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CONTENTS

THE BIG PICTURE

Europe's Energy Trauma

- *The Ukraine crisis has shattered a fundamental tenet of EU security policy: economic interdependence fosters peace.*
- *The group is now looking to restructure its energy system — creating independence from Russia while avoiding becoming too dependent on other external sources.*
- *Managing acceleration of this clean energy transition, while providing affordable energy for the next few winters, is the key challenge.*

Russia's invasion of Ukraine has been traumatic for the EU. The war's impact has been amplified by a flurry of other "black swan" events, notes Josep Borrell, the EU's foreign and security policy chief. But Europeans are also suffering as a result of longer-term strategic misalignments that "decoupled the sources of our prosperity from the sources of our security," Borrell told EU ambassadors in Brussels this week.

"You — the United States — take care of our security. You — China and Russia — provided the basis of our prosperity. This is a world that is no longer there," Borrell said. Radical responses are now needed to adapt to the rapidly evolving threat situation and the EU needs to up its game, he said.

So far, the EU has been united on the need to confront Moscow. But recent electoral victories of hard-right parties in Europe should be a wake-up call that consensus should not be taken for granted, especially in the likely event of increased economic hardship.

There is already significant disagreement on how to confront Moscow, specifically on energy. Tensions have understandably emerged as members are impacted in different ways by sanctions on Russia. Berlin's recently announced €200 billion ($194 billion) economic support package for Germans hit by natural gas price rises has raised fears among poorer EU members that they might be left to fend for themselves.

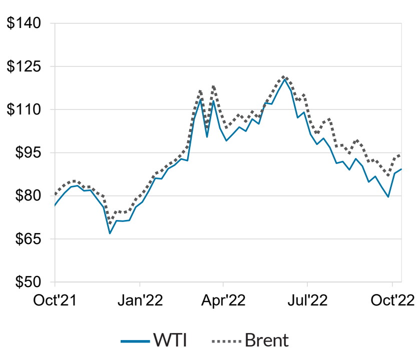
"The richest country, the most powerful EU country is trying to use this crisis to gain a competitive advantage for their businesses on the single market. This is not fair, this is not how the single market should work," complained Polish Prime Minister Mateusz Morawiecki.

Within the EU, the immediate energy policy priority is to decide on whether to implement a gas price cap. Some 15 states led by France and Spain are pushing to cap gas import prices, while Germany, which is concerned over the signal to markets such a move would send, is advocating for restraining prices to consumers, in effect a subsidy.

Funding too is a challenge — although Vaclav Bartuska, Czech ambassador-at-large for energy security, says that "as with Covid, the money issue is not the most important thing, because when states need to get something done, they get it done."

>> continued on page 2

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



Source: CME, ICE

High Stakes

As with the Covid-19 pandemic, the EU could initially stumble in coming up with an effective unified stance, but the stakes are too high for long-term failure, argues analyst Philipp Lausberg of the European Policy Centre. "Some sort of a common measure will come through.

Of that I am pretty certain, because there is no way the EU will not agree on anything." Some iteration of the German consumer-based price cap proposals will likely win the day, he believes. The oil and gas industry, producing countries and majors alike, have argued strongly against any cap on the price of internationally traded gas.

At the same time, Europe is slowly waking up to the full implications of a Russia-less energy system. As an immediate priority, the EU has been supercharging its energy diplomacy in a bid to secure short-term gas supplies to tide itself over the coming winter. Longer term, it is trying to accelerate renewables cooperation with North Africa and establish hydrogen projects both there and farther afield.

This week alone, EU Energy Commissioner Kadri Simson was in Algiers for talks on both gas and renewables, in Prague for a meeting of EU energy ministers, and due in Nicosia for a meeting of East Mediterranean energy ministers. The ramp-up in threat and scale of the challenge ahead could see Brussels assume more power, with some citing a recently approved EU gas purchasing platform as a harbinger of more centralization to come. But this will likely provoke strong resistance.

New Vulnerabilities?

Some in Europe are already warning of the risk of substituting one form of energy dependence for another. Borrell in Brussels flagged the potential vulnerability of LNG imports from the US. If a new US president "decided not to be so friendly with the Europeans," he said, the new "critical dependency" on LNG imports "could also be in crisis."

Renewables in theory offer an answer, by fostering a homegrown form of energy supply. And there is little doubt that Russia's invasion of Ukraine has given momentum to Europe's energy transition. But even here, there are risks through the EU's dependency on China for renewables supplies.

In addition to producing 90% of the rare earth metals vital for battery production and wind technology, China dominates supply chains for processing lithium, cobalt and, more broadly, cheap clean tech such as solar panels. Rare earths are in fact not that rare, but any move to rebuild supply chains for these or other critical materials will come with a hefty price tag, involving additional social and environmental costs.

"With oil you are only looking at one product, with supply chains to do with renewables, you are looking at over a 100 types of supply chains," explains Olivia Lazard of the Carnegie Foundation for International Peace. "The reliability, safety, and predictability of supply chains is gone in the current era of geopolitical fragmentation," she argues. Others claim the dependency on China is overstated: Renewable power facilities, once installed, are good for decades, they say, and lack the vulnerability created by daily supplies of fossil fuels. Put simply, a shutoff of Chinese supplies would hinder new renewables capacity, but not turn off the lights.

Regardless, the EU is starting to act, with a Critical Raw Materials Act due hopefully by year's end, says Lazard. The EU is starting to reach out to prospective partners in the developing world, but often the best extractive projects are already being implemented "by the Chinese, by the Russians, by the Indians. So the EU is coming late to the game," she says.

Rafiq Latta, Nicosia

GEOPOLITICS

US-Saudi Temperatures Rise

- *Opec-plus insists its decision last week to cut output was technical, but the US administration clearly thinks otherwise.*
- *Mounting rhetoric has seen the US threaten Saudi Arabia with "consequences," and accuse it of a "wrong direction."*
- *A complete break isn't likely. But the episode highlights the two countries' divergence, aggravated by the Ukraine crisis.*

The Issue

Opec-plus' decision to cut production by a headline 2 million barrels per day — or about 1 million b/d in practice — was met with fury in Washington, raising fresh questions about the health of the US-Saudi relationship. The two countries face a near-term divergence of interests: The US has been focused on oil prices as an electoral issue and now fears an economic recession, while Saudi Arabia has its eye on long-term market management. More fundamentally, the Ukraine war is accelerating a realignment of global geopolitics and making any oil market intervention politically charged. The energy transition is straining producer-consumer relations. But common security interests still bind the two.

Saudi Interests

Saudi Arabia argues that the Opec-plus cut — running through December 2023 — was a technical, pre-emptive move against the threat of an oil price crash at a time of extreme market uncertainty over supply and demand, and mounting fears of a recession. The cut was not a political move aimed at supporting Russia on Ukraine, Opec-plus officials say, insisting that the group is trying to avoid taking sides in the war. Opec-plus also wanted to assert control over the market, especially given recent interventions by consumer nations, some say.

All that said, the decision did show Saudi Arabia putting its own interests, including preserving the Opec-plus alliance, above those of the US. "We are concerned first and foremost with the interests of the kingdom of Saudi Arabia and then the interests of the countries that trusted us and are members of Opec and the Opec-plus alliance," Saudi Energy Minister Prince Abdulaziz bin Salman told Saudi TV last week.

Energy Intelligence understands that Mideast Gulf states shared the cut proposal with US officials ahead of the meeting, but that US lobbying before and after the meeting failed to convince them to hold off. "The Government of the Kingdom clarified through its continuous consultation with the US Administration that all economic analyses indicate that postponing the OPEC+ decision for a month, according to what has been suggested, would have had negative economic consequences," a Saudi Ministry of Foreign Affairs statement said Wednesday.

Most of Washington's Opec-plus lobbying this year has similarly failed to gain traction. Strains go back some years, with concrete differences including journalist Jamal Khashoggi's murder in 2018 and a muted US response to missile and drone attacks on Saudi Arabia.

The Biden administration's pursuit of a low-carbon future and active intervention in oil markets this year has also irked Riyadh. Facing uncertainty over the unwritten security contract between the two, the Saudi leadership has been looking to diversify its relationships by building stronger ties with Russia and the East.

US Perspective

Washington's strategic distancing from Saudi Arabia started under former US President Barack Obama (helped by rising US oil output), reversed under Donald Trump, then advanced again under Biden. Biden famously referred to Saudi Arabia as a "pariah" on the campaign trail, and did not meet Crown Prince Mohammed bin Salman for the first 18 months of his presidency. His administration's decision to prioritize reviving the 2015 nuclear deal with Iran did not go down well. At lower levels, changing political priorities mean there are fewer technical interactions that might otherwise enhance understanding, a former US government official says. "You don't have that connective tissue."

High oil prices and the Ukraine crisis' broader energy shock prompted Washington to try to reset relations with Saudi Arabia, with Biden visiting Jeddah in July. But US expectations that this would be followed by additional Saudi oil were frustrated as Opec-plus agreed to only a modest 100,000 b/d increase in September, then reversed this a month later. The administration is now focused on a looming recession and G7 efforts to impose a price cap on Russian oil exports, with a view to capping Moscow's revenues while keeping oil flowing amid EU embargos. In that context, the Opec-plus decision to take a large volume off the market and, effectively, prop up prices is viewed by Washington as unhelpful to the point of antagonistic.

White House National Security Council spokesperson John Kirby said Thursday that the US had presented analysis to the kingdom showing there was no market basis for a cut and that the group could wait for the next Opec meeting "to see how things developed."

The Biden administration has indicated that it will now "review" the relationship with Saudi Arabia to see if "it is serving our national security interests," with Biden also warning of "consequences."

Rhetoric in the US Congress has been much stronger. Bob Menendez, chairman of the Senate Foreign Relations Committee, urged the US to "freeze all aspects" of US cooperation beyond "what is absolutely necessary," adding: "Either you support the rest of the free world in trying to stop a war criminal [Russian President Vladimir Putin] from violently wiping off an entire country off of the map, or you support him. The Kingdom of Saudi Arabia chose the latter in a terrible decision driven by economic self-interest."

Security Roots

For all this, some common interests underpinning the relationship remain intact. The strategic alliance is often portrayed as centering on the free flow of oil, but revolves around maintaining stability in the Middle East, alongside US ally Israel. Riyadh sees this founding principle surviving disagreements with specific administrations. "I don't believe this relationship is broken, very far from it. This relationship is very robust," Saudi Arabia's state minister for foreign affairs, Adel al-Jubeir, told CNN Wednesday.

A US National Security Strategy document released Wednesday underscored that the White House wants to reduce "the resource demands the region makes on the United States over the long term." But ultimately, Washington has reason to be cautious in its reaction — not least because the Gulf's importance to the global economy has been elevated by the Ukraine crisis.

Some observers suggest that relations could improve after the US midterms, or bounce back under a future Republican presidency. But the Biden administration seems likely to take some steps to show its frustration unless matters somehow improve. Weapons sales might be put on hold, or the administration could be less likely to side with Riyadh against any congressional action. "We were in a much better place [after the July visit], and it's back to square one," says Karen Young at Columbia University's Center on Global Energy Policy. "I don't think there's going to be a second chance" at rapprochement under Biden, she adds.

Amena Bakr, Dubai, and Emily Meredith, Washington

POLICY

What Are US Options for Saudi 'Consequences'?

Opec-plus' decision last week to slash oil supply has ignited fury in Washington (p2). Congressional rhetoric ramped up quickly, with threats to respond to Opec-plus leader Saudi Arabia in various ways, and US President Joe Biden promising "consequences for what they've done." So what options does the Biden administration have in "re-evaluating" its relationship with Riyadh or countering the impact of oil supply restrictions?

The Strategic Relationship

• **Downgrade diplomacy:** A key Saudi grievance following Biden's inauguration was the lack of high-level contacts, which contrasted with favored status under the former Trump administration. Biden administration officials maintained for more than a year that Crown Prince Mohammed bin Salman was not Biden's diplomatic counterpart. That changed with Biden's July visit to Jeddah. But the fallout over Opec-plus policy could make maintaining relations at the highest levels more difficult again for Washington.

• **Halt weapons sales:** The US is a major supplier of arms to Saudi Arabia, a relationship that flows both ways, with income to US manufacturers. US lawmakers this week spoke in favor of halting arms sales — at least temporarily. Washington has used that playbook before, restricting arms sales during former US President Barack Obama's tenure over Saudi actions in Yemen, for example. The Biden administration initially put a pause on late Trump-term arms sales to Saudi Arabia and the United Arab Emirates, in order to review them, later approving some deals. Sen. Richard Blumenthal and Rep. Ro Khanna on Wednesday proposed legislation suspending arms sales for a year, with Blumenthal saying he hoped this "will provide an impetus for the Saudis to reconsider this [Opec-plus] action and reverse it." Riyadh argues that broader regional stability is at stake: "The sale of defensive weapons to Saudi Arabia serves the interests of the US and serves the interests of Saudi Arabia. It serves the interests of security and stability in the Middle East," Adel al-Jubeir, former Saudi ambassador to the US and now minister of state for foreign affairs, said on Wednesday in a CNN interview.

• **Withdraw troops:** This idea seems to have less currency in Washington, although three lawmakers have proposed legislation that would withdraw US forces from both Saudi Arabia and the UAE. Cutting off security cooperation would be difficult for the US, however, given the lack of progress in Iran nuclear talks and "ongoing concern about Iranian action in the region," says the Middle East Institute's Brian Katulis. "If the US is going to develop some 'Plan B' deterrence [to Iran], they need to do that in coordination with security partners like Saudi Arabia," he says.

Oil Supply

• **Release strategic stocks:** The Biden administration has made heavy use of the US Strategic Petroleum Reserve this year, selling off nearly all of the 180 million barrels announced in March. More could come, with Energy Intelligence's Research & Advisory service predicting the US could release an additional 30 million-50 million bbl by August 2023, and potentially more. "We still have many, many hundreds of millions of barrels within the strategic reserve," US Deputy Energy Secretary David Turk said Wednesday at a Columbia University conference. "We'll try to use those barrels responsibly where it makes sense and when it makes sense to keep that downward pressure [on prices] and try to stabilize the markets."

• **Expose Opec-plus to US antitrust laws:** The dust-up has revived congressional attention on decades-old legislation known as "Nopec" that would remove sovereign immunity from state oil companies for coordinating on supplies. "Are the chances of some sort of legislation that makes a bogeyman out of Opec more likely? Yes, of course," says Karen Young at Columbia's Center on Global Energy Policy. "And would the president have trouble justifying a veto? Yes." But Congress' legislative calendar is limited ahead of the November midterms and there is maybe less political momentum immediately following the elections. There are potential downsides, too, if Saudi Arabia and other Opec states respond by withdrawing from US investments to minimize exposure, or target US industry in other multilateral venues.

• **Restrict US product exports:** Energy Secretary Jennifer Granholm has repeatedly warned US refiners to increase inventories to reduce the chances of a disruption causing harm to US consumers. Turk demurred when asked if the administration was actively considering restrictions on product exports, saying only that Biden would not rule out the idea entirely. The problem, notes a former government official, is that an export restriction with immediate effect could create "upward price pressure" on global oil markets, running counter to the objective.

• **Work to increase US oil output:** The administration has pushed the US oil and gas industry to increase output, but remains at odds over policy mechanisms. Some argue that Biden could do more to reassure the financial community — which has been slow to support growth — that it wants oil and gas output in the longer term. The administration remains committed to its message of "more today, less tomorrow."

• **Ease sanctions on Venezuela:** The US has maintained sanctions restricting Venezuela's oil output since 2019. The Biden administration has made small allowances to let some oil flow to Europe in recent months, and is reportedly considering further relaxation that could enable Chevron to take crude as compensation for its work in the country. But that depends on political negotiations over the future of Venezuela's elections. "Ultimately ... our decisions are going to be driven by the choices that the Maduro regime makes," US Deputy Treasury Secretary Wally Adeyemo told the Columbia University conference on Wednesday.

• **Ease sanctions on Iran:** Chances for a nuclear deal with Iran that could add about 1 million barrels per day to global markets appear slim. A deal has always been politically complicated for the Biden administration, and becomes more so as the election nears. After the election, Washington would still need a Tehran willing to agree to controls on its nuclear program.

Emily Meredith, Washington

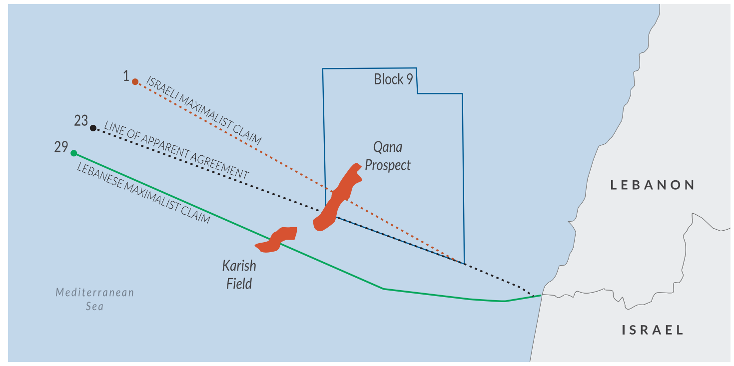
GEOPOLITICS

Lebanon-Israel Border Deal Heralds New Chapter

Israel and Lebanon are set to sign a historic maritime border deal that could encourage broader political recognition of each other while helping to de-escalate tensions between Lebanese Shiite group Hezbollah and Israel. The US-brokered deal could also indirectly facilitate the reintegration of Syria back into the wider Middle East — and improves the chances of development and cooperation across the East Mediterranean gas play. But the sensitive politics have also made for a particularly complex agreement.

• **A border deal should immediately help avoid a new war between Israel and Hezbollah, which had threatened Israeli offshore oil and gas infrastructure.**

THE ISRAEL-LEBANON MARITIME BORDER DISPUTE



Source: Energy Intelligence

Both Israel and Lebanon say the current outline satisfies their key security demands, while Hezbollah appears to have given the agreement its tacit approval. In July, Hezbollah launched three drones targeting the Israeli Karish gas field operated by London-listed Energean, having warned that so long as the border dispute with Israel prevented Lebanon from developing its offshore gas resources — namely, the Qana prospect — it would block Israeli gas development in the area.

Although the drones were intercepted, fears had risen that a miscalculation by either side could lead to another conflict. For the US, dialing down tensions in the East Mediterranean — via a deal that also further integrates Israel in the region — will be considered a diplomatic success.

Hezbollah chief Hassan Nasrallah told Al-Manar television this week that he welcomed the sea border demarcation and the group would maintain "military readiness" until a final agreement was signed. A source close to Hezbollah says that a final technical meeting will take place in the Lebanese southern border town of Ras Naqoura, with a deal then submitted to the UN.

He adds that the intervention of the French government and TotalEnergies' willingness to participate in a complex mechanism involving its Qana prospect in Lebanon's offshore Block 9, which lies in disputed waters, was crucial to advancing the deal. The proposed maritime border between Israel and Lebanon would follow the so-called Line 23. The agreement does not cover the disputed land border.

• **Political creativity has put Total at the center of an agreement between two states that do not have diplomatic relations.**

Reflecting the complicated politics, the deal leaves Total responsible for managing any future Israeli revenues from a commercial discovery in Lebanon's Block 9, home to its Qana prospect, according to an outline of the deal published in Israel's *Haaretz*: "Israel will be remunerated by [Total] for its rights to any potential deposits in the [Qana] prospect [and both sides] will sign a financial agreement prior to the ... final investment decision."

Lebanon, meanwhile, is not party to any arrangement between Total and Israel, which "shall not affect Lebanon's agreement with [Total] and the full share of its economic rights in the prospect," the deal outline holds. The entire Qana prospect will be developed by Total "exclusively for Lebanon." In essence, as far as Beirut is concerned, Total explores and potentially develops the prospect for Lebanon.

Whatever parallel remuneration arrangement Total might have with Israel is a matter for Total, the deal outline indicates. Total declined to comment. An Israeli diplomat said previously that the US had pushed the idea of private companies providing the vehicle through which a deal could be agreed.

Total has committed to drill wells in both its offshore Blocks 4 and 9, but has so far only drilled a duster in 2020 in Block 4. The French major must start to explore the Qana prospect on the deal entering into force, according to the deal outline. Operator Total and partner Eni both have 40% stakes in Qana. Russia's Novatek has relinquished its 20% stake to Beirut, which is planning to find a buyer. There are talks with Qatar, says a project source.

Israeli energy ministry officials insist that Energean's Karish field development — located south of Line 23 in Israeli waters — was never part of maritime border talks. The company is expected imminently to start flowing 630 million cubic feet of gas per day to Israel's domestic market, after flow testing completed on Oct. 9.

• A deal could pave the way for Lebanon to start receiving Egyptian gas via the Arab Gas Pipeline through Syria.

Lebanon, Syria and Egypt in June agreed to a gas supply deal, first mooted in 2021, that would see Egypt transport 650 million cubic meters of gas per year via the Arab Gas Pipeline running from El-Arish on Egypt's Mediterranean coast via Jordan and Syria to the Deir Ammar power plant in northern Lebanon.

This would alleviate chronic blackouts in Lebanon and assist its ailing economy. US officials insist that talks on the maritime border and on Egyptian gas supply to Lebanon were never linked, although Lebanese officials believe they are — pointing to delays running in tandem.

Deliveries of Egyptian gas via Syria require the US to find a workaround to its Syria sanctions — both to facilitate World Bank funding for the project and to allow Syria to claim transit fees. Doing so would represent an informal waiver of US sanctions applied under the Caesar Act, designed to maintain political pressure on the Syrian regime.

This would mark a major shift in the US position on Syria. But fatigue over Syria's 11-year civil war and its economic impact on Lebanon and Syria alike is widespread — especially with the war in Ukraine and Europe's energy crisis now in the spotlight.

The Egyptian gas supply deal also gives the US leverage to pressure Lebanon on economic reforms. "I'm confident ... that we can get gas flowing to Lebanon on a fairly quick basis if these reform steps that Lebanon has committed to taking [with the World Bank] will actually be taken," the US official said.

• A maritime border deal lowers regional tensions in the East Mediterranean gas play, which Europe has identified as an alternative to Russian piped gas.

De-conflicting the Israel-Lebanon border should in theory help attract future upstream investment. Lebanon extended the deadline of its second offshore licensing round to December after failing to attract interest earlier this year and officials believe a border deal should entice companies. Israeli exploration could also see a boost. Energean announced a gas discovery this month in its Block 31 offshore Israel, and is planning to drill the Zeus prospect in offshore Block 12. That said, Egypt's prolific offshore, and to lesser extent Cyprus', provide stiff competition for international oil companies' attention.

Tom Pepper, London, Yousra Samaha, Dubai, and Emily Meredith, Washington

COUNTRY RISK

Xi Consolidates Power as China's Challenges Mount

- *Xi Jinping will very likely be re-elected as head of the Chinese Communist Party this month and as Chinese president in March 2023.*
- *This will make him China's longest-serving leader since Mao and many see him staying in power at least until 2035.*
- *Xi's tight grip gives him the luxury of time to realize his "Great China" ambitions. But slowing economic growth may force more modest expectations.*

The Issue

President Xi has so successfully concentrated power in his hands that he is widely expected to be re-elected to the helm of the Chinese Communist Party (CCP) for an unprecedent third five-year term next week. But it will probably be his most turbulent term. His ability to steer the country's economy in the right direction, crucial to the CCP's survival, will be severely tested. Whether the "president of everything" as Xi is often called, succeeds or not, could determine how long he remains in power.

Covid Policy: To Ease or Not to Ease

CCP Congresses are secretive affairs that take place every five years to renew the party's leadership and paint in broad strokes the country's direction for the next five years. One thing that is unlikely to change at next week's Congress, but which looms large over it, is Xi's zero-Covid policy — which is being pursued even as the rest of the world opens up and learns to live with different variants of the virus.

His strict approach is partly to blame for this year's economic slowdown, with China's GDP growing by just 0.4% in the second quarter after Shanghai's two-month lockdown. Chinese oil demand is down 3.5% over the first eight months of 2022 from the same period a year ago, Energy Intelligence calculates, as mobility was curtailed. It seems increasingly likely to fall this year for the first time in two decades.

But the uncompromising policy has also failed to eradicate the problem. While this year's new symptomatic daily infections have, officially, come close to 6,000 at worst in April, chasing every case has stranded people at home and slammed consumer confidence. Still, a drastic rethink seems unlikely in the near term. State media ran three articles this week explaining that China's Covid-19 policy cannot be easily relaxed. Indeed, changing course would be painful too.

"Regardless of whether Beijing decides to start easing its zero-Covid strategy from March 2023, we expect the economy and markets to experience a difficult period, as most people will either be disappointed about no real opening or be overwhelmed by a surging Covid infection rate," notes Tokyo-based Nomura Securities.

Economic Struggles

China's economy faces structural issues, of which the unfolding real estate crisis may be the most dangerous. Property developers, unable to cope with rising debt, are defaulting and failing to deliver residential units, badly undermining confidence in real estate, which accounts for up to 30% of China's GDP. Local governments, which get revenues from the land sales, are also left struggling.

The International Monetary Fund expects investment in real estate to continue falling over the next two years, and this week downgraded its forecast for China's 2022 GDP growth to 3.2%, the country's lowest in decades, except for 2020 when Covid-19 first hit.

Chinese growth has been slowing for the past decade, prompting Beijing to push the country to move from a cheap manufacturing and export-oriented economy to a higher-value, more services-focused economy. But while China is losing out to cheaper manufacturing elsewhere in Asia, its services economy has struggled to take off.

"Domestically, after years of rapid growth, the structural and systemic contradictions within the economy have been accumulating, the traditional development model is unsustainable, the problems of imbalance and inadequate development are more prominent," noted the state *People's Daily* on Wednesday — while simultaneously praising Xi's economic achievements.

Xi's 2013 planned market reforms rapidly gave way to increased reliance on state companies. The private tech sector has been hit particularly hard, as has the widespread private tuition industry, banned almost overnight. "While unfinished policy reform work is plain to see, few analysts in or outside of China can point to evidence of impending market reform acceleration," says the New York-based research provider Rhodium Group.

Taiwan, Climate Policy Under Scrutiny

The National Congress will start with Xi's report being rubber-stamped by 2,296 delegates representing 96 million party members. If it follows the template of past CCP chiefs' reports, it will focus heavily on ideology and social and economic developments, while also discussing foreign relations, the People's Liberation Army and the environment.

In 2017, Xi told the Congress that it was "time for us to take center stage in the world" and that "a military is built to fight." His signature foreign economic policy, the Belt and Road Initiative, made it into the CCP's constitution. The 2022 Congress could also see Xi reaffirm China's rejuvenation plans, which involve reunification with Taiwan. Any change in the way Taiwan is described will be scrutinized across Asia, as well as in Washington.

Xi has positioned China as a climate leader, unveiling the country's plans at the UN in September 2020 to cap its carbon emissions before 2030 and become carbon neutral by 2060. Whether the theme makes it into this year's Congress report, however, remains to be seen. "China is facing serious economic pressures right now, so I wouldn't be surprised if climate change isn't put at the top of the agenda." Dimitri de Boer, chief China representative for NGO Client Earth, told Energy Intelligence.

In the face of slowing economic growth, Beijing is prioritizing raising refining production and exports, rather than discouraging refiners from overproducing and reducing emissions in the downstream, as planned earlier this year. Power shortages last autumn and heat waves this summer, meanwhile, have given coal a new lease of life. How Xi manages these setbacks for China's climate strategy will have far-reaching implications.

De Boer argues that the energy transition has not been set aside and the energy targets in the current five-year plan — to ramp up low-carbon energy sources by 2025 — still stand. "The severe heat waves in China over the summer are leading to stronger climate concern across society."

Maryelle Demongeot, Singapore

CLOSING ARGUMENTS

North Korea Shows Its Teeth, US-Taliban at Loggerheads

North Korea: Nuclear Pre-Emption Doctrine Becomes Reality

The fallout from failed US-North Korean denuclearization talks continues. North Korea's military has added teeth to its newly declared doctrine of nuclear pre-emption by carrying out a series of ballistic missile exercises that marked the first time the army units tasked with the operation of tactical nuclear weapons were involved in such activity. North Korean state media declared that through seven tests of these units, "the actual war capabilities … of the nuclear combat forces ready to hit and wipe out the set objects at any location and any time were displayed to the full." The exercises were in response to the resumption of joint military training involving the US, South Korea and Japan that had been suspended by former US President Donald Trump. North Korea believes these joint drills threaten its national security.

The existence of a North Korean nuclear arsenal is something the US and its regional allies have had to deal with for years now. What's different now is the specificity of Pyongyang's actions, which provide sobering clarity to what a nuclear conflict would look like. Among the weapons tested by North Korea were a nuclear-capable ballistic missile launched from an inland water reservoir. This missile, an adaptation of the highly maneuverable Russian Iskander missile, flew to a designated target over the Sea of Japan, where it detonated a dummy nuclear warhead at a predetermined altitude. The distance of the missile's flight — some 600 kilometers — had South Korean analysts assessing that the missile was simulating a nuclear air burst over the strategic port city of Pusan, where the US Navy often docks its ships during port visits to South Korea.

The North Koreans also tested a variant of its Hwasong-12 missile, which overflew Japan before terminating in the Pacific after traveling some 4,500 km. Western analysts believe that this variant could reach targets in Alaska and Hawaii, and that the test was designed to put the US on notice that any conflict with North Korea would invariably involve the use of nuclear weapons on US soil. North Korea's leader, Kim Jong-un, was present at all seven of the missile tests.

Several of the missile launches involved shorter-range systems not yet assessed as having a nuclear capability, leading some analysts to believe that North Korea was signaling a forthcoming nuclear test of a small tactical nuclear warhead that could arm these missiles, intended for use against South Korean targets. At a time when the world's attention is focused on the ongoing Russia-Ukraine war, the North Korean missile launches are a reminder that the threat of imminent nuclear conflict is not exclusively a European issue.

Afghanistan: US, Taliban Talk Past Each Other

The US resumed face-to-face meetings with the Taliban on Oct. 8, a little more than two months after breaking off direct talks following the US drone strike on Aug. 1 that killed Al-Qaeda leader Ayman al-Zawahiri in Kabul. The US priority in the talks appeared to be issues pertaining to counterterrorism, and more specifically, the Taliban's perceived failure to comply with its obligations under the 2020 Doha Agreement to never allow Afghanistan to become a safe haven for Al-Qaeda. For their part, the Taliban sought to unfreeze Afghan assets currently held in US banks.

For the US, the main sticking point during this month's round of talks, again in Doha, was the Taliban's failure to fulfill the Doha Agreement's counterterrorism tenets. At the time he was targeted in US drone strike, al-Zawahiri had been living in the home of an aide to Sirajuddin Haqqani, a senior deputy of the Taliban's supreme leader, Mullah Haibatallah Akhundzada. The US believes that the Taliban leadership had to know of the Al-Qaeda leader's presence. The Taliban contends it had no knowledge of al-Zawahiri being in Kabul, and argues that the US violated the Doha Agreement by carrying out a drone strike on Afghan soil. CIA Deputy Director David Cohen and State Department Special Representative for Afghanistan Tom West led the US delegation in Doha, with the Taliban delegation headed by Abdul Haq Wasiq, the Taliban's head of intelligence.

For the Taliban, the most pressing issue is the unfreezing of more than $8 billion in assets, including nearly $3.5 billion that had been earmarked for release to fund urgent humanitarian assistance for the Afghan people. The US and Taliban had been meeting in Uzbekistan in late July 2022 on this very issue before talks were broken off in August. The US had been seeking assurances from the Taliban that any unfrozen assets would be used exclusively for humanitarian relief, and not be diverted to fund Taliban activities or those of any terrorist groups operating on Afghan soil. The Taliban argued in turn that the funds were the property of the Afghan people and should be released to the Taliban to be used to stabilize Kabul's precarious domestic financial situation.

On the surface, the resumption of face-to-face talks is a positive step. But the fact that the two sides appear to be talking past each other could lead to a further breakdown in relations that blocks the release of any funds to Kabul. That, in turn, threatens to accelerate Afghanistan's shift back into the kind of ungoverned space that organizations such as Al-Qaeda thrive in.