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THE BIG PICTURE

Egypt Looks to Its Time in the Sun

- *Cairo is hoping to leverage its hosting of the upcoming COP27 climate conference to showcase its climate leadership and be a voice for both developing and producer nations.*

- *The global wheat crisis has triggered genuine economic hardship, restricting Egypt's domestic environmental agenda.*

- *Sharm el-Sheikh will likely give more airtime to producer narratives, but don't expect any sort of U-turn on Glasgow commitments.*

Cairo will be acutely aware that its best laid plans could unravel. At last year's Glasgow climate summit, the UK focused relentlessly on global action against coal use, only for spiraling gas prices to trigger a surge in coal-burning, even among rich OECD nations.

In Sharm el-Sheikh, progress on climate finance to help developing nations adapt to climate change is supposed to be a key indicator of success. But slowing global economic growth could well undercut the global community's ability to hit existing financing commitments, let alone meet the targeted $100 billion per year climate adaptation war chest for developing nations. As a leader of the African group within the COP, failure here will be keenly felt by Cairo.

Shortage of Dough

Egypt itself is in need of assistance. It has been battered by rising food prices, especially wheat, triggered by Russia's invasion of Ukraine. Paying for the increase in foreign debt is "expected to consume almost 45% of total revenues in the new FY2022/23 budget," according to Egypt's updated nationally determined contributions (NDC) report, presented to the UN last month.

The new economic stresses "limit Egypt's ambition on allocating future climate investments," this latest climate transition plan added. While an improvement on the last NDC, Egypt's new plan does not embrace net zero and sees overall emissions rising, albeit at a far slower rate.

Producers were unhappy at Glasgow and felt ignored. Egypt, itself an LNG exporter, is certainly sensitive to producer concerns, and as conference president, Cairo can set the agenda for important side events that take place alongside the more formal UN negotiations and craft a final COP declaration. Producer arguments are also feeding into the Katowice process looking into the impacts of climate responses, which was set up after COP24 in Poland.

Opec has contributed to the process, advocating strongly for wider backing for carbon capture and storage (CCS) and the circular carbon economy. These arguments may become more prominent at Sharm el-Sheikh.

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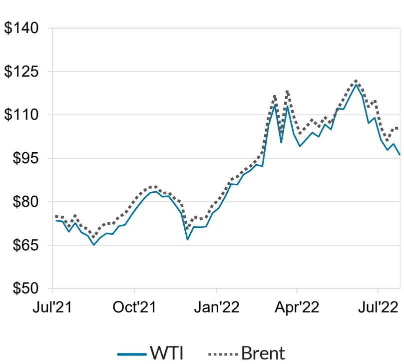
BRENT, WTI PRICES 2021-22 ($/bbl)



Source: CME, ICE

Debate Drivers

At the end of the day, it will be real world events that will drive the climate debate both at COP27 and outside it. Certainly, producer arguments about the lack of investment in oil and gas capacity being behind current high prices are hard to refute. But countering this will be an enhanced OECD sensitivity to overreliance on external energy supplies. And this Ukraine conflict-driven tilt toward self-sufficiency will have been intensified by perceived Opec-plus inaction over high prices.

The memory of this summer's record temperatures and wildfires will also still be raw for many when delegates meet on the Red Sea in November. All in all, Ukraine has intensified the paradox in which producers are being actively courted for supplies in the short term, while longer term the energy transition could be accelerating.

Egypt, for one, is looking to establish itself as a gas and LNG hub and take advantage of the loss of Russian gas supplies to Europe. But it is also acutely aware of its own vulnerabilities to climate change. More than 30% of the Nile Delta, home to around 60% of Egypt's food production, is in low-lying areas vulnerable to the impacts of sea level rises, the NDC notes.

Transition Pioneer

Cairo now aims to generate 42% of its electricity from renewables by 2035, and while not mentioned in the NDC, it is hoping to boost this to 60% by 2045. Overall, Cairo is targeting emissions reductions of 33% for electricity, 65% for oil and gas, and 7% for transportation by 2030 compared to a business-as-usual trajectory.

In many ways Egypt has been a transition pioneer. In 2020, it became the first country in the region to issue a green bond. A lot of the transition building blocks are in the process of being put in place. Italy's Eni is looking at CCS possibilities. Local behemoth Orascom is investing in green hydrogen in-country, and there is a strategic cooperation deal on hydrogen with Siemens.

Last month, Saudi renewables developer Acwa Power signed a deal for the largest onshore wind project in the Middle East. Suez Wind will generate 1.1 gigawatts at a cost of around $1.5 billion, reducing CO_2 emissions by some 2.4 million tons per year. This is Acwa Power's third project in Egypt, after the the 120 megawatt Ben Ban solar independent power project and the 200 MW Kom Ombo solar plant.

"It is full speed ahead. They are trying to get as many green projects formalized in time for the conference as possible," notes one Cairo-based consultant.

Oil and gas sector emissions reductions get less press, but are also significant. In addition to an active flare-reduction program, Cairo last October signed a deal with local firm SMA to undertake a two-year country-wide inspection of all facilities for gas leaks, notes another source. Some 25 teams, using infrared Flir cameras, have started on downstream facilities in the Alexandria area, and should begin surveying upstream operations toward the end of the year. This project alone is targeting a 30% cut in oil and gas sector emissions.

Influence Game

For Cairo, however, energy is increasingly a vehicle through which it projects influence — and its hosting of COP27 should also be seen through this lens. Egypt's gas hub and green hydrogen plans could see it emerge as a significant supplier to Europe. Egypt could also be the savior of Lebanon's power sector, via a US-promoted scheme to pump gas via Jordan and Syria.

If Sharm el-Sheikh can shift the climate debate even slightly in favor of producer arguments, Cairo will have won some valuable brownie points with allies in the Mideast Gulf. Keen to see the region's biggest have-not succeed, Gulf governments earlier this year pledged some $22 billion in investments and deposits, including in the country's downstream, to help Egypt avoid financial crisis.

In one sense, Egypt, by officially sharply hiking hotel prices in Sharm el-Sheikh, has probably already lost one battle for hearts and minds — that for the cash-strapped Western environmental press and NGO community, who also fear restrictions on the protests that generally accompany COP. This will probably weaken the traditional role climate activism plays at COP, and in the view of some erode the event's legitimacy.

Rafiq Latta, Nicosia, and Ronan Kavanagh, London

GEOPOLITICS

Europe's Winter of Discontent

Europe is facing a sobering energy situation as Russia reduces natural gas supplies in response to Western economic sanctions and opposition to its war in Ukraine. While the long-term shift to renewables is clear and alternative gas supplies arrive in the medium term, the next two to three years could be very messy. Access to affordable energy supplies will increasingly define the economic success of countries and become a driving factor in their foreign policies and domestic stability.

• Maintaining solidarity among countries is key to Europe's energy outlook and countries are saying the right things, at least for now.

This idea of showing a unified front is important in the EU's struggle with Russia, but it might have been even more important to reassure one another that winter gas supplies would not become subject to the same free-for-all seen for medical equipment in the early days of the pandemic. "The very principle of having an agreement tremendously decreases the risk of a bad outcome," said Raphael Hanoteaux, senior policy adviser at think tank E3G.

There was danger that the sentiment behind Hungary's declaration that it would not share gas with its neighbors could have spread, said one diplomat. A free-for-all in European gas markets would not only be demoralizing but inefficient as the benefits of a large interconnected market dried up.

This week at least, EU member states are affirming their commitment to the system, on Tuesday finalizing a plan to lower gas consumption by 15% over August-March, with the aim of boosting storage for winter. "There are times when you show solidarity and this is one of them," Eamon Ryan, Ireland's minister for transport and for the environment, climate and communications, said ahead of the meeting with fellow EU energy ministers in Brussels.

Privately, sources admit that it is impossible to know for certain how countries might react if supplies dwindle and winter drags on. But messaging has shifted markedly to one of war footing and the need to stand up to aggression by Russia — not only against Ukraine but the European economy as a whole. "The idea that anyone is an island in this just does not hold up," said one diplomat.

• Reducing demand for gas is a necessity and recent Covid measures could provide a guide.

The squeeze on gas will drive energy decisions over the next two years. Countries are already putting coal power stations on standby, preparing to switch natural gas facilities to fuel oil and delaying the phaseout of nuclear plants. "The next three winters will be brutal," said one European official. "We will burn anything we can to get us through the winter."

Whether European consumers and industry are prepared for aggressive demand-side management is an open question. Countries are about to launch broad campaigns asking people to save energy as a public duty. Sky-high energy prices already provide a strong incentive.

Should the winter prove particularly harsh, governments could look to the Covid-19 toolbox for ideas, said one EU source, including work-from-home mandates or online learning, although the public appetite for such measures is already stretched thin.

• The impact on Europe's industrial base and economy is looking increasingly severe.

Companies are struggling with profitability of European operations as their energy costs rise — and contemplating outright shortages of energy and natural gas feedstocks. German chemicals giant BASF is idling some European ammonia production, which relies heavily on natural gas, saying it no longer made economic sense. "We are in a crisis mode but not in a panic mode," BASF CEO Martin Brudermuller told investors. The German government already arranged a $15 billion bailout — the largest on record for the country — to save utility Uniper, which has been rocked by high gas prices and lack of supply.

Here, even allies can present threats, as EU officials fret about the competitiveness of their industries against those in the US, where natural gas and power are available at a fraction of European prices. Some express hope that gas saved by consumers could help ease supply constraints for key industries.

• Exposure to natural gas — and particularly Russian volumes — varies widely across countries, but all are experiencing energy price inflation.

Whether they are linked by pipeline to Russia or not, all EU states are affected in some way by prices for gas and LNG that are being pulled higher by European hubs. France, Germany and Italy account for the majority of EU gas consumption. The latter two are particularly exposed to Russian volumes and have high consumption both in domestic households and power generation. This points to the need to find any and all alternatives to gas in the power generation stack and win over the public to the idea of cutting use at home.

The "Save Gas for a Safe Winter" plan does include six broad exemptions that allow countries to dodge their obligations. Critics say those carveouts result in a weak agreement. Diplomats argue, and some analysts agree, that the nuance of the deal more accurately reflects the reality that each country's energy system is very different and treating them all the same was as inefficient as it was unpopular. For now, ministers of many countries say they have no plans to use their exemptions.

• Governments understand they must manage the social impacts of high energy prices or face the consequences.

One EU diplomat warned that high energy prices "can destroy any European government." Italy's Mario Draghi saw his coalition crumble in part due to disagreements over a consumer assistance package. "We have those prices for a year and we will have very different governments in this meeting room in one year," said one source in Brussels. "We need mechanisms to help the poor."

Approaches will vary but the effect must be the same — to blunt the impact of high energy prices on consumers who were already reeling under high inflation. Countries including Spain and Portugal have capped gas prices, with mixed success. Others have cut taxes on gasoline and other forms of energy, or offered direct payments to offset the price increases. But politicians are also watching the stability of those outside the EU bloc, including countries in North Africa that are being asked to send more gas to the continent.

Noah Brenner, Brussels

POLICY

Cap the Trade: The Bid to Cut Russian Oil Revenues

An EU ban prohibiting shipping and financial services for Russian oil exports will begin taking effect Dec. 5. Western officials wary that the ban will trigger steep supply cuts and spike oil prices are pushing for a loophole that would allow Russian crude and products to reach the market — if they are heavily discounted, hitting Moscow's bottom line. On its face, the proposed price cap is simple: give an exception to the EU shipping and financial services ban for cargoes that come in under the price cap. But how market players, major buyers like India and China, and Russia itself react to the price cap will ultimately determine if Western officials can finely calibrate the volume and price of Russian barrels on the market.

• Concerns over oil prices and a desire to cut Moscow's oil receipts are driving the push to cap prices for Russian oil.

US officials are the most vocal proponents of the proposed cap, but G7 countries and South Korea have agreed publicly to the idea — in principle, at least. The hope is also that the cap's effects would stretch to increasingly important buyers of Russian oil, like China and India, which a Treasury Department official said would be better positioned to negotiate for steeper discounts if Russia faces a cap elsewhere.

But the idea is based on two very big assumptions, says Maria Shagina at the International Institute for Strategic Studies: that Russia will continue pumping oil at much lower margins; and that countries outside the G7 will require steeper discounts of Russian oil. Neither is guaranteed.

• The proposed remedy is more complex than past sanctions regimes.

True, the US has executed complicated oil-sector sanctions programs in the past. Washington gradually took Iranian oil off the market in the lead-up to the 2015 nuclear agreement as part of a pressure campaign. In the wake of the US' 2018 withdrawal from that arrangement and implementation of a "maximum pressure" sanctions campaign, Iran now exports substantial volumes using sanctions evasion techniques. Still, exports could be an estimated 1.3 million barrels per day higher without the sanctions.

But the price cap proposal is very different. Its proponents aim to keep Russian oil on the market — just at a price Washington, Brussels and other Western capitals are comfortable with. And Washington isn't contemplating secondary sanctions — where the US threatens to block any companies that violate the parameters from the US banking system — to enforce the policy.

Regardless of the intent to keep barrels flowing, there's a risk of a "broader chilling effect" on Russian oil, says Brian O'Toole, a nonresident fellow at the Atlantic Council. Faced with the kind of comprehensive due diligence necessary to prove Russian oil isn't trading above a certain price, insurers, banks and other service providers might decide it's simply not worth the effort to stay involved. O'Toole points to past carveouts for humanitarian aid that get little use. "The Trump administration tried to do this with their Iran humanitarian channel and it didn't work, no one used it," he said.

Shagina notes that companies involved in oil trade likely have more resources to throw at compliance and due diligence than humanitarian organizations trying to ship medicines to a targeted country. But she acknowledges "self-sanctioning has become toxic" when it comes to Russian barrels. Companies stopped trading in Russian oil before the EU embargo — which has yet to take effect — raising prices. The EU last week put out guidance clarifying buyers could still work with otherwise sanctioned Russian firms when it comes to buying Russian oil and gas, for now.

• Proponents first have to surmount diplomatic hurdles with allies and policy changes.

It's not yet entirely clear how each country supporting the cap will help implement it. Countries like the UK and US may have to first institute their own prohibitions on shipping services.

Implementation at home first requires diplomatic agreement, and there is still skepticism. Several European sources expressed concern about the idea, largely because of the complications involved in enforcement. Italy's Mario Draghi was also a vocal proponent, but he recently resigned as prime minister after his government collapsed.

There are also concerns over bandwidth for enforcement. The US and UK have reputations for well-staffed sanctions compliance units, but that's not the case across Europe. "It's a lot of enforcement," Shagina said. "Does the European Union have the capacity for that?"

• Russia will also have a say in how successful the scheme is — if it is implemented.

Russia has yet again decreased gas volumes flowing to Europe, further complicating countries' ability to fill their stocks for the winter. Gas prices rose this week over fears Moscow could further restrict flows — even as Europe agreed to cut demand in a bid to add to storage ahead of winter (p2).

Russian President Vladimir Putin said last week that the situation would be similar in oil markets if a price cap goes into effect. "The result will be the same — rising prices. Oil prices will spiral." Russian Deputy Prime Minister Alexander Novak said Russia wouldn't sell oil at a loss, with sources saying he was referring to selling at prices that jeopardize projected budget revenues. Some trading sources expect a Russian shut-in if a ban is implemented. The government based its 2022 budget on a Urals price of $62.20 per barrel.

"It's banking on the idea that for Russia it is more detrimental to close down its wells than it is to reopen them," Shagina said. "But today we are in a different reality, where we're talking about the gas being cut off entirely. The strategy might have changed for Russia."

Emily Meredith, Washington

GEOPOLITICS

Rising Debt in BRI Countries Also Traps China

- *Country defaults are raising risks for China's Belt and Road Initiative (BRI).*
- *In particular, China's large loans to Russia could face repayment delays amid Moscow's Ukraine war.*
- *Inflationary and energy security pressures are meanwhile forcing China to delay plans to "green" the BRI.*

The Issue

As inflation spirals and a worldwide recession looms, debt crises in Sri Lanka, Pakistan and Zambia have revived questions around Chinese lending to its BRI partners, which account for most of the developing world. With the Ukraine war in full swing, China's numerous loans to Russia, a prominent BRI partner, are also coming under strain. The debt trap that China has often been accused of setting for its BRI partners risks turning into a trap for China itself as countries default on payments, raising questions about the merits of President Xi Jinping's signature foreign policy.

Russia in the Red to China

Russia was by far China's biggest borrower at $125.38 billion (in 2017 dollars) over the 2000-17 period, according to data compiled by AirData, a data research lab at the Virginia-based College of William & Mary. Some of the lending came as oil loans, under which China lends money in return for energy supplies.

One such deal, for about 300,000 barrels per day over 25 years, was signed in 2013 between state Rosneft and China National Petroleum Corp., with a prepayment for up to 30% of the volume. That followed a similar-sized oil-loan deal between the two in 2011.

More loans were signed post-2017, such as a 2021 loan for up to €2.5 billion ($2.6 billion) from Chinese financial institutions to help finance Arctic LNG 2.

Chinese lenders will struggle to recoup their investments as planned, especially as Western sanctions prevent projects from moving ahead and Chinese companies appear wary of possible secondary sanctions. Chinese BRI investments in Russia in the first half of this year fell to zero, according to a report by the Shanghai-based Green Finance and Development Center (GFDC) this week that also showed Saudi Arabia as the No. 1 recipient so far.

In the meantime, China's imports of Russian oil and gas have surged, with May Russian oil imports at a record 1.99 million b/d. China no longer discloses the volume of its Russian piped gas imports, but Russia's state Gazprom claims they are also at a record high.

Still, that doesn't mean Russia has resorted to repaying China with energy exports, as Venezuela did a few years ago, ramping up its oil exports to China as its debt rose. "Russia is under sanctions, but it is very far from a collapse similar to the Venezuelan situation," risk consultancy Verisk Maplecroft's Head of Energy and Resources Kaho Yu told Energy Intelligence. High energy prices mean Russian revenues remain healthy.

Broader BRI Crisis

Russia's invasion of Ukraine and the resulting commodities inflation has accelerated a debt crisis in the developing world, leading Sri Lanka to default on its foreign debt in May. Similar pressures are being felt in Pakistan and elsewhere. Almost 60% of low-income countries are now in debt distress or at high risk, the World Bank estimates.

Many of these countries have one thing in common: China is their biggest lender. Pakistan, which hosts China' single-largest BRI project, stands out. It signed up for $62 billion of projects to build out the China-Pakistan Economic Corridor, a package including power plants, a port, roads and pipelines. But the corridor is far from ready, and increased attacks against Chinese nationals are further slowing its progress.

China and its banks are extremely secretive about the terms of their loans and prefer bilateral deals to multilateral negotiations. But with a growing number of countries in debt distress, Beijing is under pressure to restructure deals with international institutions. China participated in its first meeting with the Paris Club of creditor nations this month to start resolving Zambia's debt crisis — nearly 18 months after Zambia defaulted on its foreign debt.

Xi launched the BRI in 2013 to find an outlet for China's domestic overcapacity in some industries, such as power, and use investments to deepen ties with other countries. China has since been accused of creating debt traps to extend its geopolitical influence in developing countries by lending large sums at high interest rates — and for projects that may not ultimately serve the host country. But experts also warn that both parties in BRI deals are often simply guilty of not conducting due diligence on the projects.

BRI Downsized — and Not That Green Yet

Criticism of the BRI, together with a rising number of troubled loans and project delays, have prompted China and its state policy banks to limit their involvement in new BRI projects. BRI overseas engagement stood at around $115 billion in 2019, already down from a record high of more than $140 billion in 2017. The Covid-19 pandemic then forced China to look inward in 2020 and investment did not rebound in 2021, hovering at around $60 billion in each year, according to Shanghai's GFDC.

The first half of 2022 shows little change, the organization says, with total financing and investment at $28.4 billion, down from $29.6 billion a year earlier, bringing total cumulative BRI spending to $932 billion since 2013.

The energy sector still draws most of China's BRI engagement, accounting for 42%, or about $11.9 billion, of spending in the first half of this year. Most went into gas projects (56%), with major investments in Saudi Arabia and Iraq, followed by the oil sector (18%) and solar and wind (also at 18%), the report notes. A Chinese company also won a bid for a captive coal power plant in Indonesia, raising questions over Beijing's commitment to not build new coal-fired power plants overseas.

Despite Xi vowing in 2020 to make the BRI greener, the search for energy security at home and abroad — and tighter purses — may force Chinese companies to focus on fossil fuels, at least in the short term. Higher inflation also "makes it harder to finance projects abroad," GFDC Director Christoph Nedopil told Energy Intelligence. "In the short term, this might mean that some green energy projects might have to be re-evaluated, but these should nevertheless be able to proceed and accelerate over the next investment cycles."

Maryelle Demongeot, Singapore

POLICY

Saudi Arabia Advancing Its Diversification Plans

- *Saudi Arabia is pushing ahead with its economic diversification plans, using high oil prices to speed up reforms on the ground.*
- *Changes wrought by reforms are already apparent, but challenges over financing grand visionary plans remain.*
- *The kingdom's leadership finds itself in a powerful position amid the current energy crisis, able to deepen ties to both East and West.*

The Issue

Today's high oil prices have not derailed Saudi Arabia from its primary mission of diversifying its economy. Crown Prince Mohammed bin Salman is still on a mission to shake off the oil curse and push ahead with his so called "Vision 2030." And despite aspects of the plan that critics of the kingdom often point out as being unfeasible, on the ground changes are visible — with a clearly more empowered younger generation taking over key government roles and women for the first time being included in the workforce across almost all sectors.

A Real Change

Saudi Arabia is a changed country. The country's capital Riyadh, once known for its ultraconservative nature, strict gender segregation and religious police who kept a tight grip on society, has been transformed. Riyadh today is filled with modern complexes such as the King Abdullah Financial District and advanced infrastructure, and where women are not only allowed to drive and mingle freely in the city but have also joined the workforce en masse.

There has also been a general realization that the foreign consultants who flooded the country when the reform program was announced in 2016 no longer offer the customized solutions that are needed — and that this is something that needs to be shaped by Saudis. With nearly two-thirds of the Saudi population under the age of 35, the transformation plans are well accepted.

The new energy ministry, now located in an ultramodern complex called Digital Media City, offers one example. Of some 700 professionals working there, many hail from a younger generation and around 250 are women, some of whom head departments. The ministry's open-plan offices, with some floors resembling those of international tech companies, are a far cry from the old ministry building home to predominantly older male employees, and which at one point didn't even have lavatory facilities for visiting women.

These changes were mandated by Energy Minister Prince Abdulaziz bin Salman, who took office in September 2019, and reflect a wider cultural shift particularly among young, educated Saudis —many of whom would previously seek jobs in the private sector or opt to leave the country. Now, many of the youth at the energy ministry told Energy Intelligence that they feel like they are "part of the change" and want to contribute to their country's transformation.

In terms of oil policy, the energy ministry is working on a strategy that would free up around 1 million barrels per day of liquid fuels — including crude being burned in domestic power plants, mainly during peak demand periods — for export by 2030 as the kingdom uses more gas and renewable energy for its domestic power.

The Dream

Prince Mohammed's dream of transformation and diversification is far from over. This week, in a small private event in Jeddah attended by Saudi ministers, international architects and journalists, the prince revealed the designs of "The Line" city project, which is part of the $500 billion futuristic city of Neom to be located on the Red Sea.

The Line, stretching 170 kilometers long, would be home to 9 million people — roughly the same size as London — but its envisaged carbon footprint would be only 2% of the UK capital's. The city is planned to be free from roads, cars and emissions and run on 100% renewable energy. "We cannot ignore the livability and environmental crises facing our world's cities," with Neom designed to address these issues, said Prince Mohammed, the kingdom's de facto ruler.

The overall cost of the first phase of Neom is estimated at 1.2 trillion riyals (around $320 billion), he said. Half will come from the country's sovereign wealth fund, the Public Investment Fund, with the rest seen as coming from regional sovereign wealth funds and the private sector, which will be tapped by the fourth quarter of this year. Foreign direct investment in the kingdom was up 9.5% in first-quarter 2022 over first-quarter 2021, reaching 7.4 billion riyals, according to the ministry of investment

Strategic Diversification

How much interest the project will attract from international investors is unclear, but in parallel Energy Intelligence understands that Saudi Aramco is pushing to expand its downstream sector outside the kingdom, with a special focus on India and China. By 2030, Aramco plans to increase its oil allocation to petrochemicals from 1 million b/d to 4 million b/d, of which 1.4 million b/d will be for projects outside the kingdom, according to data from the Saudi energy ministry. These investments may encourage more investment to flow into Neom from the East.

Prince Mohammed also said an initial public offering (IPO) of Neom shares is planned by 2024 to raise additional funds, adding that the IPO would add around 1 trillion riyals to the overall value of the Saudi stock market. Asked about the rationale for Neom, Prince Mohammed said that by 2030 he wants the country's population to grow to 50 million-60 million people — roughly half Saudis and half expatriates — from 35 million today. To build a strong, diversified economy, more people are needed to increase the share of local content in the kingdom's economic output, he added.

Notably, Saudi diversification efforts have extended to the kingdom's strategic relationships. The Saudi leadership is looking to continue to deepen ties with the East as it also reinvigorates Western partnerships, not least with the US — helped by its position, during an energy crisis, as one of the few holders of spare oil capacity and as one of the world's lowest-cost (and lowest-carbon) producers. Prince Mohammed visited Greece Wednesday, striking preliminary energy deals, before arriving in France Thursday. The crown prince's European tour came on the heels of US President Joe Biden's recent trip to the kingdom despite having previously called it a "pariah" state.

Amena Bakr, Riyadh

CLOSING ARGUMENTS

Turkey-Iraq Tensions, Yemen's Fragile Cease-Fire

Turkey-Iraq: Tensions Rise After Resort Attack

An artillery attack on a popular resort in northern Iraq that killed a reported nine people and wounded another 23 has shone a spotlight on Turkey's ongoing military campaign against Kurdish forces there. The Iraqi government has condemned the attack, which it claims was conducted by the Turkish army. Turkey denies any responsibility, and instead pointed the finger at the Kurdistan Workers' Party, or PKK, which it considers a terrorist group.

While hundreds of Iraqi Kurds have been killed over the years because of fighting between Turkish forces and the PKK, last week's attack on the Kurdish city of Zakho killed Iraqi tourists from the south, raising the pressure on Baghdad to respond forcefully. The crisis between Turkey and Iraq also comes at a critical time politically for Turkish President Recep Tayyip Erdogan, who faces a contentious national election next June. Political observers believe that Erdogan will use the Kurdish problem to generate popular support in the lead-up to the poll.

Both Iraq and Turkey have agreed to support an independent investigation into the incident by the UN. However, Iraq is demanding the withdrawal of all Turkish troops from its territory, while Turkey has declared that it will continue to carry out military operations against the PKK, who take refuge in northern Iraq. Turkey has long sent forces across the border to confront PKK forces that use the mountainous terrain there as a base of operations from which to attack Turkey. A ramp-up of operations in 2007, when Turkey surged thousands of troops, led to the establishment of several bases that have taken on the characteristics of a permanent garrison.

While the Iraqi government has repeatedly protested the Turkish military presence on Iraqi soil as a violation of its sovereignty, Turkey has coordinated its military efforts with the semiautonomous Kurdistan Regional Government in northern Iraq, which has been supportive of Turkey's ongoing campaign against the PKK.

Ankara's military position in northern Iraq is part of an overall campaign that includes operations inside northern Syria designed to weaken pro-PKK forces and broadly aims to undermine Kurdish independence efforts — which Turkey views as an existential threat to its national security. Ankara is in the process of building up its military forces in northern Syria for a possible large-scale offensive against Syrian Kurdish forces Turkey believes are affiliated politically and militarily with the PKK. According to Turkey, the recent attack on the resort was likely a PKK effort to distract Turkey from its planned Syrian offensive.

Yemen: Cease-Fire at Risk

Efforts by the UN to negotiate a six-month extension of a cease-fire agreement first implemented in April, and extended in June, appear to be faltering in the face of renewed violence by both sides to the agreement. The Saudi-led coalition has accused Iran-backed Houthi rebels of continuing to attack pro-Saudi Yemeni forces in the besieged city of Taiz, while the Houthis have accused the Saudis of carrying out air strikes against Houthi positions in the vicinity of Hodeidah port — including after Saudi Arabia, with the US, pledged strong support for the truce during US President Joe Biden's mid-July visit. The accusations are flying as the clock ticks on the Aug. 2 expiry of the current cease-fire. That said, the June extension was agreed just hours before its expiry.

The current cease-fire — Yemen's longest-lasting relative halt to fighting since 2015 — was seen by international and regional observers as the best opportunity to bring an end to the Yemen conflict. However, neither the Saudi-backed coalition nor the Houthi rebels have been satisfied with the other party's implementation of its main provisions. Saudi authorities have additionally accused the Houthis of failing to reopen the main roads leading into Taiz, while Houthis say the Saudi-led coalition has failed to meet its obligations regarding both the delivery of fuel to Hodeidah port and the sustained resumption of commercial flights out of Sanaa airport.

Yemen's newly formed presidential council, chaired by former Interior Minister Rashad al-Alimi, represented an effort by both Saudi Arabia and the United Arab Emirates to create a viable anti-Houthi coalition incorporating Islamists and tribal leaders with southern Yemeni separatists and followers of ex-Houthi ally Tareq Saleh. It is nonetheless viewed by both the Houthis and some Yemenis as being little more than a proxy of Saudi Arabia, similar to the administration of former Yemeni President Abed Rabbu Mansour Hadi it had replaced.

More fundamentally, at issue is the Houthis' unwillingness to cede the political and military advantages they had accrued at the time of the cease-fire's initial implementation, which a six-month extension would undermine by providing the Saudi-led coalition more time to solidify support for the new al-Alimi government. In essence, both sides feel that any extension would only be used by the other to conduct activities detrimental to their respective causes. Unless UN negotiators can change these mindsets, odds are that the cease-fire will expire on Aug. 2, opening the door to a renewal of the fighting that has devastated the country since 2015.