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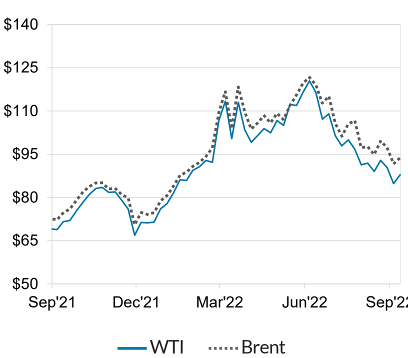
CONTENTS

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



Source: CME, ICE

THE BIG PICTURE

New and Uncertain Energy Architecture

- *Politicians on both sides of the Ukraine conflict are mobilizing energy policy to advance "war" aims.*
- *This weaponization of energy has already massively disrupted energy markets — from trade flows to state intervention — and threatens to derail the global economic recovery.*
- *The emerging new post-Ukraine war global energy architecture also has profound implications for the energy transition, accelerating it in some places, pressing the pause button in others.*

Energy market risks are proliferating. First, there is the danger that repeated market intervention will generate such volatility that fresh policy interventions will be required to respond to it, fundamentally undermining free energy markets. High prices and the energy transition could also spur de-globalization, including as recessionary pressures limit energy trade. The push for security of supply via homegrown energy transition supply chains also displaces the cross-border oil and gas trade that helped drive globalization in the first place. The world's energy architecture is being fundamentally reshaped.

State Intervention

Market interventions are already in full flow, and appear to be having a domino effect. For example, the push for a price cap on Russian oil exports largely emerged to blunt the price impact of EU embargoes on Russian crude and products coming into force in December and February, respectively. And while secondary US sanctions on producers like Iran and Venezuela have become standard, the G7 price cap, if implemented, would mark the broadest and most complex (consumer-side) intervention in oil markets ever.

Energy subsidies are also emerging as a major fiscal drain on government budgets, and risk blurring market signals. A recent study by the OECD and International Energy Agency of 51 countries shows government support for fossil fuels almost doubling to $697 billion in 2021 compared to the previous year. And "we expect this year much more than we saw in 2021. We are currently on track to double the amount," notes OECD Trade Policy Analyst Gregoire Garsous. "Of course, governments need to act" to soften the impact of current prices, he concedes. But it should be targeted specifically at those most vulnerable, he argues. Decreasing the price for everyone just "mutes the price signal and you kill incentives to switch to alternative fuels," slowing the energy transition, he argues.

The EU in particular is discussing unprecedented proposals to ease consumers and businesses' price pain, ensure energy companies' survival and reform its electricity market (p4). Broadly, what policymakers are doing is starting "to step away from the competitive and liberalized market that has taken us 30 years to create," says gas expert Professor Jonathan Stern. But impacts here are unpredictable.

Then there is the fallout from greater trade protectionism, whether direct or indirect. Energy trade is an important component of overall global trade. But the OECD drive for security of supply and to fast-track domestic renewables expansion will lower trade

>> continued on page 2

over time. Protectionist-leaning renewables policies could also spark disputes, even among allies. This can be seen in the current tensions between Washington on one hand and its EU and Asian allies (South Korea and Japan) on the other over measures to encourage US electric vehicle and battery production (p5).

Transition Turmoil

Ukraine might have given a boost to global coal consumption, but both US and EU policy moves suggest that on balance the Ukraine war might well be accelerating the clean energy transition in the OECD. However, the opposite will probably be the case in the non-OECD, argues Bassam Fattouh, Director of the Oxford Institute for Energy Studies. In the developing world, finance for climate adaptation and clean energy projects is harder to come by as a result of a strong dollar and high energy prices, fueled in part by OECD policies. The ability of OECD countries — already lagging pledges — to extend support is constrained by the economic slowdown and Ukraine war expenses.

At the same time, the real-world impacts of climate change as highlighted by ongoing flooding in Pakistan have focused minds in the global south as to industrial nations' historic responsibility for climate change. "We are likely to approach COP27 in a different spirit, in a very divided world," notes Fattouh.

High energy prices could also create tensions between energy haves and have-nots within the OECD. Energy made up some 54% of EU inflation in January-April 2022, but only 24% of US inflation, hinting at potential misalignments should the burden of current policies escalate: Essentially, mega-producer the US looks set to have a "better war" than Europe.

Energy De-Globalization?

"Mastery itself was the prize of the venture" was how Winston Churchill, then Lord of the Admiralty, described the decision back in 1911 to switch the British Navy from coal to oil feedstock. The decision gave real momentum to the search for new sources of oil and helped create the international oil trade seen today — both key drivers of globalization in the 20th century. Now, the shift to renewables looks to be driving de-globalization.

But getting the energy transition right will be just as central to great power status this century as controlling energy flows was in the last century. And while Russia's invasion of Ukraine exploded the myth that economic interdependency is a guarantor of peace, a deglobalized world isn't necessarily more stable. On the contrary, the toxic brew of trade protectionism, high energy prices and economic stress could fuel prolonged instability. That said, in most recession scenarios, energy demand collapses and prices fall. But then, "of course, we will have lots of other problems," notes Stern. And even should demand for oil peak and fall, the percentage of low-cost Mideast crude as a share of oil trade is likely to increase. Energy trade could also be sustained by both increased demand for LNG and the possible emergence of a large-scale international green hydrogen industry that could develop around solar hot spots in the Mideast Gulf, Chile and Australia.

Perfect Storm

It is striking just how central energy has proved to be in both the Ukraine war and as a driver of global inflation. But other factors, too, have been critical. The world managed to prosper in 2011-13 with oil prices that were higher, even without taking inflation into account. Back then, the impact of expensive oil was softened by gains in global efficiency, driven largely by China-dominated supply chains and increasing globalization.

Today, in addition to astronomically higher gas prices, there is a perfect global economic storm of supply chain bottlenecks (exacerbated by China's zero-Covid approach), rising interest rates and food shortages triggered by the war. Add to this an energy system in flux and outcomes are far from clear, barring that there's likely no return to the pre-Feb. 24 world.

Rafiq Latta, Nicosia

GEOPOLITICS

Xi-Putin Meeting Hints at Some Limits to Ties

- *Chinese President Xi Jinping's first overseas trip since early 2020 shows his priorities: neighboring Central Asia and Russia.*
- *China is giving Russia an outlet, and revenues, for its oil and gas supplies as Western buyers retreat, accentuating Moscow's status as junior partner in the relationship.*
- *But China, like Russia, has expansionist views — for which it may need Russia's support.*

The Issue

As the Chinese and Russian presidents met Thursday for the first time since they proclaimed their "no-limits" friendship in February, the Ukraine war has demonstrated that the relationship is anything but limitless. Beijing's balancing act to neither condemn nor officially support Russia has seen it ramping up its purchases of Russian energy supplies at discounts while steering clear

CHINA'S RECENT ENERGY IMPORTS

	May-July 2021 *(volume)*	May-July 2022 *(volume)*	%Chg. Y-O-Y	May-July 2021 *($ mln)*	May-July 2022 *($ mln)*	%Chg.
China's Total Crude Imports (in '000 b/d)	9,741	9,478	-3	61,933	94,510	53
China's Imports of Russian Crude	1,492	1,820	22	9,432	15,951	69
China's Imports of US Crude	261	10	-96	1,730	1,122	-35
China's LNG Imports (in '000 tons)	18,964	14,410	-24	8,369	10,380	24
China's Imports of Russian LNG	918	1,333	45	408	1,147	181
China's Imports of US LNG	2,448	411	-83	1,144	389	-66
China's Piped Gas Imports (in '000 tons)	10,449	12,000	15	2,768	4,458	61
China's Piped Gas Imports From Russia	15,678	NA	NA	295	938	218

Note: Figures have been rounded. *Source: Chinese Administration of Customs*

of deeper economic engagement and military support. Putin on Thursday told Xi he valued that "balanced position" but understood China's "questions and concern" about the Ukraine crisis. Deteriorating US-China relations are also part of China's calculus.

China-Russia Trade Boom

China has, until now, by-and-large played by the rules of Western sanctions against Russia. Fears of being hit with potential sanctions halted Chinese investments in Russia under the Belt and Road Initiative (BRI), Xi's main tool of foreign economic policy, during the first half of the year. Chinese national oil companies have also shied away from replacing Western players in Russia's upstream.

But Chinese refiners and gas distributors have been making the most of Russia's discounted oil and gas exports. Russian oil sales to China between May (when the effects of Europe's reduced purchases became apparent) and July rose by 22% to 1.82 million barrels per day, Energy Intelligence calculates, using Chinese customs data — with Russian crude sold in China at a $19/bbl discount to Saudi crude over the period (see table). Actual volumes are likely higher as cargoes of Russian Urals crude are believed to be declared to customs as Malaysian crude to limit visibility of China's rising Russian oil purchases.

The value of piped gas from Russia to China has also surged by 228% over the period — volumes were not disclosed — suggesting a sharp surge in volumes through the 38 billion cubic meters per year Power of Siberia pipeline, which carried less than 9 Bcm of gas last year and is slated to rise to 15 Bcm/yr by end-year.

The value of China's total exports to Russia for the first eight months of this year is up 8.5% from a year ago to $44.26 billion. Over the same period, its imports of Russian goods are up by a much higher 50.7% to $79.9 billion, courtesy of higher oil and gas imports.

China, as Russia's close ally, is unlikely to abide by the G7 price cap on Russian oil that will come into effect in December. But its refiners could use that cap as leverage to negotiate bigger discounts on the price of Russian crude. Chinese buyers, in particular independent refiners, regularly buy US-sanctioned Iranian and Venezuelan crude. China has a fleet of about 50 vessels it can use to carry sanctioned crude, in the hands of private companies that can also insure the cargoes, a Chinese analyst said. China's sovereign could also provide insurance, a shipping source said.

But going forward, there are limits to how much Russian oil and gas China can buy. "Oil is a liquid market. It is much easier for oil [to travel around]. But for gas, you need more infrastructure. That will take a long time," Beijing Gas' Energy Research Institute's Jun Bai told the APAC Rystad Summit last week.

Taiwan Crisis Increases Need for Russia

China's third-highest official, Li Zhanshu, last week travelled to Russia, his first overseas trip, to offer China's first official words of support for Russia's invasion of Ukraine. "On the Ukrainian issue, we see how [the US and its Nato allies] have put Russia in an impossible situation," Li was quoted by the Russian parliament, or Duma, as saying. "And in this case, Russia made an important choice and responded firmly," Li added.

The comments, which were not reported in China, came a month after US House Speaker Pelosi's surprise visit to Taiwan, which Russia was quick to condemn. Beijing, which views that visit as an affront to its claim over the island, retaliated with unprecedented military exercises around the island and the cancellation of several top-level dialogues with the US.

As the schism between China and the US widens and the threat of a war over Taiwan increases, China is counting its supporters. "The Russia-China relationship has consolidated, not because China is happy about Russia but because China has only one real ally: Russia," Alexander Korolev from Australia's University of New South Wales told Energy Intelligence. Pakistan and other states may support China if it attacked Taiwan, but their support would not be enough to tip the balance of power, whereas Russia's might, he added.

SCO and Broader Alliance

Xi is not putting all of China's eggs in the same basket. His visits to Uzbekistan, where the Shanghai Cooperation Organization (SCO) meeting takes place over Sep. 14-16, and

Kazakhstan reflect the importance of neighboring Central Asia to Beijing. The region is a major gas exporter to China.

The SCO, founded in 2001 by China, is helmed by China and Russia. Largely focused on fighting terrorism, the organization is to some extent a gathering of Moscow and Beijing's illiberal allies in the region, with members drawn mainly from Central Asia, although also including Pakistan and India. Iran, which has applied to join, will attend as an observer at this week's meeting, as will Belarus and Mongolia.

Moscow sees Central Asia's former Soviet republics as its backyard and still plays an important role there. It sent Russian troops in January to Kazakhstan to quell violent protests. Beijing, despite its growing economic footprint in Kazakhstan, remained silent at the time. China is already focused on economic engagement and trade with Central Asia, but experts say Beijing may see its influence in the region grow as countries in the region keep a wary eye on Russia's invasion of Ukraine and seek to counterbalance Russia's overreach.

Maryelle Demongeot, Singapore

POLICY

EU Prioritizes Easy Wins in Emergency Power Plans

The EU is trying to stabilize its failing energy markets by striking a balance between emergency measures and long-term reforms in order to cope with the rapid removal of Russian gas imports. In doing so, the 27-member bloc must reconcile very different country-level supply and demand dynamics while preserving the market mechanisms underpinning the world's largest interconnected energy system. In her latest proposal, European Energy Commissioner Kadri Simson focused on measures with broad support including demand reduction and redirecting profits from energy suppliers to consumers — but left more controversial proposals like gas price caps for future discussion.

• Europe's near-term focus will be on reducing its electricity demand and bailing out consumers with some €140 billion in funds skimmed off the profits of energy companies that are selling high-priced power and gas.

The levy mechanisms are essentially windfall profits taxes that are being characterized as "revenue caps" on so-called "inframarginal" electricity production — production that does not use high-cost fuels such as natural gas — and "solidarity payments" from the high profits of fossil fuel producers. Diplomats turned to the creative nomenclature to avoid using the word "tax," as new EU-level taxes require unanimous support at the European Council level — a steep and likely unworkable threshold.

The revenue cap is proposed for €180 per megawatt hour, a level EU Executive Vice-President Frans Timmermans said "still grants (power producers) a profit margin and preserves their incentive to invest." This would net about €117 billion, with another estimated €23 billion coming from the "solidarity" payments from fossil fuel companies, comprised of at least 33% of any profits that exceed a 20% increase of their three-year average. "In these times it is wrong to receive extraordinary record profits benefitting from war and on the back of consumers," European Commission President Ursula von der Leyen said in her State of the Union Address in Strasbourg.

The plans to curb electricity demand mirror those put in place to cut gas demand in August but more specifically target "peak demand" periods. Simson called for mandatory power savings of 10% in total and 5% during the four hours of highest use. By shaving off those peaks when electricity demand is likely to be met with high-cost natural gas, the EU can both limit the volatility of electricity prices and help cut demand for gas.

• More contentious proposals such as capping the price of natural gas could come later — but there is significant disagreement on what price caps should look like.

The EU's most-watched policy gambit — some form of cap on natural gas prices — will also be the most difficult one to implement. While there is majority agreement that such a cap is needed, there is much less consensus on the details of its implementation. Initial proposals called for capping the price of Russian gas only. But while the continent as a whole has cut its dependence on Russian gas from more than 40% to less than 10%, some members are still reliant on Russian gas and wary of a promise by Russian President Vladimir Putin to cut supplies entirely if Europe adopts a price cap.

More than a dozen countries expressed support for broader price caps on all gas despite worries this could limit the ability of the continent to attract LNG cargoes. A divide persists between the two approaches. "We continue to believe that a gas price cap on Russian pipeline imports is warranted, but more work is needed to assess adverse impacts on some Member States," Simson said. "In addition, we are deepening our analysis of how a horizontal cap on all gas imported in Europe would work and what are its implications."

But this does not mean that the continent won't have any gas price caps. Individual member states are already putting in place their own caps in response to intense pressure from consumers. One diplomat said price caps were the only measure that consumers were likely to understand and were necessary to show that representatives were responding to the needs of their citizens.

• Complicated gas and power market reforms did not make the initial emergency package but will be part of intense — and likely contentious — discussions for the months ahead.

"This market is not functioning anymore," Von der Leyen said in her address. EU officials have begun looking at a number of structural changes to Europe's energy markets (p1). As early as next month, EU officials could look at measures aimed to boost the liquidity of gas and power markets, which have seen traders step back as prices — and their corresponding requirements to post collateral for margin calls — soared to new records. This could be done through making state-backed credit lines available to power players or regulations that reset collateral requirements.

More fundamental measures would try to decouple power prices from underlying gas prices and set up a new benchmark gas price outside of the Dutch TTF hub. EU officials say such moves are needed to reflect fundamental changes in EU markets as power increasingly comes from renewable sources and gas supply shifts from pipeline volumes to LNG. The idea of structural change makes some experts nervous, as they warn that it took years to arrive at the current liberalized, interconnected market systems and proposals to reassert government control could have lasting and unpredictable impacts.

Any such broader reforms could require a much longer and more political process to enact. The proposals for revenue caps and energy demand reduction can be passed quickly and with little chance of being watered down under the European Commission's so-called "Article 122" powers. That provision allows measures to bypass a vote in European Parliament in times of emergency if the proposals win support of at least 15 countries representing 65% of the EU's population.

Noah Brenner, London

POLICY

US Climate Bill is Industrial Policy, Too

- *New US climate policy changes are also designed to serve as an industrial policy aimed at bolstering US domestic manufacturing.*
- *The objectives are to both bring some manufacturing home and diversify supply chains.*
- *Some major US trading partners are eyeing the moves warily, particularly where electric vehicle (EV) policy is concerned.*

The Issue

Having passed legislation with the largest investments in climate action in US history, US policymakers now want to see those investments pay off at home. Key tax credits within the Inflation Reduction Act (IRA) are tied to US manufacturing, a major selling point in a country where the Republican Party is largely reflexively opposed to nationwide climate action. "I believe we can own the future of manufacturing," US President Joe Biden told the Detroit Auto Show on Wednesday. The move is part of a broader trend favoring domestic industry over globalized supply chains (p1). But more US ownership is making some trading partners uncomfortable.

Jobs, Industrial Push

Biden sold climate action as a jobs program, and the pitch has grown stronger following last month's passage of a climate spending package. "While we're here in Detroit building in America, we're making it easier for folks at home to buy here in America. Companies have announced new investments, more than $36 billion in electric vehicles and $48 billion in battery manufacturing here in the US," Biden said. "I believe we can own the future of the automobile market."

The recently-passed IRA includes provisions designed to bolster US EV and battery manufacturing.

- As a first step, vehicles must have "final assembly" in North America in order to qualify for any part of the new $7,500 credit. Only 26 models of EVs currently sold in the US are considered to be assembled here, according to guidance from the Treasury Department.

- One half of the available credit, or $3,750, is available if at least 50% of the EV battery components are manufactured or assembled in North America. The proportion of US components necessary to earn the credit rises over time.

- The second $3,750 credit is available if 40% of the critical minerals used in an eligible battery are mined on US soil or in a country with which the US has a free-trade agreement. That proportion also increases over time.

- There are also bonuses available for zero- and low-carbon electricity projects: if the project contains a certain element manufactured in the US, the projects are eligible for a 10% increase in the credit.

The Center for Strategic and International Studies' Jane Nakano says tying the energy transition to US jobs is a political necessity at home. "For the climate mitigation agenda to become sustainable, I think tying domestic manufacturing to clean energy deployment was an important but also very skillful approach," she said.

Diplomatic Pains

Still, those policies are awkward for climate-focused diplomats and trade officials. The wary trading partners include the EU, which earlier this month warned against "discriminating" against its manufacturers, saying it would make it "much more difficult for them to contribute to the electrification of vehicles in the EU" while also reducing US consumers' choice. Japan and Korea are also taking notice. Japan's Panasonic is a key partner making batteries for US auto-manufacturer Tesla.

The Korean government has been the most concerned, sources say. Korean firms have announced billions of dollars in investments in US EV manufacturing during Biden's tenure, but they won't be able to reap the benefits of the legislation immediately. That's partly because of limits in the current (North American and free-trade country) supply chain for battery components and minerals — even though Japanese and Korean firms are critical to Washington's goal of diversifying those supply chains, mostly away from China.

Hyundai in May announced it would build a $5.5 billion dedicated EV and battery manufacturing facility in the US state of Georgia for its Hyundai and Kia brands. But that facility isn't scheduled to be online until 2025, with the Korean manufacturer in the meantime potentially losing out on tax credits its competitors currently operating in the US can tap.

Samsung at the same time announced a tie-up with US vehicle manufacturer Stellantis for a $2.5 billion EV battery facility. And battery manufacturer SK announced increased hiring at its facility in Georgia. Later, the US Department of Energy in July provisionally extended a $2.5 billion loan to Korean firm LG and its partner US automaker GM to help finance lithium ion battery manufacturing cells in Ohio, Tennessee and Michigan.

"When President Yoon [Suk-yeol] and Biden met [in May] there were all these investments announced," says Troy Stangarone of the Korean Economic Institute of America. "So, from their perspective it's kind of 'well, how could you do this to us?'" Korea also has a free-trade agreement with the US, but that doesn't help its companies when the legislation requires vehicle assembly to be done in the US.

There has been a flurry of activity in Washington as officials from trading partners air their concerns, Energy Intelligence understands. Two Korean foreign ministry officials are slated to meet with their US counterparts in the wake of concerns over the IRA, the *Korea Times* reported Tuesday. Still, because of the degree to which Japanese and Korean companies are invested in the US, it seems unlikely they will pull out based strictly on their frustration over the structure of the IRA, Nakano said. "Especially for some of these smaller economies, like Japan's and Korea's, the market is limited. They need to go overseas to expand or even stay in business," she said.

Both Nakano and Stangarone believe this is a near-term problem that could ease over time, as Korean and Japanese firms finalize their announced US plants and as supply chains shift toward minerals sourced in US free-trade agreement countries such as Australia and Chile. "I think the content requirements could eventually be met and the assembly can probably be met in time as well, or adjusted," Stangarone said. But in the near term, there might be fewer EVs available to US consumers — with the tax credits, at least.

Emily Meredith, Washington

POLICY

UK Price Freeze Lacks Energy Saving Plan

- *The UK energy price cap could cost £150 billion over two years, paid for by government borrowing instead of windfall taxes.*
- *London is also promoting more oil and gas exploration plus onshore fracking, with less support for cheap renewables.*
- *Policy measures only deal with the supply side, with energy reduction and efficiency measures largely missing.*

The UK government has embarked on an energy pathway that differs from EU plans to tackle the energy price crisis. Where Brussels favors targeted energy saving, windfall taxes or solidarity payments taken from utilities and oil and gas companies, and potentially price caps on gas imports, the UK's new government does not. The only common ground is a desire to help struggling utilities with their collateral commitments in derivatives markets.

Incoming Prime Minister Liz Truss announced a two-year freeze on household energy bills last week, alongside an undetailed six-month support package for businesses. The measures could cost more than £150 billion ($173 billion). Truss also supports new upstream oil and gas exploration in UK waters and has vowed to lift a moratorium on hydraulic fracturing that has been in place since 2019 when minor earthquakes stopped exploratory drilling after just three wells.

Footing The Bill

Unlike many EU member states that support windfall taxes or solidarity payments from generators and oil and gas companies, and her predecessor, who did introduce a temporary windfall profits tax, Truss' Conservative government is ideologically opposed to increasing taxes. BP CEO Bernard Looney said recently that windfall taxes don't necessarily mean reduced capital expenditure in the UK energy sector, while other upstream players and industry lobby group Offshore Energies UK (OEUK) stress they will harm investment.

Chancellor Kwasi Kwarteng will provide details of the expected costs in a fiscal statement later this month. A leaked report from the UK Treasury — which the department has disavowed — suggested energy companies could make up to £170 billion in extraordinary profits over the next two years, but that cash won't be chased by London. Supporters of windfall taxation argue money raised could be used for quick-to-implement measures such as solar photovoltaics, energy efficiency measures, heat pumps, building insulation and demand-side management. London Mayor Sadiq Khan said recently that the government should "urgently introduce another windfall tax on energy companies' massive profits."

Off Target

The UK unit price freeze is a broad measure that can benefit the better off more than the poor as it caps the unit price of electricity, meaning the more units used the bigger the savings. Neither does it incentivize demand reduction. Freezing the average household dual-fuel bill at £2,500 from October is higher than the £1,971 price cap in place now but halts a rise to £3,549.

Research from the University of York found that 38.5% of the UK population are currently living in fuel poverty — defined as spending more than 10% of net income on energy — with the number set to have hit nearly 80% without a price freeze. But fuel poverty will still increase in the UK, potentially affecting 4 million more households this winter, study co-author Jonathan Bradshaw told Energy Intelligence.

Upstream Oil, Gas and Fracking

The government said it will launch a new oil and gas licensing round as early as next week — with over 100 new licenses being offered — and announced the planned lifting of the fracking moratorium. But even OEUK's "full investment" scenario sees an annual output decline rate of 5%. And any new licenses issued will have to be checked against a "climate compatibility checkpoint" system, yet to be launched, to ensure they align with the UK's commitment to achieve net-zero emissions by 2050 — unless the Truss government removes this obligation.

Government officials claimed that after lifting the fracking moratorium there could be new gas production within six months. But big shale producers like the US are the exception, and previous efforts to test the UK's shale gas potential were hampered by seismic events and local opposition. Chemicals giant Ineos said it was ready to drill test wells again, but another UK shale gas pioneer, IGas Energy, said "accelerated development" of shale gas required "a streamlined regulatory process."

How much gas is underground in formations is a huge black hole, with estimates ranging from 65 trillion cubic meters in 2013 to 4 Tcm in 2019. What is commercially or technically recoverable is simply unknown, and the industry has said it would take 20-40 wells to deliver a meaningful reserves estimate.

A British Geological Survey (BGS) report into the safety of fracking in the UK was sent to the Department of Business, Energy and Industry Strategy (BEIS) on Jul. 5. Asked whether fracking was safe, a BGS spokeswoman told Energy Intelligence this week that BGS "cannot talk about the findings until the report has been published as this is a BEIS-owned report."

The government made clear last week that shale gas development would only proceed in areas where there is "public support" for it. A government survey of public opinion released in December, before energy prices spiked, showed that only 4% of the UK population strongly supported fracking/shale gas, while 54% strongly supported renewable energy.

Elephants in the Room

Some industry professionals say Truss' plans have major blindspots. There is scant mention of measures to use less energy, despite the UK's heavy reliance on gas for power and heating and its inefficient housing stock. Support for two of the UK's cheapest forms of electricity generation, onshore wind and commercial-scale solar photovoltaic parks, is missing but was extended to medium- and long-term solutions such as offshore wind and new nuclear plants.

By contrast, EU member states have agreed a voluntary 15% reduction in gas use and are mooting a mandatory electricity reduction target. Measures in some EU countries include a temperature limit on air-conditioning and heating, and reduced lighting on streets and in public buildings.

"It is critical to run marketing campaigns, like in the oil crisis in the 1970s, requesting people set lower heat temperatures, lower speed limits, turn off streetlights when not needed, unplug devices when not used, etc. We need to help change customer behavior and … explain the energy challenge," said Gerard Reid, co-founder of Alexa Capital.

Jason Eden, London

CLOSING ARGUMENTS

India and China's Big Step, North Korea's Game Changer

India-China: Ties Improve as Border Tensions Ease

India and China last week took concrete steps to ease ongoing border tensions, ordering their respective forces to disengage, dismantle fortifications in the areas of dispute and withdraw to uncontested territory. The timing is notable — coming as Indian Prime Minister Narendra Modi and Chinese President Xi Jinping are expected to meet this week during a Shanghai Cooperation Organization (SCO) summit in Samarkand, Uzbekistan. The move also follows Indian External Affairs Minister Subrahmanyam Jaishankar's recent lament that the border dispute was holding the two countries back from fulfilling the potential of an "Asian Century." The dramatic de-escalation removes a major obstacle to improving Sino-Indian relations and cooperation at a time of geopolitical transition.

The standoff along the disputed Line of Actual Contact (LOAC) came to a head in June 2020, when Chinese and Indian troops engaged in bloody hand-to-hand fighting that left scores of soldiers on both sides dead, and hundreds injured. India and China then deployed thousands of troops into the disputed regions, along with supporting aircraft and heavy weaponry. Since June 2020, delegations had met 16 times to resolve the dispute, most recently in July. No progress was made until Jaishanker's "Asian Century" comments.

Both India and China find themselves at odds with the US and Europe over their refusal to neither condemn nor sanction Russia for its ongoing invasion of Ukraine — instead lapping up discounted Russian crude that has helped to sustain Russia's revenues. As the US reportedly prepares a package of preemptive sanctions against China to deter any possible aggression against Taiwan, India and China potentially coming could diminish the impact of such measures.

The US has been trying for some time now to drive a wedge between India and China, and India and Russia — including by warning of consequences to circumventing or backfilling Western sanctions on Russia. But it is becoming increasingly clear that such warnings have largely been ignored. Some of the more serious sanctions that India could have faced, for purchasing Russian-made S-400 surface-to-air missiles, were meanwhile waived by the US Congress, which cited China's "hostile" posture toward India. But any dramatic improvement of Sino-Indian relations may prompt US lawmakers to reconsider their stance, further exacerbating US-India tensions. For the moment, all eyes will be on the SCO summit in Samarkand, where the anticipated Modi-Xi meeting could set the tone and pace of geopolitics for years to come.

North Korea: Slamming the Door on Denuclearization

North Korean leader Kim Jong-un's recent step to sign legislation formally establishing North Korea as a nuclear power — incorporating the country's nuclear arsenal into its formal defense posture — has effectively slammed the door on any hope of reviving dormant denuclearization talks with the US. According to statements made by Kim, that defense posture now includes the right to launch pre-emptive nuclear strikes against any threat to the nation or its leadership, a new reality that will have serious ramifications for regional and global security.

During former US President Donald Trump's presidency, Trump and Kim engaged in the kind of personal diplomacy that was unheard of between US and North Korea, holding two summits and one face-to-face meeting along the Demilitarized Zone separating North and South Korea. In the end, the issue of denuclearization proved to be a bridge too far, with Trump facing incessant push-back from then-National Security Adviser John Bolton, as well as the national security establishment, all of whom feared North Korea was not serious about giving up its nuclear arsenal.

While North Korea left the door open for the possible resumption of denuclearization talks with the administration of US President Joe Biden, the idea of reviving the Trump-era diplomatic initiative never caught traction, competing with other priorities such as the revival of the Iran nuclear deal and response to Russia's invasion of Ukraine. For its part, North Korea began a policy of gradually pulling back on commitments made to the Trump administration to place a moratorium on nuclear weapons testing and flight testing intercontinental ballistic missiles (ICBM) capable of hitting targets in the US. After a series of short- and intermediate-range missile tests, North Korea, in March 2022, flight-tested an ICBM. It is expected that North Korea will soon resume nuclear weapons testing as well.

The North Korean decision to close the door on denuclearization doesn't alter the existing strategic balance. But it does require the US and regional allies South Korea and Japan to adapt to a reality in which the threat of a North Korean nuclear attack is permanent, and lacking any potential for peaceful elimination. The US must also factor North Korea's announced policy of nuclear preemption into its decision-making on military exercises and arms sales, and North Korea's nuclear arsenal into any arms control negotiation with China or Russia. Kim's dramatic announcement is, in every aspect, a game changer.