

What OPEC+'s Production Deal Means for Global Oil Markets



OPEC+'s hotly anticipated output meeting on Thursday underwhelmed the market, with oil prices closing up after the decision.

The alliance agreed to production hikes of 648,000 barrels a day for July and August, about 50% bigger than those seen in recent months. But there were doubts about the group's ability to fully deliver the increases, given they will be spread across its members, many of whom have struggled to raise output.

Oil's just capped its sixth straight monthly gain – the longest such run in a decade – and the rally now looks set to continue as the supply deficit widens.

Here's what leading analysts had to say about the OPEC+ decision and what it would mean for oil prices.

Rapidan Energy Group

OPEC+'s decision is beneficial to the US as it increases global supplies while keeping some spare capacity that can be deployed if sanctions on Russia sway markets, Bob McNally, president of Washington-based consultant Rapidan Energy Group and former White House official said in a Bloomberg TV interview.

Increased quotas will result in a 350,000 barrels jump in actual daily output, he said, adding that the decision was "an elegant threading of the needle" that satisfies OPEC, Russia and the Biden administration.

JPMorgan Chase Bank

The latest deal to increase production quotas in July and August isn't sufficient to make a difference in global oil balances, according to JPMorgan analyst Natasha Kaneva in an emailed note. The higher output won't offset heightened demand at seasonal peaks alongside China's reopening, with risks to the bank's supply estimates skewed to the downside, it said.

The bank maintains its Brent price forecast of \$114 a barrel for the second quarter and sees prices averaging \$104 a barrel this year.

Goldman Sachs Group Inc.

The latest OPEC+ decision translates to an increase of 200,000 barrels a day in summer output levels with Russia still keeping its quota share and many countries falling behind target, analysts Damien Courvalin and Callum Bruce said in a note. The deal doesn't represent higher output levels for later this year, with production simply brought forward from

September.

The bank continues to see downside risks to its OPEC+ supply expectations for the second half of this year, given the European ban on Russian oil imports and the lack of progress on negotiations with Iran. Goldman reiterated its Brent forecast of \$125 a barrel in the second half.

ING Groep NV

The supply increases look big on paper, but it's very unlikely that the group will actually manage to hit these production targets, Warren Patterson, ING's Singapore-based head of commodities strategy, said in an interview. Russian output is likely to edge lower in the months ahead as sanctions bite, while there is limited spare output capacity among the OPEC+ coalition. The bank maintained its forecast for Brent to average \$122 a barrel in the second half.

Citigroup Inc.

The decision by OPEC+ could, in practice, mean 132,000 barrels a day each month of actual additional output from Saudi Arabia, the United Arab Emirates, Kuwait, and Iraq, Citi analysts Eric Lee and Francesco Martoccia said in a note. Prices have been marching higher in the past week as markets assessed the European Union move to block Russian oil imports, Chinese lockdowns were lifted and the US summer driving season got underway, it said.

FGE

It's unreasonable to expect OPEC to unleash millions of barrels to take care of the self-sanctioning of Russian oil by many buyers, especially in Europe, FGE Chairman Fereidun Fesharaki said in a Bloomberg TV interview. If OPEC had added 1.5 million barrels a day, there wouldn't have been any extra capacity when demand increases in one to two months from now,

he said.

Unless Iranian supplies – which could immediately push prices down by \$10 to \$15 a barrel – come back due to a nuclear deal, the major shut-in of Russian oil would keep prices above \$100 a barrel.

– With assistance by David Ingles, Rishaad Salamat, Verity Ratcliffe, Manus Cranny, and Yousef Gamal El-Din

Europe's oil embargo is not enough



By Sergei Guriev/ Paris

Vladimir Putin needs petrodollars, and he needs them now. Many expected Russia's president to issue a formal declaration of war on Ukraine, a move that would permit the full mobilisation

of Russia's reserve forces. But while Putin may want to send more soldiers to Ukraine, he cannot afford to do so. Will the European Union's newly announced oil embargo force him to wind down the invasion?

Already, the Kremlin has toned down its propaganda. There is no more talk of taking Kyiv. Putin's only goal now, apparently, is to occupy the eastern Donbas region. But even there, Putin is not guaranteed victory, as that is where Ukraine has launched its so-called Joint Forces Operation, which includes its best-trained military units – increasingly armed with advanced Western military equipment.

Russia, meanwhile, has lost much of its modern military equipment, and Western sanctions have left it unable to replenish its stocks. With few options, Russia is now unpacking Soviet-era tanks.

The only way Putin can make up for the lack of equipment is to send more soldiers. But drafting new conscripts is an unpopular idea, so Putin has resorted to paying people to fight for Russia – and no pittance, either. Recruits are now reportedly receiving \$3,000-\$5,000 per month. But, the recent decision to scrap the age limit for army recruits suggests that even the prospect of earning pay that is an order of magnitude higher than the average wage in the median Russian region is not attracting enough fighters.

Recently published budget data from Russia's finance ministry suggests that Putin can hardly afford to cover the war's mounting costs. The data confirm, first, that the war has been expensive, with military spending having increased by almost 130% last month, to 630bn roubles (\$10.2bn), or 6% of annual GDP on a prorated basis.

The data also show that Russia ran a fiscal deficit of more than 260bn roubles in April, or 2.5% of GDP when prorated to annual figures. While global oil prices are very high, Russia has been selling its oil at a huge discount – accepting \$70 per barrel for Urals crude in recent weeks, 30% below the market price – while overall output is set to decline by 10% this year. Meanwhile, non-hydrocarbon revenues have plummeted,

leaving oil and gas taxes accounting for more than 60% of fiscal revenues, compared to less than 40% a year ago.

Putin's dependence on petrodollars means that, by announcing an embargo on about 90% of Russian oil imports within the next 6-8 months, the European Union is hitting Russia where it hurts. Putin is now all but certain to face a major fiscal crisis within a year, making it difficult to sustain his war in Ukraine, let alone invade another country.

The problem is that the embargo will help Putin in the short term. The mere announcement of it has already caused oil prices to spike. That is why Europe should complement its oil embargo with additional, immediate measures. Two options stand out.

The first – which Ricardo Hausmann proposed immediately after the invasion, and which others have shown can be implemented quickly – is a high tariff on Russian oil imports. This approach makes perfect economic sense. Every euro spent on Russian oil helps Putin finance his violent campaign in Ukraine. This is a “blood externality,” and should be priced accordingly. Part of the amount paid by buyers of Russian hydrocarbons should be transferred to Ukraine as reparations or stored in special escrow accounts until reparations are formally awarded.

But at a time when European households are facing soaring energy costs, there is little political appetite for an oil tax. With this in mind, Italian Prime Minister Mario Draghi has proposed an alternative solution: a price cap. Under this proposal – which the European Council has instructed the Commission to assess – Western countries would pay a lower price for Russian oil and gas, and impose secondary sanctions on third parties that pay Russia more.

A price cap could be implemented immediately – say, at \$70 per barrel – and lowered by about \$10 each month the war continues. Yes, Putin could refuse to sell oil at this price. But, given that he is already desperate enough to sell to China and India at steep discounts, and today's energy prices far exceed production costs, this seems unlikely.

Instead, Russia would probably continue supplying oil and gas to Western buyers at the capped price, while buyers like China and India, under threat of sanctions, would have no reason to pay more. This would provide consumers relief from high energy prices and cause Russia's revenues to decline sharply.

Some might argue that price caps distort incentives – in this case, the incentive to adopt renewables. But this argument applies only to a competitive market. In today's oil and gas market, prices far exceed marginal costs, and the global oil cartel Opec+ (which includes Russia) has only recently agreed to increase production in July and August. Russian gas supplier Gazprom was likely manipulating prices in Europe even before the war. Such monopolistic behaviour warrants a price cap.

Another frequent argument against a price cap is that it may spur a black market. This is a real risk. Already, European energy companies have begun combining Russian petroleum products with others – a “Latvian blend” – so that they can take advantage of lower prices, while claiming not to support Putin's war machine. But these firms are not currently violating any laws. If a price cap were implemented, they would be. Given public outrage at the war, the West's commitment to secondary sanctions, and the rise of citizen-led investigations relying on open-source intelligence, it would be very difficult, if not impossible, to get away with such rule-breaking.

The EU's oil embargo will hurt Putin, but not soon enough. Europe must immediately impose a price cap on Russian oil and gas. – Project Syndicate

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Spain and Portugal to slash energy bills by 40% by breaking ranks with EU



It means while the rest of the EU, which is much more tied to traditional fuels, has a pay cap of around €90 (£76.56) per megawatt-hour, Spain and Portugal would cap their price at €50 (£42.50). Currently, the Russian invasion of Ukraine is driving the price of fossil fuels to record levels.

Speaking to the Express, Rana Adib, executive director of REN21, a global community of renewable energy stakeholders, highlighted ways in which European countries can end their reliance on fossil fuels, particularly those imported from Russia.

She said: “What governments need to do is massively build up renewable power generation capacities, invest in energy saving and energy efficiency to bring down the cost of the energy

bills as quickly as possible. When we're looking at the example of Portugal and Spain, it's very interesting.

"They have negotiated with the European Commission that they will basically leave the European energy market mechanism for 12 months because the interconnection does not allow them to receive a lot of renewable electricity from the north. By building on this, and building on their own renewable electricity capacity, the Spanish government expects that they will be able to reduce the cost of the bills by 30-40 percent.

"The governments that are front runners here really understand the opportunities around renewable energy and renewable electricity."

After signing the agreement with the European Commission, Spanish Energy Minister Teresa Ribera said: "It is important to have a tool that reduces our exposure to the turbulence and volatility of the electricity market and the price of gas at this moment."

Ms Adib noted that under the European mechanism, "the reality is that for a unit of energy you buy, you will pay the highest market price."

Given that renewable energy generation is a lot cheaper than fossil fuels, she noted that the Iberian countries "now have the possibility to define their market mechanism where basically for fossil fuel they will pay one price, and for renewable-based electricity, they will pay another price.

"It's more reflective of the generation of cost. As a result they expect the price to reduce by 30-40 percent, and they are doing this by integrating into the energy markets and into their electricity prices, their cost of generation."

Opec+ seen sticking to oil rise plan despite EU sanctions



Reuters Dubai/London

Opec+ is set to stick this week to its monthly modest oil output increases despite seeing tighter global markets, five Opec+ sources said on Wednesday as the group fast approaches its maximum production capacity.

Oil prices rallied above \$124 per barrel this week following new EU sanctions against Russia over its invasion of Ukraine and China's recovery from the latest Covid-19 lockdown.

The world's most industrialised countries, known as G7, called again this week on Opec to help ease a global energy crunch that worsened as a result of Western sanctions imposed on Russia.

Opec, which meets on Thursday together with allies such as

Russia as part of a group called Opec+, has repeatedly rebuffed calls for faster production increases. Opec+ is widely expected to raise July output targets by 432,000 bpd. The group's record output-cutting deal, clinched in 2020 at the height of global lockdowns, expires this September by which time the group will have limited spare capacity to increase production further.

Its lead member Saudi Arabia is producing 10.5mn bpd and has rarely tested sustained production levels above 11mn bpd.

Together with fellow Gulf Opec member, the United Arab Emirates, Opec is estimated to have less than 2mn bpd of spare capacity.

"There is not much spare oil in the market to replace potential lost barrels from Russia," said Bjarne Schieldrop, chief commodities analyst at SEB bank.

He said the EU ban will likely result in Russia selling less oil but at a higher price and probably earning just as much if not more.

Western sanctions imposed on Russia may result in production and export cuts from the world's second largest oil exporter of as much as 2mn-3mn bpd, according to various estimates.

However, Russian production has been holding strong so far as Moscow said it is managing to re-route volumes from Europe to Asian buyers, hungry for Russian oil, which sells at a steep discount.

The Wall Street Journal reported on Tuesday, citing Opec delegates, that some Opec members were considering the idea of suspending Russia from the deal to allow other producers to pump significantly more crude as sought by the United States and European nations.

The report came as US diplomats work on organising President Joe Biden first visit to Riyadh after two years of strained relations.

Two Opec+ sources told Reuters an Opec+ technical meeting on Wednesday did not discuss the idea of suspending Russia from the deal.

Six other Opec+ delegates said the idea was not being

discussed by the group.

Russian Foreign Minister Sergei Lavrov, on a visit to Saudi Arabia, said on Wednesday that Opec+ co-operation was relevant for Russia.

Opec+ expects an oil market surplus of 1.4mn barrels per day (bpd) in 2022, 500,000 bpd less than previously forecast, two Opec+ sources told Reuters on Wednesday.

Gazprom cuts more customers in Europe, but rewards shareholders with dividend



Russian gas giant's exports have fallen 28% this year, and decline would have been higher were it not for European push to replenish gas storage

Gazprom has announced it has halted gas supplies for two more customers in Europe, effective from 1 June, after both declined to accept changes in payment terms imposed by the

Russian company's foreign trading subsidiary.

Gazprom identified Denmark's Orsted Salg & Service and UK-based Shell Energy Europe as the affected customers.

The Russian company added that it supplied close to 2 billion cubic metres of gas to Orsted in 2021, equivalent to about two thirds of Denmark's natural gas consumption.

Gazprom added that its contract with Shell Energy Europe called for the delivery of 1.2 Bcm of gas in 2022, mostly to consumers in Germany.

UPDATED: EU agrees to ban 90% of Russian oil imports by end of year

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According to Gazprom, both customers had failed to switch to a new payment system by 31 May, even after they were requested to do so by the Russian government.

At the end of March, Russian President Vladimir Putin ordered Gazprom to amend its contracts with European customers to divert their payments in euros or US dollars for delivered gas to Moscow-based Gazprombank.

These payments would then have to be fully converted into rubles and credited to Gazprom's local accounts in order for payments for gas deliveries to be considered completed.

Orsted chief executive Mads Nipper said: "We stand firm in our refusal to pay in rubles, and we've been preparing for this scenario, so we still expect to be able to supply gas to our customers.

"The situation underpins the need of the European Union becoming independent of Russian gas by accelerating the build-out of renewable energy."

Since there is no gas pipeline running directly from Russia to Denmark, Russia will not be able to cut off the gas supplies

to Denmark directly, but the Russian move will necessitate increased gas purchases on the European gas market, Orsted said.

Halting supplies to Shell Energy Europe and Orsted follows similar moves by Gazprom in recent weeks to stop gas supplies to Finland, Poland and Bulgaria.

Executive director of Ukraine's gas transmission authority Operator GTS Ukrainy, Sergey Makogon said on his social network page that he believed it is time for the EU to introduce restriction on the Nord Stream subsea pipeline that carried Gazprom's gas directly to Germany.

Officials in Ukraine and Poland, together with independent industry observers, have led a chorus of accusations against Russia for what they describe as the "weaponsising" of the Russian pipeline gas to exert geopolitical leverage in Europe.

Despite its contractual obligations to send close to 110 million cubic metres of gas via Ukraine to Europe in 2022, Gazprom has been scaling down shipments, with transit gas flows down to 41 MMcmd just this week.

Gas exports down, dividend up

Between January and May, Gazprom's gas exports to Europe and Turkey fell by almost 28% to 61 Bcm, the company said on Wednesday.

Gazprom's total gas production during this period also declined by 5% to just over 211 Bcm.

Ignoring the challenging market outlook, Gazprom announced record high dividends on its stock for 2021, amounting to 1.24 trillion rubles (\$20.7 billion).

The government is set to receive just over a half of that payment as it holds an over 50% shareholding in the company.

Managing partner at Moscow based energy consultancy RusEnergy, Mikhail Krutikhin, suggested that such high payout may be linked to additional expenses that Russian authorities incur in relation to the invasion of Ukraine.

According to Krutikhin, authorities may not see similar high dividend payments from Gazprom for 2022 because its profitability may decline as a result of lower gas exports.

Meanwhile, spot market gas prices declined by almost 6% to about €89 (\$96) per megawatt in Wednesday trading on Wednesday, according to the London-based ICE Exchange.

The shift was attributed to reports of large customers of Gazprom in Europe accepting the new payment arrangement.

https://www.upstreamonline.com/production/gazprom-cuts-more-customers-in-europe-but-rewards-shareholders-with-dividend/2-1-1228805?utm_source=email_campaign&utm_medium=email&utm_campaign=2022-06-01&utm_term=upstream&utm_content=daily

EU agrees gradual oil embargo on Russia, gives Hungary exemptions



Reuters / Brussels

European Union leaders have agreed an embargo on Russian oil imports that will kick in around the turn of the year – and for now exempts the pipeline imports that Hungary and two other landlocked Central European states rely on.

The ban, agreed overnight after weeks of wrangling, aims to remove 90% of Russia's crude imports into the 27-nation bloc within eight months or so, officials said.

It is the toughest sanction yet on Russia for its invasion of Ukraine, and one that will affect the EU itself.

Russia provided just over a quarter of EU oil imports in 2020, while Europe is the destination for nearly half of Russia's crude and petroleum product exports.

"The sanctions have one clear goal: To prompt Russia to end this war, to withdraw its troops, and to agree a sensible and fair peace with Ukraine," German Chancellor Olaf Scholz said.

Ukraine said they would deprive the "Russian military machine" of tens of billions of dollars.

French President Emmanuel Macron said nothing could be ruled out regarding further sanctions, although other leaders poured cold water on the idea of banning purchases of Russian gas, which Europe depends on heavily.

EU countries will have six months to stop imports of seaborne Russian crude and eight months for refined products, the European Commission said.

That timeline will start once the sanctions are formally adopted, which EU states aim to do this week.

The deal was reached only after the EU's other leaders agreed to give Hungary a free pass, having failed to win it over in weeks of talks.

Two-thirds of the Russian oil imported by the EU comes by tanker and the rest through the Druzhba pipeline.

Poland and Germany are among the pipeline importers, but have pledged to stop by the end of the year.

Landlocked Hungary, Slovakia and the Czech Republic all get their Russian oil from Druzhba and account for the 10% of imports temporarily exempted from the embargo.

Bulgarian Prime Minister Kiril Petkov said his country had also secured an exemption until the end of 2024, since its refinery is designed to receive only Russian crude.

Oil prices rose after the EU's agreement, stoking inflation, which hit a record 8.1% year-on-year in euro zone countries this month.

The oil embargo follows an earlier ban on Russian coal and allows the bloc to impose a sixth round of sanctions that includes cutting Russia's biggest bank, Sberbank, off from the SWIFT international transaction system.

Commission chief Ursula von der Leyen said the package would also ban EU firms from insuring or reinsuring ships carrying Russian oil. Several countries already want to start work on a seventh round, but Austrian Chancellor Karl Nehammer said it could not include gas – where Russia supplies a third of EU needs.

“Russian oil is much easier to compensate for...gas is completely different, which is why a gas embargo will not be an issue in the next sanctions package,” Nehammer said.

Russian analysts and traders said the phasing-in of the embargo gave Moscow time to find new customers in Asia.

“Although the measures announced by the European Union look

threatening, we don't see a crippling impact on the Russian oil sector – neither imminent, nor in six months,” analysts at Sinara Investment Bank said.

Beyond the sanctions, EU leaders asked the bloc's executive Commission to explore options to tackle soaring energy prices. These include “temporary import price caps”, which should be explored with international partners, their conclusions said.

They also endorsed a Commission plan to wean the EU off all Russian fossil fuels within years through a faster rollout of renewable energy, improvements in saving energy, and more investments in energy infrastructure.

And they called for better EU-wide contingency planning in case of further gas supply shocks.

Moscow on Wednesday cut gas supplies to the Netherlands for refusing to comply with a demand to pay in roubles, having already cut off Poland, Bulgaria and Finland.

Dismantling the fossil-fuel economy at Stockholm+50



Our planet is facing a triple crisis of climate, nature, and pollution, with one common cause: the fossil-fuel economy. Oil, gas, and coal are at the root of runaway climate disruption, widespread biodiversity loss, and pervasive plastic pollution. The conclusion is clear and must be paramount when political leaders gather in Stockholm this week to commemorate the 50th anniversary of the first United Nations Conference on the Human Environment. Any effort to address these existential threats to human and ecological health will mean little as long as the fossil-fuel economy remains intact.

As UN Secretary-General António Guterres recently noted, fossil fuels are choking our planet. In the last decade, their combustion accounted for 86% of global carbon dioxide emissions, for which just a few actors bear overwhelming responsibility. In fact, nearly two-thirds of all CO₂ emitted since the Industrial Revolution can be traced to just 90 polluters, mostly the largest fossil-fuel producers.

Yet, rather than reining in the polluters, the world's governments are currently planning to allow more than twice as much fossil-fuel production in 2030 than would be consistent with the goal – agreed under the 2015 Paris climate agreement – of limiting global warming to 1.5C above pre-industrial

levels. And when it comes to the damage wrought by fossil fuels, higher global temperatures and intensifying extreme weather events are only the beginning.

Last year, the UN Special Rapporteur on Toxics and Human Rights, Marcos A Orellana, affirmed what frontline communities have long known: fossil-fuel production generates toxic compounds and pollutes air, water, and soil. Air pollution from burning fossil fuels was responsible for about one in five deaths worldwide in 2018. Moreover, oil and gas are the building blocks of the toxic chemicals, pesticides, and synthetic fertilisers that are pushing ecosystems and species to extinction. These fossil-fuel-based products perpetuate an economic and agro-industrial model that drives deforestation, destroys biodiversity, and threatens human health.

Fossil fuels are also behind the proliferation of plastics, which are accumulating in even the most remote areas of the planet, from the top of Mount Everest to the bottom of the Mariana Trench. Ninety-nine percent of all plastics are made from chemicals derived from fossil fuels, predominantly oil and gas. The production of petrochemical feedstocks for plastics and the use of fossil fuels throughout the plastics value chain are boosting demand for oil and gas and exposing millions of people to toxic pollution.

As if that were not enough, fossil fuels foment and fund violent conflict around the world. The fossil-fuel economy is enabling Russian President Vladimir Putin's war in Ukraine and the humanitarian crisis it has created. In the seven years after Russia illegally annexed Crimea, eight of the world's biggest fossil-fuel companies enriched Russia's government by an estimated \$95.4bn. Russia's revenues from energy exports have soared since the invasion of Ukraine in February, which drove up prices. And big Western oil companies, cashing in on the conflict, have raked in record profits.

Instead of facing accountability, the oil and gas industry and its allies are exploiting the Ukraine crisis to push for even more drilling, fracking, and exports of liquefied natural gas (LNG) all around the world. But new fossil-fuel

infrastructure, which will take years to bring online, will do nothing to address the current energy crisis. Instead, it will only deepen the world's dependence on fossil fuels, enhance producers' ability to wreak havoc on people and the planet, and push a climate-safe future further out of reach.

As world leaders gather for Stockholm+50, breaking our addiction to fossil fuels should be the top priority. Yet fossil fuels are conspicuously absent from the official concept note and agenda, and they are barely mentioned in the background papers of the three Leadership Dialogues that are supposed to inform the summit's outcome.

This omission is no accident. The fossil-fuel lobby has decades of experience sowing doubt about the damage the industry is causing and obscuring the link between fossil fuels and the toxic chemicals used in industrial agriculture and plastic products. When outright denial has not worked, the industry has touted false solutions, including speculative technological fixes, market mechanisms with gigantic loopholes, and misleading "net-zero" pledges. The goal is to divert political attention from the urgent action needed to end reliance on fossil fuels and scale-up proven approaches, like renewable energy, agroecology, and plastic reduction and reuse.

Such transformative action is precisely what Stockholm+50 must deliver. Participating governments and decision-makers must acknowledge that fossil fuels are the main driver of the triple crisis we face, and they must set a bold agenda for halting fossil-fuel expansion, ensuring a rapid and equitable decline of oil, gas, and coal, and accelerating a just transition to a fossil-free future.

One possible feature of such an agenda would be a Fossil Fuel Non-Proliferation Treaty – an initiative that has attracted wide support, including from thousands of civil-society organisations, hundreds of scientists and parliamentarians, more than 100 Nobel laureates, and dozens of municipal governments. To spur progress, a broad range of stakeholders – including representatives of indigenous communities,

governments, international institutions, and academia – will gather the day before Stockholm+50 for the Pre-Summit on the Global Just Transition from Fossil Fuels.

In parallel with the Stockholm meeting, an intergovernmental negotiating committee, convened by the UN Environment Programme, is gathering in Dakar to develop a legally binding global plastics treaty. Crucially, the treaty will have to take a comprehensive approach that addresses the full plastic life cycle, beginning with fossil-fuel extraction.

If we have learned one thing in the 50 years since the first Stockholm conference, it is that a future tied to fossil fuels is no future at all. To tackle the converging crises of climate change, biodiversity loss, and petrochemical and plastic pollution, Stockholm+50 has no alternative but to confront oil, gas, and coal head-on. – Project Syndicate

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Saudi tucks away billions in oil money for next year



Bloomberg Riyadh/London

Saudi Arabia will hold billions of dollars from its oil windfall in a government current account until the end of the year, when it will decide how to distribute it – marking a shift in its strategy from previous boom periods.

In the past, higher oil prices and output would quickly translate into rising foreign reserves and deposits in local banks, and often lead to a swift boost in government spending. This time, the government won't spend the money until it's rebuilt reserves depleted during eight years of subdued oil prices. It could then use some of the cash to repay debts and pour it into state investment vehicles, including the powerful Public Investment Fund (PIF) and the National Development Fund, which focuses on domestic infrastructure.

“The surplus achieved in Q1 is shown in the government current account and has not yet been deposited to government reserves nor transferred to other groups,” Finance Minister Mohamed al-Jadaan said in a statement to Bloomberg. “This allocation will occur after the surplus is realized, which means after the closing of the fiscal year.”

The government's current account held at the central bank rose by 70bn riyals (\$19bn) in the first quarter of the year, when

Saudi Arabia reported a \$15bn budget surplus.

The finance ministry's comments solve a mystery that had stumped some analysts covering Saudi Arabia; they were waiting to find out where those billions of dollars would show up.

The world's largest crude exporter has seen revenues soar on the back of \$100 oil and rising production. Oil gross domestic product is expected to grow 19% this year, al-Jadaan said at the World Economic Forum in Davos, Switzerland.

If crude prices remain that high, Saudi Arabia's total oil exports are estimated to reach \$287bn this year, according to Ziad Daoud, chief emerging markets economist at Bloomberg Economics.

Officials had previously said that much of the extra money would be used to accelerate efforts to diversify the economy away from oil – currently Saudi Arabia's main source of income.

"The windfall from the additional revenues that we will get from high oil prices will be essentially invested in resilience," Faisal Alibrahim, Minister of Economy and Planning, told Bloomberg in an interview at Davos. "Whether it's replenishing reserves, paying off debt or investing in unique transformational projects through our wealth fund, that really helps us accelerate the diversification plans."

The kingdom's \$600bn sovereign wealth fund, the PIF, is at the heart of Prince Mohamed bin Salman's plan to overhaul the economy and invest in new non-oil industries like tourism.

It owns most of the kingdom's mega-projects, including Neom – a \$500bn new city – as well as tourism developments on the Red Sea coast and a massive entertainment complex planned near Riyadh.

"The responsibility of boosting growth has shifted to state-owned entities ex-budget, led by PIF," Mohamed Abu Basha, head of macroeconomic research at Egyptian investment bank EFG Hermes, wrote in a note. That leaves "the transmission of high oil prices to the economy more indirect than at any time in history."

Reserves jumped in March, supported by dividend payments from

oil giant Aramco. But the increase was smaller than it was in the same period last year, when oil prices averaged above \$60 a barrel.

One part of the economy that hasn't benefited is the domestic banking system. In the past high oil prices would mean an influx of cheap deposits into the Saudi banks, helping to keep local currency lending rates low.

Yet Saudi banks are facing the tightest liquidity conditions since 2016, as measured by the three-month Saudi Interbank Offered Rate, or SAIBOR, despite soaring oil prices. It took off even before an overall 75 basis-point interest rate hike by the US Federal Reserve so far this year.

"The increase in SAIBOR rates reflects some of the lag between the surge in oil prices and the domestic liquidity boost," said Carla Slim, economist at Standard Chartered Plc. "Excess liquidity in the banking system, as measured by volumes deposited in Saudi Arabian Monetary Authority's reverse repo facility, has contracted sharply."

The finance ministry said in its statement that money supply was ample.

Sun-starved Sweden turns to solar to fill power void



Bloomberg

Sweden, known for its long dark winters with barely any daylight, is seeing a solar power boom.

Harnessing whatever sunshine the country gets is emerging as the quickest solution to fill part of the void left by two closed nuclear reactors in southern Sweden, where the biggest cities and industries are located. With shortages piling up in the region and consumers keen to secure green energy at stable prices, solar is quickly catching up with wind as developers put panels on rooftops and underutilised land in populated areas.

While the lack of sunlight is a hindrance, every bit of new electricity capacity will lower imports from Europe where prices are more than three times higher than in the rest of Sweden. Projects are also getting built quickly because developers are directly getting into power sales deals with consumers and aren't dependent on government support, said Harald Overholm, CEO of Alight AB, which started Sweden's biggest solar plant this month.

Companies are targeting a quick ramp-up, pushing total

capacity in the country to 2 gigawatt this year. That's more than the two nuclear reactors in Ringhals that were halted in 2020, and will close the gap with Denmark, an early mover in the industry in the region.

"We are very good at creating contracts directly with commercial partners that use power, and that is what drives our development," said Harald Overholm, CEO of Alight.

The past winter has demonstrated the hole left behind by the two atomic reactors, with the government facing the task of resolving a divergent market. While vast hydro and wind projects have kept the cost of electricity in the sparsely populated north in check, a lack of generating capacity and congested grids have forced the south at times to import power.

R. Baroudi (CEO Energy & Environment Holding): "Key" to Europe's energy independence, Eastern Mediterranean deposits of hydrocarbons and offshore wind farms



Αθήνα, 27.05.2022 – “Climate change and market instability are the two main parameters in recent years for the global energy market,” highlighted Mr. Roudi Baroudi, CEO of Energy & Environment Holding at his speech on the second day of the 10th Athens Energy Dialogues conference on May 26-27.

According to Mr. Baroudi the goal is a new energy mix that is both environmentally sustainable and economically viable. Another crucial point is that reliability of cleaner and greener sources are not yet sufficient to fully meet demand, and getting there will require years of planning, investment, and construction. If we take existing technologies offline before newer ones can replace them, the resulting shortages will cause prices to spike, driving up the cost of living and

causing whole economies to collapse. On the other hand, if we wait too long to decarbonize the global economy, climate change threatens to inflict even greater damage.

The Russian invasion to Ukraine has changed the geopolitical status quo, according to Mr. Baroudi.

The war in Ukraine, has exposed not only Europe's dangerous over-reliance on natural gas and other energy imports from Russia, but also the extent to which disrupting that relationship could wreak havoc around the world. Ever since Moscow launched its invasion in late February, the European Union has been hesitant to impose sanctions on Russia's energy industry because it lacks other alternatives, and it lacks those alternatives because of a years-long hesitance to maintain a sufficiently diverse basket of sources and suppliers.

The continent also suffers from inadequate regasification capacity, which means it cannot fully replace piped gas from Russia with seaborne loads of LNG from other countries.

Mr. Baroudi highlighted that there are solutions for all of these problems, and some are already under way.

"Europe could also bolster its energy security by helping to develop the increasingly promising gas fields of the Eastern Mediterranean, the output of which could then be linked by undersea and/or overland pipeline to the European mainland. The utility of these and other moves would also be significantly enhanced by building new storage facilities for both LNG and conventional gas, which would make Europe a lot more resistant to future supply disruptions," said Mr. Baroudi.

But most importantly in the long term, Europe needs to seize the opportunity presented by the great potential for offshore wind energy in the Mediterranean, since making full use of this potential – just in the coastal waters – could generate

at least some 500 MILLION megawatts of electricity: in other words, the same as the entire global nuclear industry.

The Mediterranean region – including both its EU and non-EU components – can and should be a huge part of this drive for a dual resiliency against economic and environmental challenges alike. European investments in MENA countries' energy output makes sense for several reasons, including lower labor and other construction costs, as well as more diversified – and therefore more reliable – energy supplies.

About a week ago, the European Commission outlined a new plan to end Europe's dependence on Russian gas, one that envisions spending of more than 200 billion Euros over the next five years. That is a significant number, but now the plan needs to be funded.

This means that not just the EU itself but also the European Investment Bank, the World Bank, and the IMF – all need to open up their vaults. Needless to say, the private sector would do well to get in on the action as well.

Unfortunately, it is too late to prevent war in Ukraine. But the faster Europe moves effectively to end its reliance on Russian gas, embraces closer partnership with its Mediterranean neighbors, and achieves the full independence of its foreign policy, the sooner it can help to restore the peace – and prevent similar calamities in the future.

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