Energy Intelligence

VOL. 33, NO. 40
OCTOBER 6, 2022
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ENERGY COMPASS®

CONTENTS

THE BIG PICTURE

The Geopolitics of Vienna

- *Opec-plus' decision to cut 2 million barrels per day — around 1 million b/d in real barrels — underscores Saudi-Russian unity in the producer group, even as Russia and the West engage in all-out energy war.*

- *The cut further strains US-Saudi ties after a short-lived rapprochement, and signals rising consumer-producer tensions.*

- *It also emphasizes Saudi Arabia's wish to keep a firm hand on the market's reins, after Brent futures had dipped into the $80s.*

The world is being buffeted on a weekly basis by an escalating energy war between Russia and Europe that has sent natural gas prices spiraling, kept oil prices elevated and fueled runaway inflation pressures. After last week's apparent attacks on the Nord Stream pipelines linking Russia to Europe, this week's twist involved a sharp Opec-plus cut in open defiance of US pressure — and an equally sharp reaction in Washington that included official accusations that the group was siding with Russia, further sales of strategic oil reserves and some inflammatory rhetoric from Congress.

Opec-plus insisted its decision was purely technical: When Saudi Energy Minister Abdulaziz bin Salman was asked at the post-meeting press conference in Vienna whether the group was using energy as a weapon, he replied, "Show me where is the act of belligerence." The group's communiqué, released after ministers' first in-person meeting since early 2020, described their decision as a "proactive" step intended to provide "long-term guidance" to the oil market. "A recession is one of the challenges we are looking at," United Arab Emirates Energy Minister Suhail al-Mazrouei told reporters.

Yet there's no doubt that the tense geopolitics of the Ukraine crisis defined the context for this week's meeting. The cut came as plans for a G7-backed price cap on Russian oil exports advanced. The cap is opposed by Moscow for obvious reasons, but also by other Opec-plus producers, who oppose and resent the run of overt interference — or challenge — by consumers in oil markets.

EU sanctions on Russian oil imports are coming up, and Opec-plus delegates portrayed a need to build extra spare capacity to protect against future supply disruptions. The decision also reinforced the priority attached by Saudi Arabia and others to preserving Opec-plus as a broad group, viewed as essential for effective market management. Moscow is part of that equation; Washington is not.

Lastly, the cut highlights wider shifts in global geopolitical dynamics. It shows "that these [Opec-plus] countries will make up policy that's good for them, and the US has to come along," says Theodore Karasik, senior adviser at Washington-based think tank Gulf State Analytics.

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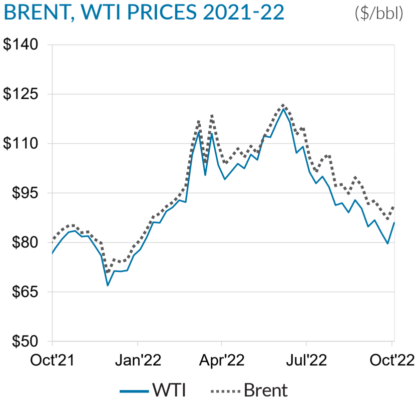
BRENT, WTI PRICES 2021-22 ($/bbl)



Source: CME, ICE

At Loggerheads

It was abundantly clear, however, that the US did not view the cut as a constructive act of market management. The White House said President Joe Biden was "disappointed by the shortsighted decision by Opec-plus to cut production quotas while the global economy is dealing with the continued negative impact of [Russian President Vladimir] Putin's invasion of Ukraine." White House spokesperson Karine Jean-Pierre told reporters it was "clear" Opec-plus was "aligning with Russia." The US and its allies see high oil prices as supporting Russia's war in Ukraine, counter to its price cap aims.

The events underscore the extent to which the US-Saudi relationship seems to have slipped from its foundations. The US has long looked to the kingdom to manage the oil market in a way that keeps the global economy ticking over, even if that process hasn't always been smooth. The US' half of the bargain centered on providing a security guarantee to the kingdom and the region to ensure the free flow of oil from the region.

The question is how far this relationship's flexibility can stretch, and what happens at the limits. The Biden administration has repeatedly knocked on Saudi Arabia's door to request that it help ease oil price pressures, including recent last-minute lobbying to reverse this week's well-signaled cut.

Yet from Riyadh's perspective, Washington did its fair share to erode the arrangement first — it had steadily cut its footprint in the region, withdrawing from Iraq and Afghanistan, and shifting from force deployment to force projection. Former President Donald Trump's response to 2019 attacks on Saudi oil infrastructure was underwhelming. Relations with the current administration got off to a bumpy start, after Biden called the kingdom a "pariah" and avoided direct engagement with Saudi Crown Prince Mohammed bin Salman over the murder of journalist Jamal Khashoggi. Biden's decision to visit to the kingdom in July was followed by the slightest of Opec-plus supply increases — only 100,000 b/d for one month — as well as a resumption of US talks on lifting nuclear-related sanctions on Iran, Saudi Arabia's archenemy.

In Moscow's eyes, this week's agreement reinforces the broader strategic value of the Opec-plus alliance, alongside other institutions challenging US hegemony such as the Shanghai Cooperation Organization and Brics. This marks a significant shift from six years ago, when Russia joined forces with Opec amid deep skepticism that the tie-up would last — or even two years ago, when Moscow attempted to walk away from the group.

But Opec-plus membership is now giving Russia much more than strategic clout. Moscow wants higher prices to support its income — and give it the flexibility to offer discounts on oil displaced from Europe to customers from friendly countries such as India and China. With prices at $84 on Sep. 26 ahead of the first reports that Russia backed a sizable cut, Wednesday's action effectively put $10 back on the barrel.

What Next?

While Russia and the West have been engaged in an open energy warfare in recent months, tensions between Opec-plus and consumers have only been simmering. Some sort of escalation is possible: The White House said it would "consult with Congress on additional tools and authorities to reduce Opec's control over energy prices," seen as a reference to long-stalled, anti-cartel "Nopec" legislation, which would make foreign state-owned firms subject to US antitrust action for holding back oil supply or setting prices.

Washington said it would also consider further Strategic Petroleum Reserve releases. And the *Wall Street Journal* reported this week that US officials are discussing an agreement that could allow Venezuela's exports to rise if there is political progress with Venezuelan President Nicolas Maduro.

Yet Washington will be cautious in its reaction. Any fuller, open retreat from its Mideast security role would be a major shift — one that it is unlikely to make now, or anytime soon. The Mideast Gulf region's importance to global oil markets has been elevated by the Ukraine crisis, given Russia's use of energy as a weapon, Europe's drive to wean itself off Russian oil and gas, and Washington's longer-term objective to degrade Russia's position as an energy superpower. Strategically, any US retreat from the Gulf would further challenge the US' global influence, at a time when the world seems to be splintering into multipolarity.

Jill Junnola, London

POLICY

Price Cap Moves Forward, Questions Remain

The G7's price cap is coming into effect amid freshly precarious oil markets, as Opec-plus readies a 2 million barrel per day supply cut from November. The European Council adopted the framework for the cap as part of the EU's eighth sanctions package targeting Moscow for the invasion of Ukraine. Other G7 members are expected to enact similar supportive measures soon, and US officials taking *the lead are trying to explain the policy. Still, as the cap takes shape, industry officials from international oil company executives to traders remain confused about the objectives, doubtful that the system will work, or both.*

• Details on the price cap are becoming clearer.

The price cap is meant to ease the pressure of the EU's forthcoming ban on its companies providing services like finance and insurance for cargoes of Russian oil — given that G7 countries provide those services for the vast majority of the global fleet of oil tankers. The objective is to keep Russia's oil flowing to countries outside the G7 and its revenue down. Any oil priced under the cap qualifies for the exemption. Service providers must attest that the price is under the cap and keep documentation, but they don't need approval from a regulator before carrying out the transaction.

EU officials hammered out the details, with a few changes. Price caps will now take effect for crude on Dec. 5 and products Feb. 5, in line with the EU's embargos. Shipping itself is now prohibited, along with services. And landlocked countries like Hungary, which have an exemption to the EU import embargo for piped Russian crude, are exempted from the price cap.

• But not everything is settled, including the price.

G7 officials need to agree to one very soon, given that contracts are being signed now for delivery in December. Officials want the price high enough that Russia keeps the oil flowing, so they are considering Russia's "higher cost wells as a data point," the US Treasury Department's Ben Harris said Wednesday at the Energy Intelligence Forum. They're also looking at prices Russia has accepted in the past "going back five years, seven years," he said. And they want to dent revenue. Break-even points or the budgeted prices by Russian firms are viewed as messaging.

Some more technical questions are also outstanding. Those include how to handle transactions where Russian crude is blended with others. That's a concern for the Caspian Pipeline Consortium (CPC), which carries Kazakh crude through Russia to a port on the Black Sea, blending in some Russian crude along the way. The CPC pipe has suffered multiple interruptions this year.

G7 officials are also working on how to consider forward contracts under the price cap scheme; what the price cap includes — as in, whether transportation should be part of the price; and how to allocate capped Russian barrels if the policy is successful and demand for discounted barrels outstrips supply.

• The desire to keep oil flowing means enforcement will look very different than it does for Iran sanctions.

With US sanctions on Iran and Venezuela's oil output, the objective was to cut off revenues by cutting off supplies. Enforcement involves, in the case of Iran, tracking down an evolving list of trading companies and other facilitators in Hong Kong, Malaysia, the United Arab Emirates and elsewhere and blacklisting them.

That won't work if the objective is to keep the oil coming. Service providers involved in transactions of Russian oil are essentially given the benefit of the doubt — "safe harbor" in legal terms — under the new structure, so long as they confirm the selling price is under the cap with a credible party in the transaction. That could be the buyer, such as a refiner, or an insurance provider.

Traders have raised the possibility of a buyer outside the G7 remitting a kickback to Russia outside the price-capped transaction. That transaction isn't allowed, but for now there aren't secondary sanctions that would enable Washington to target buyers for lying to the service providers.

Others note that with buyers like India and China setting up alternative oil transport systems, Russian oil could be traded without oversight from G7 countries. That's a feature, not a bug, Harris said: "We can have a successful price cap without a single barrel traded under the cap," so long as the policy provides leverage to countries like India and China — which aren't expected to join — to continue earning discounts on Russian oil.

• There are risks it could backfire, potentially taking more oil out of the market than Western governments are comfortable with.

The perception from several in industry is that it gives Russian President Vladimir Putin more options for disruption. "It's a way to give the leadership back to Vladimir Putin, and I would never do that," TotalEnergies CEO Patrick Pouyanne said Wednesday. And some see the looming price cap as having given impetus to Opec-plus' new 2 million b/d cut (in reality a 1 million b/d cut) (p1).

The argument from proponents of the cap is that Russia can't afford to shut in millions of barrels per day because of both the hits to revenue and the potential damage to its fields. And Moscow risks hurting so-called "friendly" countries like China and India much more dramatically than it does G7 countries if it shuts in barrels on a large scale. Prices will spike universally if Russia removes its barrels. But the damage will be more acute for countries that are more politically aligned with Russia, and currently taking its discounted barrels, than it will be for the West.

There's also the more basic risk that service providers are too uncomfortable with the new sanctions system to participate. Then, Russian barrels would drop out of the market because the alternative shipping system isn't robust enough to carry all of the country's exports

Longer term, there's a risk that sanctions become tougher. Already, there are two proposals in the US Senate to impose secondary sanctions on any country buying Russian oil outside the cap, although a Senate staffer argued strict enforcement of the cap could keep more Russian barrels on the market.

Emily Meredith, London

GEOPOLITICS

Europe's Energy Resilience in the Crosshairs

- *Blasts on the Nord Stream gas pipelines have accentuated fears about Europe's energy vulnerability, and left the EU scrambling to respond.*
- *Infrastructure security in Norway, now Europe's largest energy supplier, has taken center stage — but other facilities are vulnerable too, both from conventional and cyber attacks.*
- *The sharpening energy security concerns come as Opec-plus has also agreed to a 2 million barrel per day oil production cut, tightening the market.*

The Issue

The blasts on the two Nord Stream gas pipelines last week, followed by the sighting of unidentified drones near North Sea oil platforms, have put Europe's energy industry on edge. It was already learning the hard way to live without cheap, abundant and reliable Russian gas. The fear now is that the Ukraine war could spread to attacks on other oil and gas facilities and infrastructure. Russia denies responsibility for what happened, and blamed the US. But it has brought into sharp focus the vulnerability of Europe's energy infrastructure.

Energy Lifelines

"The acts of sabotage against Nord Stream pipelines have shown how vulnerable our energy infrastructure is. For the first time in recent history, it has become a target," EU Commission President Ursula von der Leyen told the European Parliament on Wednesday. "Pipelines and underwater cables connect European citizens and companies to the world. They are the lifelines of data and energy."

Shell CEO Ben Van Beurden, speaking at the Energy Intelligence Forum on Tuesday, warned against complacency. Referring to the 2019 missile attacks on Saudi oil pipeline infrastructure, he said Europe could not expect to see the kind of containment and turnaround that Saudi Aramco pulled off at the time. "Prevention here is going to be absolutely essential. And I hope it won't come to this, but we better be ready for a situation where a significant amount of infrastructure is [threatened]."

Nato allies around the North Sea have stepped up precautionary security measures in the wake of the Nord Stream attacks and drone sightings around installations off Norway and Denmark. The UK and Norway have outlined measures such as beefing up military surveillance at offshore oil and gas platforms and closer cooperation on intelligence sharing. Other steps that the EU plans to take include identifying infrastructure weak points, conducting "stress tests" and improving its capacity to respond to outages. But some observers are skeptical.

"Energy infrastructure is built and managed by private entities, there's not always as much coordination with government as there should be, and there are not in many cases very high standards for physical or cyber security," said Jason Bordoff, the director of Columbia University's Center on Global Energy Policy, speaking on the sidelines of the Forum.

Protecting Against the Unknown

A key problem is that without a clear picture of what happened — and Russia has dismissed accusations that it was behind the attacks as stupid — it is harder to formulate a response. Whoever is responsible, sabotage of the pipelines sends a message that there is no going back to the status quo ante. One theory holds that Russian President Vladimir Putin wanted to send that message, not to the West, but to Russians in the energy industry who oppose the conflict.

Incidents on other pipelines still sending Russian gas to Europe can't be ruled out. These include the Brotherhood pipeline through Ukraine, and Turk Stream, which runs under the Black Sea to supply Hungary, Serbia and Turkey. The latter could be spared as Gazprom uses it to supply Hungary, Serbia and Turkey, all countries viewed by Russia as "friendly." But disruptions to flows here could also suit Moscow's agenda, sparking pushback within the EU over Russia sanctions.

Uncertainty about Russian energy flows to Europe — compounded by Gazprom's decision to halt 20 million cubic meters per day of gas supplies to Italy's Eni on Oct. 1 — is only likely to grow as Ukrainian forces continue to make battlefield gains and the planned EU embargo and G7 price cap on Russian oil exports loom (p2). And with the conflict intensifying, the risk of attacks on Europe's non-Russian energy infrastructure also rises. Besides North Sea oil and gas platforms, pipelines carrying Algerian gas to Europe, LNG regasification terminals and oil import terminals are all potentially vulnerable.

Hitting such targets would represent a massive escalation, triggering all sorts of retaliation, and is therefore unlikely, argues Bordoff. "But nobody knows how this conflict is going to end, and it was less than a year ago that people were saying Putin would never cut off energy supplies, that he's always been a reliable supplier. So many of our assumptions need to be rethought."

Cyber Fears

Cyber security has emerged as a key vulnerability in energy systems and there are heightened concerns among operators in Norway — now the largest supplier of gas to Europe — about the risks. Norway's prime minister, Jonas Gahr Store, said last week that measures had been taken to enhance his country's resilience to cyberattacks, while Offshore Energy UK (OEUK) insists cyber security is an ongoing activity that has been an area of focus since before Russia's invasion of Ukraine on Feb. 24.

But the attacks that crippled fuel distribution firms and terminals in Europe's main oil hub just a few weeks before the invasion were a stark reminder of the potential for disruption. Oil product flows in Belgium, the Netherlands and Germany were hit, with Antwerp particularly badly affected and many cargoes diverted to other terminals. Just eight months earlier, a ransomware attack caused the 5,500-kilometer Colonial Pipeline, the largest in the US for refined products, to shut down, with the FBI tying it to a group thought to be operating out of Eastern Europe or Russia.

New technologies are certainly helping mitigate potential threats, says Dutch energy infrastructure adviser Marcel Kramer. "With digitization, with sensoring, with monitoring, already a lot is possible. But that may not be enough to stop these attacks. The technologies help to fend off some of the risks, but at the same time the risks are greater."

Simon Martelli, London

MACRO TRENDS

The Fight Over the Energy Transition Narrative

- *Amid the current energy crisis, producers are warning of the dangers of underinvestment and the risks of an overambitious energy transition.*
- *But not everyone is learning the same lesson: In Europe, gas no longer has a reputation as a cheap, reliable energy source and renewables build-out is seen as a security issue.*
- *The dueling narratives could collide at the COP27 summit in Egypt in November, where producers are expected to have a bigger voice than at last year's Glasgow climate talks.*

The Issue

This year's COP27 negotiations will take place against a very different backdrop from climate talks held in Glasgow last year. These days, high-level climate-related conversations often start with a preamble about the impact of today's energy prices on households. And officials from COP27 host Egypt said the country wanted more input from industry, a stark reversal from Glasgow climate talks.

Different Paces, Different Lessons

Still, producers themselves don't deny that business as usual is no longer possible: Most have their own net-zero targets and are deploying renewables. But they also warn of the risks of moving too fast, and advocate for more fossil fuel investment.

Saudi Aramco CEO Amin Nasser, speaking at the Energy Intelligence Forum, stressed the importance of investing in gas and crude — decarbonized — and renewables. "When renewables are ready, you can phase out crude and gas ... but make sure they are ready first. And this is where I keep saying we have a flawed transition plan."

Mideast oil producers can also appear to feel vindicated by the current energy crisis. "As progressive as they were in Europe on calling for only green ... they have been shaken by the fact that there needs to be significant investment in oil and gas to ensure the stability of energy markets," Saudi Arabia's investment minister, Khalid al-Falih, told Energy Intelligence last month in New York.

That's hardly a universal read of the problem. "This crisis has underscored the importance of moving to clean energy solutions so we are not under the thumb of petro-dictators," US Energy Secretary Jennifer Granholm said last month. "In this moment of emergency," everyone understands that the movement to clean energy is about the climate, but also "energy security," she said.

And among environmental groups and climate scientists, there is a fundamental belief that anything short of all-out is too slow. Environmental activists believe the industry has been listened to for too long, with decades in the fight against climate change lost in the meantime.

Dueling Narratives

The to-and-fro over the narrative of the energy transition may partly reflect that the term is too broad. One part of the transition is deploying more renewables. This is hard to argue against given falling costs in the sector, and how renewables are helping to cushion the blow of Russia's supply cuts. Indeed, if Europe had moved faster and built bigger on renewables, it would be less vulnerable now.

The other side of the transition is the phasing out of fossil fuel supplies — and, importantly, of fossil fuel demand, replacing it with renewables. Even ahead of Russia's Feb. 24 invasion of Ukraine, these appeared to have gotten out of sync in the post-Covid-19 lockdown economic recovery, sending prices higher.

Referring to the energy sector's state of flux, Varo Energy's Dev Sanyal told the Forum that "We are here for a reason. There was an underinvestment in the old, and a lack of demand for the new."

What's needed, argued Jason Bordoff, director of Columbia University's Center on Global Energy Policy, is more thinking in this "interim period" in the transition about "how we are investing in ensuring that energy can be secure, affordable and reliable" so that the investments — given the world's limited carbon budget — "do not undermine or reduce the chances" of limiting global warming to 1.5ºC. This is a "real conundrum that we have to grapple with, I think more than we are," he told the Forum. On the oil and gas side, that may be investment in infrastructure that "can be repurposed for clean energy," or has a shorter payback period so it can be retired earlier, Bordoff said.

No 'Gas COP'

The policy focus in Europe is very much on speeding up renewables deployment as much as possible, with a faster phasedown of gas than previously planned, even as investment is being undertaken in the near term to replace Russian supplies. As European Commission President Ursula von der Leyen argued last month, Europe made a mistake by not diversifying away from fossil fuels after the oil crisis in the 1970s and instead continuing subsidies. "We are still paying for this today," she said.

Indeed, Washington and Brussels appear to be doing what they can to counter the perception that the upcoming conference is the "Gas COP," as Washington-based research analyst Kevin Book put it recently. Last month, US Climate Envoy John Kerry announced a project that would see 5 gigawatts of gas-fired power in host country Egypt shuttered while 10 GW of renewables capacity is deployed, although just short of half of the $200 million in concessionary financing has been secured.

There is also little sympathy in Europe for the argument among some producing countries, investors and conservative US policymakers that climate-related environmental, social and governance (ESG) targets are the cause of the current price crunch. Voters in Europe largely accept that the science of climate change is true, and action is needed, with ESG not viewed through the same partisan lens as the US.

Questioning investments in oil and gas is increasingly seen as good business in Europe, rather than idealistic or ideological. Moreover, the ESG blame game ignores that underinvestment has been a concern for years, prompted by a tapering off after the 2014 price crash that is emblematic of oil's typical boom-bust cycle.

Challenges Aplenty

With a focus on implementing previous pledges, the success of this year's COP will depend on outlining a viable pathway for countries of all income levels to reduce their emissions. This is harder, however, with governments around the world boosting their use of coal and massively expanding fossil fuel subsidies — something they had agreed to phase down in the Glasgow Pact last year. At the very least, the optics confuse the message.

The current energy crisis is also making the financial aspects of the transition more difficult for many developing countries, Mafalda Duarte of the Climate Investment Funds said on the recent Columbia Energy Exchange podcast. To pay for higher energy costs, countries are incurring more debt and their interest rates are increasing, all making for less money to spend on transition projects. "This makes the climate discussions and certainly COP27 extremely challenging," Duarte said.

Emily Meredith, Ronan Kavanagh, and Amena Bakr, London

POLICY

Focus in US Shifts to Permitting After Legislative Wins

- *The US passed more than $800 billion in clean energy spending over the past year and a half.*
- *The legislative wins take some of the spotlight off Congress regardless of how US midterm elections play out next month.*
- *Question marks hang over converting the massive cash infusions into a clean energy build-out, setting up a heightened focus on permitting and siting.*

The Issue

Passage of significant climate spending means that for once, comprehensive climate legislation is not at stake in the US election on Nov. 4. But as focus shifts to ensuring the voluminous clean energy spending is not wasted, expect policy fights that have erupted over permitting reform and transmission siting — key to clean energy deployment — to intensify in Congress and trickle down to states. More focus will also be on executive action as US President Joe Biden looks for ways to close the 10% emissions cuts gap between what legislation achieves and the

US' 2030 target — and on the Conservative-dominated Supreme Court, should it push back.

Permitting Fight Heats Up (Again)

After the passage of the Inflation Reduction Act (IRA) and last year's infrastructure bill, legislative climate action likely now stays on the margins for several years. But permitting and transmission policy could be the exception. A bill to overhaul permitting for both oil and gas and clean energy projects spearheaded by Democratic US Sen. Joe Manchin failed last month. Manchin pulled the bill himself minutes before a Senate vote over strong objections from both sides of the aisle.

But policy watchers say the issue itself is far from dead. Clean energy advocates say reforming the way large projects are authorized in the US is sorely needed to upgrade aging transmission systems and get more clean energy onto the grid — and deploy the scores of projects in line for newly minted tax credits. "The permitting piece is top of mind — with all of these incentives, can we get things built?" said Lori Bird, director of the World Resources Institute US energy program.

That's easier said than done politically. Manchin's bill failed because left-leaning Democrats are dead set against locking in oil and gas pipelines and Republicans are embittered over the Democratic-only IRA bill. US partisan discord over energy isn't dissipating anytime soon — and may worsen if oil prices rise with the latest Opec-plus production cuts, making a compromise on permitting reform a daunting prospect.

Other possibilities include beefing up climate resilience in a forthcoming farm bill, and ensuring agencies are amply funded to implement the new climate and energy programs in the IRA and last year's infrastructure bill. The administration likely puts its "focus on implementing the bills they have before they [the administration] go back to Congress," said Samantha Gross, director of the energy security and climate initiative at the Brookings Institution.

Democrats do have a wish list — including a clean electricity payment program that was stripped from the IRA — while Republicans want to dismantle the IRA altogether. But neither seems likely, barring unexpected landslide election victories that see one party gain strong margins in both chambers.

Executive Action on Shaky Legal Footing

There is a substantial amount of legwork facing the Biden administration, both on implementing the new laws and leveraging regulation to cut emissions beyond the roughly 40% analysts see reduced by the IRA. That includes measures like ambitious clean car standards for model years 2027 and beyond, and climate rules for the power sector.

"We're a little concerned that the regulatory pace has fallen behind" what is needed to achieve emissions targets, said Holly Burke, spokeswoman for Evergreen Action. For example, the US Environmental Protection Agency (EPA) is yet to give a timeline for greenhouse gas standards for the power sector, with just over two years left in Biden's term.

But finalizing executive actions is not a sure thing, with a Supreme Court champing at the bit to review climate policies its conservative majority reads as overstepping federal authority. The Supreme Court in a 6-3 ruling in June threw out the 2015 climate utility regulations because it held EPA's generation-shifting approach that was not explicitly outlined by Congress.

The ruling — the so-named "major questions" doctrine — poses an acute risk to federal policies that take broader views of climate authority and carry indirect market impacts. The clean car standards for model years 2022-26 and the forthcoming Securities and Exchange Commission's climate disclosure regulations have been highlighted as potentially vulnerable.

State Politics More Polarized?

Climate advocates are particularly excited about state policy moves over the next few years. State clean energy mandates take credit for roughly half of renewable generation growth in the US since the early 2000s, and many of the buckets of funding in the two laws just passed by Congress deliver climate funding straight to state governments.

Moreover, the tax incentives in the IRA are expected to lower the cost of clean energy technologies, making them easier for states to adopt in concrete policy. Transmission policies, too, could be advanced at the state level in a way that could ease at least some line development roadblocks, although reform is still needed from federal regulators.

But there are also signs that surging energy prices and partisan climate legislation are accentuating polarization around climate and energy in the run-up to state-level elections this year, just as they are on Capitol Hill. For example, debate around whether clean energy technologies offer the same economic opportunities as fossil fuels has been a focus in states with legacy oil or gas production, including Colorado, Texas, Pennsylvania and Ohio, said Morgan Higman at the Washington-based Center for Strategic and International Studies.

Bridget DiCosmo, Washington

CLOSING ARGUMENTS

Turkey Feels the Heat, Yemen Escalation Risk

Turkey: Sanctions Pressures Start to Materialize

Three of Turkey's largest public banks last week halted their acceptance of the Russian Mir card for payments of debts accrued in Turkey by Russian tourists and business travelers, days after two large Turkish private banks did the same. The Turkish action follows the Sep. 15 announcement by the US Treasury Department that it was blacklisting Vladimir Komlev, CEO of NSPK Bank, which operates the Mir card payment system — and US warnings that non-US financial institutions that enter into new or expanded agreements with NSPK risk supporting Russia's efforts to evade US sanctions and could be subject to US blocking sanctions. That appears to have prompted Turkish banks to act to avoid possible exposure, bringing an end to Turkish banks' short-lived relationship with the Mir card.

Back in August, Turkish President Recep Tayyip Erdogan, fresh from a summit meeting with Russian President Vladimir Putin in Sochi, highlighted the progress made in opening the Turkish banking system to the use of the Russian Mir payment system. Millions of Russian tourists, along with Russian businesspeople, visit Turkey every year, and Turkey's acceptance of the Mir card streamlined financial transactions that had otherwise been hampered when sanctions imposed after Russia's invasion of Ukraine closed Russia off from Western card payment systems.

With the Mir card no longer valid in Turkey, Russians traveling and doing business there will need to turn to other methods of payment, such as cash or bank cards issued by Chinese financial institutions. Turkey did not come to this decision willingly, and Erdogan has been in contact with Putin to discuss alternative arrangements to the Mir card payment system that would allow Russians visiting and working in Turkey to carry out financial transactions worth billions of dollars every year — business Turkey's struggling economy can ill-afford to lose.

But the move means Turkey is starting to feel the pressure over its ongoing refusal to join in the Western-led sanctioning of Russia. Turkey has agreed to pay Russia in rubles for at least some of the gas it purchases, and the two nations are expanding the scope and scale of direct currency interactions that would bypass the Swift financial messaging system, whose connectivity with dollar-based transactions leaves any user vulnerable to the threat of US secondary sanctions.

With the Turkish economy in free fall, Erdogan finds himself performing an increasingly difficult balancing. The question now is what additional pressure the US is willing to bring, and at what point will Turkey be forced to pick a side.

Yemen: Escalation Threat

The threat of escalation looms over the Arabian Peninsula following the Oct. 2 expiry of a UN-brokered cease-fire in Yemen, after the Houthis and a Saudi-led anti-Houthi coalition were unable to agree an extension.

There has been no major resumption of fighting to date, and UN negotiators have encouraged both sides to respect the terms of the original agreement to give diplomacy a chance. But Houthi officials said talks to renew the cease-fire had reached a dead end, and a Houthi military spokesperson issued a direct threat to the energy infrastructure of both Saudi Arabia and the United Arab Emirates.

The cease-fire brought to light two critical factors that will define any future resumption of hostilities. First, the unity and discipline of the Houthis has been manifest. Houthi negotiators took and held a hard line when it came to demanding an end to the blockade of the strategic Red Sea port city of Hodeidah and the resumption of international flights out of the Sanaa airport.

The April ceasefire ostensibly addressed these issues, with air routes opened to Egypt and Jordan. But the Houthis have complained about restrictive implementation. At the same time, the Houthis have failed to end their siege of the strategic city of Taiz, Yemen's third-largest city. The lack of compromise shown by Houthi negotiators appears to be grounded in the confidence of the Houthi leadership in their military capabilities.

In sharp contrast, the Saudi- and UAE-backed anti-Houthi coalition has shown itself to be deeply fractured. In August, UAE-supported militia groups seized vital southern oil and gas fields controlled by Saudi-led members of the coalition in fighting that left dozens dead. While Saudi Arabia is prepared to resume punishing air strikes against the Houthis if fighting resumes, there is little enthusiasm there or in the UAE for escalating a war that has stretched on for years.

Houthi threats against the energy sector of both Saudi Arabia and the UAE are also real, with the Houthis having unleased drone and rocket attacks on such targets in the past. But still unclear is whether such threats and pressures will prompt Saudi Arabia and the UAE to soften their negotiating positions — making the threat of a resumption of a conflict a real one.