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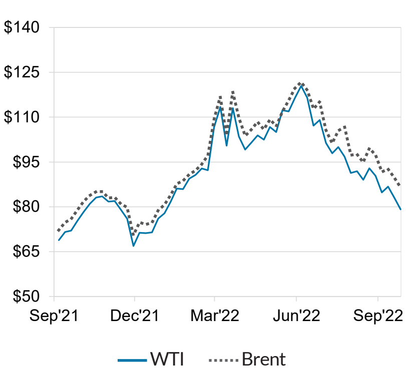

Source: CME, ICE

THE BIG PICTURE

Ukraine War Goes Hybrid

- *The all-out energy war between Russia and the West appears to have escalated, after blasts on the two Nord Stream pipelines built to carry Russian gas to Europe.*
- *Circumstances are murky, with both sides pointing fingers at the other. But the apparent attacks have fueled concerns in Europe about its energy security.*
- *The events also threaten the start of wider "hybrid" warfare in Europe, spreading beyond conventional fighting in Ukraine to vulnerable targets.*

It's not yet known who or what is responsible for this week's blasts on the Nord Stream and Nord Stream 2 pipes, where four leaks had been detected as of Thursday. Adding to the sense of the confusion over motivations for possible sabotage, no gas was being delivered through either pipe. But the apparent attacks have plunged Europe — and its energy sector — into a heightened state of alert. Energy Intelligence noted earlier this year that keeping the EU and the gas market off-balance through tactical disruptions might best suit Russia's political and revenue aims. The damaged gas pipelines now point to the possibility of Moscow escalating the conflict through unconventional tactics, on top of its recent nuclear threats, mobilization of more troops, and expected annexation of four partially occupied Ukrainian provinces.

Blame Game

Many in the West suspect a Russian role. Moscow certainly has form on disrupting energy flows: It has engaged in a steady pattern of squeezing gas supply to Europe, most notably whenever the West upped its sanctions pressure. This week saw the EU announce plans for its eighth package of financial sanctions against Russia, including the "legal basis" for the EU to enact a price cap on Russian oil. In oil markets, Moscow's hand was seen in the recent closures of the Caspian Pipeline Consortium terminal on its Black Sea coast, through which Kazakhstan exports most of its crude.

Moscow, for its part, strongly hinted at US involvement, with Kremlin spokesman Dmitry Peskov on Wednesday noting that US LNG suppliers would benefit most. Some noted that the incidents make Germany less dependent on Russia's energy blackmail, or that the US has long opposed the Nord Stream 2 pipeline, arguing that it didn't serve Europe's energy security interests. Some have also pointed to Ukraine or Poland. Moscow on Thursday rejected speculation it was responsible for the Nord Stream incidents, saying also that they took place in areas controlled by US intelligence — taken to mean as within Nato-dominated territory.

Both sets of claims raise questions: Why would Russia blow up its own pipelines, rather than simply keep supply turned off? And why would the US take action to prevent any European backslide, when such a scenario looks unlikely right now? Gas prices were falling; European storage-filling had largely hit its targets; and EU momentum behind price caps on Russian oil and gas — and additional Russia sanctions — was growing.

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European Energy Alert

Regardless of the answer, the Nord Stream blasts have put European energy infrastructure, and potentially other infrastructure, on notice. The gas leaks were discovered the same day the new Baltic gas pipeline linking Norway to Poland was inaugurated. Nato said Thursday that the damage appeared to be a result of sabotage, and that it was committed to "deter and defend against the coercive use of energy and other hybrid tactics by state and non-state actors." It also echoed the EU's earlier warning of a robust response to any attacks on or disruption of critical infrastructure.

Norway, Europe's biggest gas producer, has said its military will be "more visible at Norwegian oil and gas installations" and noted warnings from operator companies of "unidentified drones/aircraft close to offshore installations." Danish state news channel DR said TotalEnergies reported observations of "unauthorized drone activity" at the Halfdan B oil and gas field and had taken steps in accordance with security procedures. Offshore Energies UK said Thursday it is engaging on security with UK government authorities and other stakeholders after the drone sightings and Nord Stream events.

Unconventional Warfare

If Russia were responsible, and carried out the operation largely as a warning sign, it would raise the ominous threat for Europe of hybrid warfare — the use of "gray zone" tactics that combine military and nonmilitary means beyond the boundaries of conventional conflict. From this perspective, the pipeline attacks would be designed to have an overall destabilizing effect on Europe as it prepares to levy more sanctions against Moscow, highlighting the vulnerability of its energy infrastructure. The attacks would also ratchet up pressure for Europe to back off from the conflict, emphasizing that it will feel as much pain as Russia if current support for Ukraine continues. The climate fallout of the attacks — given the vast amount of methane released on Europe's shores as the pipes empty — would reinforce that message.

The attacks would also help justify Russia's latest moves in Ukraine, particularly at home, by reinforcing the notion that Russia is under attack. Russia's Federal Security Service last week said it had prevented a Ukrainian sabotage attack allegedly targeting infrastructure connected to the Turk Stream pipeline, which Ukraine denied. Lastly, Gazprom might also avoid paying fines after European firms rejected its declaration of force majeure on past and current supply shortfalls — although Moscow has already said it would not recognize Western arbitration of any such claims.

What Next?

The blasts themselves had limited impact on gas prices, since no gas was being delivered through the pipes: Germany pulled the plug on Nord Stream 2 just ahead of Russia's Feb. 24 invasion of Ukraine, and Russia indefinitely halted flows through Nord Stream in late August. But spot prices started to increase on Russian gas giant Gazprom's threats to stop transit flows via Ukraine, which now ships around 42 million cubic meters per day of Russian gas to Europe, over an arbitration claim filed recently by Ukraine's Naftogaz.

The more novel and deeper impact, however, is the sense of uncertainty and escalation. European — and Russian — energy and other infrastructure is now seen as at risk. Cyber attacks, already an industry focus, potentially become an even bigger threat. The cycle of escalation in the Mideast Gulf in 2019 — when mine, drone and missile incidents spiralled at a time of tension between Iran and the West, culminating in the knocking out of half of Saudi oil production capacity — showed how quickly the stakes can rise.

And if Russia were responsible, predicting Moscow's next move now looks much more challenging. Looking ahead, some potential triggers for escalation are obvious — the EU ban on Russian crude is set to take effect from Dec. 5, accompanied by the G7-backed price cap — but others are unknown. Oil and gas markets were already facing a period of extreme uncertainty and volatility this winter. That prospect just got even worse.

Jill Junnola, London, and Jaime Concha, Copenhagen

GEOPOLITICS

India Seeks Quick End to Russia's Ukraine War

- *Like China, India has faced criticism for not condemning Russia's invasion on Ukraine and instead helping to finance the war by lapping up discounted Russian barrels.*

- *But India is also concerned: The prolonged war is causing food and fuel shortages, and seen as weakening Moscow while strengthening rival China in Eurasia.*

- *In New Delhi's view, a quick end to war would forestall an alienated Russia from aligning more fully with China.*

Mid-month, Indian Prime Minister Narendra Modi told Russian President Vladimir Putin on the sidelines of a regional security bloc summit in Uzbekistan that "today's era is not an era of war." Last week, Indian Foreign Affairs Minister S. Jaishankar told a UN Security Council meeting in New York that the trajectory of the conflict is a "matter of profound concern" and said the "future outlook appears even more disturbing." The Western media promptly dubbed this as a public rebuke of Putin and a sign that India is drifting away from Russia.

But the last thing India would want to do is antagonize Russia, which remains its largest supplier of major arms. That's despite Moscow's share of supplies contracting to 46% during the five-year period from 2017-21, down from 69% over 2012-16, according to the Stockholm International Peace Research Institute (Sipri). The war has also made Russia a key crude supplier for the world's third-largest oil consumer. A barrel from Russia in August cost about $99.8 while that from Saudi Arabia cost $115, according to India's federal commerce ministry data.

The deep discounts on crude saw Russia account for 10% of India's imports over January-August compared with below 1% for the same period last year, according to Reuters data. In fact, in August, Russia accounted for 19% of India's oil imports, providing 856,000 barrels per day. India has also bought record volumes of coal and fertilizer from Russia since the outbreak of war.

Russia is relying on China and India as key buyers for some 2.5 million b/d of crude and products that will need to find new homes after EU embargoes come into effect for crude in December and products in February. India has so far been non-committal about joining the G7-backed price cap aimed at curtailing Moscow's revenues — despite US pressure.

But it doesn't necessarily have an endless appetite for Russian crude. The rise in freight rates has already made purchases of Russia's Espo grade unattractive, and India is eyeing term deals with countries like Brazil and Colombia to ensure flows next year when supplies are likely to be tight. Russia's ambassador to India, Denis Alipov, last week agreed that supplies to India had slipped but added that the two countries were in discussions on long-term supply arrangements at competitive rates.

When it comes to LNG, the world's fourth-largest LNG buyer has been relatively shielded from the sharp spike in prices as 80% of its supplies arrive via mostly cheaper Brent-linked term contracts. But the German government's takeover of Gazprom's German unit has disrupted term supplies for state-run Gail India Ltd, forcing the gas pipeline utility to hunt for expensive spot cargoes. And high LNG prices look to have derailed India's ability to raise the share of gas in the energy mix from 6.3% to 15% by 2030 as planned.

China Risk

Still, India has so far managed to ride out the tumultuous year, in stark contrast to neighbors Pakistan and Sri Lanka, which have witnessed political and economic upheaval due to the effects of war. Despite the pandemic and the spike in commodity prices, India's economy grew 13.5% in the April-June quarter and is estimated to post 7% growth for the fiscal year that began Apr. 1. Those projections will be tested by oil prices as the South Asian nation meets 85% of its demand via imports.

Still, fuel prices are not India's top concern. Michael Kugelman, director of the South Asia Institute at the Washington-based Wilson Center, says that with Moscow more dependent on Beijing, New Delhi fears China will use its growing leverage — and friendship with "no limits" — to steer Russia away from India.

Sino-India relations, long defined by strategic competition and mutual suspicion, have been particularly rocky of late amid the long-running dispute over the Himalayan border that led to deadly clashes in northern India's Ladakh region in June 2020. Beijing promised to de-escalate and disengage in all friction points but has not done so, says Srikanth Kondapalli, professor in Chinese Studies at the New Delhi-based Jawaharlal Nehru University; China has reneged on earlier pledges to implement confidence-building measures in the region.

As such, New Delhi is wary of any understanding with China, Kondapalli said. There was some relief after troops in the western Himalayas disengaged ahead of this month's summit in Uzbekistan, but China has refused New Delhi's demand to return to the pre-April 2020 status quo. "India knows that it lacks the capacity to compel a full Chinese disengagement from contested areas, as well as to deter future Chinese provocations," Kugelman says.

Further, analysts at Carnegie Endowment for International Peace, in a Sep. 20 paper, noted that Russia's prioritization of China in foreign policy amid a deterioration in India-China ties raises the prospect of a major shift in Russian-Indian relations, perhaps even to the point of winding down their decades-old strategic partnership. However, Kondapalli sees problems in Russia-China ties as well, including Chinese immigrants in Siberia, smuggling and intellectual property rights theft, with Russia earlier having accused China of stealing military technology.

Show of Strength

A belligerent China could be Modi's Achilles' heel ahead of 2024 parliamentary elections. He is focused on leveraging India's strengths to gain prominence on the global stage where the world order has been disrupted due to Covid, Russia's war and China's assertiveness. Modi will get a chance to showcase his leadership as India assumes the presidency of the G20 for one year from Dec. 1. Expect Modi to seek to play a role to ease global food and fuel prices or minimize the impact of Russia-Ukraine conflict, especially on poor and developing nations.

Rakesh Sharma, New Delhi

COUNTRY RISK

Iranian Leadership in Control

- *Iran's government has blamed foreign actors for instigating ongoing "anti-hijab" protests that have engulfed the country over the past two weeks — and responded with force.*

- *The protests appear to be the largest since late 2019 but don't represent a challenge to the Islamic republic's hard-line leadership, which remains firmly in control.*

- *The crackdown on protesters makes prospects of reviving the 2015 nuclear deal even more remote, worsening the optics for the administration of US President Joe Biden.*

The Issue

The protests sweeping Iran following the Sep. 16 death of 22-year-old Mahsa Amini, an ethnic Kurd, allegedly at the hands of the country's morality police, are the largest since those in late 2019 when then-President Hassan Rohani unexpectedly raised gasoline prices. While anger over Amini's death was the trigger for the latest eruption, it is rooted in broader frustrations over bad governance, poor economic conditions, widespread corruption and stringent social restrictions. The quick escalation suggests that many Iranians have reached a new level of desperation. But the leadership's harsh response, including targeting groups in neighboring Iraq, signals its unwillingness to offer any concessions.

Rallying Cry for Change

Unrest in Iran is a recurring theme. Since the Islamic revolution in 1979, the country has been hit by protests, often violent, on numerous occasions. The death of Amini, who hailed from Iran's Kurdish minority, in police custody after she was detained for violating the country's stringent dress code laws has become the latest rallying cry for broader change.

Protests, many of them led by women, have broken out in cities across the country. Images of women waving and burning their headscarves in the streets or cutting their hair have been circulating widely on social media — along with calls for the fall of the country's top decision-maker, Supreme Leader Ali Khamenei. "It's not just about the headscarves; people want regime change and to get Khamenei out of power ... people are tired of the corruption in the government," says one Iranian source in Tehran.

Iranian police have rejected any allegations that Amini had been mistreated, while the government has cracked down on the revolt — and the picture that's emerging is bleak. At least 76 protesters have reportedly been killed in clashes with security forces in 14 different provinces, according to the Oslo-based nongovernmental organization Iran Human Rights. Internet connectivity has been disrupted in parts of the country and access to some social media platforms blocked. Amnesty International on Sep. 24 said the deadly crackdown pointed to "a harrowing pattern" of security forces firing live ammunition at protesters. But confirmation of the exact number of dead, which reportedly also includes security forces, and the scale of the protests has been difficult to ascertain.

"The enemies of this land are trying to use media tools to turn reality upside down," President Ebrahim Raisi said earlier this week after his return from attending the UN General Assembly in New York. Foreign Ministry Spokesman Nasser Kanaani condemned political leaders in the US and certain European states, as well as Western-backed Persian language opposition media for trying "to misuse a sad incident."

The fallout is overspilling Iran's borders. The powerful Revolutionary Guard said Tuesday that it had targeted "terrorist" bases — of Iranian Kurdish opposition groups — in Iraq's Kurdistan region because of their involvement in the riots. The US Army said Wednesday it shot down an Iranian drone headed to Erbil that posed a threat to US forces in the area.

Iranian Hard-Liners Aligned

Protesters face a leadership, government and broader establishment whose decision-making is closely aligned, unlike in late 2019 when Rohani, a moderate, was president. Under hard-line cleric Raisi, who took office a year ago, social restrictions have been gradually tightened after Rohani's more relaxed approach. Sustained protests on a large scale are likely to elicit an even harsher regime response, not concessions.

"In the cold calculus of Iranian leaders, the protests have likely gone far enough and a more forceful response is required to quell the unrest. The IRGC [Revolutionary Guard] and the paramilitary Basij have a monopoly on force in the Islamic republic, and they have a well-established track record of being willing to kill large numbers of unarmed demonstrators to restore order," the Eurasia Group's Henry Rome wrote in a Sep. 22 note.

There is no indication that the unrest represents a threat to the country's leadership, not least because there is no leader among protesters, raising questions over how long protests can continue. "There are demonstrations around big cities but there is no leadership, so it will likely cool again soon," the Iranian source says. "I don't expect the regime to fall, but more convulsions," says Theodore Karasik, a senior adviser to Gulf State Analytics in Washington.

Nuclear Deal Uncertainty

The protests have erupted at a time of great uncertainty over the future of the Joint Comprehensive Plan of Action (JCPOA) as indirect talks between the US and Iran stay stalled. Iranian Foreign Minister Hossein Amirabdollahian this week said negotiations on the removal of sanctions had been positive and the American side had taken some steps toward the issue of giving guarantees.

But while Biden in his speech to the UN stressed the US' preparedness for a mutual return to the nuclear deal, he also sided with "the brave women of Iran who right now are demonstrating to secure their basic rights."

The US on Sep. 22 sanctioned Iran's morality police and seven senior security officials for abuse and violence against Iranian women and the violation of the rights of peaceful Iranian protesters — and held the police responsible for Amini's death. EU officials say options to respond are under consideration.

Against this backdrop, concluding a deal becomes even tougher for the Biden administration, particularly with midterm elections edging closer. That leaves Iran's exports of crude and condensate likely to hover at the current estimated 800,000 barrels per day. "Iran was on the cusp of restoring the JCPOA, but chose to delay, citing the need for guarantees that sanctions relief would not be undermined by US politics. In the meantime, #MahsaAmini was killed. Now, the deal is more politically toxic in Washington than ever before," Esfandiyar Batmanghelidj, founder of economic think tank Bourse & Bazaar, tweeted on Sep. 25.

Oliver Klaus, Dubai, and Simon Martelli, London

COUNTRY RISK

Qatar: North Field Rising

- *QatarEnergy's 48 million ton per year North Field expansion is poised to reshape the global LNG industry and Doha's place in it.*
- *Partner selection for the expansion, and the looming expiries of existing joint ventures, make Qatar the dominant driver of foreign direct investment in the Mideast Gulf.*
- *QatarEnergy is about a lot more than just LNG, with the state energy behemoth pursuing a maverick growth strategy on a number of fronts.*

QATAR'S LNG EXPANSION BY PRODUCT AND VOLUME

	Phase 1	Phase 2
LNG (million tons/yr)	32	16
Condensate (b/d)	254,000	122,000
LPG (tons/d)	11,000	5,260
Ethane (tons/d)	4,500	2,000
Start-Up (year)	2026	2027
Strategic Partners *(net percentage in phase)*	**Phase 1**	**Phase 2**
TotalEnergies	6.250	9.375
Exxon Mobil	6.250	NA
Shell	6.250	NA
Eni	3.125	NA
ConocoPhillips	3.125	NA

Source: QP Bond Prospectus July 2021, QatarEnergy, company announcements

The Issue

Ukraine and the energy crisis has heightened international interest in Doha's LNG expansion. Qatar may be a relatively minor contributor to future LNG supply compared to the US. But the North Field expansion — as the lowest-cost, lowest-carbon, biggest and safest-bet project globally — wields disproportionate industry clout. The first of a new generation of green LNG projects, the expansion is being leveraged with Qatar's investment in Golden Pass LNG in the US and beefed up regasification capacity in Europe to enable QatarEnergy to become a truly global portfolio player. At the same time, QatarEnergy is working to reduce its dependency on LNG, through heavy investment in petrochemicals, ammonia and international exploration.

End of an Era

Press scrutiny of Qatari LNG has focused on partner selection for the expansion. The award last weekend of a 9.375% first slice of Phase 2 of the expansion to TotalEnergies appears to have given the French major Qatar's "most favored company" status. But in terms of investment footprint, the fate of international oil companies' (IOCs) existing investments deserves more attention.

Put simply, Qatar is the most important country in the region for the majors, with Exxon Mobil, Shell and Total together producing around 1 million barrels of oil equivalent per day there in 2021 — and this was down on previous years. Historically, Qatar has been a key profit center, especially for Exxon, which prior to the expiry of Qatargas-1 late last year held stakes in 12 of the Gulf nation's 14 LNG trains. But this is about to change.

All of Qatar's existing LNG and pipeline joint ventures will expire by 2035. In principle, not all will go the way of Qatargas-1 and revert to 100% QatarEnergy. Doha is open to renewing partnerships, but investors will have to show compelling evidence they can bring value to a project, Saad al-Kaabi, Qatar's energy minister and architect of the restructured QatarEnergy, told Energy Intelligence in a recent interview. "If there is no value, there is no partnership, very plain and simple." In short, where joint ventures are retained, terms will be tougher and profit margins radically slimmed down.

The gravy train is over. But the desire to future-proof investments against transition risks mean Qatar's star is unlikely to wane in majors' affections. In addition to being home to a forgiving reservoir, Doha is investing over $250 million in decarbonization technologies, including deployment of carbon capture and storage and solarization of utilities to deliver what will be the lowest-carbon LNG around — "the Rolls Royce of projects," al-Kaabi calls the expansion.

Pivot West

In truth, Doha reciprocates IOCs' affections. Qatar remains majors-only territory, with none of the pure-play LNG firms, such as Cheniere or Tellurian, short-listed for the expansion. Potentially up to 5% equity in both Phase 1, dubbed North Field East (NFE), and Phase 2, known as North Field South (NFS), remains open to Asian customers. But there is nowhere near the tilt eastward shown by Iraq in 2009-10 or Abu Dhabi in its 2016-18 concessions awards.

Downstream, too, Doha looks West. By contrast, Saudi Arabia, Kuwait and to some extent the United Arab Emirates have largely opted to team up with Asian players for their refinery and petrochemical joint ventures over the past few years. Qatar is partnering with Chevron Phillips for petchem projects in both Qatar and the US Gulf of Mexico, the latter set to be "the largest polyethylene plant in the world," notes al-Kaabi.

Doha's LNG exports have progressively swung eastward over the past 10 years. But the Ukraine war will likely reverse this. Golden Pass output is earmarked for Europe and 40%-50% of North Field expansion supply should also be Europe-bound, says al-Kaabi.

This westward pivot is mirrored politically. Doha has made itself indispensable to Washington as a mediator both with Hamas and Afghanistan's Taliban. The US' Al-Udeid airbase on the peninsula is being expanded. And earlier this year, Washington bestowed Doha with "major non-Nato ally" status. With memories of the 2017-21 Gulf blockade still raw, Doha is likely to want to remain both commercially and politically engaged with the US. It should be noted that Qatar is heavily exposed to Ukraine war fallout, via its 19% stake in Russian producer Rosneft.

New Kid on the Block

QatarEnergy has probably been the most active new player in the international upstream, building up a portfolio of over 30 blocks since April 2017. There has been a consistent strategy in taking large nonoperator offshore stakes, virtually exclusively with IOCs short-listed for the North Field expansion. And quite under-the-radar, QatarEnergy is poised to emerge as a significant producer over the next decade. There have been discoveries in Cyprus, South Africa and most notably Namibia, where QatarEnergy is the biggest reserve holder by virtue of stakes in both the Shell and Total discoveries.

Total's Venus find offshore Namibia is being touted as the biggest-ever deepwater discovery. In Brazil, QatarEnergy took a 21% in existing production at Petrobras and Total's Sepia Block. Output there is set to more than double in the next couple of years to 400,000 b/d. While not an operator, QatarEnergy is actively engaged in these investments, with al-Kaabi set to make his visits to Namibia, Suriname and Guyana soon. It would not come as a surprise if Qatar Inc. were to employ some of the windfall from the current price bonanza to invest heavily in non-energy sectors in these growth economies.

Rafiq Latta, Nicosia

POLICY

UK Energy Policy Gamble Spooks Global Markets

UK Prime Minister Liz Truss' few weeks in office have proved a tumultuous time for UK energy policy. The government is shifting its focus to promote fossil fuel exploration and development and rethink net-zero plans. Toward that end, a hydraulic fracturing moratorium in place since March 2019 has been lifted for England and a review of the UK's net-zero 2050 plans ordered. But it's the dismissal of more windfall taxes on energy companies, alongside planned government borrowing to fund both tax cuts for high earners and an energy support package for vulnerable consumers, that's made the most waves — sending the pound to a record low.

• The new-look Conservative administration has decided fracking should be reconsidered as the UK searches for ways to increase its domestic production capabilities.

Despite fracking being banned in France, Bulgaria, the Netherlands, Denmark, Ireland and Germany — and no European country producing oil or gas from shale formations — the UK government now wants to reassess its potential in an effort to improve energy security and increase domestic production in England. London says new gas production could happen within six months but this is extremely unlikely, according to shale gas pioneer IGas Energy. 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 realistic reserves estimate. Meaningful supply is not expected this decade.

A long-awaited review of fracking safety released by the British Geological Survey earlier this month said forecasting large earthquakes remains "a scientific challenge," which meant that its ability "to evaluate and mitigate risks from hydraulic fracturing-induced seismicity ... is also a challenge." Still, Business and Energy Secretary Jacob Rees-Mogg last week told lawmakers that "We need to revisit the seismic limits to ensure that shale gas extraction can be done in an effective and efficient way." That's despite the Conservative party's 2019 election manifesto pledge to keep the fracking ban in place "unless the science shows categorically that it can be done safely."

• London also firmly supports more upstream exploration and production in the UK Continental Shelf (UKCS), although new projects will need to be greener.

Truss' government has firmly stated it supports new oil and gas developments to increase UK energy security. Around 100 new exploration licenses could be made available within weeks. But even then just maintaining production, let alone increasing it, looks a challenge. These licenses will also be subject to environmental and climate change tests. London published its climate compatibility checkpoint list on Sep. 22. Politicians have acknowledged that some "future" oil and gas developments may not be compatible with the UK's net-zero 2050 plans, so the checkpoint list is a green gatekeeper. The final decision to award licenses falls at the feet of the North Sea Transition Authority (NSTA).

Under a North Sea Transition Deal (NSTD) agreed in March 2021, London set out a path to achieve a managed energy transition. In the NSTD, the upstream oil and gas sector committed "to reduce emissions from oil and gas production by 10% by 2025, by 25% by 2027 and by 50% by 2030 (all relative to a 2018 baseline), as measurable steps to a net-zero basin by 2050." The NSTA projections indicate the sector is on track to meet the interim targets but it said recently that "bold measures" would be needed to hit the 2030 goal.

London says the checkpoint list is based on three structural points. First, the sector must demonstrate that its greenhouse gas emissions are in line with the NSTD's targets. To bring down emissions, options such as electrification of oil and gas platforms are being considered. Second, the checkpoint calls for UKCS operators' emissions intensity to be benchmarked against other international jurisdictions; for oil, it will be a global average of all oil producers, while for gas, it will be based on UK gas imports. Last is a checkpoint covering whether the UK will remain a net importer of oil and gas, and what volume of oil and gas the UK will need under projected forecasts and under carbon budgets.

• Truss campaigned on reining in or reassessing the pace of the UK's legally binding net-zero 2050 trajectory — and that review is now under way.

Less than a year after the government published its net-zero strategy, Rees-Mogg has tasked MP Chris Skidmore to review the UK's plans and identify "new ways to deliver the legally binding target by 2050 in a way that is pro-business and pro-growth." Such aims point to Truss seeking to apply the brakes to the UK's net-zero plans, leaving more work to do later.

The review has been sanctioned despite the government's own independent climate advisers, the Committee on Climate Change, finding that the UK is veering off-track to meet legally binding carbon budgets, with concrete action falling behind targets. In a progress report published in June, the Committee found "policies are now in place for most sectors of the economy, but a thorough review of progress finds scant evidence of delivery against these headline goals so far" — with "the likelihood of under-delivery" high in most areas. Skidmore's review is due to take three months.

• London has pledged no fresh windfall taxes on oil, gas or utility companies, but does plan to ease restrictions on onshore wind.

Unlike plans proposed by the European Commission — and supported by member states — the UK government has decided to increase government borrowing instead of imposing a windfall tax on energy companies making extraordinary profits from extremely high gas and power prices. This gamble may backfire as the pound crashed to its lowest level ever against the US dollar this week — prompting the Bank of England to intervene in bond markets — as markets unfavorably digest the UK's mini-budget and energy price crisis plans. In a side note to the mini-budget published last Friday, the government said it supports the "deployment of onshore wind, by bringing planning policy in line with other infrastructure to allow it to be deployed more easily in England." This would entail easing planning rules and streamline environmental impact assessment processes.

Jason Eden, London

CLOSING ARGUMENTS

UN's Paralysis, Italy's Challenge to Europe

UN: Security Council Vetoes Itself Into Irrelevancy

The ongoing war in Ukraine dominated this year's UN General Assembly, exposing a massive gulf between those nations opposing the Russian invasion and those who oppose sanctioning Russia for its actions. While the General Assembly debate provides a forum for rhetorical flourishes, the nuts and bolts underpinning the world community's response to the war is the sole purview of the UN Security Council. Here, however, the will of the international collective runs into the brick wall of reality — that is, the veto rights possessed by the Council's five permanent members: the US, UK, France, Russia and China.

From its very inception, the Security Council has been hampered by these members' power to veto any proposals with which they disagree. During the Cold War, the ideological divide between East and West played out in its chambers, with each side blocking any initiative deemed to be counter to their own best interests.

In the final years of the Soviet Union, the Security Council manifested itself in the form of a global coalition assembled for the purpose of evicting Iraq from Kuwait. But this window of Security Council unity soon closed, with the Council once again blocked from decisive action by the veto authority of the permanent five.

Fundamentally at issue is the inability of the Council to police itself: In short, if a permanent member behaves in a manner that would normally warrant Security Council intervention, that member's own veto authority forestalls any action being taken. The US invasion of Iraq in 2003 and the Russian invasion of Ukraine in 2022 stand out as prime examples of actions that normally would beg for Security Council intervention, but because the perpetrator of the events in question wields a veto, paralysis ensues.

This systemic impotence has resulted in the permanent five seeking alternative venues for action — with the US, UK and France gravitating toward Nato and the G7, and Russia and China embracing the Shanghai Cooperation Organization and Brics. The power of intervention once exclusively bequeathed to the UN Security Council is instead being assumed by regional authorities whose interests and motivations do not necessarily align with the collective UN. The Security Council is in danger of becoming irrelevant, and with it the UN as a whole.

Italy: National Sovereignty Trumps European Integration

The victory of the right-wing coalition led by Giorgia Meloni's Brothers of Italy party in last Sunday's national election in Italy has sent a cold chill through Europe and the US. The Brothers of Italy won an estimated 26% of the vote and now stands poised to form a viable governing coalition with other right-leaning political parties, with Meloni on the path to become prime minister. Europe is nervously awaiting the fallout from an election that will put Italy on a potential collision course with Nato, the EU and the G7.

Under outgoing Prime Minister Mario Draghi, a former president of the European Central Bank, Italy had positioned itself as a leader within the framework of the EU — leveraging Draghi's stature and Italy's position as Europe's third-largest economy into the kind of political influence Italy had been unable to exert prior to Draghi's tenure. Draghi had played a significant role in formulating the EU's pandemic recovery plan, and under his leadership Italy helped craft the EU and G7 sanctions-based responses to Russia's invasion of Ukraine.

Meloni, by way of contrast, has put the EU on notice that, in her words, "the free ride is over." While Meloni has toned down past rhetoric calling for Italy's exit from the eurozone and describing EU institutions as "rotten to the core," she remains a hard-core euroskeptic whom many European leaders fear will spearhead a continentwide political transformation away from integration in favor of national sovereignty. More immediately, one of Europe's biggest concerns is whether a Meloni-led Italy will continue to support Ukraine materially and financially in its ongoing conflict with Russia. Shortly after the election results became known, Meloni tweeted that Ukraine "can count on our loyal support in the cause of freedom," echoing her long-held position in opposition to Russia's invasion.

But having run on an "Italy first" platform, squaring the economic needs of the Italian public with the costly policy of sanctioning Russia could be a challenge, especially considering that the two other right-leaning political parties that will comprise a Meloni-led coalition have historically encouraged better relations between Italy and Russia. That said, support for each of those two parties — the League and Forza Italia — dipped below 9%, potentially diluting their voices. Meloni also emphasized issues like identity and immigration in her campaign, not EU membership or relations with Russia — and may not wish to rock the EU boat and jeopardize access to EU finance, given Italy's struggling economy.