

# ENERGY COMPASS<sup>®</sup>

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## THE BIG PICTURE

### Awakening a Sleeping (Climate) Giant

- *Climate legislation signed into law this week offers new certainty to the US' transition path — bringing an end to decades of policy flip-flopping and lending it some credibility heading into UN climate talks in November.*
- *Clean energy technology is perhaps where the US now stands to make the biggest difference globally, although there will be sticking points.*
- *The US' incentives-based approach differs from the routes taken by Europe or China, reflecting the US' domestic political dynamics and its status as an oil and gas powerhouse.*

US President Joe Biden has called the Inflation Reduction Act (IRA) the “biggest step forward on climate ever.” There’s no doubt that the legislation is unprecedented for the US and establishes a clearer foundation for the energy transition in the US than ever before. And even if some questions surround what it might mean in practice, the bottom line is that emissions reductions will now take place that wouldn’t have otherwise.

Beyond its domestic importance, this surprise move by the US could be globally significant in accelerating the development of key low-carbon technologies. It also lends credibility to the US heading into UN climate talks in Egypt later this year, where a focus will be on delivering policies to implement Paris Agreement pledges. The new measures won’t, however, set the US apart as a climate leader — Europe’s recent REPowerEU and Fit for 55 packages go further, and skepticism is likely to surround the role for carbon capture and storage (CCS).

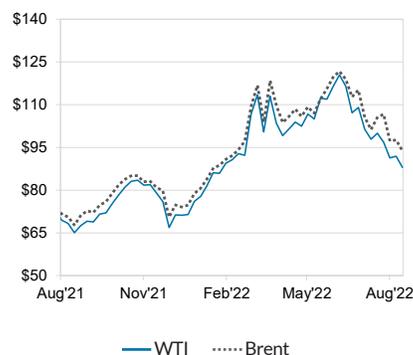
Finding the right pathway through the transition has perhaps been more challenging for the US, as a big oil and gas producer, than for mostly energy consumers like Europe, or China for that matter. This creates a much different dynamic, and different perceptions of issues like the role of renewables versus gas in terms of security of supply, for example, which also helps drive more polarized politics around energy.

The IRA takes a pragmatic approach, providing carrots for renewable technologies while not applying a stick to fossil fuels — aside perhaps from new methane fees. The legislation avoids mention of a price on carbon, too, which has failed to pass Congress in the past. But pragmatism is perhaps what’s needed now amid an energy crisis, and a worsening climate crisis, too — and a key message going into COP27 might be to not let the perfect be the enemy of the possible.

### Technology Takeoff

The most significant global impact of the IRA could be on the prospects for technologies like CCS, direct air capture (DAC) and hydrogen, which could be critical for some hard-to-decarbonize sectors like heavy industry and transport. The US has sometimes been seen as the sleeping giant of the energy transition. But while per-

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



Source: CME, ICE

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haps slow to get started, it has the potential to then go fast — applying an entrepreneurial energy that has long distinguished its economy.

The law brings long-sought improvements to the existing CCS tax credit and lowers thresholds for the size of qualifying capture projects, which are expected to help with wider deployment. And for DAC, there is a huge hike from the current catch-all \$50 per ton support, to values that would range from \$130–\$180/ton. The law also provides a \$3 per kilogram “production tax credit” for hydrogen produced with an electrolyzer powered by clean energy, seen as bridging the green hydrogen cost gap with gray hydrogen. Blue hydrogen, in line with low-carbon aims, faces stringent greenhouse gas intensity standards.

## Industrial Strategy, Energy Security Wins

The new US policy is as much an industrial and energy security strategy as a climate one, with one eye on closing a strategic gap with China in renewable technologies and minerals processing. Beijing, helped by the weight of its state sector, has taken advantage of US prevaricating to establish a huge lead in sectors such as solar photovoltaic (PV) and its renewables rollout, in turn giving it a head start on green hydrogen. This is a concern not just in the US: Europe is also looking at steps to secure clean technology supply chains and build up domestic manufacturing capacity and jobs in these key growth sectors — with added intensity amid the fallout from Russia’s war in Ukraine.

There is an exhaustive list of technologies that fall under the new advanced manufacturing production credit: PV cells, solar modules, solar tracker components, inverters, wind energy components, wind towers, offshore wind vessels, and battery cells — plus 10% of cost for critical minerals production processes. Key, too, will be easing permitting and transmission bottlenecks, but Congress punted on that piece.

## Carrots Not Sticks

Providing consumers with domestically focused incentives rather than sticks is perhaps helpful in avoiding a public backlash in the US, where climate policy is more polarized than in Europe, which may accept a more punitive-leaning approach, such as fixed bans, to change consumer behavior. Clean energy tax credits have always enjoyed standing as among the least controversial energy policy mechanisms in Washington, although getting extensions year to year has become increasingly fraught amid the wider transition debate. Heavily weighting the “carrots” side of things seems to stick to safer political ground.

Early polling seems largely favorable. That the bill has a huge labor/environmental overlap — with robust labor provisions, like tying tax credit provisions for everything the legislation touches to prevailing wage requirements — may help.

## COP27 Reception

Don’t necessarily expect a standing ovation at COP27 for the US for delivering policies to meet its Paris Agreement pledge, although it might help to improve the mood music. Those talks will probably quickly turn sour regardless, over issues like finance for developing countries for clean energy and climate adaptation (which the IRA does nothing to address).

The biggest lasting impact on the UN climate negotiation process may be the greater policy certainty provided by the new legislation, which could reduce the tendency for US flip-flopping. Previous US action was based on presidential executive orders that could be easily reversed — as happened after George W. Bush was elected in 1998 and Donald Trump in 2016.

While some details of the bill may be questioned, including support for CCS, which climate activists see as extending the life of fossil fuels, its symbolism goes beyond the sum of its parts. Just a few weeks ago, it would have seemed fanciful to think a step like this was possible in the US. That the legislation exists at all may offer the most hope for international climate diplomacy, which will similarly need to pull a rabbit out the hat if the world is to avoid the very worst effects of climate change.

*Ronan Kavanagh, London, Bridget DiCosmo, Washington, and Philippe Roos, Strasbourg*

## GEOPOLITICS

# Iran Nuclear Deal: Drivers vs. Hurdles

- *Indirect nuclear talks between Iran and the US appear to have entered the most critical phase since their start in 2021, but a successful outcome still isn’t guaranteed.*
- *Any decision by Iran’s Supreme Leader Ayatollah Ali Khamenei will carefully weigh domestic interests.*
- *Economically, even a short-lasting agreement would help address Iran’s dire economic situation.*

Iran and the US might appear to be closer than ever to reviving the 2015 nuclear deal after nearly 18 months of talks. But optimism is still premature. Tehran submitted its formal response to the EU's proposed "final text" of a new nuclear pact on Monday following an extraordinary meeting of Iran's Supreme National Security Council (SNSC) chaired by President Ebrahim Raisi. Reading the tea leaves is challenging.

After the submission of Iran's response, Foreign Minister Hossein Amir Abdollahian suggested that an agreement could be reached within days — if the US were to make further compromises. But he added: "What the people want from us is an outcome from these negotiations ... The people want to see results from us." He also spoke of the reality of give-and-take negotiations. Days later, however, Abdollahian noted that "other stages may be discussed" once Iran's red lines are respected and economic benefits guaranteed.

In Washington, State Department spokesman Ned Price said the US had received Iran's comments through the EU and was still studying them on Wednesday.

## Leadership Priorities

On the Iranian side, any return to the so-called Joint Comprehensive Plan of Action (JCPOA) will ultimately be guided by what matters most to Supreme Leader Khamenei, the country's ultimate decision-maker, which is preserving the Islamic revolution — and the current structure of leadership. To be sure, reviving oil exports and establishing better ties with Mideast Gulf neighbors do provide benefits — but they need to serve the domestic priority. And a deal could cut both ways, offering wins but also presenting risks.

## Attractions of a Deal

A revived nuclear deal could be seen as strengthening the leadership, by enabling Tehran to gain access to frozen foreign reserves worth around \$100 billion and return to the oil market at a time of high prices and buoyant demand — capturing market share in Europe as it turns its back on Russian supplies. Energy Intelligence's Research and Advisory unit estimates under its "breakthrough" scenario that Iran's exports could rise within nine months to around 2 million barrels per day from around 600,000–900,000 b/d now.

Those windfall revenues could allow the leadership to signal to the Iranian people that the revolution can still deliver results, shoring up the sense of its legitimacy while offering a release valve for already-struggling Iranians now being hit by unrelenting global inflationary pressures.

With this in mind, the benefits of a new nuclear deal could prove sufficiently attractive for Iran's leadership even under the assumption that a future Republican president in the US could abandon it — and even absent meaningful foreign

investment from Western companies amid concerns over the deal's longevity. "Even if you expect that the deal might fall apart in two years' time, take the deal now, give the economy some breathing room and use the opportunity to stabilize the system and prepare for the eventuality in 2025," Esfandiyar Batmanghelidj, founder of economic think tank Bourse & Bazaar, recently told Energy Intelligence.

For ordinary Iranians, of course, the question is to what extent recovered and new funds would actually end up benefitting the people versus ending up in proxy battlegrounds to bolster Iran's influence there. "Many people say that even if sanctions are removed the oil revenues will be spent on Syria, Yemen and Lebanon, and I believe that too," one Iranian source said.

## Risks — and the Status Quo's Appeal

That concern highlights the interest groups in the Islamic republic that are likely to be content with the status quo, notably those associated with the powerful Revolutionary Guard. The Guard's sprawling business interests across the country, along with its smuggling activities that also include oil, have made the organization a powerful economic and political force. The Guard has also been handling Iran's under-the-radar crude export sales rather than state National Iranian Oil Co. (NIOC), said one Iranian official, with the bulk ending up in China.

To some extent, however, the reality of a more limited deal — one that allows for more exports but does not open the floodgates for Western investment in Iran's economy — could ease possible concerns by the leadership and Revolutionary Guard about what lies ahead: This time around, unlike in 2015, there is no talk of the JCPOA being transformational for Iran's orientation and regional behavior, economy or nature of government.

With key stakeholders in the regime and in the economy long used to operating under sanctions and in opposition to the West, a deal seen as not rocking the boat too much could be easier to stomach.

## Managing the Optics

Iran's leadership will also need to portray any deal as a win, especially after heavily criticizing the original agreement struck by the previous Hassan Rohani administration. In short, an agreement will need to be seen as extracting key concessions while producing tangible benefits.

Should talks stumble, the Raisi government can point to the US as being the one to blame, having withdrawn from the pact in May 2018 in the first place. Tehran could also make a case that shortcomings in the US political system are preventing Washington from guaranteeing a deal, in line with its long-held view of US untrustworthiness.

Both parties seem to wish to avoid a complete collapse in the negotiating process. But if it came to that, Iran could expect Washington to ratchet up sanctions, intensifying Iran's economic woes. That would put Iran's relationships with Russia and China to the ultimate test. Neither country has provided the far-reaching economic support Tehran may have welcomed after US sanctions snapped back in 2018-19. Looking ahead, China is likely to remain cautious, although fellow sanctions-hit producer Russia may prove more eager.

*Oliver Klaus, Dubai, and Simon Martelli, London*

## GEOPOLITICS

# Russia and Turkey's Complex Relationship

- *Turkey has spooked the West by strengthening its economic and energy ties with its longtime partner, Russia, as the EU tries to toughen sanctions.*
- *A Nato member, Turkey has irked the Russians by supplying weapons, including unmanned drones, to Ukraine's military, while President Recep Tayyip Erdogan visited Ukraine Thursday.*
- *Ankara has shown its mediating skills by brokering a deal allowing Ukraine to resume wheat exports from the Black Sea.*

## The Issue

A recent pledge by the Turkish and Russian presidents to bolster trade relations, especially in energy, has fueled alarm in the West that Ankara may be trying to undermine moves to squeeze Russia with sanctions. But Turkey's role is far from one-sided. As a Nato member, it has angered Russia by sending lethal weaponry to Ukraine and also by lifting its veto on Finland and Sweden joining the alliance. With Russia, Erdogan has focused on boosting economic ties, in the hope that it will provide more contracts for Turkish businesses and help alleviate the country's financial malaise. For Russia, meanwhile, Turkey is one of the few windows left for it to the West.

## Russia's New Business Hub

Despite tensions over Ukraine and also Syria, Russian President Vladimir Putin can count on Erdogan as a friend who will not replicate any of the trade sanctions against Russia imposed by the EU. Analysts say Turkey is turning into a key business hub for Russia — as is also the case with the United Arab Emirates — in which Russian companies can operate freely without fear of being penalized. Turkey, which is suffering from high inflation, is hoping that the extra

Russian business will help revitalize its economy, while several Turkish banks have started using Russia's Mir payment system to cater to its Russian clients.

Trade between the two countries has blossomed so far this year. Russian Deputy Prime Minister Alexander Novak said in a recent statement that turnover had increased by up to \$13.7 billion during the first half of this year and could reach \$50 billion for the whole year, compared to \$33 billion in 2021. This would consolidate Turkey's position as Russia's largest European trade partner, although it is still light years away from matching the \$147 billion per year in Russian-Chinese trade. Russia imports a range of goods from Turkey, including textiles, fruit and vegetables and metals, while Turkey relies heavily on revenues coming from Russian tourists, who have seen their access to some EU destinations closed.

Turkish contractors and companies are eyeing up new opportunities in Russia now that Western companies from "unfriendly" countries have either withdrawn, or are about to do so. Russian analysts say that Turkey is turning into a hub for Russia, allowing it to bypass the sanctions limitations and compensate for the derailed ties with the West. Both developments are stirring anxiety in the West.

Energy lies at the heart of the Russian-Turkish relationship. Last year, Turkey received around 27 billion cubic meters of Russian gas delivered via the Blue Stream and Turk Stream pipelines that run beneath the Black Sea, accounting for over 40% of its overall purchases. The Turks have started paying for some of the gas supplied by giant Gazprom in rubles — as most of Gazprom's European customers have been compelled to do.

Russia is also a major supplier of oil to Turkey, with crude accounting for around 17% of its imports and products as much as 40%. Russian oil deliveries have jumped this year, with port data showing regular cargoes of Urals crude being delivered to the Turkish Mediterranean terminals of Tutunciflik and Aliaga, with leading refiner Tupras among the buyers. Like their counterparts in India and China, Turkish refiners have been lured by discounted Russian barrels.

## New Regional Alliance?

Erdogan's presence last month, with Putin, at a summit in Tehran, has stoked fears of a new tripartite alliance being formed that would be a powerful force in the Mideast. But it appears that one of his priorities was to secure Russian and Iranian backing for a new incursion into northwest Syria, where Turkish forces are now carrying out air strikes against Kurdish militants. While Iran and Russia have both backed the regime of Syrian President Bashar al-Assad to the hilt, Turkey's key concern is to prevent Kurdish "terrorist" groups from posing a threat across its borders.

Tensions between Russia and Turkey have also surfaced over the South Caucasus, where the two countries have often clashed since the fall of the Soviet Union in the early 1990s. Turkey played a pivotal role in securing a victory for Azerbaijan in a four-month war in 2020 against Armenia, where Russia maintains a military base, that allowed Azeri forces to recapture several disputed areas. But there remains an uneasy truce in the region, partly caused by the presence of Russian peacekeepers around the enclave of Nagorno-Karabakh.

## Treading Carefully

Despite its closer economic bonds with Russia, Turkey is unlikely to waver in its commitment toward Nato, which is now focusing most of its efforts on providing military assistance to Ukraine — including unmanned drones. While Erdogan has been careful not to criticize Russia's actions in Ukraine directly, he has also been supportive of Ukraine and recognized its right to preserve its territory. Erdogan's self-described role as a "balancer" allowed Moscow and Kiev to reach a deal allowing Ukraine to restart exports of wheat from the Black Sea.

And on Aug. 18 he visited Ukraine, along with UN Secretary-General Antonio Guterres, to meet with President Volodymyr Zelenskiy and discuss the ongoing crisis over the Zaporozhye nuclear plant in Ukraine, which is coming under attack from both warring sides. Another key topic will be implementation of the Turkey-brokered pact enabling wheat exports from Ukraine's Black Sea port of Odesa. So far, the pact has stuck, but only tenuously.

*Paul Sampson, London*

## COUNTRY RISK

# Iraq Adrift as Political Crisis Deepens

*Iraq's deepening political crisis has been partly mitigated by wind-fall oil revenues. Baghdad has earned more than \$10 billion each month since March. But in a sure sign of how bad things are, Finance Minister Ali Allawi, the highly respected technocrat who pushed for sweeping reforms to get Iraq's oil-dependent economy on a sustainable footing, resigned this week, blaming corruption and political conflict for thwarting change. Major oil and gas projects have stalled and serious questions hang over future investment, north and south, aggravated by a festering row between Baghdad and Erbil.*

• **The power struggle between Iraq's two main Shiite blocs has caused a political paralysis that looks increasingly unsustainable.**

The bitter rivalry since elections last year, reflected in populist protests and the storming of parliament in late July, means Iraq has now gone a record 10 months without forming a new government. This is hampering everything from the provision of basic services to vital infrastructure projects and structural reform.

Shiite cleric Moqtada al-Sadr has seen his efforts to forge a governing coalition blocked by his main Shiite rival, former Prime Minister Nouri al-Maliki, despite emerging as the biggest winner in October 2021 elections. This week he called off a "million-man" protest due to take place in Baghdad on Saturday to demand the dissolution of parliament and snap elections. But no one doubts his ability to mobilize the masses. Many of his followers remain camped outside parliament, forming a blockade to thwart the government formation plans of al-Maliki, who heads a coalition of Shiite parties with their own militias and links to Iran.

Caretaker Prime Minister Mustafa al-Kadhimi, appointed in May 2020, made a candid observation on Tuesday about the difficulty Iraq finds itself in: "Unfortunately, the government is nearly 28 months in office, and until this moment, the budget has only been available for six months." People have the right to expect paved roads, clean water, schools and health care, he said, speaking shortly after Allawi's resignation. But for the government to provide those services, a budget is needed, and the political crisis has prevented Iraq from passing one this year.

High oil prices have reduced the prospect of a return to civil strife, says Lahib Higel, an Iraq expert with the think tank International Crisis Group, as all sides want to benefit from the revenues accumulating in state coffers. But as she warned in a report last week, those revenues are also a reason to fear that the current political crisis differs from previous ones, when the ruling elite eventually agreed on sharing out the government spoils. "Sadr's opponents among the elites see his attempt to exclude them from government — and stop them from dipping into the pot of oil money — as an existential challenge."

• **Key energy projects put at risk by the crisis include expanding Basrah's oil export infrastructure, eliminating gas flaring, and building an oil export refinery and petchem plant at Fao.**

Such projects have very real significance beyond Iraq's borders. The country's oil production capacity is effectively maxed out because of the bottlenecks at the Basrah export terminal, contributing to this year's oil price crisis and Opec's difficulty managing it. The terminal accounts around 90% of the country's total crude exports but is currently unable to handle more than 3.3 million barrels per day. Fixing those infrastructure problems, as Allawi noted in June, will require "a great deal of work" — and investment allocated from a budget that doesn't currently exist.

Separately, reducing the flaring of associated natural gas at the giant oil fields in and around Basrah has relevance in the global race to achieve net-zero emissions targets, with Iraq accounting for a staggering 12% of global flaring. Advances are being made.

The Shell-led Basrah Gas Co. joint venture expects to bring on stream next year the first of two new trains that will together process 400 million cubic feet per day of captured gas. But the lack of progress on the TotalEnergies deal inked nearly a year ago, which aims to capture 600 MMcf/d but is stuck in limbo pending final approval, is a major setback for Iraq's plans to phase out routine gas flaring by 2025. Meanwhile, the long-planned construction of a 300,000 b/d export refinery and petrochemicals project at Fao could set Iraq on the diversification path pioneered by some of its Gulf peers.

Few in Iraq have done more than Allawi to promote transformative projects like these. But besides the caretaker government's inability to take decisions on them, it must contend with the "massive octopus of corruption" that the former finance minister referred to in his resignation letter, which he said had "reached every sector of the state's economy and institutions."

• **The row between Baghdad and Erbil about the Kurdish energy sector is set to intensify, with direct implications for investment in Kurdistan and federal Iraq.**

The dispute, catalyzed by the Iraqi Supreme Court's ruling in February that the Kurdistan Regional Government (KRG) had no legal right to manage resources within its territory, continues to unfold. A commercial court in Baghdad last week summoned two companies — Gazprom Neft and Dana Gas — over a lawsuit the oil ministry filed against them as it pushes ahead with efforts to invalidate contracts that the KRG signed with its upstream partners. The same court ruled last month that the contracts of four other firms should be voided. They include Texas-based HKN and Norway's DNO, which again dismissed concerns last week that the rulings might affect investment.

But the rulings will make it harder to secure financing for projects like the expansion of Dana Gas' Khor Mor gas development, and complicate the situation of companies, including Gazprom Neft, that have licenses with the KRG and Baghdad. And Oil Minister Ihsan Ismael has been appointed acting finance minister, suggesting no let-up in his campaign to squeeze the KRG. This week, a US State Department spokesman urged the two sides to resolve their differences, to safeguard current and future investment: "We have a number of interests when it comes to Iraq [and] within Kurdish territory as well. Any dispute between Baghdad and Erbil has the potential to set back those interests."

Simon Martelli, London

## GEOPOLITICS

# China-US Fallout on Taiwan Proliferates

- *China has long warned that Taiwan is the biggest issue looming over the US-China relationship.*
- *After US House Speaker Nancy Pelosi's visit to Taipei, Beijing is making good on its word — suspending climate talks with the US and canceling military meetings.*
- *As the two continue to clash on Taiwan, the question is becoming one of how wide and deep the fallout will be.*

Pelosi's whirlwind visit to Taipei two weeks ago has left political observers divided. For some, it was either a necessary show of support for democratic Taiwan at a time of rising Chinese pressures on the island — or unnecessarily provocative. For others, especially in neighboring Southeast and Northeast Asia, the visit showed little consideration of the potential consequences on the Asia-Pacific region. What all agree on, though, is that Pelosi's trip has further strained the China-US relationship and confirmed Taiwan as the No. 1 issue between the two countries.

Beijing, which sees Taiwan as a domestic issue and denies its independence, reacted with considerable anger to the visit, conducting live military drills around and over the island for the first time on record. US National Security Council Coordinator for Asia-Pacific Kurt Campbell last week described the expansive drills by the People's Liberation Army (PLA) "as a pretext ... to try to change the status quo, jeopardizing peace and stability across the Taiwan Strait and in the broader region."

## Climate Talks Hit

The US-China fallout has not stopped at Taiwan. Beijing has chosen to go on the offensive against the US by suspending climate talks, which the administration of US President Joe Biden had sought to promote as a safe area of cooperation between the two countries.

Climate change envoys John Kerry and Xie Zhenhua agreed at Glasgow's COP26 meeting last year to reduce US and Chinese emissions more quickly this decade and pledged to establish a working group "on Enhancing Climate Action in the 2020s." Nine months on, the working group has yet to come into existence — and now looks set to be further delayed. The lack of dialogue between the world's two largest polluters risks gumming up progress at COP27 climate talks in Egypt in November.

Kerry denounced China's decision to suspend talks as one that "punishes the world," with Xie responding that the US is

“fully responsible” for the suspension — auguring a difficult return to the negotiating table. “Neither side has an interest in ending climate cooperation. But both could easily end up in positions from which they believe there is no retreat — with climate cooperation as collateral damage,” Beijing-based Trivium China said in a note.

Still, that talks are merely suspended, and not canceled, may offer a silver lining. So too could the fact that both the US and China’s clean energy plans are gathering pace. The recently passed US Inflation Reduction Act, which offers wide-ranging clean technology tax credits, puts US climate policy on firmer footing and is aimed at bolstering US competitiveness vis-à-vis China (p1).

For its part, China which has developed photovoltaic and electric vehicle industries into national champions, is now advancing green hydrogen projects. It is also progressively releasing sectoral plans with targets to reduce carbon emissions, while seeking to export its renewables expertise to its Belt and Road Initiative (BRI) partner countries to entrench its green leadership.

## Military Messaging

China has also canceled three important PLA meetings with the US military. This doesn’t mean that there are no contacts between the US and China military, Campbell stressed last week, noting that lines of communication were still open. Still, the risks of a military encounter going wrong have increased, as the PLA seems ready to conduct more military drills around Taiwan and the US plans to pursue its freedom of navigation exercises through the Taiwan Strait.

“We are starting to see a series of decisions being taken by both countries that will lead us into more and more dangerous territory. You could easily have near misses or accidents happening around Taiwan Strait or on the South China Sea,” Singapore Deputy Minister Lawrence Wong told Bloomberg in an interview this week, reflecting growing anxiety in the Southeast Asia region.

About 9% of East Asia’s crude imports go through the Taiwan Strait, or 1.75 million barrels per day, Vortexa’s Serena

Huang told Energy Intelligence, adding that Japanese oil imports do not traverse the Strait. And Taiwan produces about 90% of the world’s high-end semiconductor products.

Tensions remain high. Shortly after Pelosi’s visit, China released its first Taiwan White Paper since 2000. The latest document does not exclude sending troops to Taiwan after achieving what Beijing calls Taiwan’s “reunification” with the mainland, signaling limited autonomy for Taiwan after such “reunification.” Meanwhile, a US congressional delegation visit to Taiwan on Sunday prompted yet more Chinese real-combat drills in the sea areas and airspace around Taiwan island on Monday.

## Trade — and Beyond

Trade talks could also be further complicated by fallout from Taiwan tensions. A long-delayed decision on scrapping some of the trade tariffs on Chinese goods imposed by the former Donald Trump administration or potentially imposing others has been put on hold, Reuters reported last week, as the Biden administration ponders how to avoid escalating the dispute with China while avoiding looking weak.

In a sign that both China and the US may be willing to walk back from the brink of conflict, however, reports emerged this weekend that President Xi Jinping could meet with Biden on the sidelines of a G20 meeting in Bali in November.

Rumors are also swirling that Xi may soon visit Saudi Arabia. The trip, if it takes place, would be Xi’s first overseas visit since the Covid-19 pandemic started and would highlight the strength of the Chinese relationship with Saudi Arabia, China’s largest oil supplier until its refiners started buying large volumes of discounted Russian oil this year.

Saudi Arabia accounted for most of China’s BRI engagement in the energy sector during the first half of this year, with a total value of \$5.5 billion. A grand welcome for Xi would also reinforce his international prestige, especially after Biden walked away from a similar visit to the kingdom last month with relatively little to show for it.

*Maryelle Demongeot, Singapore*

## CLOSING ARGUMENTS

## US vs. Russia in Africa, Pakistan Feels the Strain

## Africa: Dueling Diplomacy Puts Russia Ahead of US

Recent high-profile visits to Africa by senior Russian and US diplomats were conducted under the shadow of Russia's ongoing invasion of Ukraine, and the US' lack of success in attracting support among African nations for sanctions policies targeting Russia over its war in Ukraine. US-Russian competition in Africa dates to the Cold War, when the then-Soviet Union had extended a helping hand to African nations seeking to emerge from their colonial pasts. The dueling diplomacy carried out by Russian Foreign Minister Sergei Lavrov and US Secretary of State Antony Blinken had the feel of Cold War-era competition, with Russia emerging as the decisive victor.

Lavrov's visit to Egypt, Ethiopia, Uganda and Congo (Brazzaville) was in part aimed at showing that Russia's global reach had not been negatively impacted despite US-led efforts to isolate the country after its invasion of Ukraine. In this, the Russian tour bore fruit. The Russian foreign minister was greeted by the Congolese President Denis Sassou Nguesso, with whom he held what the Russian media called "wide-ranging talks" about Russian-African relations. Lavrov received a similarly warm greeting in Uganda, where Ugandan President Yoweri Museveni told the press that he saw no reason to criticize Moscow over the invasion of Ukraine while extolling Russian-African friendship.

The positive reaction to Lavrov's African tour contrasted sharply with the tensions that underpinned the visit of US Secretary of State Antony Blinken less than two weeks later. Blinken's trip was defined by his encounter with South Africa's minister of international relations, Naledi Pandor, who criticized what she termed "a sense of patronizing bullying" by the West, in which African nations were left with a sense of "you choose this or else." Pandor also pointed to recent legislation in the US Congress as a clear example of this mentality, thought to refer to the "Countering Malign Russian Activities in Africa Act."

Pandor's concerns were underscored by comments made by US Ambassador to the UN Linda Thomas-Greenfield in Uganda on Aug. 4, where she was asked to clarify US sanctions risks to African countries doing business with Russia. Emphasizing that there were no US sanctions on Russian agricultural products or fertilizer, Thomas-Greenfield also cautioned that "if a country decides to engage with Russia where there are sanctions, then they are breaking those sanctions and ... stand the chance of having actions taken against them." If the goal of the US was to counter Russia's diplomatic outreach to Africa by rallying support for sanctions on Russia over Ukraine, then the visits — and the US' "our way or the highway" approach — were a resounding failure.

## Pakistan: Approaching Boiling Point

The ongoing soap opera that is Pakistani domestic politics in the post-Imran Khan era continues to threaten to push a society reeling from economic turmoil to the boiling point. The former Pakistani prime minister was removed from office in April following a no-confidence vote he claims was orchestrated by the US. Ever since, Khan has been a persistent thorn in the side of both the government of Prime Minister Shehbaz Sharif, who replaced him, and the Pakistani Army, which Khan has accused of being in on the conspiracy to remove him from power. His most recent provocation was a political rally in which he praised India's foreign policy for taking the same position Khan believes he was ousted for supporting — that is, standing up to US pressure by purchasing Russian oil at discounted prices.

Geopolitics aside, Khan's claims resonate with many in Pakistan who face an economy on the verge of collapse, leading many observers to fear an eruption of the social upheaval that ripped through Sri Lanka last month. Pakistan's cost of living has skyrocketed. The government has at least now gained international assistance that will keep it solvent in the short term, with Saudi Arabia's decision to renew a \$3 billion deposit in the State Bank of Pakistan helping to clear the way for an International Monetary Fund (IMF) disbursement of \$1.2 billion

in loans. But IMF support is conditional on the Pakistani government cutting fuel subsidies, meaning the wider public is facing more price pain.

Khan is meanwhile doing all he can to keep his political future alive. In a July by-election in Punjab, Pakistan's most populous province, Khan's party won 15 of the 20 assembly seats on the ballot. That vote took place after the Pakistan Election Commission determined that the previous election, in which Khan's designated replacement was defeated when 20 members of Khan's party defected, violated so-called "anti-defection laws." Khan had launched a legal challenge over the result.

By winning the strategically important state of Punjab, Khan is seen as having a stronger basis for calling for snap elections, which he believes he could win. Sharif has so far rejected any notion of snap elections, declaring that he will remain in office until the next scheduled elections, in June 2023. His party is also leading an effort to disqualify Khan from running in any future election by calling for an investigation into allegations of fraud while Khan held office. The Army, however, has indicated that any effort to derail Khan runs the risk of Pakistan collapsing into "bloody politics."