long-term green tax incentives to drive investment in renewables, electric vehicles (EVs), hydrogen, carbon capture, energy storage, batteries and other clean energy technologies. A legislative win could also offer Democrats a leg up ahead of

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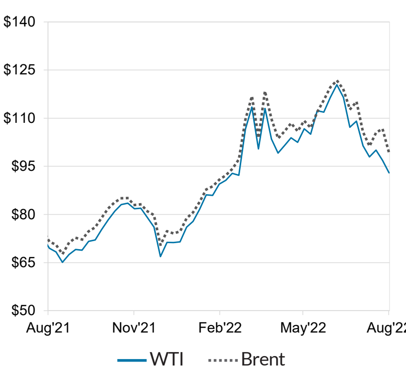
BRENT, WTI PRICES 2021-22 ($/bbl)



Source: CME, ICE

midterm elections in November — and go some distance toward shoring up Biden's platform on climate leadership.

Prospects for sweeping climate legislation during Biden's term had been all but written off after Manchin previously twice rejected Democrats' climate and energy package. That left Biden with few robust tools for meeting the US topline target of slashing 50%-52% of emissions from 2005 levels by 2030, especially after a US Supreme Court ruling limited the reach of executive climate actions. Biden faced pressure to declare a national climate "emergency" — a move that would unlock stronger executive authorities but not replace the congressional power of the purse.

Green Tax Credits, Methane Fee

On balance, the legislation still favors Biden's climate agenda, barring any changes as it undergoes vetting with Senate officials. A Rhodium Group analysis found that while more action across other rungs of US government is needed to hit Biden's targets, the Senate legislation could cut emissions between 31%-44% below 2005 levels by 2030 — depending on inflation, energy prices, and technology costs — compared to a status quo estimate of 24%-35%.

The legislation would extend currently sunsetting tax credits for new wind and solar generation and investments before moving in 2024 to a "clean electricity" performance standard. Some oil company executives in earnings calls cautiously welcomed the bill as ultimately catalyzing investments in technologies like hydrogen and carbon capture integral to their own transition strategies. Carbon capture and storage tax credits see a sizeable hike from $50 per ton to $85/ton, and captured CO_2 from enhanced oil recovery from $35/ton to $60/ton — which Democrats initially wanted to phase out. Direct air capture gets an even bigger boost, to as much as $180/ton. Hydrogen, EVs, and green fuels would also get long-term tax incentives.

A contentious methane fee for oil and gas operators also made it into legislative text. The charge would start at $900 per metric ton of methane over a 25,000 metric ton threshold in 2024 and escalate each year, increasing to $1,500/ton in 2026 and thereafter. Earlier iterations of the methane fee set an $1,800/ton fee starting in 2023. But in one key change, the fee stops when a company complies with federal methane standards, which the Biden administration is yet to finalize.

Upstream, Permitting Victories

Some of the less subtle trade-offs are around the "more now" side of the dynamic — and involve upstream access, which has been a tension point for Biden. The legislation proposes mandatory reinstatement of the Biden administration's Gulf of Mexico lease sale in November, which a court had vacated, and restoring plans to hold several other canceled auctions for acreage in the US Gulf and Alaska's Cook Inlet.

Language also requires the US Interior Department to offer a certain threshold of acreage up for oil and gas leasing before it can auction territory for renewable projects, which one green group referred to as a "climate suicide pact." But here the market will steer the direction, and likely toward the transition: Bids for recent offshore wind leases have far outshone those for oil and gas leases.

In negotiations with Democratic leadership, Manchin also reportedly ironed out a permitting overhaul that would streamline approvals for pipelines — including the Mountain Valley gas pipeline in his home state — along with renewable projects and much-needed transmission buildout to bring more wind and solar online. Details of that separate legislation have not been disclosed. But it appears to reflect more of the same sort of trade-offs as the broader bill, albeit ones that lock in oil and gas infrastructure for decades.

Big Win?

How well the bill manages to strike the difficult "more now, less later" balance may be tested during the complicated budget reconciliation process. But Biden has called it the most significant climate bill in history. He also keeps the lever of declaring a climate emergency in his back pocket.

More broadly, the legislation — although maybe made more extreme by US political divides — shows one way big consumer countries with fossil fuel resources can navigate the increasingly bumpy energy transition, using more now and less later.

Bridget DiCosmo, Washington

GEOPOLITICS

How China Sees US House Speaker's Visit to Taiwan

US House Speaker Nancy Pelosi's visit to Taiwan this week has brought to the fore the most contentious issue in the US-China relationship: Taiwan. Beijing considers it a renegade province that will ultimately be reunited with the mainland. The US, despite signing onto the "one-China" principle that recognizes the People's Republic of China as the only legitimate Chinese govern-

ment, has kept unofficial ties with Taipei and supplied it with arms sales for self-defense. Pelosi's visit came with fears of "Ukraine today, Taiwan tomorrow" in the background after Russia invaded Ukraine in February, bringing renewed attention to Taiwan at a time of growing Chinese overreach.

• China has read the visit by Pelosi as an unwarranted provocation and a further indication that the US is reneging on its one-China principle.

Visits by members of the US government to Taipei, whether "official" or not, inevitably test the US' one-China approach — but Pelosi stands out. "When the House Speaker, being the third-highest ranking figure in the US government, flies on US military aircraft and makes a provocative visit to the Taiwan region, it is by no means an unofficial action," a Chinese Ministry of Foreign Affairs spokesperson told the press. The US argument that Pelosi, a member of Congress, is not part of the executive branch of government, has no merit in Beijing. That she belongs to the Democratic Party like US President Joe Biden has been read as further proof that Pelosi's visit was endorsed at the highest level — no matter that the White House is understood to have advised against the trip.

In recognition that Pelosi's visit was seen as extremely significant, and potentially inflammatory, government officials throughout Asia-Pacific issued communiqués calling for restraint. "Stable US-China relations are vital for regional peace and prosperity. Singapore hopes that the US and China can work out a modus vivendi, exercise self-restraint and refrain from actions that will further escalate tensions," Singapore's foreign minister, Vivian Balakrishnan, said Wednesday. Singapore was the first stop of Pelosi's Asia tour this week.

• There is a growing sense in China that when it comes to Taiwan, Beijing's No. 1 concern, the guardrails the Biden administration said it wanted to establish in the US-China relationship are missing.

Biden has, on several occasions, reneged on or questioned the US policy of strategic ambiguity, which involves the US providing military sales to Taiwan but remaining noncommittal about coming to Taiwan's defense if it is attacked. Each time, the White House has walked back Biden's statements, but Beijing has repeatedly denounced what it sees as US backsliding. During last week's call between Biden and Chinese President Xi Jinping, widely seen as arranged to discuss Pelosi's upcoming visit, Xi threatened, when it came to Taiwan, that "those who play with fire will perish by it."

Beijing sees US support for Taiwan's pro-independence supporters as a way to contain China, by blocking Xi's China rejuvenation dream, which involves reunification with Taiwan. Underlining the thin line the US is trying to walk on Taiwan, Pelosi reaffirmed the US' long-standing commitment to the one-China principle when in Taiwan, but also said in a *Washington Post* editorial that the visit meant to show that "In the face of the Chinese Communist Party's (CCP) accelerating aggression ... America stands with Taiwan, our democratic partner, as it defends itself and its freedom."

• Russia's invasion of Ukraine has acted as a wake-up call on Taiwan at multiple levels, including in Beijing.

For China, Russia's Ukraine war is a real-time study of what sanctions and warfare it could find itself exposed to if it were to invade Taiwan — and the extent to which it needs to prepare itself, militarily and economically. The Western outcry against the Ukraine crisis, the speed and breadth of sanctions against Russia and threats of secondary sanctions against companies supplying sanctioned goods to Russia, are likely being closely tracked for signs of their impact on the Russian economy.

And while China's own exports to Russia sharply dropped in the second quarter — and investments dried up, too — the Ukraine crisis has also brought China and Russia closer, with Beijing refusing to condemn Russia. In return, as US-China tensions over Taiwan rose by several notches this week, Moscow stood out in its support for Beijing, with Foreign Minister Sergei Lavrov describing Pelosi's visit as a deliberate attempt by Washington to provoke China. After the Pelosi visit, China may be tempted to repay Russia's support with more help.

Beijing has always said that it would prefer a peaceful reunification with Taiwan, but it has also made clear that such reunification is inevitable and that force could be used if needed, in particular if foreign players helped Taiwan secede from China — in which case "we will fight at all costs and we will fight to the very end," Chinese Defense Minister Wei Fenghe warned in May. Washington's push to focus on the "China challenge" at recent Nato and G7 summits prompted Beijing to lash out against Cold War-era fearmongering.

The Ukraine war has likewise brought Taiwan's fears of a Chinese invasion to the fore, and seen the US and EU ratchet up shows of support. Bipartisan legislation now being proposed in the US Senate seeks to up security assistance to Taiwan, recognize it as a "major non-Nato ally" and "expand Taiwan's diplomatic space" — with Democratic co-sponsor Bob Menendez arguing in the *New York Times* that the US "needs less ambiguity" on Taiwan.

• Taiwan looks set to suffer brunt of China's ire in the short term but the US-China relationship is not likely to emerge unscathed either.

Fears of a direct and immediate military clash between the US and China faded as Pelosi departed Taipei on Wednesday afternoon, less than 24 hours after her arrival. But regional escalation was very much in play. China on Thursday launched live-fire drills from six exercise locations surrounding Taiwan island that will last until Sunday, an operation described as a blockade by Taiwan's ministry of defence, with risks of missiles flying over the island. The jingoistic state-owned *Global Times* described the military activities ahead as a rehearsal for a reunification operation, with blockading exercises to become routine.

The already-tense US-China relationship is now likely on a more escalatory footing, if still functioning at a practical level. "Channels of communication between the [US and Chinese] parties seem to have worked to allow the travel to be measuredly eventful," a Chinese international relations academic told Energy Intelligence. "As for the myriad of issues behind the travel, positions of various parties are long-standing. It will be wishful, for any party, to expect respective positions to change."

Maryelle Demongeot, Singapore

OPEC-PLUS

Token Supply Gesture Signals Group Cohesion

- *Opec-plus' decision to raise output by 100,000 barrels per day in September sends the faintest of signals to the US and other consumers that their oil price concerns aren't being ignored entirely.*
- *The louder, clearer message was of alignment between Saudi Arabia and Russia, and of their intent to keep the alliance alive to ensure effective market management.*
- *The decision comes amid unrelenting inflationary pressures and a complex geopolitical environment — with US-China tensions soaring this week but Iran nuclear talks also resuming.*

The Issue

In the end, it was another smooth affair for Opec-plus on Aug. 3 — no matter the expiry at end-month of the group's Covid-19-driven production cut pact, known as the Declaration of Cooperation (DOC). Alliance ministers smoothly entered the next phase of Opec/non-Opec collaboration by announcing a 100,000 b/d output hike for September, distributed among members, while keeping baselines unchanged.The apparent alignment between Russia and Saudi Arabia means cooperation is set to continue. But the fact that the increase was proposed by Saudi Arabia, according to sources close to the matter, might be viewed as a gesture to the administration of US President Joe Biden following his visit to the kingdom amid strained relations.

Mega-Shortfall

The small increase reflects the reality that most Opec-plus producers — bar Saudi Arabia and the United Arab Emirates — are unable to pump more, as well as producers' argument that prices are being driven by factors such as geopolitical tensions and general underinvestment in the upstream sector. A new round of Iran nuclear talks, announced on short notice this week, adds to an unpredictable environment.

Opec-plus' decision will do little to address sky-high overcompliance to quotas, which has curtailed market supplies. Compliance among the Opec-10 stood at 236% in June, up from 133% in January, which means the group fell short of its output target by 1.115 million b/d, a Joint Technical Committee report stated this week.

Opec's overcompliance still paled in comparison to that of the alliance's non-Opec partners, which reached an unprecedented 464% in June, compared with 123% in January. This means non-Opec countries pumped 1.724 million b/d less oil than targeted, with Russia and Kazakhstan alone falling short by 885,000 b/d and 407,000 b/d, respectively. Against this backdrop of a combined 2.839 million b/d supply shortfall under the pact, the added volumes will have limited, if any, impact on price levels going forward. Saudi Arabia's share of the 100,000 b/d increase is 26,000 b/d and the UAE's 7,000 b/d.

But a Good Reception in Washington

US Energy Envoy Amos Hochstein still struck a positive note Wednesday, saying that the recent decline in oil prices had been "remarkable" although further declines would be preferable. He added that Saudi Arabia had hiked oil output by a remarkable level in July — Energy Intelligence understands by some 200,000 b/d — and that the US would continue to monitor oil markets to see if the Opec-plus hike was adequate, according to media reports. From a Saudi perspective, the July output hike, which still kept the kingdom beneath its output target, signals coherence within Opec-plus but also represents a nod to Washington.

US officials previously said they hadn't expected an immediate move to increase production from Biden's trip, but expressed some hope that action would be taken soon after — including possibly from September. The US State Department on Wednesday announced that it had approved possible foreign military sales to Saudi Arabia and the UAE worth \$3.05 billion and \$2.24 billion, respectively.

Russia's Key Role Reinforced

Opec-plus cohesiveness is supported by the close alignment of heavyweights Saudi Arabia and Russia. While Russia's crude output has been hit by Western sanctions, it still produces around 10.7 million b/d of crude and condensate and has spare capacity of at least 500,000 b/d. This comes on top of the clear political will of the leaderships in both Moscow and Riyadh to maintain cooperation, including within the Opec-plus framework.

Ahead of Wednesday's meeting, the stage had seemingly been set for an agreed Saudi-Russia position: Russian President Vladimir Putin and Saudi Crown Prince Mohammed bin Salman spoke on Jul. 21, on the heels of Biden's mid-July trip to the kingdom. Russian Deputy Prime Minister Alexander Novak a week later paid a follow-up visit to Saudi Arabia, where he met with Energy Minister Prince Abdulaziz bin Salman.

Novak said Wednesday that Opec-plus was acting "cautiously" given the state of the market. For Moscow, Wednesday's deal aligns with its two key objectives: maintaining production and exports in the face of Western sanctions; and keeping oil prices at high levels, allowing it to continue offering steep discounts for sales to Asian and other new buyers.

For Mideast Gulf Opec producers, not least Saudi Arabia, long-term market management is seen as unachievable without Russia. The producer group's new secretary-general, Haitham al-Ghais, in an interview with Kuwaiti daily *Al-Rai* this week, reiterated the position that Moscow remains a "strategic partner" that was essential to the success of the DOC. "Preserving the alliance seems to be the main priority for Opec-plus leaders," Edward Bell, senior director for market economics at Emirates NBD, said Wednesday.

For Riyadh, deepening ties with Moscow are also part of its strategy to balance strategic relations between traditional Western allies led by the US on the one hand, and Russia and China on the other. The growing ties go back to King Salman's 2017 visit to Russia, the first ever by a Saudi monarch, and recognition among both sides that joint oil market management works to both sides' benefit —and will be needed for some time to come, including to manage longer-term energy transition pressures.

Oliver Klaus, Dubai

POLICY

Biden's Oil Market Play — and Lessons Learned

After grappling with uncomfortably high oil prices for more than a year, the administration of US President Joe Biden is looking to solidify the US government's role in oil markets. The White House has tried to keep prices from soaring with a combination of cajoling private producers at home, diplomatic jawboning, releasing record-level government stocks from the US Strategic Petroleum Reserve (SPR) into the market, and working to implement a cap on Russian oil prices designed to keep volumes flowing but limit Moscow's revenues. In its latest move, the administration is trying to reassure private producers there will be a market for their output — even if demand falls.

• **When it comes to pulling the SPR lever, the Biden administration has learned that size and scale matter.**

The Biden administration first stepped into oil markets in November 2021, announcing a 50 million barrel coordinated release of strategic stocks aimed at combatting high oil prices — when West Texas Intermediate was trading in the $80 per barrel range — after months of prodding Opec-plus producers to add oil to the market hadn't worked. Interest appeared to wane after a month, but some firms continued picking up barrels held by the US government.

February saw Russia's invasion of Ukraine and a dramatic increase in oil prices that came with a higher geopolitical risk premium on one of the world's top three producers. The Biden administration reacted in March with the largest release ever from the SPR, making available 1 million barrels per day for six months, for a total of 180 million bbl.

Data from the Department of Energy show the Biden administration has agreed to sell more than 130 million bbl of the emergency release announced in March (see table), with more coming. The size of the administration's intervention reflects the scale of the problem, says Jonathan Elkind, a former Department of Energy (DOE) official now at Columbia University's Center on Global Energy Policy, with uncertainty surrounding output from one of the world's three largest producers. "It is definitionally different than what has been faced at any other time since the existence of the SPR," Elkind said. The SPR was established in 1978.

"We've seen such extremes in the oil market in the last three years that there's a much deeper understanding now of the tool that is available when the US government owns such a large storage facility," Amy Myers Jaffe at Tufts University's Fletcher School says. Jaffe and colleagues have found that past US strategic stockpile releases had a mixed record and often weren't large enough or deployed quickly enough to avoid economic impacts of oil supply outages.

Former President Barack Obama released 60 million bbl over a 30-day period in 2011 when civil war in Libya disrupted flows into Europe, for example. George W. Bush put some 20 million b/d on the market over a month-long period in 2005 following Hurricane Katrina's damage on the US Gulf Coast.

Still, oil market and producer reaction was hardly welcoming when the Biden administration first announced sales.

US EMERGENCY STOCK SALES 2022 TO DATE

	Vol. ('000 bbl)	Avg. ($/bbl)	Raised ($bn)
Mar '22	30,225	96	2.9
Apr '22	29,150	106	3.2
Jun '22	36,310	109	3.9
Jul '22	38,875	118	4.6

Source: DOE, Energy Intelligence

Delegates from Opec-plus countries suggested late last year they could hold back on planned production increases if the US added its own strategic stocks. Many industry observers were skeptical, illustrated by Shell CEO Ben van Beurden's apparent surprise last week that an additional 1 million b/d had taken some of the edge off prices. "Strangely enough, the SPR release has actually helped," he said. "But that's hardly a price management tool, of course."

• **The new buy-side policy is intended to reassure producers.**

Last week, the DOE said it will remain active in the market, continuing with emergency sales for now and looking to replenish stocks with purchases beginning likely after September 2024. From the outset, Biden administration officials were keen to push back on the idea that they might be displacing private production. They portrayed the record release as a "bridge" to higher output expected later in the year, and said the government would use revenues earned from sales at a time of very high prices in part to fund the SPR's replenishment.

The DOE last week proposed changes to how the SPR can be used, including by allowing the agency to sign fixed-price contracts well in advance of purchases to restock. "This regulatory change would provide greater certainty to producers regarding the revenues they could expect to generate if they produce more crude oil in the short term, knowing that the Department has contracted to purchase these barrels at a previously agreed-upon price to replenish reserves," a White House fact sheet accompanying the SPR proposal reads.

Currently the DOE pays a market price at delivery, making promises of replenishment less reassuring for producers who may otherwise fear a downturn in prices. The new flexibility could be useful for Biden administration officials because it allows them to "respond to any kind of unusual future crisis that may come," says Jaffe. To be sure, there are details to work out. For one, US Energy Secretary Jennifer Granholm has said she wants to target purchases from domestic producers — but US output, particularly from the Permian, skews light and sweet while the SPR reflects the more sour refining complex.

• **Toward an oil central bank?**

Overall, the changes are "a smart move," said Phil Verleger, a longtime economist focused on the energy sector who worked at the Treasury Department when the SPR was established. The administration is saying "'OK, we're going to buy over this period of time, we'll buy at a fixed price.' And if it turns out markets get tight again, they can sell the oil they're buying," he added. That could be especially important to encouraging production today, given the warning signals about a potential economic recession, he notes.

Verleger argues that the SPR should be used more like a central bank uses its reserves to keep the economy humming when the banking industry faces challenges. "For almost 50 years it never got used that way. The Biden administration is using it that way," he said. "The concept that we had at Treasury … was this is what the SPR was for."

Emily Meredith, Washington

GEOPOLITICS

Russian Oil Trade Relocates to UAE

• *More Russian oil traders are moving from Switzerland to the United Arab Emirates, especially Dubai, as they look to blunt the effects of Western sanctions.*

• *With its pro-business approach and low taxes, the UAE is seen by the Russians as a safe place to operate.*

• *Russia can also sell oil in the local currency, the dirham, which is pegged to the US dollar.*

The Issue

Sanctions imposed by the EU and Switzerland have forced Russian-backed oil trading companies to relocate from Geneva to Dubai, where they are under far less scrutiny. Shipping data show more Russian barrels being marketed by UAE-domiciled entities, some of which have been in business for years and others only recently established. Russian state shipper Sovcomflot has also shifted more of its operations to Dubai, while Russian banks are providing trade finance for these entities, sometimes in the national currency, the dirham. The UAE government in Abu Dhabi, which has remained neutral in the Russia-Ukraine conflict, appears relaxed with this influx of Russians, while Dubai has welcomed the extra business they bring.

Don't Rock the Boat

The UAE leadership has maintained a cordial relationship with Russia throughout the war with Ukraine and intends to keep it that way. Its new ruler, Sheikh Mohammed bin Zayed, has stressed the need to find a political solution to the conflict and has supported Russia's right to protect its national security. At the same time, he has kept up a regular dialogue on Ukraine with his three top Western allies — the US, UK and France — but shied away from showing support for Ukraine and the Nato alliance: The UAE initially abstained from voting on a draft UN Security Council resolution condemning Russia's invasion. Russian President Vladimir Putin considers the UAE to be a trusted ally, much the same as Saudi Arabia, and has referred to the country as a "good friend" of Russia.

The UAE sees no reason to join the US and EU in imposing sanctions against Moscow, which means Russian companies are free to operate in Dubai and elsewhere in the federation with no danger of any reprisals. "So far, so good," a Russian oil trader based in Dubai says. "There are a lot of Russians here and everything works fine. Dubai is always open for business." He sees little chance of the US administration leaning on Dubai to shut down Russian-owned businesses, as it did with Iran starting more than a decade ago. "So far, the Americans are giving us very little trouble."

Whether US pressure might prompt the UAE to change its position on Russia remains to be seen, but seems doubtful right now. The oil and gas-rich Mideast Gulf has been diversifying its political and economic ties for some time, driven in part by doubts over the reliability of the US as the ultimate security guarantor of the region.

Regional Player

Russia's stronger position in the Mideast has also prompted the UAE and Saudi Arabia to seek closer ties. This dates back to 2015, when Russia forged a military alliance with Syrian President Bashar al-Assad, which helped him defeat the Islamic State insurgency and recapture most of the country. Underpinning the Russian-UAE friendship is cooperation on oil production that started with the creation of the Opec/non-Opec alliance — Opec-plus — in 2016, and remains in evidence today. The decision by Opec-plus in April 2020 to slash oil production in the aftermath of the oil price crash could not have been sustained without a close understanding between Russia on the one hand and Riyadh and Abu Dhabi on the other, analysts say — an alignment that has withstood the pressure of higher oil prices in the wake of Russia's Ukraine war (p4).

The Russian Armada

Since the Russian invasion of Ukraine started on Feb. 24, Russia has been exporting more of its oil via UAE-based companies, according to Russian port data. Some of these are Dubai subsidiaries of Swiss companies that have been around for several years. Litasco, the trading arm of Russia's largest privately owned oil producer, Lukoil, has shifted more of its staff from Geneva to Dubai, according to multiple trading sources, although is unlikely to close its Swiss headquarters altogether.

Paramount Energy, a small trading firm based in Geneva that has been handling over 200,000 barrels per day of Russian East Siberia-Pacific Ocean (Espo) blend crude shipped out of the Far East, has done the same thing, the source says, as has Coral Energy, a trader that has increased its Russian offtake in recent months. None of the three companies have commented on its activities.

There are smaller UAE-based companies, such as Tejarinaft and GMS Trading Middle East, that have popped up in port data in recent months and are now doing regular business in Russia. Who ultimately lies behind these companies is a mystery, although traders say they may be affiliated to one of the bigger operations.

One of the reasons for the shift to Dubai, sources say, is that most European banks, including the Swiss, are refusing to finance any oil trade with Russia — including opening up letters of credit between buyer and seller. "You won't find any banks here willing to do it," a Geneva-based trader says. "That's why the traders are moving to Dubai." Another trading source says the same service can be provided by Middle East banks, even if they lack the experience of doing it on a regular basis. "In Dubai, the banks don't ask any questions and they just do the job for you."

Iranian Echoes

The proliferation of Russian trading companies in Dubai draws obvious parallels with the network of obscure Iranian-backed firms that was created over a decade ago to circumvent sanctions, and was broken up repeatedly by US sanctions. But there are also clear differences. For one, the US has no appetite to disrupt Russian trade flows, fearful that might cause a drop in export volumes and push prices up.

There is also an absence of secondary US sanctions with Russia, which means that banks from outside the West can continue to open credit lines with Russian companies without fear of being blacklisted.

Paul Sampson, London and Oliver Klaus, Dubai

CLOSING ARGUMENTS

Pelosi's Taiwan Trip, Hezbollah's Renewed Threats

Taiwan: Pelosi's Visit Likely to Backfire

The Speaker of the US House of Representatives, Nancy Pelosi, landed in Taiwan this week for a visit which put into question the viability of the US' "one-China" policy. China has articulated clearly over the past few months its growing impatience with what it views as the careless language of the administration of US President Joe Biden regarding the US policy of "strategic ambiguity" around commitments to defending Taiwan from any potential Chinese military attack. Indeed, in a two-hour conversation with Biden on the eve of Pelosi's visit, Chinese President Xi Jinping warned his US counterpart that "those who play with fire get burned by it." Pelosi's precipitous visit, from the Chinese perspective, was an unacceptable breach of Chinese sovereignty.

Biden earlier cautioned Pelosi from making the trip, noting that the US Defense Department, after considering the risks associated with such a visit, deemed it "not a good idea right now." Likewise, the State Department distanced itself from the visit, noting that it was a separate initiative of the Speaker. The long and short of Pelosi's visit is that it has catapulted the US into a crisis with China of an existential nature for which the US is ill-prepared.

The same cannot be said for China. The Chinese military has undertaken a massive buildup of military capability opposite Taiwan in support of live-fire exercises to take place in the waters and air surrounding Taiwan — including some that intentionally intrude into Taiwan's territorial boundaries. The Chinese message is clear — Taiwan is China, and if Taiwan kinetically opposes the Chinese military drills, China would be able to respond with overwhelming force. Military force, however, does not appear to be the primary Chinese focus when it comes to punishing Taiwan. Instead, China appears to be executing targeted sanctions designed to squeeze the Taiwanese economy. This includes blocking the sale of sand used by Taiwanese computer chip manufacturers, one of the staples of the Taiwanese economy, although China accounts for a fraction of Taiwan's sand imports.

China, however, is not seeking simply to punish Taiwan, but rather to break it. Pelosi's visit has, from China's viewpoint, put Taiwan on a path toward independence that must be halted once and for all. China will most likely escalate its efforts to impose its will on Taiwan going forward, through a mix of economic and military pressure. Given the policy chaos that has surrounded Pelosi's Taiwan visit, it is unlikely the Biden administration will be able to craft any viable response to China's new, aggressive approach toward Taiwan, thereby compromising any aspirations Taiwan may have had toward genuine autonomy or independence.

Lebanon: Hezbollah Flexes Muscles on Border Dispute

US Energy Envoy Amos Hochstein's arrival in Beirut to mediate between Lebanon and Israel over the delineation of their maritime border was accompanied by Hezbollah releasing a video showing its monitoring of Israel's development of the offshore Karish field, due to start pumping gas in the third quarter. In the video, Hezbollah leader Hassan Nasrallah warned Israel that "playing with time is not useful" regarding the ongoing dispute over the Karish gas field, portions of which are claimed by both Lebanon and Israel. Hezbollah has long articulated that one of its founding principles is the defense of the territory of Lebanon from Israeli "occupation." This position complicates the negotiating position of Lebanon's caretaker foreign minister, Abdallah Bou Habib, who is representing Lebanon in the mediation.

Hezbollah's hard-line stance comes at a time when the possibility of an agreement between Israel and Lebanon over their maritime border seems within reach. Lebanon appears to have walked back its more ambitious Line 29 claim of the last two years, which would have seen the Lebanese border slice through the Karish field, to its previous Line 23 position — which comports with Beirut's Block 9 award to TotalEnergies containing most of the Qana prospect. Israel, Reuters reported a senior Israeli official as saying, has now proposed an arrangement that would allow Lebanon to explore and develop part of the disputed area while preserving Israel's commercial rights. This would appear to pave the way for Lebanon to explore the Qana prospect, while effectively ceding Karish rights to Israel.

Tensions over the disputed Karish field have been on the rise. Israel claims to have shot down three Hezbollah reconnaissance drones over the field in recent weeks. Sunday's Hezbollah video also showcased some of the advanced weaponry in the group's possession — including sophisticated anti-shipping missiles that could be used to strike targets in disputed waters off the Lebanese coast.

The video also appears to be a byproduct of Hezbollah's new political reality — that of being in the opposition after the loss of its parliament majority in recent elections. This slightly diminished political posture has seen it return to the past practice of intimidation and threats as a means of imposing its will on Lebanese foreign and domestic policy. But Lebanon's political dysfunction — no governing majority has yet been formed — also means Hezbollah remains one of the most unified and cohesive political forces in Lebanon today. Israel and the US would do well to keep this in mind as they pressure the Lebanese government over any potential maritime border deal.