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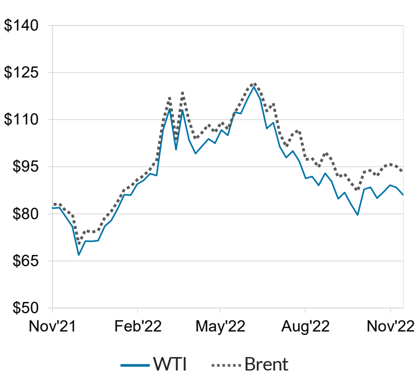

Source: CME, ICE

THE BIG PICTURE

The US and China's Fine Line

- *The first in-person meeting between Xi Jinping and Joe Biden as presidents of their respective countries brought warm smiles but was low on deliverables.*

- *Biden said he doesn't expect an imminent Chinese attempt to invade Taiwan — which remains China's "red line" in its relations with the US.*

- *Elsewhere, climate cooperation could be revived, but there is little sign of China drifting away from its close ties to Russia.*

Xi and Biden's first face-to-face meeting seems proof that nothing beats in-person contact. Smiles, warm greetings and handshakes opened a meeting that lasted more than three hours. Respective readouts called for the two countries to "compete vigorously" (the US) and for "win-win cooperation" (China).

The world appeared to sigh with relief at the thought that the US-China relationship had stepped back from the brink after US House Speaker Nancy's Pelosi controversial visit to Taiwan this summer — and China's subsequent aggressive military response. But the now more positive mood music shouldn't detract from the challenges ahead.

US and China as Responsible Stakeholders

Both Biden and Xi arrived in Bali with strong mandates that gave each more room for negotiating with the other. Biden benefited from much stronger US midterm elections results than many had expected. Xi emerged last month from the Chinese Communist Party's 20th Congress, China's most important five-yearly event, as China's undisputed leader.

"The United States and China must work together to address transnational challenges — such as climate change, global macroeconomic stability including debt relief, health security and global food security — because that is what the international community expects," Biden noted. "The world is big enough for the two countries to develop themselves and prosper together," Xi concurred.

Both leaders are on a charm offensive, and in a race for influence. Before attending the G20 summit in Bali, Biden went to COP27 in Egypt to reaffirm US climate funding plans, and attended the Association of South East Asian Nations (Asean) summit in Cambodia. The G20 summit was Xi's second trip overseas since early 2020. His first, to the Shanghai Cooperation Organization summit in Uzbekistan in September, included a meeting with Russian President Vladimir Putin.

In Bali, Xi also held bilateral talks with top officials from European, African and South American countries and Australia — both to counterbalance Biden's attempts to build international alliances and to show that China is open for business at a time when its economy is struggling.

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The Elephant in the Room

Another US aim at the G20 summit was to persuade more members to line up against Russia's invasion of Ukraine. According to the US readout of the Bali meeting, Biden and Xi "underscored their opposition to the use or threat of use of nuclear weapons in Ukraine." But aside from that position against nuclear weapons, China's stance on Russia and what Beijing persists in calling the Ukraine crisis has barely changed.

In Bali, China sided with Russia to oppose calling the Russia-Ukraine conflict a "war," while at the UN General Assembly in New York, China voted against a draft resolution on Ukraine-related compensation. Xi has spoken to Putin three times since the beginning of the war, including a face-to-face meeting in September. He has yet to reach out directly to Ukrainian President Volodymyr Zelenskiy.

And while China seems to have complied with Western sanctions on exports of certain goods to Russia, it is helping its ally by buying more of its oil and gas, at relatively cheap prices. China's imports of Russian crude have been approaching 2 million barrels per day since May, against around 1.6 million b/d in the first quarter of the year. They could rise further next year, once Chinese buyers have assessed the risks associated with buying crude after the Dec. 5 price cap, a shipping source told Energy Intelligence.

Chinese buyers are not expected to join the G7 price cap mechanism (p5). Instead, private insurance companies are being set up to cover the shipping risks, and Chinese companies are buying second-hand tankers to transport more Russian crude, Chinese and industry sources say. China is also buying less US crude. Chinese imports of US crude plunged by 50% to 144,000 b/d in January-September, compared to the same period in 2021. Similarly, China's imports of US LNG fell earlier this year as Chinese buyers made a healthy profit reselling their term cargoes to Europe and buying discounted Russian LNG instead. Flows may return to normal this winter, however, with Beijing asking Chinese companies to stop reselling LNG cargoes to ensure adequate supplies.

What Next?

Monday's meeting displayed significant goodwill from both parties. That marked an improvement on the Xi-Biden call in July, which saw Xi threaten that when it came to Taiwan, that "those who play with fire will perish by it." But goodwill on its own won't be enough. "Such summits, particularly between Biden and Xi, increasingly amount to words. Deeds matter," a senior Chinese academic told Energy Intelligence. "It shouldn't come as a surprise if one side says the other comes up short of what was supposedly agreed upon."

One of the few deliverables may be the resumption of climate talks. Washington and Beijing last year committed to work together to rein in emissions, but Beijing suspended cooperation after Pelosi's trip to Taiwan. Following Monday's meeting, the White House said climate was one of the areas where the two countries could begin cooperating, and the *New York Times* reported that US Climate Envoy John Kerry met with his Chinese counterpart Xie Zhenhua several times in Sharm el-Sheikh. Additionally, US Secretary of State Antony Blinken now plans to visit Beijing in early 2023.

The future of Taiwan, economic competition and human rights in China — all fundamental issues between US and China — were never expected to see much progress at the meeting, but signaling bears are watching. On the Chinese side, toning down "wolf warrior" diplomacy and reducing the frequency of military flights around Taiwan and maritime activities in the South China Sea would be measurable indicators of China's will to lower tensions, Ian Chong at the National University of Singapore told Energy Intelligence. On the US side, Washington could adjust some of the Trump-era trade sanctions in place and reduce the frequency of high-level visits to Taiwan, at least on the executive side of government, Chong added.

However, a split Congress in the US, with Republicans taking the House and Democrats keeping the Senate after this month's midterm elections, could yet complicate the optics for Washington, potentially setting the stage for the two sides to "out-hawk" each other. Rep. Michael McCaul, expected to head the House Foreign Affairs Committee, has repeatedly accused the Biden administration of being weak on China.

Maryelle Demongeot, Singapore, and Emily Meredith, Washington

POLICY

US Looks to Lock In Ukraine Funding

The White House moved this week to stabilize US aid to Ukraine through September 2023 to the tune of an additional $37.7 billion. That would remove some doubt — which peaked in October, ahead of the midterm elections — about continued US support for a while. That's important, with an extended or frozen conflict seen as the most likely scenario in Ukraine, according to Energy Intelligence's Research and Advisory unit.

• A proposed aid package through the end of the fiscal year would insulate the issue from the vagaries of US politicking for the next 10 months.

The White House wants to attach the funding to a budget bill, which Democratic lawmakers are focused on passing by the end of the year while they still retain majorities in both the US Senate and the House of Representatives. In the lead-up to the Nov. 8 midterm elections, the top Republican in the US House of Representatives, Kevin McCarthy, said his party might pull back funding for Ukraine upon winning a majority.

He was giving a nod to the most right-wing of his party, whose members have pledged to halt any funding going to support Ukraine. But McCarthy met with a swift rebuke from Senate Minority leader Mitch McConnell, a powerful Republican who has consistently called for additional help for Kyiv. McConnell sought a more traditional stance for Republicans, chastising the administration of US President Joe Biden for not doing more to assist Ukraine in the conflict with Russia.

The White House this week announced it is seeking an additional $37.7 billion in funding for Ukraine from Congress through September 2023, $21.7 billion of which is for defense equipment and support. That "would essentially double the support provided thus far to Ukraine since the Biden administration came into office," points out Bryan Clark, a senior fellow at the conservative Hudson Institute, and it continues funding at "about the same pace of support" over the previous nine months. Analysts at the Hudson Institute have largely advocated for supporting Ukraine.

Passing a large aid package before the end of the year gives more floor time to other priorities next year, provides more certainty to Kyiv, and helps reduce the chances that controversy over Ukraine will resurge every few months, says the German Marshall Fund's Kristine Berzina. "It's about how to be effective in policymaking, and how to avoid controversy on things that clearly the administration and the center in Congress highly wishes not to be politicized."

• Funding for Ukraine will remain controversial in some wings of the Republican party.

Republican control of the House means government spending bills are expected to become more difficult to pass, potentially putting support for Ukraine in the mix of items that are horse traded in order to keep the government open. In early November, Trump-endorsed Rep. Marjorie Taylor Greene pledged that "not another penny" would go to Ukraine if her party retook control of Congress. Republicans who fashion themselves in former US President Donald Trump's "Make America Great Again" style argue no money should be spent on foreign countries while the US has issues at home to address.

Right-wing conservative groups — including the Heritage Foundation, FreedomWorks and America First Policy Institute — this week wrote to lawmakers asking them to delay consideration of the funding package for Ukraine.

Still, GOP congressional leaders fought off challenges from the right this week in both the Senate — with McConnell slated to retain his position as Senate Minority leader — and the House, where McCarthy is in line to be Speaker. But in the House, Republicans will have a very narrow majority, which means McCarthy will need to keep his most conservative members on board to retain his position and advance other priorities.

That doesn't necessarily mean support will evaporate: The votes of more traditional or moderate Republicans, who could insist on bolstering Ukraine, will also be needed to give the GOP a majority in the House.

But the dynamics are shifting dramatically, and Ukraine might not be able to avoid the US political spotlight entirely until more funding is needed. House Republicans have promised to investigate Biden's son Hunter once they hold the gavel.

Trump routinely accused Hunter Biden of wrongdoing with regards to both Ukraine and China. A 2020 Republican-led Senate investigation accused him of having "cashed in" on his father's position as vice president during the former Barack Obama administration but did not find evidence of undue influence.

• Moscow's bet has always been that support for Ukraine will wane over time, and the next year could test that theory.

Already there is some evidence of US support faltering, always a risk as a conflict drags on. The share of US adults extremely or very concerned about a Ukrainian defeat fell 17 percentage points, to 38%, between May and September, according to a survey from Pew Research.

The broader impacts of the war may yet be more acutely felt in the US and Europe this winter. Europe looks likely to avoid the worst outcomes when it comes to gas supplies, thanks to a balmy autumn. But there is more to come. An EU embargo on Russian crude takes effect Dec. 5, with an embargo on products following Feb. 5.

A G7-wide plan to cap the price of Russian oil designed to coincide with the embargo spells uncertainty for oil markets (p5). It's unclear whether Western officials will be able to achieve their aim of denting Russian profits without curtailing global oil supplies — and keep prices down for customers. "The question of oil price really does matter," Berzina said. "And that is a card that Russia absolutely still holds."

Emily Meredith, Washington

POLICY

African Producers Fail to Look After Their Own

As energy transition pressures gathered momentum in the run-up to and following UN climate talks in Glasgow last year, African oil and gas producers have responded by railing against the West — dismissing calls to scale back development of fossil fuels as a death blow to export sectors that would also nip domestic economies in the bud. The message is much the same at COP27 this month in Sharm el-Sheikh, Egypt. However, gas' problems in sub-Saharan Africa predate the transition, and are unlikely to go away until producer governments reform domestic power sectors.

• Governments prioritize export projects while playing the blame game on energy deprivation at home.

The refrain from African producers is often similar. "We cannot be talking about a transition when we have 600 million people who still don't have electricity in Africa," Equatorial Guinea's Energy Minister Gabriel Nguema Lima quipped in March this year. "In Africa we have over 600 million people without basic energy, so how do we meet their energy baseload? We can only achieve this through gas," Nigeria's minister of state for petroleum, Timipre Sylva, said in August.

On current trends, this domestic dearth could worsen. The energy crisis and energy security imperatives have given gas some renewed momentum, and have encouraged investors and bankers to look again at export-oriented projects. However, lender appetite for local gas-to-power projects remains extremely limited, two African bankers told Energy Intelligence this week.

The colonial legacy in Africa was "pit to port" with most commerce oriented to external markets. Today all the big-ticket gas projects in Africa are export-focused, with an increasing emphasis on offshore floating LNG schemes. While these projects will deliver some much-needed liquefied petroleum gas to domestic markets, they won't feed into national electricity grids to power industrial development at scale. This applies as much to Mozambique's 3.4 million ton per year Coral Sul, which recently exported its first cargo, as it does to Congo's (Brazzaville) Fast LNG and Nigerian UTM's 1.52 million ton/yr floating LNG, which signed a front-end engineering and design agreement in London this week.

If leaders of oil- and gas-rich countries had been committed to harnessing local hydrocarbon resources to domestic development, they would probably not have such poor energy access rates. Sub-Saharan Africa has the worst rate in the world, at 48.4% of the population, according to the World Bank. Oil- and gas-producing states have largely performed worst. Equatorial Guinea, which has a population of 1.45 million, has increased electricity access by just 1.1% to 66.7% over the last 20 or so years while it has been producing oil and gas. The access rate in Nigeria, which has more than 186 trillion cubic feet of gas reserves, is just 55.4% for 210 million people.Nigeria's domestic gas sector has been slow to develop for a number of reasons. Since the 1950s, the export focus of international oil company operations created separate, project-centric clusters of infrastructure rather than a coordinated nationwide approach to gas monetization.

Nigeria also continues to flare large volumes of gas, at around 6.63 billion cubic meters in 2021 even as flaring has fallen 30% in the last 10 years. Flaring was declared illegal in 2005, but successive governments lacked the political will to stop it, and were often reluctant to fund state Nigerian National Petroleum Corp.'s share of the costs.

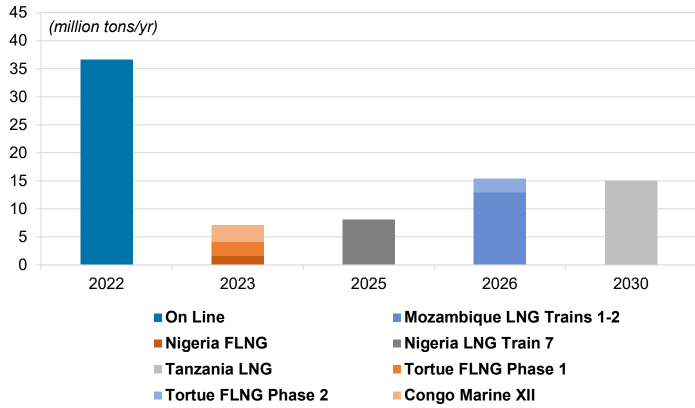
• Power sector reform is key, as Nigeria and Cote d'Ivoire's differing outlooks show.

Despite periodic initiatives to harness gas for local use, Nigeria's power sector remains dysfunctional, marred by botched privatizations, inconsistent policies, nonreflective tariffs and poor implementation. Nigeria currently has installed generating capacity of around 14,000 megawatts but produces a fraction of this — less than 5,000 MW — due to inadequate transmission and distribution infrastructure, among other things. Meanwhile, Nigerian homes and businesses produce 40,000 MW a year of electricity via small generators fueled by diesel and petrol, Barr Oduntan, executive director of the Association of Nigerian Electricity Distributors, recently told Nigerian media.

While some Nigerian gas producers sell successfully to industrial firms, the main buyers — the power-generating companies — have been hobbled by the bad debts of distribution companies suffering poor collection rates and high technical losses. The institutions set up to reduce such problems, Nigeria Bulk Electricity Trader and Gas Aggregator, have not performed. The sector's bad debts have in turn undermined the banking sector, forcing the Central Bank of Nigeria to intervene in August to back takeovers of five companies with bad debts. Foreign banks don't understand the complexities of local power markets — and don't seem interested: "There are no bankable offtakers," a banking source told Energy Intelligence.

Cote d'Ivoire is a key exception. It has a functioning power market fueled by locally produced gas and water. It boasts some of the best power infrastructure on the continent, according to the World Bank. Installed capacity tallies around 2,200 MW, which enables it to meet nearly all domestic demand — with at least 94% of citizens connected to the power grid. Cote d'Ivoire's government has grown its sector and policies organically over an extended period. It opened its energy market up to the private sector in 1993, attracting

SUB-SAHARAN LNG EXPORT CAPACITY ADDITIONS THROUGH 2030



Note: Future projects only include plants with a clear start-up date.
Source: Energy Intelligence, LNG Project Database

investors and lenders mobilized by the International Finance Corp., with guarantees from the World Bank.

• Debt is a hurdle to renewables, too.

As development banks switch focus to renewable energy and encourage private lenders to follow, it is tempting to think domestic renewables projects would be more bankable, relative to domestic gas projects. But many governments would still need to reform power sectors where renewables feed into national grids, and the rising debt burdens of many countries pose particular challenges. At COP27, delegates underscored the problem. Egyptian Ambassador Wael Aboulmaqd, special representative of the COP27 president, said financial constraints are blocking a major renewables expansion: "The cost of borrowing for a sub-Saharan African country is eight times what it would be for a Nordic country ... and these are countries already constrained by heavy debt loads." That makes initiatives to promote "blended finance" vehicles and public-private partnerships to limit up-front risks critical.

Christina Katsouris, London, and Lauren Craft, Sharm el-Sheikh

POLICY

A Price Cap With Untested Consequences

The G7 plan to impose a price cap on Russian oil — which aims to slash the revenues funding Moscow's war in Ukraine without severely disrupting oil supplies at a fragile time for the global economy — is set to become a reality on Dec. 5. It comes alongside the EU embargo on Russian crude imports and EU-UK sanctions on the shipping of Russian oil and related services. The cap effectively acts as a waiver on those sanctions, if the price paid is at or below it. But while more details are emerging, key unknowns remain, including the price itself and how Russia will react.

• The UK lays out details, but still no price announced.

With the oil industry anxiously awaiting details as the deadline approaches, the UK Treasury this week set out guidelines on how the price cap would be implemented. It will apply to all transactions from when the cargo leaves Russia to the point of delivery, and will be set at a fixed — although still to be determined — price. Those in breach of the sanctions will be fined up to £1 million ($1.2 million), or 50% of the estimated value of the breach.

The guidelines clarify the "attestation process," which effectively requires the traders with direct knowledge of the oil transaction price to provide a signed attestation to the service providers affirming that it complies with the cap. Banks, insurance and shipping companies are required to carry out sufficient due diligence and request price information. They will not be held responsible if found to have acted on wrong information but must report wrongdoing if they suspect it.

The UK's role in the price cap is critical thanks to its dominant position in maritime insurance, providing 60% of protection and indemnity coverage for the global shipping industry, according to the UK Treasury. The coalition pushing the scheme is currently made up of the G7, the EU and Australia (although Japan's support is lukewarm due to its own energy security concerns). It seeks to leverage Europe's outsized influence in the global shipping industry to extend pricing restrictions, officially or unofficially, on Russian oil sales to its top customers.

• Doubts persist, despite government efforts to win the industry round.

The US and UK governments have been working with the industry on how best to implement the price cap, which sources acknowledge is an unprecedented intervention. The mechanism will be kept under review after it is implemented. But there are still serious doubts, as well as outright opposition, including from some international oil company chiefs.

One practical issue is how to determine the price, because oil doesn't normally trade at a fixed price, but is instead bought and sold at a differential to a variable benchmark. "Abstractly, you can fully understand what [policymakers enacting the price cap] are trying to get at," says Charles Lichfield at the Atlantic Council think tank in Washington. "In reality, the market doesn't really work the way a policymaker wants it to. So, most market people have been skeptical of this from the beginning." Some point to the potential for workarounds to tanker insurance, or a system of side payments cropping up that allows Russia to recoup lost revenues, even though this is expressly prohibited.

Clearly, the success of the scheme will also hinge on the willingness of shipping and insurance firms to continue facilitating Russian oil exports, assuming they get the required attestations. Difficulties could even arise for lifters of Kazakhstan's CPC Blend, which transits Russia on its way to the Caspian Pipeline Consortium terminal on Russia's Black Sea coast, although the UK guidelines say it is exempt from the shipping ban.

Meanwhile, buyers of Russian oil have a clear incentive to either comply with or otherwise leverage the price cap, proponents of the plan argue, to bring prices down. EU Commission President Ursula von der Leyen, speaking at the G20 summit in Bali this week, insisted the plan would "strongly benefit the low- and middle-income countries."

• Russia's reliance on Indian and Chinese oil demand could limit its ability to cut flows.

How Russia reacts is a critical question. Moscow's stated position is that it will cut production rather than sell under the price cap. But Europe aims to have largely ceased importing Russian crude next month, meaning any retaliatory actions could end up hitting Russia's key allies India and China. "This is a game of chicken," says John Smith, the former head of the Office of Foreign Assets Control at the US Treasury Department.

Does Russia have more ability to simply stop selling its oil and other energy products if countries and companies say they will comply with the price cap? Or does a worldwide decision to only pay so much money force Russia to give in? "The betting in the G7 capitals is that Russians simply cannot afford to stop selling their oil," Smith tells Energy Intelligence.

• Whether China and India end up paying less will be the ultimate test.

China and India are key players in the game, having already become top destinations for discounted Russian oil. But it seems very unlikely that Chinese buyers will officially join the price cap, with Chinese companies buying second-hand tankers to transport more Russian crude and private insurance firms being set up to cover the shipping risks.

Indian Prime Minister Narendra Modi has also voiced veiled criticism of the plan, telling the G20 summit: "We must not promote any restrictions on the supply of energy." State refiner Indian Oil has paused its buying of Russian crude until there is more clarity.

Analysts note that the plan will never be 100% watertight, but partial compliance will still hurt Russia. The argument appears to be reflected in the position adopted by Washington. US Treasury Secretary Janet Yellen has said in recent days that the surge in China and India's imports of Russian oil this year is consistent with the planned price cap, which gives them leverage to negotiate lower prices.

She also alluded to a point made by some shipbrokers that there aren't enough tankers outside the Western system to keep all of Russia's displaced oil flowing after Dec. 5. Russia is "going to be heavily in search of buyers. And many buyers are reliant on Western services," Yellen told Reuters.

Simon Martelli, London, and Emily Meredith, Washington

POLICY

Carbon Offsetting Gets COP27 Boost

- *Attention has focused at COP27 on how carbon offsetting could boost climate finance for developing countries that richer economies have so far failed to deliver.*
- *Proponents of offsetting argue it's a win-win — helping oil and other companies advance decarbonization efforts while channelling funds to emission-cutting projects.*
- *Critics however point to a history of problems with carbon credits, arguing they are difficult to monitor and verify and also potentially let polluters off the hook.*

The Issue

Carbon offsetting has a long and checkered history. Introduced as part of the 1997 Kyoto Protocol's Clean Development Mechanism, international carbon offsets were tarnished by problems with that market. Activists argue, too, that offsetting facilitates greenwashing by allowing companies to claim net-zero progress without cutting their emissions. Yet offsetting remains on the table, and has enjoyed something of a boost at this year's UN climate talks in Egypt.

Emissions Risk

While there has been a strong emphasis on how offsets could help mobilize much-needed private climate finance for developing countries, deep reservations remain about their use by companies. "Shadow markets for carbon credits cannot undermine genuine emission reduction efforts," UN Secretary-General Antonio Guterres said at the launch in Sharm el-Sheikh of a report on corporate net-zero claims by a High Level Expert Group chaired by former Canadian Climate Minister Catherine McKenna.

McKenna acknowledged that high integrity credits can have a role to play in providing funding "to support decarbonizing efforts in developing countries" but also warned that this should not be a substitute for the "hard work" companies must do to decarbonize. "You cannot claim to be net zero while continuing to build and invest in new fossil fuel supply," she said.

Article 6 Linkages

Although some details still need to be worked out, agreement was reached last year on Article 6 of the Paris Agreement, which allows for cooperative approaches (across borders) to carbon markets, including carbon market linkages. Supporters of such linkages see this as a way to pay for climate-offsetting projects that may otherwise have difficulty securing finance, such as forestry projects and direct air capture.

Linked markets would also offer emitters a way to offset their emissions in a way that may be cheaper or more feasible than directly cutting their onsite pollution. For example, carbon offset marketplaces such as Xpansiv and Climate Trade have told Energy Intelligence in recent interviews that oil companies are quite active in purchasing credits to help them start working toward their emissions goals.

Now countries are talking about ways to band together under that and get something moving. In a landmark for carbon offset trade, Switzerland and Ghana at COP27 announced a first carbon credit transaction under Article 6 of the Paris agreement. As part of a wide-ranging bilateral agreement, Switzerland will purchase carbon credits from Ghana underpinned by a major sustainable rice project in the West African country.

US Energy Transition Accelerator

US Climate Envoy John Kerry also unveiled a new Energy Transition Accelerator (ETA) at COP27, in partnership with the Rockefeller Foundation and the Bezos Earth Fund, to help fund the energy transition in developing countries in exchange for carbon offsets.

Details are thin so far, although the US says the ETA plan will be fleshed out and presented at COP28 next year in the United Arab Emirates. This will include a methodology "with rigorous protocols for crediting and for monitoring, reporting, and verification so that any carbon credits generated are real, additional and permanent." Participating companies will also need to "achieve deep reductions in their own value-chain emissions, with emission reductions generated through the ETA supplementing their internal abatement."

Reaction to the US ETA proposal has been mixed. Environmental campaigners question if this is really an effort to channel finance or just another way to ensure the supply of cheap carbon credits to companies. But the ETA was welcomed by the government of Nigeria among others. Innovations like the ETA "can help us leverage carbon markets to support millions of jobs and cut billions of carbon emissions," said Nigerian Vice President Yemi Osinbajo.

Africa Carbon Markets Initiative

Osinbajo pointed as well to a new Africa Carbon Markets Initiative (Acmi) also launched at COP27. Led by a 13-member steering committee of African leaders, CEOs and carbon credit experts, the initiative aims to dramatically expand Africa's participation in carbon markets. It wants to reach 300 million credits produced annually in Africa by 2030 — unlocking $6 billion in income and supporting 30 million jobs. By 2050, Acmi is targeting over 1.5 billion credits produced annually, leveraging over $120 billion and supporting over 110 million jobs.

Acmi stresses that it is committed to supporting high-integrity credits. The African carbon offset market "will only succeed if people trust that African credits are driving real climate action and having a positive human impact," said Acmi steering committee member and USAID Chief Climate Officer Gillian Caldwell.

Higher Quality Projects

Forestry projects, which are among the most popular source of offsets, attract just as much skepticism as enthusiasm. Critics note that not enough land exists for all major emitters to rely on such projects to decarbonize. Climate change also adds to strains on forest survival. Carbon offsets linked to deforestation prevention projects are meanwhile a gray area, as it's tough to prove what deforestation might have happened in their absence.

Daniel Nepstad, president and executive director of the Earth Innovation Institute, which specializes in climate-friendly rural development, concedes there have been "a lot of bad" forest-based projects in the past. But he says they have been getting better, not least in the Amazon where local governments have "learned a lot" over the past decade and prepared some robust programs.

"It's all about rural development, not just paying people to not clear forests temporarily or paying people to plant trees that that might burn in another few years," Nepstad told Energy Intelligence on the COP27 sidelines. "We are into moving into a very new era of carbon offsets where the quality is just getting much higher." A big test ahead could be Saudi Arabia's green initiatives targeting the planting of 50 billion trees, which will require third-party verification and monitoring to have integrity.

Ronan Kavanagh, London, Lauren Craft and Rafiq Latta, Sharm el-Sheikh

CLOSING ARGUMENTS

G20, Taiwan Conundrums

G20: Goals Dampened by Ukraine Conflict

The organizing principle of the G20 summit in Bali, Indonesia, was "recover together, recover stronger," pointing to a meeting designed to tackle the economic consequences of the pandemic. Instead, and perhaps not surprisingly, the G20 summit was dominated by global tensions over Russia's invasion of Ukraine. While the summit's official focus was on issues pertaining to financial stability, health, and sustainable energy and digital transformation, attendees instead wrestled with high inflation, food insecurity and concerns over nuclear escalation in Ukraine.

Reflecting differences among members, the final communiqué declared that a "majority" of the members condemned "in the strongest terms" Russia's actions in Ukraine but also noted that "there were other views and different assessments." It recognized that while the G20 was "not the forum to resolve security issues," such issues have "significant consequences for the global economy."

Among the G20 attendees who comprise the "Western bloc," one of the major goals in Bali was to isolate Russia, represented at the summit by Sergei Lavrov, Russia's foreign minister. Lavrov held several meetings with G20 counterparts, and met with UN Secretary-General Antonio Guterres to discuss the Black Sea grain deal, extended this week. His departure a day early, however, reflected the underlying tension his presence brought to the summit, with several world leaders refusing to appear with him in a group photograph.

The other major narrative in Bali was the effort by the Western bloc of nations to improve relations with China, in part to lure it away from its ongoing support for Russia. Tensions over Taiwan also had many attendees on edge. This prompted outreach from several leading nations, including the US, to engage with Chinese President Xi Jinping to emphasize diplomacy and economic engagement as an alternative to military confrontation in the Pacific.

This nexus between economic engagement and security, however, underscores the limits to forums like the G20. While previous summit goals have been strong on paper but less so upon implementation, the current multipolar reality means consensus even on paper is virtually impossible to achieve amid deep divisions about the sources of and solutions to global security issues. Until the Ukraine war is resolved, G20 effectiveness will remain hampered. Rising tensions — and a possible conflict — over Taiwan could have the same effect.

China: Looking for Peace, Preparing for War

Ahead of his trip to the G20 summit in Bali, Xi carried out an inspection of the joint operations command center of the Central Military Commission of the Chinese Communist Party (CCP). Clad in a military camouflage uniform, Xi addressed the staff of the command center, declaring that the entire Chinese military "should devote all its energy to and carry out all its work for combat readiness, enhance its capability to fight and win, and effectively fulfill its missions and tasks in the new era." Xi added that China's military should set "combat effectiveness as the sole criterion" in their decision-making as they move forward.

Xi's emphasis on China's combat effectiveness comes on the heels of his earlier statements, made during last month's 20th CCP National Congress, that China's push for "reunification" with Taiwan could possibly involve military force.

Xi also recently appointed new leaders to China's Eastern Theater Command, which encompasses Taiwan, underscoring how the island is a priority for China's military. US intelligence suggests that China is preparing to undertake "reunification" by 2027, but that recent tensions have accelerated planning — such that an invasion could occur as early as 2024.

In Bali, Xi met with US President Joe Biden, where the issue of Taiwan featured prominently — and where Biden reaffirmed the US' "One China" policy that acknowledges China's claim to sovereignty over Taiwan but does not recognize it.

Biden's takeaway from this meeting was that he did "not think there's any imminent attempt on the part of China to invade Taiwan." But he also warned that China's "coercive and increasingly aggressive" actions regarding Taiwan "undermine peace and stability across the Taiwan Strait and in the broader region." For his part, Xi emphasized that the Taiwan question was an internal matter, one which resided "at the very core of China's core interests … and the first red line that must not be crossed in China-US relations," a Chinese spokesperson noted after the meeting.

While the two leaders were unable to reach common ground over Taiwan, their meeting did help thaw relations after US House Speaker Nancy Pelosi's controversial visit to Taiwan in August — creating some space for diplomacy. The bigger question may be just how much longer the US' One China policy can survive, with China likely to feel compelled to act militarily sooner rather than later.