

ENERGY COMPASS®

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THE BIG PICTURE

Cracks in Europe?

- *Heading into winter, questions are growing about EU unity on support for Ukraine.*
- *Polls still suggest broad backing for sanctions on Russia, but with support potentially weakening as personal costs rise.*
- *Any US wavering could have a domino effect, weakening Europe's resolve. Combined, that could lead to pressure on Ukraine to agree a settlement with Russia.*

At face value, Europe's resilience to the Ukraine crisis looks shaky. Protests about the economy are a regular fixture. Strike action is on the rise, along with warnings about deindustrialization as high gas prices force some European plants to shut down. Brussels' relatively slow disbursement of aid to Ukraine is cited by some as a sign of wavering resolve. The emergence of right-leaning populist governments is seen as another.

One Central European security researcher told Energy Intelligence that increasing pressures on EU cohesion are possible if sanctions are seen as having significant blowback on European consumers while failing to curb Moscow's ability to fight in Ukraine — creating a risk of disillusionment. Susi Dennison of the European Council on Foreign Relations (ECFR) echoed that view, pointing to the scaling up, not down, of the conflict despite sanctions — with the effect of making the EU look powerless.

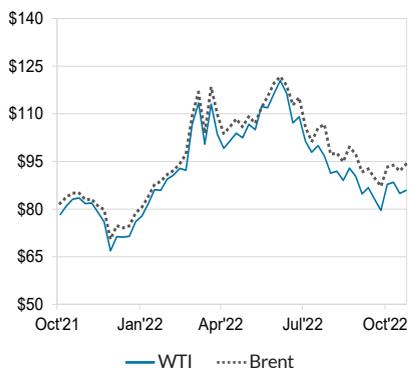
Certainly, support for Ukraine is not uniform across Europe. A recent poll by the YouGov-Cambridge Globalism project points to relatively strong support among a core of Western countries for maintaining Russia sanctions, but with Italy, Hungary and Greece as outliers. Overall support for sanctions ranged from 73% in the UK to just 32% in Hungary. The addition of a cost of living angle shaved some 10 percentage points or more from those levels.

Pressure Points?

Reversing position on Ukraine has not seriously entered Europe's political discourse so far. But Hungary's government did recently launch a populist campaign against sanctions, with posters declaring: "Sanctions from Brussels ruin us!" Zsolt Nemeth, chairman of Hungary's Foreign Affairs Committee, speaking at a Budapest event this week, argued that his country's skepticism of EU sanctions — particularly those that impact access to Russian energy — was shared by many people in places like Germany, Italy and France and even among politicians.

Yet Jacob Kirkegaard, senior fellow at the German Marshall Fund in Brussels, notes that Hungary — the EU's "weakest link" — has not vetoed any EU sanctions packages, partly because it wants to keep access to EU funds, partly because it has negotiated some key exemptions. Also, Italy's new government — a far-right coalition that includes pro-Russia parties — has not seen any shift in position so far. "Giving in to Putin's blackmail on energy would not solve the problem," Giorgia Meloni told parliament last weekend after being sworn in as prime minister. Meloni pledged to work with fellow EU members in a "pragmatic and non-ideologic" way.

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



Source: CME, ICE

>> continued on page 2

For European governments, the pressure points could be less about the status of sanctions, and more about budgets, borrowing levels and the state of economies. Where monies get spent — at home or on Ukraine — and how could also be an issue. While differences within the EU are par for the course, there have been complaints about Germany's use of its financial resources to shield its companies. "The real issue today is that Germany is guaranteeing its energy intensive producers gas for one year at 7¢ per kilowatt hour and for smaller enterprises at 12¢. And we all spend our time discussing price caps and not this thing," said Massimo Nicolazzi, of the University of Turin.

Economic Impact

The gas price shock has already led to some industries shutting down or curtailing production, prompting something of an existential crisis for European industry — particularly in Germany, the continent's industrial workhouse. German chemicals giant BASF, for example, this week warned that on top of weak growth in European demand for a decade, it now faces lower consumer purchasing power, cost cutting and reduced production in Europe.

But again, the overall picture is mixed. Outside the most energy-intensive sectors, the risk of deindustrialization is lower. Kirkegaard notes that industrial output in Germany has remained flat despite gas consumption falling by 15%–20%. Gas substitution and imports of gas-intensive components have eased the productivity blow.

Falling gas prices and high storage levels should help Europe get through this winter — particularly if Chinese LNG demand stays muted, the winter is not very cold and global recessionary pressures deflate demand. Less predictable, however, are "hybrid war" incidents that could expose vulnerabilities in European infrastructure or see further Russian energy supply cut-offs in response to lower gas prices or rising sanctions pressures.

Next winter, the situation looks more troubling. Europe needs to build storage for winter 2023–24 absent the fuller Russian gas flows of first-half 2022, and new incremental global LNG supply will struggle to keep pace with demand. There are some concerns in Europe, too, that a swing to a Republican-led US Congress in November midterms could trigger restrictions on LNG exports.

Under a scenario where energy becomes truly scarce on the continent, and cost of living issues become a major political issue, pressure would grow on governments to prioritize domestic concerns and relax some restrictions on Russia, Central European government and analyst sources told Energy Intelligence. Disputes over budget spending contributed to the collapse of governments in Italy and Bulgaria this summer.

What to Watch: Domino Effect

Muddling matters is that EU sanctions do not actually target Russian gas, although they will target Russian oil from December. Spiking gas and power prices are more the result of tight market conditions, Russia's cut-off of gas supplies, Europe's own effort to end Russian gas imports, and broad tensions over the war. While EU leaders can blame Moscow, lean into the notion of Russia at war with Europe, and roll out huge support packages for consumers, the diffuse causes mean public dissatisfaction with high prices will likely translate into dissatisfaction with the conflict and support for Ukraine.

One scenario is that weaker US support for Ukraine after midterm elections spurs a similar EU retreat, setting the scene for increased pressure on Ukraine to agree a settlement with Russia (p4). The EU and US' current position is that it is up to Ukraine to "choose the moment and the terms of the peace," as French President Emmanuel Macron put it on Sunday.

A survey back in May by the ECFR found that 35% of EU nationals supported peace now "even at the cost of Ukrainian concessions to Russia," while 22% believed that "only Russia's clear defeat can bring peace." Ideas that Ukraine should be willing to cede territory to Russia in return for peace, as floated by former US Secretary of State Henry Kissinger in May, are already popular in some parts of Europe. The ECFR warned in May that this "risks becoming the key dividing line in Europe." Chances of that happening will increase as economic pressures rise.

Jill Junnola, London, and Noah Brenner, Budapest

COUNTRY RISK

China Under Xi Jinping's One-Man Rule

- *The 20th Congress of the Chinese Communist Party (CCP) re-elected President Xi Jinping as leader for a third five-year term, with no successor in line.*
- *The Congress was watched for signs that Xi, weakened by his zero-Covid policy and belligerent foreign policy, would have to compromise with rival factions; instead, he consolidated his power further.*
- *By stacking the CCP's highest bodies with allies rather than technocrats, Xi has shown that politics matter more than economics, a risky departure for the CCP, which has long prioritized raising living standards.*

The Issue

Unanimously glowing commentaries in the Chinese state media celebrating the CCP Congress have found their match in equally striking criticism overseas. Xi last week broke with 40 years of CCP collective leadership to install loyalists at the party's top level, the seven-member Standing Committee. By doing so, he annihilated any remnant of opposition to his views and made himself China's undisputed leader for years to come. For China and the world, this could mean more reliance on the CCP, state companies and industrial policies at home — and growing geopolitical risks as Xi sees the US as trying to contain China's ineluctable rise.

Covid, Economic Uncertainties

Some had hoped that the Congress would usher in a relaxation of the zero-Covid policy that has hammered the country's economy this year. Instead, Xi noted the policy's success in protecting lives and “encouraging achievements in both epidemic response and economic and social development,” making it unlikely it will be significantly eased anytime soon.

A decision to delay the release of economic data until after the Congress was widely read as indicating worse-than-expected third-quarter growth. The data, released on Monday after the Congress ended, showed China's economy growing by 3.9% from a year ago in the third quarter, more than analysts had expected and high enough to prompt talk that the data may have been “massaged” to look better. In any case, the latest figures leave China nowhere near its initial 5.5% GDP growth target set in March. Its GDP grew only by 0.4% in the second quarter. The delayed release may also have further weakened trust in the country's data.

A severe real estate crisis and the growing possibility of a global recession also weigh on China's economic future, as do other structural issues such as China's fiscal and monetary policies.

But Xi's report to the Congress offered little remedies to China's growing economic headaches, experts say. The report included many good ideas for China, such as rural revitalization, or tax reforms, Jude Blanchette at the Center for Strategic and International Studies (CSIS) said on a post-Congress webinar on Monday. “But there is very little recognition of the hard choices that China will have to make [to achieve these],” Blanchette added.

Xi's choice to elevate Li Qiang, the Shanghai Party Secretary who oversaw the two-month lockdown of the city, to the Standing Committee and likely to Premier, is not helping confidence. The lockdown led to Shanghai's GDP falling 13.7% during the second quarter. Xi's appointment of Li, who has never held a central government post, seemed to indicate that strict application of the zero-Covid policy trumped concerns over its

economic costs. China's oil demand is already expected to fall this year for the first time in two decades on the back of Xi's zero-Covid policy. Slower economic growth ahead, combined with rapidly rising electric vehicle penetration, means China's crude imports and oil demand may have peaked for good.

National Security and Bellicose Foreign Policy

National security also appears to have taken precedence over economic development. Xi's latest report contained the word security 91 times, versus 54 times in 2017. The term encompasses both international and domestic security. This included energy security, which means that coal power will not be replaced by renewables until such plants can reliably provide energy in times of crisis such as heat waves.

The report adopted a more defensive tone internationally than previous Congress reports that focused on China's strategic opportunities. In 2022, opportunities come with risks, challenges, uncertainties and unforeseen factors.

The allusion to the US was hard to miss when Xi described China as “confronted with drastic changes in the international landscape, especially external attempts to blackmail, contain, blockade and exert maximum pressure on China.” That line came just after noting “gross provocations of external interference in Taiwan affairs,” a veiled reference to US House Speaker Nancy Pelosi's visit in August.

“Various ‘black swan’ and ‘gray rhino’ events may occur at any time,” the report added. Foreign Minister Wang Yi last month described Taiwan independence as “a highly disruptive gray rhino charging towards us that must be stopped resolutely.” In return, US Navy head Admiral Mike Gilday told the Atlantic Council last week that the US military must be prepared for a Chinese invasion of Taiwan before 2024.

Many Chinese experts believe that China is willing to be patient with Taiwan, possibly because its army may not be up to the task yet — although the Congress report called for speeding the army's modernization. Xi's report to the Congress did not signal any change in China's policy toward Taiwan, which it sees as a renegade province. No timeline was given and “peaceful reunification” remains China's favorite option, even as China will “never promise to renounce the use of force.”

Xi Alone

Perhaps most notably absent at the 20th Congress were signs of a successor to 69-year-old Xi. This means that China will likely be ruled by a hegemonic, and aging leader, for at least the next 10 years and beyond. This raises the possibility of medium-ranked officials, such as “wolf warriors” in the diplomatic field, jumping ahead to say or do things that they think Xi will want, which could be a real risk factor on issues like Taiwan or the South China Sea, Lucy Hornby, visiting scholar at Harvard

Fairbank Center for Chinese Studies, said at the CSIS event. Another risk is that of people trying to appear by Xi's side as his successor as he grows older.

Maryelle Demongeot, Singapore

POLICY

What to Watch for in US Midterm Elections

Ahead of US midterm elections next month, the US Republican party has chipped away at a gossamer-thin Democratic lead that was credited to the US Supreme Court's overturning the constitutional right to abortion. Current polling shows Republicans poised with an 82 in 100 chance to take back the US House of Representatives, according to polling website FiveThirtyEight. The battle for Senate control is much closer, with Democrats clinging to a 54 in 100 shot of retaining control of the upper chamber. A divided — or a Republican-controlled — Congress creates fresh headwinds for US President Joe Biden's policy agenda. Below, Energy Intelligence flags what to watch for if the Nov. 8 election brings big GOP gains.

- **Ukraine support could become increasingly contentious if Republicans take a majority in either or both chambers, creating more uncertainty in a conflict that has already upended energy markets.**

The top Republican in the House of Representatives, Kevin McCarthy, last week said Republicans might pull back funding for Ukraine if his party wins the majority. That's drawn blowback from Republican defense hawks, CNN reported this week, and Senate minority leader Mitch McConnell has said Senate Republicans would continue supporting Ukraine. Financial support will need both chambers to pass, though.

The issue became muddled for Democrats this week, when a group of progressive lawmakers released a letter urging negotiations to bring an end to the war. The letter was then quickly retracted, but the gesture was read by some as less than supportive for Kyiv because it followed McCarthy's funding warning and Russia's annexation of large areas in the east of the country. Any rollback of US support could have ripple effects in Europe (p1).

- **The bulk of issues in the US-Saudi relationship fall within the president's purview, minimizing the impact the midterm elections will have on bilateral diplomacy, but congressional action on "Nopec" legislation could rear its head.**

The issues troubling the US-Saudi relationship do not fall neatly along party lines. Criticisms tend to be louder on the Democratic side, and the former Donald Trump administration was widely seen as friendly to the kingdom. But Iowa's Chuck

Grassley — a Republican Senator for more than 40 years — has led the charge on the bill known as Nopec that could expose Opec countries and their allies to US antitrust legislation.

More importantly than who wins the elections might be the campaign timeline. Lawmakers have been out of Washington and on the campaign trail since Opec-plus' controversial cut decision and are not expected to return until mid-November. That could slow momentum for legislative action. But it will be harder politically for Biden to veto or lobby against a vote on Nopec than it has been for past presidents. Other areas for possible action — weapons sales, troops in the region and diplomatic interactions — all are largely up to the White House.

- **Biden's crowning climate achievement — the Inflation Reduction Act (IRA) — is a GOP lightning rod, but there is a high hurdle to actually paring back the law.**

Republicans remain extremely unhappy about passage of the massive Democratic spending bill, which housed \$369 billion in clean energy spending. House GOP lawmakers have gone so far as to make repealing the IRA law, which Biden inked in August, a central policy plank for the next Congress. "I think that is a real fear that people have and I share that," Alan Krupnick, a senior fellow at Washington-based Resources for the Future, said last week at an event hosted by the group.

If Republicans win control of the House as polling suggests, that means a lot of hearings and bills centered around dismantling the IRA. Among the most vulnerable of the IRA's energy provisions is expected to be a hotly contested methane tax on oil and gas operations, plus the minimum corporate tax of 15% on book income. While Congress has wide latitude to change tax provisions, the GOP would have to win both chambers to be able to pass legislative repeals. Even then, they are not likely to capture the two-thirds majority needed to overcome a presidential veto.

Speaking at the Resources for the Future event, White House National Climate Adviser Ali Zaidi said the administration is working to avoid any delays to implementing the law, hoping to create "irreversible" clean energy policies. "We're taking the policies and making sure the system metabolizes as quickly as possible," he said. Overall, the bread and butter of the IRA law, billions of dollars in clean energy tax incentives, are widely said to be fairly safe, without much Republican appetite to repeal them. But hefty GOP House oversight of the agencies charged with implementing the law — and their budgets — could slow things down.

- **Republican wins in key states could exacerbate GOP push-back against environmental, social and governance (ESG) issues, already fomenting in more than a dozen US states.**

A total of five states — Texas, West Virginia, Oklahoma, Kentucky and Tennessee — have enacted formal measures aimed at blocking state funds from investing in asset managers

deemed to be “boycotting” fossil fuels. Four states have adopted anti-ESG policies that are broader than oil and gas, and at least nine are considering similar laws. BlackRock, for example, has been a primary target of the state anti-boycott laws for its participation in emissions-focused shareholder groups like Climate Action 100+.

Political rhetoric around the clean energy transition in Washington is at a palpable high, which climate hawks fear could trickle down to state-level politics, widening the band of anti-ESG states. Related debates have emerged in key races, including gas-rich Pennsylvania. In the state’s closely watched Senate race, Republican candidate Mehmet Oz has vowed to cast aside the Biden administration’s “woke agenda” and ensure that capital flows to oil and gas projects are uninterrupted. And a Securities and Exchange Commission climate risk disclosure rule, also said to be on the GOP’s chopping block, is yet to be finalized.

Meanwhile, several tight gubernatorial races carry climate and energy implications, where a power change would all but guarantee a dramatic shift in state-level policy in those arenas. States to watch include Oklahoma, the US’ sixth-largest crude producer; New Mexico, which houses part of the Permian Basin; and Oregon, which often pushes left-leaning climate action.

Bridget DiCosmo and Emily Meredith, Washington

COUNTRY RISK

Iran’s Hard Pivot Away From Nuclear Deal

Ongoing demonstrations in Iran triggered by the Sep. 16 death of a young woman are now some of the most widespread and most sustained in the Islamic republic’s history — despite being met with a harsh response by the country’s hard-line leadership. In the absence of any leadership of its own, the protest movement does not represent any imminent threat to the political establishment, but it does add to the country’s long-standing economic and social woes. The latest wave of unrest along with Iranian arms and gas turbine transfers to Russia may also deal a death blow to any prospect of reviving nuclear talks.

• **Poor economic conditions and social restrictions have sustained the momentum of country-wide protests initially spurred by the death of 22-year-old Mahsa Amini in police custody.**

Six weeks following the death of Amini, who hailed from Iran’s Kurdish minority, allegedly at the hands of the country’s morality police, the wave of nationwide protests has yet to lose momentum. The revolt has spread from the capital across the country to Iranian provinces with high populations of ethnic

minority groups but also to other major cities, driven by an explosive cocktail of anger over Amini’s death, deteriorating economic conditions, social restrictions and government corruption. Crucially, the demonstrations have often directly challenged the Iranian establishment, calling for the fall of Supreme Leader Ali Khamenei and a total overhaul of the country’s political system.

Iranian women and the youth have emerged as key demographics supporting the ongoing protests, which reportedly have resulted in clashes leading to more than 230 fatalities, including almost 30 under-18-year-olds, according to the Oslo-based NGO Iran Human Rights. Schools and universities appear to be at the heart of the protests. But also reportedly joining are workers in key economic sectors, including shopkeepers and employees of refineries and petrochemical complexes in southern Iran, where operations appear to be unaffected for now. “In parts of Tehran, every day protests happen. Ordinary people are angry,” an Iranian executive in the capital tells Energy Intelligence.

The leadership has continued to crack down on what it has described as riots instigated by foreign actors. The commander of Iran’s Revolutionary Guard navy, Alireza Tangsiri, this week blamed the US, Israel and Saudi Arabia for forming a “sinister triangle” against Tehran and masterminding and directing the riots.

Detailed information on the exact number of dead and the scale of the protests is hard to ascertain. The government is imposing wide-ranging restrictions on internet usage and mobile phone calls. Internet connectivity is available on most days only during the hours from 6 a.m.-10 a.m., while mobile calls, SMS messages and messenger services such as Telegram and WhatsApp are also severely restricted most of the time. “We are in a large prison,” the executive says.

The restrictions also negatively impact economic activity and productivity, with sectors including retail, banking and health care all being impacted by the connectivity outages — a drag on an economy that’s already reeling from years of harsh sanctions, double-digit inflation and widespread corruption.

• **For now at least, the protests don’t present a fundamental threat to Iran’s political establishment.**

The extended unrest could be a sign that Tehran is struggling to contain it. At the same time, the less centralized nature of the protests also makes it harder to arrest and target particular groups or people. But it could also be an indication of some divisions within the Iranian government about the best way to respond to protesters.

What’s clear is that the leadership and the government led by hard-line cleric President Ebrahim Raisi along with the broader establishment are generally more closely aligned than was the case

during 2019 protests, when the more pragmatic and reform-minded Hassan Rouhani was president. Social restrictions, including on dress codes, have been gradually tightened since Raisi took office more than a year ago. This explains why no concessions have been offered to the protesters. On the contrary, the crackdown is likely to intensify. But this risks fueling a cycle of violence, as funerals for protesters become opportunities for demonstrations.

For Raisi, a sustained harsh response to the protests could also be a way of boosting his credentials as a guardian of the Islamic republic and a possible successor to Khamenei. There was speculation that Raisi's entering the presidential race in 2021 was an attempt to prepare him for a bigger role to succeed Khamenei, who himself was president before being elevated to the supreme leader position.

• **The prospect of sanctions relief for Iran — and its oil exports — continues to shrink.**

Tehran's response to the protests has resulted in new US and EU sanctions, while European signatories to the 2015 nuclear agreement also allege that Iran's transfer of military equipment to Russia for use in Ukraine constitutes a violation of the original pact. Amid signs of closer cooperation between Tehran and Moscow, and faced with mounting reports of Iranian drones being used by Russia to destroy energy infrastructure in Ukraine, Iranian Foreign Minister Hossein Amir Abdollahian this week denied claims about his country's involvement in the war, saying it maintained cordial relations with both sides. On Monday, the minister announced his country's readiness to hold talks with Kiev over claims that the Islamic republic had sold drones to Russia for use in the Ukraine war.

But Khamenei raised eyebrows when he praised his country's drone capabilities on Twitter on Oct. 19, without making any reference to Russia or Ukraine. "A few years ago, when pictures of our advanced missiles and drones were published, they said they're photoshopped pictures! Now they say Iranian drones are dangerous. Why do you sell them to so and so? These are feats carried out by Iranian elites. They bring honor to our country," Khamenei said.

Iranian reports that Moscow would buy 40 gas turbines from state Iranian Gas Engineering and Development Co. point to the two countries getting closer — even if Russian investment in Iran has lagged pledges. "The Russia-Iran relationship has changed — they have been shoved together now," says one close observer of regional affairs.

The mounting ties between the two countries are being watched closely by Western countries and — in combination with Tehran's crackdown on protesters — have sharply reduced any chances of the Joint Comprehensive Plan of Action (JCPOA) being revived. "As long as the crackdown is going and Iranian drones are being sent to Russia, there won't be any JCPOA talks," says the observer. That means the status quo for

Iran's exports. Crude and condensate exports have largely remained within the 700,000–900,000 barrel per day range, a senior Iranian oil official told Energy Intelligence, the bulk flowing to China and competing with discounted Russian crude.

Oliver Klaus, Dubai

OPEC-PLUS

Saudi Investment Summit Lays Out Priorities

- Saudi Arabia's Future Investment Initiative (FII) summit this week succeeded in attracting the world's business elite from both East and West despite geopolitical tension over the war in Ukraine.
- Saudi officials dismissed the notion that relations with the US are broken following this month's Opec-plus cut decision.
- The summit gave Saudi officials a platform to lay out the kingdom's priorities, which include economic diversification and achieving their set net-zero target by 2060.

The Issue

The messaging at the kingdom's flagship investment summit, nicknamed "Davos in the desert," was that Saudi Arabia's national interests will come first, the upstream sector is crucial for energy security, and the kingdom is pressing ahead with its energy transition and economic diversification plans. Strong attendance by investors and executives — including from the US — sent another message: namely that the strains in the US-Saudi relationship following Opec-plus' controversial cut decision were not a deterrent to US investor attendance. No officials from the administration of US President Joe Biden were visible at the summit. But taking a front row seat was Jared Kushner, the son-in-law of and former aide to ex-US President Donald Trump.

Pulling Out All the Stops

After two years of Covid-19 lockdowns, the FII summit this week signaled a "back to business" vibe. In what seemed to be a nod toward the net-zero trend, the conference area of the Ritz hotel was fitted with green flooring (albeit plastic grass) and the grand opening included a multidimensional animated show of leopards running in the desert in an elaborate hall decked out as a digital jungle. Similar to past FII summits, the futuristic flare was still here. Various robots roamed the hallways, including a dog robot that could apparently detect cancer through scent.

Tech gimmicks aside, Saudi officials took advantage of the chance to communicate their position after being on the receiving end of criticism from the Biden administration after Opec-plus' decision

to cut 2 million barrels per day from November, which the US said Saudi Arabia knew would increase Russian revenues. “We want to be able to manage crises and not allow crises to manage us,” Saudi Aramco Chairman and Public Investment Fund (PIF) head Yasser al-Rumayyan told the conference. This points to the kingdom prioritizing safeguarding its own national interests, projects and economic diversification aspirations under Vision 2030.

Some top bankers, on the other hand, said their biggest concern was handling risks related to the state of global geopolitics — particularly the Ukraine war and US-China relations — over and above how to manage a widely expected recession in 2023. “The most important thing is the geopolitics around Russia and Ukraine, America and China, relationships of the Western world,” said Jamie Dimon, chairman and CEO of JPMorgan Chase. “That to me would be far more concerning than whether there’s a mild or slightly severe recession.”

Saudi First

During the first day of the summit, Saudi Energy Minister Prince Abdulaziz bin Salman delivered a strong message to US officials, who have accused Saudi Arabia of taking the “wrong direction” in oil policy, effectively siding with Russia in the war in Ukraine. “We keep hearing: You are with us or against us,” he said. “Is there any room for: We are with the people of Saudi Arabia?”

In the Saudi view, Opec-plus’ pre-emptive cut is an example of the kingdom putting its interests first, including protecting the national budget in light of global economic uncertainties, even if it meant increasing tension with the US. “It’s a blip,” said Saudi Investment Minister Khalid al-Falih, in reference to the current US-Saudi spat. “We’re close and we’re going to get over this recent spat that I think was unwarranted and it was a misunderstanding, hopefully,” he added.

Prince Abdulaziz further warned of the dangers of draining the US Strategic Petroleum Reserve (SPR) and turning it into a market management tool. “People are depleting their emergency stocks ... as a mechanism to manipulate [oil] markets,” said Prince Abdulaziz. “It is my duty to make clear that losing emergency stocks may be painful in the months to come.”

Energy Intelligence understands that Mideast Gulf states want to avoid a situation of maxing out their spare capacity, which they believe would further spook markets, spiking prices. However, if there is a gap in the market, Saudi Arabia and others who hold spare capacity in the group would step in with more supply, depending on market conditions at the time.

Prince Abdulaziz also said the kingdom has been reaching out to European states and trying to help them meet their energy needs. Aramco last year supplied Europe with 490,000 b/d. But in September this year supply was at 950,000 b/d, he said. Prince Abdulaziz also recently assured officials from top consumer states in Asia of the kingdom’s commitment to security of supply.

Emphasizing Oil, But Also the Transition

Messaging around the need to continue investment in the upstream sector was another common thread across the sessions. But energy transition plans also featured. “In the region we are investing as much in conventional energy but also investing in climate change initiatives,” said Saudi Finance Minister Mohammed al-Jaddan. He added that the thinking around the transition has now “became more realistic that the actual transition will take ... possibly 30 years.”

Aramco said it is setting up a \$1.5 billion sustainability fund to invest in technologies that have the potential to support a “stable and inclusive” energy transition. That compares to Aramco profits of \$87.9 billion in the first half of the year. The announcement comes just weeks ahead of the COP27 UN climate conference kicking off in Egypt, where fossil fuel producers such as Saudi Arabia will seek to make the case that it’s possible to continue investing in the upstream sector while also moving toward a net-zero target.

At the summit, Aramco CEO Amin Nasser criticized Western nations for often narrowly looking at energy supply issues from their own point of view and taking the position that “the rest of the world needs to adapt. “No. It doesn’t work like that,” he said. The US, for its part, has said it is worried about developing countries and the problems they face in light of Opec-plus’ production cut.

Amena Bakr, Riyadh

CLOSING ARGUMENTS

Ethiopia's Forgotten War, Pakistan's Turmoil

Ethiopia: Peace Talks Look to End Africa's Forgotten Conflict

Since November 2020, Ethiopia has been engaged in a bloody civil war, with government troops loyal to Prime Minister Abiy Ahmed, along with Eritrean troops, battling forces belonging to the Tigray People's Liberation Front. This conflict has claimed hundreds of thousands of lives — from war and famine — and has disrupted the economy of what had been, prior to the outbreak of fighting, one of Africa's fastest growing regions. Recent fighting has led to the complete isolation of the Tigray region of northern Ethiopia, home to some 5 million people, leading to massive starvation. The growing humanitarian crisis has served as the impetus for the convening of peace talks this week in South Africa under the auspices of the African Union.

The current conflict has its roots in the complicated domestic politics of post-revolutionary Ethiopia, which in 1991 saw a rebel force comprised primarily of forces from Eritrea and Tigray oust the government of the People's Democratic Republic of Ethiopia, which had ruled since seizing power in a 1974 coup. The Tigrayan forces formed a new Ethiopian government, while the Eritrean forces oversaw the creation of an independent Eritrea, which emerged in 1993. Relations between the two former allies were initially cordial, but border disputes led to the outbreak of fighting in 1998, culminating in a bloody two-year conflict that ended with an UN-brokered peace agreement in 2000.

The Tigrayan hold on political power in Ethiopia came to an end in 2018, when Abiy Ahmed, a member of Ethiopia's largest ethnic group, the Oromo, was elected prime minister. Under Ahmed's leadership, Ethiopia undertook significant political reforms, including the release of political prisoners and the ending of the formal state of war between Ethiopia and Eritrea (for which Ahmed was awarded the Nobel Peace Prize.) The pace of these reforms, however, alienated Ahmed from Ethiopia's former Tigrayan political elite, leading to an outbreak of fighting in November 2020 that culminated in the current civil war.

The Tigrayan conflict has assumed an international character, with the US criticizing the Ethiopian government for human rights abuses and imposing an arms embargo. Russia has dispatched several diplomatic delegations to Ethiopia, including one led by Foreign Minister Sergei Lavrov this past summer, and in 2021 the two nations signed a military cooperation agreement. Once considered an important regional ally of the US, Ethiopia during its civil war has drifted back into the Russian orbit, resurrecting the geopolitical posture of the Cold War when Ethiopia was seen as an ally of the Soviet Union. The stakes attached to the ongoing cease-fire talks are high, both in terms of halting the humanitarian disaster brought on by the conflict, but also engendering political and economic stability in a part of the world that has found itself drawn into a new US-Russian Cold War.

Pakistan: Imran Khan's Political Future in Question

The ongoing political soap opera that has surrounded former Pakistani Prime Minister Imran Khan, who was ousted from power in April 2022 after a vote of no confidence, has taken a new turn, with the Pakistani Elections Commission issuing a ruling that bans Khan from participating in Pakistani elections for a period of five years. The commission found that Khan had unlawfully sold state gifts and concealed assets from Pakistani tax authorities while serving as prime minister. Pakistani authorities have stated that they intend to file criminal charges against Khan. The ruling and threat of prosecution have thrown Pakistan into a state of political turmoil. Khan is threatening to hold massive demonstrations in Islamabad to protest the commission's ruling and compel the current government of Prime Minister Shahbaz Sharif to hold snap elections, which Khan believes would propel him back into power.

Pakistan's status as a nuclear power and its ongoing struggles with Islamist extremism make any threat of a populist revolt seizing power an issue of global importance. Pakistan already finds itself in a geopolitical tug-of-war between the US and China/Russia. Its ongoing disputes with India, which have threatened to

explode into open conflict, and role in stabilizing Afghanistan also underscore the importance of Pakistan remaining politically stable. Many international observers fear the South Asian nation could fall victim to the kind of massive public upheaval that swept through Sri Lanka this past summer. The former prime minister blames US interference for his removal from office, an argument US and Pakistani authorities have rejected but which resonates among his numerous followers.

The drama surrounding Khan threatens to politically paralyze Pakistan at a time when the government would rather be focused on solving an economic crisis and mitigating the damage done by massive floods that recently swept much of Pakistan. Khan has called for a mass gathering on Oct. 28. This follows repeated threats to unleash his supporters on the streets of Islamabad, only for Khan to back down at the last moment over fears the demonstrations could turn violent. This time around, given the stakes, including the possibility of prosecution and imprisonment, Khan may let this rally go forward — raising the real possibility of a bloody clash that could throw Pakistan into political chaos.