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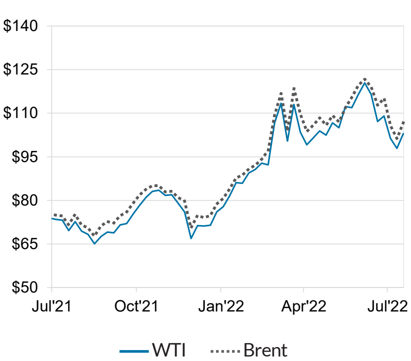

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THE BIG PICTURE

Germany's Sleepwalk Into an Energy Crisis

- *Moscow's invasion of Ukraine is forcing Germany to rethink its entire approach to energy supply.*
- *Historical constraints, complacency toward Moscow, and the lack of a broad long-term energy strategy left Europe's largest economy highly vulnerable to Russian gas supplies — and at risk of chaos.*
- *A new government coalition is having to show high levels of flexibility and compromise to cope.*

Germany is facing an unprecedented energy crisis that could yet worsen this winter. Russian gas supplies partially resumed this week following maintenance work on the Nord Stream pipeline, but remain subject to disruption as Moscow pressures Berlin and others over their support for Ukraine. Any severe disruption would hit Germany industry almost immediately, with some companies warning of complete or partial shutdowns. With gas storage facilities less than two-thirds full, Germany needs to boost stocks significantly by October in order to have sufficient gas reserves to make it through the winter.

So how did the country get itself into this precarious situation? The simple answer is that there was a failure in strategic thinking. Germany relies on imports for close to 70% of its energy resources, and its economic might depends on uninterrupted flows. Both considerations suggest the country would have been expected to be prepared for all eventualities.

But in recent years, Germany remained more focused on its "Energiewende" energy transition policy, and its rapid expansion of renewable energy capacity. This enjoyed strong public and industry support and made it a climate leader, but came at the expense of a comprehensive, diversified energy strategy. Even as it built out renewables capacity, Germany remained heavily reliant on fossil fuels, in particular on gas imports from Russia. That dependency only deepened over the past two decades and was reinforced by the political decision to phase out nuclear power by 2022 after the 2011 Fukushima disaster in Japan.

Instead of caution, Germany assumed that commercial ties with Russia would remain of mutual interest, and that Moscow would continue to be a dependable supplier of hydrocarbons — as it had for many decades and through previous crises. It is now clear this was a miscalculation. The fallout means higher energy prices, and even energy shortages, for Germany and the EU amid a partly self-imposed embargo on Russian hydrocarbons, in which alternatives — from coal, nuclear and renewables to non-Russian oil and gas supplies — are unable to fill the gap.

Achilles' Heel

Germany's energy strategy under former Chancellor Angela Merkel was dominated by advancing climate goals. Russian gas did most of the so-called "bridge" work amid a declining role for nuclear and coal. The rushed decision to exit nuclear energy, while well intended, created an energy security vulnerability as Germany instead

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built more gas-fired power plants to bridge the transition to renewables. Relatively more expensive but diversified LNG supplies did not get a look in.

Russia's annexation of Crimea and military intervention in eastern Ukraine in 2014 could have been an opportunity to launch a full review of Germany's energy ties. Instead, Germany doubled down on cost-competitive Russian gas imports, reflected in the start of construction of the Nord Stream 2 pipeline in 2018 — which the Green Party opposed on climate grounds and the US advocated against on energy security grounds.

Some analysts argue that the mistake was at least partly down to a lack of serious effort to understand Russia's relationship with Ukraine and the drivers behind President Valdimir Putin's decision-making — even after Russia's annexation of Crimea in 2014.

But Germany's approach to Russia prior to the Ukraine invasion must also be seen in the context of its history. Germany's post-World War II identity has been built on its economic success and peaceful integration into Europe, and the belief that trade can build bridges and transform entire political systems — reflected in the steady increase in Russian gas flows. The country's historical war guilt and memories of the Cold War have been the guiding principles in its relationship with Russia. Any concerns over heavy dependence on a single supplier were — intentionally or not — ignored or not understood.

New Flexibility

Russia's invasion of Ukraine in February marked a turning point. Berlin's pushback on Moscow since it invaded Ukraine, including via wide-ranging sanctions, has been unequivocal. The war has forced the new German coalition government of center-left Social Democrats, Green Party and Free Democrats to make decisions more swiftly and decisively than seen under the Merkel administration. Chancellor Olaf Scholz's €100 billion ($102 billion) defense fund, announced just after Moscow's invasion, surprised many. Germany also now aims to cut its reliance on Russian gas to 30% by end-2022, and completely by 2027 in line with an EU target.

Scholz has also been criticized for his poor communication to the German public in recent months, prompting his popularity to drop. Vice Chancellor Robert Habeck, also economy and climate minister, and Foreign Minister Annalena Baerbock, both from the Green Party, meanwhile rank among Germany's most popular politicians. The Greens have adopted remarkable positions since Russia's Ukraine invasion. Multiple LNG import schemes are now on the boil, and Habeck announced in June that Germany will increase the use of polluting coal power in the short term. While the move has been welcomed by German industries, the government's seeming commitment to still phase out nuclear power by year's end is raising some eyebrows.

Even as the current crisis highlights some hard realities about the need for fossil fuels now, the sense of being on a war footing is translating into stronger policy action on longer-term transition goals. In the wake of Russia's invasion, Berlin announced plans to reach 100% renewable power by 2035 against a previous target of around 2040. The coalition government had already announced plans to double the land available for onshore wind farms, easing permitting bottlenecks, a step complemented by Brussels' decision in May to slash permitting times in so-called "go-to" areas for renewables.

The energy-saving measures Germany is adopting to survive the current squeeze on Russian gas could have a lasting effect, even as the tightness drives home some realities about gas' role. Europe, for example, may need to be willing to sign 15-20-year LNG import contracts to secure supplies also being sought by Asian buyers. And Germany's coalition government is handling its accelerated coal phaseout differently from the country's nuclear shutdown: The aim to stop using coal power by 2030, versus an earlier 2038 target, is conditional on a sufficient renewables buildup.

Oliver Klaus, Cologne

GEOPOLITICS

Europe's Dash for Quick Gas, Oil in Africa

After pressing investors to scale back investment in fossil fuels in recent years, Europe is rejigging priorities after the Ukraine crisis. The EU seeks more gas in the short term to replace Russian supplies but wants to accelerate the energy transition and cut gas consumption over the longer term. This appears to favor smaller LNG projects at the expense of already stalled larger ones. Gas-rich sub-Saharan Africa appears well placed to complete a raft of projects that could generate an additional 8 million tons per year of LNG by end-2023. Investment in countries with advantaged barrels like Namibia and Cote D'ivoire will offset a decline in oil exports from mature producers.

• Europe's dash for gas is prompting investors to begin to loosen the purse strings.

Until recently, pressure to stop finance for fossil fuel projects slowed the pace of bank lending and diverted loans and investment into renewables. However, shortages, higher gas prices and the narrative of gas still being needed as a transition fuel have encouraged investors to loosen the purse strings.

The impact will be clearer in a few months' time, with deals in the pipeline going through due diligence. But the trend is noted. "When we are working to syndicate facilities, we have seen more banks willing to participate alongside," senior director at the Africa Finance Corp., Osam Iyahen, told Energy Intelligence. "Finance has become less of a hurdle," says Liam Yates, senior analyst at Wood Mackenzie. At the same time, international oil companies (IOCs) have deeper pockets to fund projects themselves, having started to reverse write-downs.

• When it comes to projects, small is beautiful.

In a volatile price environment, smaller floating schemes pose fewer risks. New technology has made them cheaper and faster to build and they can get gas quickly to Europe, where contracts allow. Italy's Eni, which is leading the way on early production systems, is said to be contemplating a second liquefaction unit offshore Mozambique, where it is readying to launch the first 3.4 million ton per year Coral South project later this year (see table). BP will take all the offtake from the first unit under a 20 year-plus contract, and could sell to Europe if the price is high.

The smaller schemes, including Coral South, could add nearly 8 million tons/yr by end-2023. Offshore Congo (Brazzaville), Eni is also accelerating the floating 2 million ton/yr Fast LNG project, taking gas from nearby shallow water Marine XII block. In Senegal and Mauritania to the northwest, BP and Kosmos could speed up the final investment decision for phase two of Tortue LNG, which will double the project's output to 5 million tons/yr. Senegal's government is also debating whether the project, which is being eyed by Germany, should focus only on LNG — and whether it should look also look at developing blue hydrogen. In Nigeria, UTM's 1.2 million ton/yr floating scheme to draw gas from the offshore Yoho field could provide a test case of for bank appetite. It already has backing from Vitol and Nigerian National Petroleum Corp., according to UTM CEO Julius Rone.

Eni is also fast-tracking an oil project offshore Cote d'Ivoire, in which phase 1 of Baleine, its "find of the year," is due onstream in 2023. Oil Minister Sangafowa Coulibaly is lobbying to bring forward the larger second phase, which will require a much larger FPSO to boost output to 100,000 barrels per day. In Senegal, Woodside hopes to bring its 100,000 b/d Sangomar project onstream in 2023. Inland Uganda, the Russia crisis has ironically slowed the $10 billion, 200,000 b/d Lake Albert development and the East Africa crude pipeline from western Uganda to Tanga in Tanzania. TotalEnergies, the operator, had to replace Russia's Chelpipe as the supplier of 60% of the pipe because of sanctions against Russia.

• Big beasts remain stalled.

For all the need for larger volumes, the big beasts look shakier because onshore bases make them a magnet for local conflicts, while red tape, big price tags and complexity slow decisions down. Nigeria, a key supplier of LNG to Europe from the expanding NLNG scheme, has had to cut spot and even term cargoes after rampant crude theft in the Niger Delta curbed feedstock of associated gas. Despite obvious supply problems, Nigeria's government, perhaps sensing a patronage opportunity ahead of February 2023 elections, has started to tout the 22 million ton/yr Olakola LNG and the 10 million ton/yr Brass LNG projects that stalled a decade ago. However, corruption, lawlessness and the country's weak investment climate will likely deter investors. Train 7, which will raise NLNG's output to 30 million tons/yr, took 15 years to approve.

The EU has identified Mozambique as the African country with the biggest LNG potential in the medium to long term. However, militant attacks have delayed 13.12 million ton/yr Mozambique LNG for more than a year. Even if Total resumes work by end 2022, start-up would be 2026 at the earliest. Such pressures could explain why Exxon Mobil is reportedly exploring a change of model for its two-train 15 million ton/yr Rovuma LNG to a series of midscale, modular-constructed schemes. Neighboring Tanzania's reputation for stalling in general suggests it could miss the window for larger projects. The government signed a framework agreement last month with Shell and Equinor to explore construction of a $30 billion LNG export terminal, but neither the proposed final investment decision in 2025 nor the proposed start-up in 2030 appear realistic.

• 'Advantaged' schemes are speeding ahead.

To the west, Namibia's government is pushing on all cylinders to advance development of oil and gas discoveries offshore. "Projects with advantaged resources like those based on Venus and Graff discoveries are already proceeding relatively fast and both could be sanctioned next year," says Wood Mackenzie's Yates, who also reckons IOCs in Namibia could opt for smaller LNG models based on Coral South or Fast LNG while developing oil fields.

Projects to pipe gas to Europe have received a very slight boost, with Opec funding studies on a $25 billion proposal to take Nigerian gas along the coastline of 15 West African countries to Morocco. Nigeria has also dusted off the long-mooted Trans-Saharan Pipeline scheme to take gas through Niger to Algeria. But these long-term projects are unlikely to materialize for decades, if ever.

Christina Katsouris and Paul Sampson, London

POLICY

How US Transition Looks After Congressional Blow

- *Already-rocky US climate policy was dealt the sharpest of blows last week, after Sen. Joe Manchin roundly rejected climate funding or tax increases as part of a Democratic legislative package.*

- *With far-reaching congressional climate action now effectively off the table, the question is what the US transition now looks like against a White House target of slashing 50%-52% of emissions by 2030.*

- *The answer? Absent federal tax incentives for clean energy investment and amid limits to executive authority, the US faces a messier, and possibly significantly slower, energy transition.*

Congressional legislation was never the only lever for US emissions reductions, but Congress' power of the purse means it was a hugely significant one. US President Joe Biden has vowed to wield executive authority to take up the climate mantle, but he cannot muster the cash that Congress could have channeled into spurring clean energy technology growth and incentivizing greenhouse gas (GHG) reductions. True, falling technology costs offer some momentum, and nearly half of US states are pursuing their own GHG reduction goals. But the absence of congressional action will be felt.

In limbo are some $320 billion in tax incentives meant to speed up climate investments, carrying the following implications for clean energy:

• **For key clean energy technologies, the pace of investment is seen as slowing:** For hydrogen and carbon capture, a delay to the tax credits marks the biggest setback, even if lawmakers manage to eventually move the fairly bipartisan incentives. The new tax credits would have paid up to $3 per kilogram of hydrogen produced and created a whole suite of enhancements to the tax credit for carbon capture, utilization and storage (CCUS), including hiking the value from $50 per ton to $85/ton of sequestered carbon, and a "direct pay" mechanism so companies with lower tax burdens could claim the credits.

Without the enhancements, what would have been a trajectory for "exponential growth" in CCUS investments becomes a "slower, linear curve," says Matt Bright, of the Clean Air Task Force. Particularly for CCUS projects like steel and cement, which involve more costly carbon dioxide streams, companies have been counting on the higher value on CO2 to undergird a market case. Hydrogen, similarly, saw some $9.5 billion for the research and development in the infrastructure law that passed in November, but advocates have repeatedly said setting up a production tax credit is sorely needed to accelerate deployment.

• **Electric vehicle (EV) take-up follows a slightly slower track:** While the US still lags behind other major markets, Energy Intelligence analysis projects EVs comprising 65% of light-duty car sales by 2040. The Biden administration has set a goal of 40%-50% of sales by 2030. Losing out on legislation means what would have been a $12,500 EV tax credit, for cars manufactured at unionized facilities, stays at $7,500. Manchin had strong objections to hiking the credit, so that policy likely fizzles out.

But EV growth in the US, while slightly less accelerated than it might have been with the boost in tax credits, likely stays strong, helped by Biden's clean car standards through 2026, which require increasing sales. "As we've seen with GM's price reductions on the Bolt and Bolt EUV, or with the starting price for the Ford Lightning, manufacturers target the prices and volumes they need to meet what they're required to do," says Dave Cooke, senior vehicles analyst with the Union of Concerned Scientists. Growth in EV charging infrastructure, which got a $7.5 billion boost in the infrastructure bill, is also a key factor.

• **Power sector emissions still drop, but miss a 2035 target:** A recent Rhodium group report found that emissions from the power sector will generally continue to decline, but "natural gas and renewable energy prices have a major impact on the 2035 outcome," referring to Biden's pledge of 100% clean electricity by 2035. Absent new policies such as more robust tax credits, the report found that roughly 75% of total generation is zero-emitting by 2035, shy of the administration's target, but that is highly dependent on fuel prices. The fate of long-standing wind and solar tax credits that have already begun sunsetting also rests with legislation. American Clean Power CEO Heather Zichal cited the "unsettled fate" of the credits in May as among the biggest hurdles for renewables. The rate of growth for US clean power installation slowed to 11% in the first quarter of 2022, compared to the 50% year-over-year growth rate between 2019-21, according to the clean energy lobby group.

Biden's GHG Reduction Targets in Peril

The Rhodium Group report found that the US is on track to reduce emissions 24% to 35% below 2005 levels by 2030, short of Biden's Glasgow targets, "absent any additional policy action." Chances that lawmakers could advance even a slimmed-down bill in the narrow window before US elections seem bleak. Biden, speaking Wednesday at an offshore wind facility in Massachusetts, declared climate change a "clean and present danger" but stopped short of a formal "emergency" designation that unlocks more robust executive authority, such as halting oil leases.

Still, with tax incentives the purview of Congress, few options exist for the White House — even under an emergency declaration — to replace the cash infusion that legislation would have provided. The Supreme Court's recent ruling in West Virginia v. Environmental Protection Agency (EPA) also serves to limit the scope of federal agencies' ability to address climate change — and is seen as blocking EPA mandates for power sector fuel switching to cleaner-burning power sources.

State- and corporate-led action is messier and uneven. Many states are constrained by energy cost mandates or various political and legal obstacles. "States and the private sector may be able to make up some of the difference" but so far have not taken that level of "substantive" action, according to the Rhodium analysis. Among the nearly half of US states pursuing emissions reductions' goals, 18 now follow more stringent fuel efficiency standards than those of the federal government. But Pennsylvania's participation in a regional program for capping power sector emissions is facing political and legal challenges. And US producer states are pushing back on corporate and investor initiatives aimed at the energy transition.

Bridget DiCosmo, Washington

POLICY

Climate Plays Second Fiddle in UK Leadership Race

The UK's net-zero 2050 strategy, outlined by now-outgoing Prime Minister Boris Johnson last October ahead of the UN climate conference in Glasgow, centered on providing cheaper alternatives to fossil fuels, creating sustainable green jobs and decarbonizing the UK economy in manageable stages. The long-term blueprint followed a 2019 amendment that legally bound the UK to the 2050 target and was designed to weather the storm of political upheaval. Conservative leadership candidates Rishi Sunak and Liz Truss will now sell a vision that prioritizes addressing the cost of living crisis — but in which climate change and net-zero plans could play second fiddle, despite recent record high UK temperatures.

• The UK has periodic carbon budgets in place to keep the 2050 net-zero target in sight, but the High Court — and government advisers — say more policy work needs to be done.

Earlier this week, a landmark ruling in the High Court found that the government's net-zero strategy breaches the Climate Change Act because it did not provide "detailed climate policies that show how the UK's legally binding carbon budgets will be met," and that "Parliament and the public were effectively kept in the dark about a shortfall in meeting a key target to cut emissions." This puts increased pressure on the two remaining candidates to do more — they will be legally required to provide a quantified account on policies that will realistically achieve the carbon budget targets — when they take over the Conservative leadership and premiership in early September.

Sunak and Truss have vowed to keep the net-zero target but neither has said they are willing to support increased efforts. Both have made short-term issues like tackling sky-high electricity and gas bills and rampant inflation a priority over longer-term aspirations such as net-zero emissions in 2050. Nonetheless, both have signed a pledge with the Conservative Environment Network to keep the legally binding net-zero target in place.

The High Court ruling gives the government until next March to provide more details of its net-zero strategy. The winning leadership candidate would likely be in charge until a planned general election no later than January 2025, so the update would fall on their watch. The government's independent climate advisers, the Committee on Climate Change, meanwhile said in a June report that the government had a "credible" strategy "in line with the required pace and scale of change" to reach net zero by 2050 but noted "important policy gaps remain."

• One likely focus area for Sunak and Truss will be bringing down the cost of passenger car travel, with record-high pump prices fueling inflation.

While some leadership candidates (now out of contention) had vowed to cut value-added tax (VAT) on fuel by 50% — worth about £0.16 (19¢) per liter — or impose a blanket cut in pump prices by about £0.10 per liter, both Sunak and Truss have yet to say where they stand on the issue. According to motoring association RAC, last week a liter of gasoline cost an average of just over £1.90 per liter ($8.70 per gallon). Dissecting this figure, £0.53 or 28% was fuel duty and £0.32 or 17% was VAT. Some 38% of the cost is wholesale gasoline prices. With the UK public struggling to cover driving costs, neither candidate may be able to remain silent on this issue for much longer.

• The UK introduced a 25% "windfall tax" on oil and gas company profits in May, to claw back huge profits, but industry players warn it could derail North Sea investment plans.

The Energy Profits Levy Bill became law last week. This adds a temporary increase on oil and gas company corporation tax rate from 40% to 65% that will end when oil and gas prices return to historically normal levels, or at the start of 2026. London says it should raise £5 billion during the first year for the Treasury, with some of this going to help provide relief for struggling energy consumers. The chief executives of BP and Shell both said in recent weeks that the levy will inevitably result in lower investment in the UK oil and gas sector.

Sunak was chancellor when the tax was imposed and said last week that his No. 1 priority was fighting inflation — and that he wouldn't consider tax cuts until inflation was under control. However, once inflation has cooled, Sunak has said he supports cutting and reforming business taxes and doubling down on homegrown energy, which includes both North Sea oil and gas and a massive expansion of offshore wind. Truss supports a review of fracking and is supportive of North Sea oil and gas expansion. So, further down the road, both candidates offer an opportunity for the temporary windfall tax to be scrapped.

• As energy bills rise, there has been some consumer pushback on green levies that support wind farms and social and environmental policies — including energy efficiency in homes and buildings, and helping vulnerable consumers.

Environmental, social and governance (ESG) or green levies typically only account for roughly 15% of a dual-fuel bill versus about 60% for wholesale costs and network charges. Truss has said she would "temporarily suspend" the green levy on energy bills. Sunak has vowed to keep it. Ofgem has repeatedly made it clear that energy bills are skyrocketing because of natural gas prices, not the green levy, which accounts for a much smaller portion of bills. In contrast to the EU, neither candidate appears to be prioritizing targets for energy savings amid reduced Russian gas flows that are spiking prices.

Sunak said Wednesday he would increase support for offshore wind but would scrap distancing rules that would have made it easier to build onshore wind farms, despite the latter being one of the cheapest forms of newbuild electricity generation. Sunak has also promised an "energy sovereignty" target of 2045, by which time the UK would use as much energy as it produces, plus a review of energy markets and establishing a stand-alone department of energy.

Jason Eden, London

GEOPOLITICS

Revitalizing the Saudi-US Relationship

- *The Saudi leadership came away with positive views of US President Joe Biden's visit, believing direct communication will help the two countries move forward on shared goals.*

- *Saudi Arabia and the US didn't agree on everything, and no promises were made on oil supply.*

- *But US reassurances on its security commitment to the region — seen as critical in the region absent a functioning Iran nuclear deal — were welcomed, and the kingdom is open to the idea of increasing oil supply provided it's justified by the fundamentals.*

Biden's much-scrutinized visit to Saudi Arabia, which he previously described as a "pariah" state, came at a time when he clearly needs its help to cool down oil prices. Aware of its powerful position, the kingdom approached the visit with cautious optimism — and preparation. Indeed, the entire visit was well orchestrated, with senior US officials shuffling in and out the kingdom in the weeks ahead of Biden's arrival to avoid any slight chance of any mismanaged expectations.

Saudi officials were aware that Biden must raise human rights concerns and specifically the murder of Jamal Khashoggi to meet the expectations of his domestic audience. Biden withstood criticism over the visit in the press and from both sides of the political aisle, either for making it in the first place in spite of human rights concerns, or for leaving without an explicit promise from the Saudis to increase oil production. The price Biden paid in public criticism was noticed by the kingdom's leadership, and the visit did represent a step toward reviving the two countries' relationship.

The Elephant in the Room

On touching down in Jeddah on Friday, Biden was received by Mecca Governor Prince Faisal al-Turki and Saudi Ambassador to the US Princess Reema bin Bandar. He was then whisked to the Al-Salam Palace where he exchanged a much-discussed first bump with the Crown Prince Mohammed bin Salman ahead of a bilateral meeting with King Salman. Next on the schedule was a meeting with the crown prince and several Saudi ministers. Biden kicked off the meeting by addressing the elephant in the room — Saudi Arabia's role in Khashoggi's murder — but then got to the heart of what the US has to offer to the relationship: Its security commitment to the region.

"Now you are all going to ask me if he raised human rights — yes, he did," Minister of State for Foreign Affairs Adel al-Jubair told a small media gathering following the meeting on Friday. "The president said that human rights is an issue that's important to the United States," al-Jubair said. But Biden raised the Khashoggi case, listened to what the crown prince said and moved on, al-Jubair indicated. Asked what the visit meant to US-Saudi relations moving forward, Princess Reema told reporters that it "means that we can resolve these matters quicker and faster because there is a personal relationship."

Edging Toward an Understanding on Oil?

No explicit promises were made to Biden with regard to increasing Saudi oil production, Energy Intelligence understands. The kingdom's leadership is keen on driving the point home that there needs to be a different approach toward the blind rush toward an energy transition — and that Saudi Arabia cannot bear the sole responsibility of building new upstream capacity. Prince Mohammed's statement that the kingdom will make its contribution by increasing its production capacity to 13 million barrels per day, after which it "will not have any additional ability to increase production," was seen as emphasizing that message.

This doesn't mean that Saudi Arabia isn't open to the idea of gradually adding more production, but doing so would require market justification — and increases must happen within the context of the Opec-plus alliance. Holding spare capacity at this point also gives Saudi Arabia political leverage they would like to maintain. The US did not expect an immediate output increase, but officials are hopeful of action in the medium term — including possibly from September, after the expiry of Opec-plus' current production pact.

Russia and Regional Security

Asked whether Biden requested the kingdom's help in isolating Russia by breaking the Opec-plus group, al-Jubair said no, explaining there was no "checklist." Saudi Foreign Minister Prince Faisal bin Farhan al-Saud separately pushed back on Biden's fear of any vacuum in the region being filled by China or Russia. "I don't see a zero-sum game," Prince Faisal said. If US warnings that Russia was seeking drones from Saudi Arabia's regional rival Iran were meant to drive a wedge in Saudi-Russia ties, they did not appear to do so.

On the regional security front, Energy Intelligence understands that beyond the formal cooperation on protecting waterways and improving air defenses outlined in a joint statement, the US has reassured the kingdom that they are committed to maintaining security in the region and providing Saudi Arabia with defense and monitoring equipment to counter attacks from Yemen's Houthi rebels. A perceived lack of US support here has been an irritant for the kingdom and the United Arab Emirates.

And on Iran, in private and ahead of the Biden visit, US officials had made it clear that signing a "bad" nuclear deal with Tehran is not something they would do to gain access to more oil.

That said, while the Gulf got reassurances from the US on security, there's still a question about "what these commitments will actually look like in practice," noted the Crisis Group's Anna Jacobs. That may be down to the parties involved — the US, Mideast Gulf states and Israel — not having a shared vision "of what should be done with Iran," despite sharing a perception of the threats, the Arab Gulf States Institute in Washington's Ali Alfoneh said.

Further, said Jacobs, "one of the reasons we saw everyone distance themselves from an Arab-Israel security alliance" — involving coordinating missile defense systems — is the different views on normalizing relations with Israel. Saudi Arabia, for one, is nowhere close to it, despite the kingdom's goodwill gesture of opening its airspace to all flights flying to and from Israel.

All told, the visit served to smooth Saudi-US relations. But potential trouble spots lay ahead — from Saudi moves, or not, on oil supply, to the remote possibility of a US return to the Iran nuclear deal. The question then is whether this new era of communication helps keep the relationship on track.

Amena Bakr, Dubai, and Emily Meredith, Washington

CLOSING ARGUMENTS

Putin's Tehran Visit, G20's Weaknesses

Russia: Putin's Big MOU in Tehran

Russian President Vladimir Putin met with his Iranian and Turkish counterparts in Tehran this week to discuss Syria, the war in Ukraine and how to expand economic opportunities, particularly between sanctions-hit Iran and Russia. The trip marked Putin's first since Moscow's invasion of Ukraine, and has been framed against US President Joe Biden's recent visit to Israel and Saudi Arabia as showing that Russia is far from isolated.

The Tehran Summit was conceived as an extension and continuation of the Astana Process, which since 2017 has seen Russia gather regional leaders together to try to forge a political solution to the ongoing conflict in Syria. Russia and Iran have been providing critical military, political and economic assistance to the Syrian government in this conflict, while Turkey has thrown its weight behind forces seeking to oust Syrian President Bashir al-Assad from office. On several occasions, Turkish and Russian forces have come to blows, causing casualties on both sides.

Turkey is vehemently opposed to the role played by Syrian Kurds in assisting the US in its ongoing military mission in Syria, which is focused on fighting Islamic State while undermining the rule of the Al-Assad government. In recent weeks Turkey has threatened to undertake a major military operation targeting the Syrian Kurds, moving thousands of troops into Turkish-occupied northern Syria. Iranian President Ebrahim Raisi advised against such an operation earlier this week, saying it would be "to the detriment of Syria, Turkey and the region." Finding common ground while addressing Turkish concerns represents an ongoing challenge.

One area where Russia was able to show some results, on paper at least, was the signing of a memorandum of understanding (MOU) between state Gazprom and the National Iranian Oil Co. — compared to Biden walking away from Saudi Arabia mostly empty-handed. The MOU covered development of two offshore gas fields and six oil fields, Iran said, plus raising reservoir pressure at the giant South Pars gas field. Gazprom said the MOU also covered gas and product swaps, LNG projects and gas export pipelines. Russia and Iran are also seeking to expand banking ties.

The broad MOU, potentially worth up to $40 billion, is part of Russia's effort to expand its post-invasion economic footprint in the face of US- and EU-led sanctions aimed at crippling its energy-based economy. Less clear, however, is what will materialize. Gazprom has yet to make good on proposals made in 2018 to develop Iranian fields, while Gazprom Neft's 2016 MOU to develop onshore oil fields is also still outstanding.

G20: Paralysis Over Ukraine Bodes Ill for Group's Future

The failure of the G20 finance ministers' summit, which concluded its work last week, to issue a joint statement serves as a stark reminder of the divisions over Russia's ongoing invasion of Ukraine that have paralyzed the world's premier global economic forum at a time when consensus is needed to implement measures focused on the post-pandemic recovery of the global economy. In place of a joint statement, Indonesia's central bank issued one of its own, noting that "Many members agreed that the recovery of the global economy has slowed and is facing a major setback as a result of Russia's war against Ukraine, which was strongly condemned, and called for an end to the war." The Bank of Indonesia, as the host institution, went on to declare that the many problems confronting the global economy, including food security, could be solved by members "working with other initiatives."

The failure of the finance ministers' summit to reach consensus comes on the heels of a similar failure during the foreign ministers' summit, convened earlier this month, which was marred by several walkouts over the issue of Russia's invasion of Ukraine. This bodes ill for the main G20 summit, involving the heads of state of the membership, in November. With the world undergoing an unprecedented geopolitical realignment brought on by Russia's war in Ukraine, paralysis on the part of the G20 at a time when its leadership is most needed will only hasten its demise.

High energy prices as a result of the war, sanctions-related pressures and Russia's cut in gas supplies to Europe have left political leaders in the US-led G7 faction facing domestic fallout as US and European economies struggle. Political unity is also vulnerable to fraying as Russia continues to make gains in Ukraine despite the billions of dollars of military aid — along with political support — the West has provided to Kyiv.

G7 countries run the risk of suffering a further blow should the rest of the world look for alternatives such as Brics, which groups emerging economies Brazil, Russia, India, China and South Africa, with Argentina also said to be interested in joining. Putin last month said Brics was considering creating a new global reserve currency — an effort aimed at exploiting growing frustration with the US' sanctions reach but which faces steep hurdles, not least the stability and creditworthiness of Brics member states' currencies.