

ENERGY COMPASS[®]

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THE BIG PICTURE

India's Russia Moment

- *India has faced financial and diplomatic fallout from Russia's war in Ukraine, including skyrocketing LNG prices.*
- *Its biggest challenge now is to ensure that (discounted) crude oil supplies from Russia are not disrupted when EU bans and the proposed G7 price cap come into effect from Dec. 5.*
- *India assuming the presidency of both the G20 and UN Security Council from December raises the possibility of New Delhi playing a peace-broker role between Russia and Ukraine.*

India faces a winter of uncertainty. The G7 price cap and EU and UK bans on shipping and related services for Russian crude will put pressure on tanker availability and could spike oil prices given Russia's pledge not to sell oil under the cap — threatening India's energy security while undermining its economic growth. The trajectory and outcome of war could also alter the Asian geopolitical order, strengthening hand of India's biggest rival, China. Neither would bode well for Prime Minister Narendra Modi's Bharatiya Janata Party ahead of local elections in nine states next year.

Meanwhile, media speculation in the run-up to Indian Foreign Affairs Minister Subrahmanyam Jaishankar's trip to Moscow this week was that New Delhi could play a role as a mediator between Russia and Ukraine, especially given India's upcoming G20 and UN Security Council presidencies. Modi reportedly offered assistance on peace talks last month, but Ukrainian President Volodymyr Zelensky rejected the offer. At a press conference in Moscow, Jaishankar noted the current challenging environment caused by the Ukraine crisis and said both sides should return to diplomacy and dialogue. But he also called Russia a "steady and time-tested partner" and — with reference to Russian crude flows — said the relationship had worked to India's advantage. India as a major consumer cannot afford to buy oil at high prices, Jaishankar reiterated.

December Oil Trade Unclear

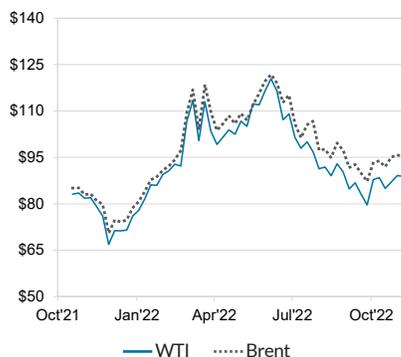
That energy security appeared to dominate Jaishankar's visit was not surprising after Russia emerged as India's top crude supplier in October, shipping over 900,000 barrels per day or roughly a fifth of India's demand. The two countries' biggest concern is ensuring that Russian oil continues to flow after the Dec. 5 EU and UK bans and related G7 price cap.

But despite Jaishankar's bullish stance in Moscow, India's state refiners have not placed orders for crude lifting beyond Dec. 5 due to uncertainties about whether shipping and insurance will be available, Energy Intelligence understands. And a recent attempt by an Indian buyer to use the price cap in negotiations with a Russian seller prompted the latter to abandon the deal, market sources said.

An executive at Indian Oil told Energy Intelligence that since its imports from Russia are not a very significant part of its total monthly imports, steering clear of Russian

[>> continued on page 2](#)

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



Source: CME, ICE

cargoes will not immediately have much of an impact. But for the country as a whole, Russian imports are significant.

Indian refiners have the capacity to soak up another 600,000 b/d of Russian crude, provided it outcompetes the staple Mideast grades that are the lifeline of the country's 5 million b/d refining base. But the availability of shipping and insurance — and payment channels — is key. From Dec. 5, tankers and shipping insurance linked to EU and G7 countries — which dominate oil shipping globally — will be barred from trading Russian crude unless those volumes are sold under the price cap, as yet undetermined.

About 90% of India's liquids trade is shipped by foreign tankers, presenting challenges, independent energy analyst Narendra Taneja said. Insurance does not appear as problematic, and analysts say that Russian and Chinese firms can handle it.

India and Russia have meanwhile been trying to formalize rupee-ruble trading. The Reserve Bank of India in July set up rupee settlement system for international trade. Media reports say that Russia's Sberbank and VTB Bank have opened a special "vostro" accounts (accounts held for foreign banks in the domestic bank's currency) in New Delhi. But the exchange rate remains a point of contention.

Indian oil companies are active in upstream projects in Russia (including Sakhalin-1, Taas-Yuryakh and Vankor), and ONGC Managing Director Videsh Rajarshi Gupta told the Eurasia Economic Forum last month in Baku that the company is interested in additional equity rights in Russia. But no new deals were struck in Moscow, where Jaishankar's meetings also dealt with fertilizer and defense — highlighting bilateral ties that stretch beyond energy to food and military security.

Great Game

India has not supported UN resolutions condemning Russia's invasion, despite Western pressure, and Modi putting India's national interest first has won him applause from India's strategic community. India's trade with Moscow ballooned to \$18.2 billion between April and August of the current fiscal year that began Apr. 1, compared to just \$13 billion for the full year ended Mar. 31. The aim is to reach \$30 billion, according to Lavrov.

Analysts also say India has little choice over its Russia ties. In addition to benefiting from discounted crude, any break with Moscow is seen as likely to push Russia closer to China, India's biggest rival in Asia. But there could be a shift in India's calculus if Russia uses tactical nuclear weapons or

overtly tilts toward China, the Council on Foreign Relations' Manjari Chatterjee Miller said during a recent podcast. There are also concerns that wider acquiescence to Russia's invasion of Ukraine could embolden China when it comes to Taiwan or even India, with which it has a disputed border.

So, without seeking to antagonize Russia, India is keeping all options open. It will participate in high-altitude military exercises with the US this month near the Line of Actual Control along the disputed border with China, and in talks on the US-India Economic and Financial Partnership with US Treasury Secretary Janet Yellen on Friday.

Yellen, in New Delhi, is also likely to discuss India's Russian oil imports and the price cap — although Washington's approach has shifted from warning India about its rising Russian crude imports to arguing that the price cap will give India leverage to negotiate even bigger discounts. Yellen is also expected to promote so-called "friend-shoring" as the US seeks to diversify supply chains away from China.

Perhaps uniquely, then, India right now has the ear of both Russia and the US. One question is whether India will use that position, and its new roles from December, to attempt to play mediator or apply pressure over the Ukraine war — or instead take a more narrow, opportunistic path as it seeks to maximize benefits from both sides' attention. Should crude prices spike next month, some of those benefits will quickly fade.

Rakesh Sharma, New Delhi

POLICY

No Red Wave for US Energy Politics

US midterm elections on Tuesday did not produce the forecasted "red wave" of major Republican gains in Congress, which could have created some headwinds — but no U-turns — for US President Joe Biden's energy policies. As it stands, Republicans are still favored to take control of the House of Representatives, but the Senate remains a question mark with three states still tallying votes. Final outcomes may come down to a Georgia Senate seat run-off election in December, but the closer-than-anticipated early results spark questions about GOP direction.

• The trajectory of Biden's climate policy is largely set, but expect heightened scrutiny if Republicans control either or both chambers.

If the GOP wins control of the House, but Democrats keep Senate control, a divided Congress dims Democrats' chances of fresh climate legislation to build on the \$369 billion in clean energy spending passed this year. Biden officials have focused pre-election messaging on making sure those dollars quickly become in-the-ground projects, rather than pursuing new legislation. But a split Congress would all but guarantee no new climate traction.

Should Republicans eke out a victory in both chambers, Washington observers anticipate a string of oversight hearings and investigations meant to paint Biden's policies as contributing to high fuel prices. Holding the gavel in the Senate also means GOP lawmakers could slow any nominations for administration slots if there is post-election turnover.

But even if they win both chambers, Republicans will not have the votes to overturn a Biden veto threat on substantial legislative moves, meaning a "Republican majority will be hard-pressed to roll back the lion's share of US climate legislation," said Kaveh Guilanpour of the Washington-based Center for Climate and Energy Solutions. There will likely be more focus on both parties in Congress seeking to frame energy politics ahead of the 2024 presidential election.

• The elections were viewed as a referendum on former US President Donald Trump as much as on Biden, raising questions about the direction of the Republican party.

Conventional wisdom suggests that midterm elections serve as a litmus test of the party currently in the White House, but Trump inserted himself into this year's contest, backing a cadre of GOP candidates in races across the country.

Candidates handpicked by Trump put in a lukewarm performance at best, losing in more than a dozen congressional races, including Senate candidates Mehmet Oz in Pennsylvania and Don Bolduc in New Hampshire. Trump on social media Wednesday sought to distance himself from Bolduc, saying he lost the contest by abandoning Trump's claim of victory in the 2020 presidential election.

Trump-backed candidates did pick up some key Senate victories, including J.D. Vance in Ohio, whose campaign saw heavy donations from oil companies, and in North Carolina. But as a bellwether for Trump's influence ahead of his possible plans to run for president in 2024, the midterms could be a moment of reckoning for the GOP. That will be especially true if Republicans lose the Senate: Trump-supported candidates are in play in two of the deciding contests in Arizona and Georgia.

Democrats fared better than expected against a backdrop of high fuel prices and Biden's 39% approval rating. Biden last week took oil companies to task for what he called "war profiteering" over blockbuster quarterly earnings, reiterating calls for Congress to enact a windfall profits tax.

• Congress' upcoming lame-duck session could provide limited opportunities to advance energy legislation put on the back burner during elections, such as permitting reform and the so-called "Nopec" bill.

The next month and a half gives Democrats a narrow window at advancing legislation before the new Congress. But energy-related bills, including permitting reform and the bipartisan Nopec bill, aimed at exposing Opec-plus members to US anti-trust laws, are still long shots.

Democrats are hopeful on the prospects of finding a compromise to move a permitting bill to overhaul approvals for both oil and gas and clean energy projects, but sticking points remain. GOP lawmakers have said the bill, which will need some Republican support to pass, doesn't go far enough. Differences over transmission buildout logistics are also a stumbling block.

With the legislative clock winding down, it is not clear there is time for hashing out differences that caused the bill's lead sponsor, Democratic Sen. Joe Manchin of West Virginia, to pull it from consideration in September over political gridlock. On the other hand, the embattled Mountain Valley gas pipeline, a key project in Manchin's district, is up against a time clock, too, which could provide impetus for a compromise. But if Georgia's runoff election is what decides the Senate majority in December, that doesn't leave much time for legislative action.

• Oil producing states see no major surprises, but state-level clean energy policy could get interesting.

US producer states did not see a major shake-up at the polls, despite a GOP net loss of two seats in gubernatorial races. Oklahoma Republican Governor Kevin Stitt won re-election against a Democratic challenger in the historically red state after polling forecast an unusually more competitive race.

In Texas, Republicans flipped just one of three competitive races for South Texas House seats but won re-election in down-ballot slots key to oil and gas policy, including attorney general and head of the Texas Railroad Commission, the state's energy regulator.

Democratic candidates who have backed accelerating a clean energy transition all defeated Republican challengers in key races in energy-rich states New Mexico, Colorado, and Pennsylvania.

Several states where final results have not yet been reported could make clean energy policy interesting. That includes Arizona, where a proposal for a 100% clean electricity mandate hangs in the balance, expected to hinge largely on results of the gubernatorial race. Oregon and Nevada are also being closely watched by clean energy advocates as pivotal

states for either ramping up or weakening climate targets, depending on gubernatorial outcomes. And four states — Minnesota, Michigan, Maryland, and Massachusetts — saw Democratic sweeps in state government that could lead to more ambitious climate policies.

Bridget DiCosmo and Emily Meredith, Washington

GEOPOLITICS

Briefing: Ukraine’s Extended Conflict Scenario

Russia’s annexation of occupied Ukrainian territory and partial mobilization represented a significant escalation of the conflict. The likelihood of further escalation, including “hybrid” warfare, has risen. But recent analysis by Energy Intelligence’s Research & Advisory unit sees an extended or frozen conflict as the most likely scenario in both the near and longer term. This briefing outlines how that scenario could play out.

• **An extended conflict is the most likely scenario.**

In the “Extended/Frozen Conflict” scenario, mobilized forces help Russia stabilize defensive lines, but poor training and equipment limit offensive capabilities. Calls for negotiation and a cease-fire mount, but key issues remain unresolved even if a cease-fire is implemented, setting up both sides for a frozen conflict with ongoing, lower-level fighting accompanied by a lack of political resolution. The recently updated Research & Analysis scenarios rate this outcome as high in both the near- and long-term. Two alternative scenarios, “Further Escalation” and “Ukrainian Victory,” are rated as “medium” and “low” probability in the near term, respectively.

• **The shift toward this may already be under way.**

For a short time after Russia’s Feb. 24 invasion of Ukraine, a negotiated solution at least seemed possible. Since then, positions have hardened both as the war intensified and the conflict increasingly became a proxy war between Russia and the West. Moscow is determined to push Nato back from its borders and prevent Ukraine from drifting into the Euro-Atlantic orbit, while the West is seeking to degrade Russia’s military — and energy — capacity long-term.

While other scenarios cannot be ruled out, there are several signs that a shift toward a frozen conflict is already under way, with Russian forces moving to establish comprehensive defensive lines and retreating from tenuous positions. Low-intensity warfare will continue through the winter but a large-scale offensive looks unlikely. Ukrainian officers have said that mounting a major winter operation would be impos-

sible, and Russia also seems underprepared for winter warfare, amid reports of troops lacking adequate winter shelter and logistical capacity.

Operationally, Ukrainian commanders are acknowledging emerging manpower concerns. Moscow would benefit from a lull in fighting to rebuild combat-ready forces and to restock advanced weaponry. The depletion of Russia’s missile reserves could limit winter bombing raids. Ukraine is planning new operations for spring 2023, but may find it difficult to resume these — in effect re-establishing the battlefield conditions of eastern Ukraine in 2015-18.

Such an outcome would fall far short of Russia’s initial war aims. But it would buy the Kremlin time to prop up its army while creating a buffer zone that could be spun by President Vladimir Putin as a victory. The level of Western support for Ukraine could gradually wane — remaining sufficient to avoid defeat but not much more. Sanctions on Russia would likely remain in place. Without some sort of radical change in government, Ukraine could not make the territorial concessions likely demanded by Russia to end the conflict.

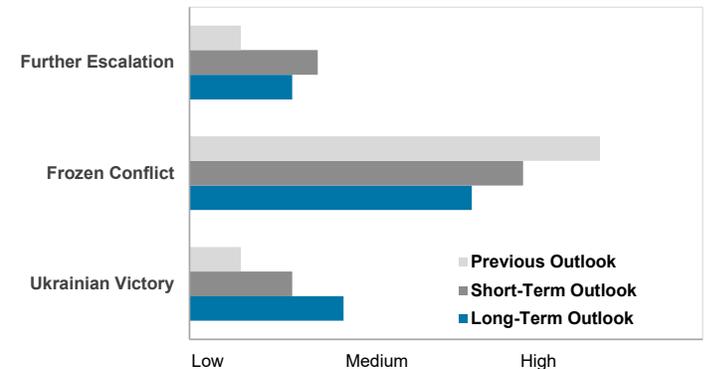
• **The durability of Western support will be key to watch.**

The US and EU have passed aid packages for Ukraine worth over \$80 billion. While support for Ukraine in Europe and the US remains strong, this is vulnerable to personal costs, opinion polls suggest — and could be tested this winter, especially in a worsening global macroeconomic environment.

In Europe, governments’ ability to sustain consumer support packages alongside Ukraine aid looks critical. In the US, a potentially Republican-controlled House could curb the US aid packages that are also beginning to deplete US ammunition stockpiles; such support needs both chambers to pass. This could have a domino effect on Europe’s resolve.

In such a scenario, Ukraine may find its Western backers have little appetite for the resumption of large-scale operations, leaving Kyiv boxed in. Longer term, any return by Donald

RUSSIA-UKRAINE: UPDATED CONFLICT SCENARIOS



Source: Energy Intelligence Risk Research

Trump to the US presidency in 2024 elections — now looking more challenging after Trump-backed candidates performed poorly in midterm elections — would present major risks for Kyiv, given Trump's pro-Russia positioning, previous stand-off with Ukrainian President Volodymyr Zelensky, and past focus on avoiding entanglements abroad (p2).

- **A peace deal would be hard under current conditions.**

The Russian-controlled referendums in, and annexations of, Ukrainian territory make a negotiated settlement much harder to achieve. Ukraine would likely balk at any deal involving tacit acceptance of the annexations. For Moscow, any backtrack or negotiation on “sovereign Russian land” would signify a defeat — complicating Putin's ability to find a diplomatic exit. Conversely, neither side currently seems capable of convincing military success.

Ukraine may mount a few successful offensive operations. But any Ukrainian offensive into the heart of the Donbas (controlled by pro-Russian forces since 2015) or Crimea threatens triggering a Russian nuclear response against Ukraine. The West is aware of this, and despite paying public lip-service to Ukrainian ambitions, would most likely restrain Kyiv from such a risky enterprise.

- **Putin could claim victory, but longer-term uncertainties abound.**

A low-intensity conflict could still amount to an important short-term achievement for the Kremlin. Moscow would hope that the world loses interest in Ukraine as the war drags on — as with Iraq, Syria, Georgia and, indeed, Ukraine after 2014.

Over time Ukraine could become a strategic wasteland, without enough international support to rebuild. This would allow Putin to claim he secured Ukrainian neutrality, achieved the “security buffer” that Russia needed, and to use Ukraine as an example of what happens to regional countries that oppose Moscow.

But a range of uncertainties exist. These include (1) Western resolve to maintain support for Ukraine and/or robust sanctions against Moscow, including energy, for years if necessary, despite the cost to their own economies; (2) the resilience of Russia's economy; and (3) the impact of an extended conflict on Russian public opinion and political stability.

The war in Ukraine could potentially affect Russia's Great Power status — especially if an extended conflict continues to erode Moscow's capacity to maintain regional clout in Central Asia and the Caucasus, where China and Turkey are already moving to fill an emerging power vacuum.

Sinan Hanioglu, New York, and Andrew Zoeller, Washington

MACRO TRENDS

Transition Battle Lines Drawn at COP

- *COPs have a proud history of disappointing stakeholders of all persuasions and this month's COP27 summit in Egypt will be no different.*
- *Differences between producer and consumers, and the Global South and North, have never been starker.*
- *That said, the debate is shifting inexorably in one direction, with a new global political economy being catalyzed by the clean energy transition.*

Delegates at the Egyptian resort town of Sharm el-Sheikh meet in a completely different energy transition environment to last year's Glasgow summit. Russia's invasion of Ukraine has catapulted energy security to the top of consumer concerns. Short-term consumption of dirty coal might be spiking, in direct defiance of the Glasgow Climate Pact. But supply security fears, triggered by Ukraine, are accelerating consumers' adoption of renewables.

By and large, consumers don't seem to be buying producer arguments that the energy transition is at fault for current high prices and more investment in oil and gas is needed to ease the crisis. If anything, a year of missed emissions reductions targets, increased coal usage and supply security fears have polarized divides.

A new high-level expert report commissioned by the UN Secretary General published at COP this week slammed continued investment in fossil fuels by non-state actors who advocate net-zero at the same time as “green washing.” The transition should be “about cutting emissions, not corners,” it complained.

Pressure on producers and industry could intensify if new claims of under-reporting of oil and gas emissions made by non-profit Climate TRACE are accepted as mainstream. “Half of the 50 largest sources of emissions are oil and gas production fields and their associated facilities,” said a Climate TRACE statement. Real emissions from oil and gas production, it added, are as much as three times higher than those reported to the UNFCCC.

At the same time, industry tolerance of criticism has eroded — from Saudi Energy Minister Prince Abdulaziz bin Salman slamming the International Energy Agency's net-zero scenario last year to TotalEnergies' decision last week to take Green Peace to court over its claims that the French major's 2019 emissions exceeded 160 million tons, as opposed to the 55 million tons reported by Total.

North-South Divide

Fault lines between the global North and developing world are perhaps even more pronounced than those between producers and consumers. Energy poverty remains a sore point, which Europe's rush to lock in LNG supplies as it seeks to replace Russian gas has exacerbated. Those efforts, along with some Russia sanctions, are pricing out or otherwise squeezing LNG buyers in South Asia, for example. Europe's reversion to coal-fired power after the Western-led push for a coal phase-out at Glasgow last year meanwhile suggests a double standard.

"The energy transition needs to go hand in hand with energy access," said Nawal Al-Hosany, a United Arab Emirates government representative to the International Renewable Energy Agency. Yet at the same time, there has been a growing convergence of views on certain key issues.

First, the developed world has woken up to the fact major emissions abatement simply cannot happen without the developing world coming on board. There is still a huge gulf between what rich economies are prepared to give and what the Global South believes it should receive to fund its energy transition. But at long last, loss and damage has been put on the COP agenda. And clean energy financing for the developing world is the dominant issue of this first week of the COP.

"Loss and damage can no longer be swept under the rug. It is a moral imperative," UN Secretary General Antonio Guterres told the opening session of the conference. The UN chief went on to tweet the world was "on a highway to climate hell with our foot on the accelerator" if it didn't reverse course fast. The US also launched a scheme, dubbed the Energy Transition Accelerator (ETA), aimed at delivering more finance to the developing world via carbon credits from major corporations. Higher interest rates and a possible recession might take the steam out of such financing efforts. But there is clear recognition that the developing world has to be brought on board.

Producer Transitions

The other key point of convergence is that key oil producers — notably, Saudi Arabia, the UAE and Oman — have embraced the energy transition and are fast becoming major renewables investors themselves. Greenwashing may have played a part in their initial foray into renewables. But the huge financial and strategic commitments now under way underscore that these producers see the transition as very real and here to stay. Renewables are also seen as good business, enabling them to free up more oil and gas for export on the one hand and project influence in the region by enabling their neighbors' transitions on the other.

Last week, the UAE and US signed a strategic partnership at Abu Dhabi's Adipecon conference to invest some \$100 billion to

produce 100 gigawatts of renewable power globally by 2035. Abu Dhabi is also home to green developers state Masdar and Mubadala.

Saudi renewables giant Acwa Power has been at the forefront of the global push to cut solar photovoltaic costs over the past decade, building up a renewables empire of over 40 GW across the region. With strategic investment from China's Silk Road Fund, the firm is spearheading both Riyadh and Beijing's green power projection in the region. But Riyadh is also looking to offsets to manage its transition, and at COP27 pledged some \$2.5 billion to kick off its Middle East Green Initiative, which targets planting 40 billion trees.

Egypt is meanwhile proving to be a key country for green investors from both East and West. The EU is due to sign a major hydrogen deal with Egypt at COP. On Tuesday, the UAE's Masdar signed an memorandum of understanding with Egyptian renewable developer Infinity Power and Hassan Allam Utilities for a 10 GW onshore wind project in Egypt. Cairo this week also announced commissioning of the first phase of the first integrated green hydrogen plant in Africa, being developed by UAE-Egyptian firm Fertiglode, Norway's Scatec and the Egypt's sovereign wealth fund. The project will produce some 90,000 tons per year of green ammonia from 260 megawatts of wind and solar power.

Rafiq Latta, Nicosia, and Lauren Craft, Sharm el-Sheikh

GEOPOLITICS

Ripple Effects of Netanyahu's Far-Right Government

Former Israeli Prime Minister Benjamin Netanyahu is back on the scene to head a far-right government — still being formed — that will have implications for the Israel-Palestine conflict and Israel's relations with the US and its neighbors in the region. Most contentious is the likelihood of Ben Gvir, head of the far-right Otzma Yehudit party who has a conviction for racist incitement against Arabs and supporting a terrorist organization, playing a role in Netanyahu's coalition government. That makes another Israel-Palestine flare-up look more likely. An openly anti-Arab agenda could also trouble relations with Washington and Arab states alike, although normalization deals with Gulf Arab states and shared opposition toward Iran should help avoid a major breakdown.

• An historic Lebanon-Israel maritime border deal should survive despite Netanyahu's earlier threat to annul it.

Israel and Lebanon agreed last month to demarcate their maritime border, reducing the prospects of a conflict between Lebanese Shiite militant group Hezbollah and Israel, while

opening the door to greater foreign upstream investment in a gas-rich region that Europe is eyeing as a potential replacement for Russian piped gas. On the campaign trail, Netanyahu had criticized the deal and threatened to cancel it. But “his opposition to it later disappeared from his talking points and besides, he was more or less negotiating that same deal for years,” argues Nimrod Goren, head of Mitvim, the Israeli Institute for Regional Foreign Policies. Goren believes Netanyahu is more likely to leave the US-sponsored deal alone given the benefits to regional gas and security cooperation — and could always blame his predecessor if the agreement founders.

An Israeli gas industry source believes a new Netanyahu government will be more positive on gas as a transition fuel. In June, Egypt and Israel signed a provisional deal for LNG supply with the European Commission, which would see Israeli and Cypriot gas flow via Egyptian liquefaction plants to Europe. This week, Israeli NewMed Energy signed a gas cooperation deal with Germany’s Uniper to explore short- and long-term LNG supply from Israel to Germany. A revived push on hiking Israel’s gas export quota from the current 40% of gas production to 60% is possible, although the source notes it is still early days.

Nir Balkat, a former mayor of Jerusalem, is being touted as the next energy minister, replacing Karine Elharrar, says the source. “Movement on gas exports will be very dependent on the personality of the new minister,” he says, while noting that Yuval Steinitz, energy minister under Netanyahu, had vigorously promoted foreign investment in gas.

• **The arrival of one of the most right-wing governments in Israel’s history could spark an escalation of the Israel–Palestine conflict — with implications for the energy sector.**

The formal annexation of the entire West Bank could be attempted by the new government, warns the Brussels-based International Crisis Group. While previous Netanyahu governments had already pursued the break-up of the occupied territory into enclaves, “the far right takes a leap further, seeking to formally annex the entire territory,” it says.

Goren believes the coalition government will prove provocative: “With Ben Gvir, we are in uncharted waters. Previously, Netanyahu would have a centrist like [former Prime Minister Ehud] Barak or another politician to act as a check, but he is quite alone.” Any escalating conflict like the last war in Gaza between Palestinian Islamist group Hamas and Israel, which lasted for some 10 days in May 2021, could directly impact regional energy cooperation, he argues.

During the May conflict the 11 trillion cubic foot Tamar field was shut in as a precaution. But more significant than field shut-downs could be the impact on Israel’s ability to leverage its gas opportunity with regards to neighbors Egypt and Jordan and more widely the EU. A prolonged conflict with the Palestinians or annexation of territory in the West Bank without any sign of

a peace process could result in a suspension of cooperation with Europe and its East Mediterranean neighbors.

• **Netanyahu’s return coincides with stalled Iran nuclear talks — and ups the ante when it comes to potential escalation over Iran’s nuclear program.**

Netanyahu was known for his vigorous opposition to any nuclear deal with Iran, favoring overt and covert confrontation to Tehran. At present, however, Netanyahu’s ability to disrupt talks appears almost irrelevant. Negotiations seem unlikely to be revived amid Tehran’s prolonged crackdown on protesters and supply of drones to Russia that Moscow is using to target Ukrainian cities and energy infrastructure.

But Iranian nuclear advances absent a deal would pile the pressure on Netanyahu to act. The former prime minister has long insisted that only he can guarantee Israel’s security — and that he was willing to risk war to prevent a nuclear Iran. But a major Israeli strike on Iran without US approval still seems a long shot.

• **US–Israel relations may become more tense with the advent of another Netanyahu administration.**

US President Joe Biden is well aware of Netanyahu’s willingness to undermine the policy of a US administration he disagrees with. Biden was vice president in 2015 when Netanyahu embraced the US’ partisan politics and addressed the US Congress at the invitation of Republicans to lay out his case against the Barack Obama administration’s pursuit of a nuclear deal with Iran. Yet Netanyahu could take a somewhat more cautious approach this time around. “As he builds his [domestic] coalition he may not want to be too confrontational, but of course he may also want to wait and see ahead of the next US presidential elections [in 2024] if the Republicans take power,” Goren said. And within Israel’s right wing, “many are against public fighting with our greatest ally,” he added.

Tom Pepper, London

COUNTRY RISK

Lula Plots New Course for Divided Brazil

Left-wing former President Luiz Inacio “Lula” da Silva won a narrow victory over the right-wing populist incumbent, Jair Bolsonaro, in Brazil’s contentious presidential election last month. Lula, who was president from 2003 to 2010, has outlined a number of key changes to Bolsonaro’s approach to the energy sector — chiefly on the role played by state Petrobras and on climate policy. A tighter budget and more divided congress — relative to Lula’s last term in office — present challenges.

• **Lula envisages a bigger state role in the energy sector but wholesale changes for Brazil’s prolific upstream sector aren’t expected.**

Lula’s victory means that Petrobras is now likely safe from Bolsonaro’s threats of privatization but could face pressure to become a more fully integrated company again. The firm has been selling off its downstream assets as part of a divestment drive aimed at reducing the company’s massive debt and refocusing its strategy on developing offshore pre-salt oil and gas assets. A 2021 gas reform law that sought to privatize various departments of Petrobras with the aim of creating competition in the local gas market was also part of this ethos.

The president-elect appears to have other priorities, however. Lula has said that Petrobras needs to diversify away from an overreliance on offshore pre-salt fields and “go back to being an integrated energy company” that is better positioned for low-carbon energy, with more emphasis on biofuel production. He has also pledged to make Electrobras, Brazil’s largest power and utilities firm, a state-owned entity again — although some suggest the financial resources required for such a move could see that delayed, perhaps indefinitely.

That said, no drastic changes in the country’s upstream investment climate are expected, and Petrobras appears on track for future production growth as it prepares to bring new domestic offshore fields on line. “Brazil has solid institutions and a history of respecting existing contracts, and we don’t expect that to change with Lula in the office,” says Andre Fagundes, Vice President of Welligence Energy Analytics. “We don’t foresee major changes in the upstream sector ... We [do] expect to see Petrobras shifting part of its investments towards cleaner sources of energy.”

One potential wild card, however, is a windfall profits tax. Bolsonaro’s government had weighed but not implemented one — leaving the door open for Lula to potentially do so. An open bid round for 300 blocks including deepwater and ultra-deepwater that’s expected to take place in December, before Lula takes office in January, could act as a test for investor confidence.

• **The relatively narrow margin of victory — Lula received 50.9% of the vote to Bolsonaro’s 49.1% — highlights the country’s political and social cleavages that will also trouble Lula’s climate policy agenda.**

Unlike Lula’s first term in office, where he could count on support of strong progressive and left-wing representation in Brazil’s congress, the make-up of the body this time suggests deal-making will be of the essence. Despite Bolsonaro’s loss in the presidential race, his Liberal Party (PL) and its right-leaning allies won majorities in both the upper and lower chambers of Brazil’s government. That means Lula will

have to find common ground with a potentially adversarial congress to get new policies and regulations passed into law — a stark departure from his first tenure as president.

Mining and logging industry lobbies have strong representation in Brazil’s congress, meaning efforts to advance climate-related bills and budget allocations to fund protection of the Amazon will face strong headwinds. Making deals with parties such as the centrist Social Democracy Party will be essential.

The protests against Lula’s win, which continued for days after his victory, also underscored the country’s divisions and the challenges the new president faces with such a polarized electorate. Bolsonaro has authorized the transition but still not officially conceded defeat, although some of his chief surrogates quickly acknowledged Lula’s win. Bolsonaro supporter Arthur Lira, president of Brazil’s Chamber of Deputies, congratulated Lula and suggested that it was time for the country’s leaders to “lower tensions, reach out to opponents and debate.” Tarcisio de Freitas, the conservative governor-elect of Sao Paulo and a former Bolsonaro official, also acknowledged Lula’s win, saying the electoral result was “sovereign.”

• **The incoming president has made it clear that he intends to implement more environmentally friendly policies than his predecessor, in the energy sector and elsewhere.**

Lula has called for state Petrobras to become better positioned for low-carbon energy, with more emphasis on biofuel production. This is a stark difference from the Bolsonaro government, which dropped renewables from Petrobras’ strategic plan early on. Big roles for both biofuels and hydropower mean Brazil is already relatively well positioned for the energy transition, although hydropower capacity is increasingly vulnerable to drought. A Lula administration is expected to seek to add momentum to the country’s wind and solar buildout.

Lula has said one of his chief priorities as president will be combating the environmental destruction of the Amazon rainforest that accelerated during Bolsonaro’s term, although policy and funding efforts at home will have to navigate a divided congress. Protecting the Amazon is seen as critical to the global fight against climate change because of the region’s value as a carbon sink. Lula would seek to reverse deforestation damage by reviving the Amazon Fund, an international fund to which governments like Norway and Germany contribute to support conservation efforts in Brazil. The fund’s governing body was disbanded by Bolsonaro. One of Lula’s advisers also recently said that the president-elect will explore creating a group of developing countries that would pressure wealthier countries into underwriting forest protection efforts, as well as present a unified front on issues connected to the global carbon market.

Michael Deibert, Washington

CLOSING ARGUMENTS

Iran's Eastern Risk, Pakistan's Deeper Divide

Iran: Protests Threaten Economic Pivot

In the eight weeks since the Sep. 16 death of a 22-year-old Kurdish woman, Mahsa Amini, while in the custody of Iran's "morality police", Iran has experienced unprecedented levels of protests and civil unrest. Some 300 protesters have reportedly been killed, along with around 40 security officials, and nearly 15,000 others arrested. In a sign that authorities are losing patience, 227 members of Iran's 290-seat parliament signed a statement asking the judiciary to "deal decisively" with protestors.

Iran's domestic turmoil comes as the government is pursuing its "pivot to the east" policy, a de facto divorce with the West in favor of closer economic and political ties with Russia and China. With the 2015 Iran nuclear deal all but dead and any hope for meaningful economic engagement with the West along with it, Tehran is now in the process of cultivating stronger economic, political, military and security ties with China and Russia.

Last year, Iran and China signed a 25-year strategic and economic partnership that seeks to integrate Iran into China's Belt and Road Initiative (BRI). In July, state National Iranian Oil Co. inked a memorandum of understanding with Russia's

state Gazprom potentially worth \$40 billion. Also in July, Iran applied to join the Brics group of emerging economies, after last year joining the Shanghai Cooperation Organization, a Russian- and Chinese-led political and economic bloc.

Iran claims that the protest movement has been hijacked by the usual suspects when it comes to anti-regime activity. At home, these include the People's Mujaheddin Organization of Iran and the National Council of Iran, headed by Reza Pahlavi, the son of the late Shah Mohammed Reza Pahlavi. Abroad, Tehran has pointed to the US and Israel as engineering the unrest. It's also blamed Saudi Arabia for fanning the flames of anti-regime sentiment by broadcasting news of the demonstrations throughout Iran after the Iranian government's own blackout of coverage. On Wednesday, Iran's intelligence minister warned that Iran's "strategic patience" could run out if such hostilities continue.

Increased regional tensions and domestic unrest are the thing Iran needs as it seeks to make its way out of the economic malaise brought on by decades of Western sanctions, with Tehran's internet cut-off also slowing business activity. Left unchecked, the protests could very well derail its eastern pivot plans.

Pakistan: On Edge After Attack on Khan

Former Prime Minister Imran Khan, ousted in a controversial vote of no confidence in April, survived an apparent attempt on his life as he led his so-called "long march" on Islamabad in a bid to compel the current government to hold snap elections.

Khan has claimed that Prime Minister Shehbaz Sharif, Interior Minister Rana Sanaullah and Major-General Faisal Nasir — an intelligence officer — were behind Nov. 3 gun attack on his convoy. Khan has offered no evidence to back his claims, which the Pakistani government dismissed as "lies and fabrications." The Pakistani military has requested that the government charge Khan with defamation.

The fallout could disrupt Pakistani political equilibrium for years to come. Open criticism of the military has always been a political red line in Pakistan, making Khan's public accusation, including naming a senior military officer, highly unusual. Khan and his supporters blame the government and military for allegedly conspiring with foreign interests to orchestrate his removal from office, and say ongoing criminal investigations into corruption allegations are designed to impede Khan's political future.

Already, signs of strain in the Pakistani security services are emerging, with the head of the Inter-Services Intelligence holding a press conference where he attacked Khan by name. Khan has likewise been increasingly outspoken against the military. The stripping away of any pretense of political neutrality on the part of the military threatens to create a permanent divide between the military and Khan, even though it was the military which backed his initial rise to power.

Despite being removed from office, Khan remains Pakistan's most dominant political figure. His Pakistan Tehreek-e-Insaf (PTI) party has won a series of recent by-elections, adding to the sense that the odds of Khan winning any snap election are high, which is why Sharif and the Pakistani military have resisted such calls. Khan and Sharif have been trading pointed insults for months, each accusing the other of incompetence and corruption. Khan has also announced that he will resume the "long march" on Islamabad, where he will address rallies in major towns and cities along the way.

Far from slowing Khan down, the Nov. 3 attack seems to have further inflamed the passions of his supporters, putting Khan and Pakistani authorities on track for a confrontation.