

# The Powerful New Financial Argument for Fossil-Fuel Divestment



In a few months, a small British financial think tank will mark the tenth anniversary of the publication of a landmark research report that helped launch the global fossil-fuel-divestment movement. As that celebration takes place, another seminal report—this one obtained under the Freedom of Information Act from the world's largest investment house—closes the loop on one of the key arguments of that decade-long fight. It definitively shows that the firms that joined that divestment effort have profited not only morally but also financially.

The original report, from the London-based Carbon Tracker Initiative, found something stark: the world's fossil-fuel companies had five times more carbon in their reserves than

scientists thought we could burn and stay within any sane temperature target. The numbers meant that, if those companies carried out their business plans, the planet would overheat. At the time, I discussed the report with Naomi Klein, who, like me, had been a college student when divestment campaigns helped undercut corporate support for apartheid, and to us this seemed a similar fight; indeed, efforts were already under way at a few scattered places like Swarthmore College, in Pennsylvania. In July, 2012, I published an article in *Rolling Stone* calling for a broader, large-scale campaign, and, over the next few years, helped organize roadshows here and abroad. Today, portfolios and endowments have committed to divest nearly fifteen trillion dollars; the most recent converts, the University of Michigan and Amherst College, made the pledge in the last week.

No one really pushed back against the core idea behind the campaign—the numbers were clear—but two reasonable questions were asked. One was, would divestment achieve tangible results? The idea was that, at the least, it would tarnish the fossil-fuel industry, and would, eventually, help constrain its ability to raise investment money. That's been borne out over time: as the stock picker Jim Cramer put it on CNBC a year ago, "I'm done with fossil fuels. . . . They're just done." He continued, "You're seeing divestiture by a lot of different funds. It's going to be a parade. It's going to be a parade that says, 'Look, these are tobacco, and we're not going to own them.' "

The second question was: Would investors lose money? Early proponents such as the investor Tom Steyer argued that, because fossil fuel threatened the planet, it would come under increased regulatory pressure, even as a new generation of engineers would be devising ways to provide cleaner and cheaper energy using wind and sun and batteries. The fossil-fuel industry fought back—the Independent Petroleum Association of America, for instance, set up a Web

site crowded with research papers from a few academics arguing that divestment would be a costly financial mistake. One report claimed that “the loss from divestment is due to the simple fact that a divested portfolio is suboptimally diversified, as it excludes one of the most important sectors of the economy.”

As the decade wore on, and more investors took the divestment plunge, that argument faltered: the philanthropic Rockefeller Brothers Fund said that divestment had not adversely affected their returns, and the investment-fund guru Jeremy Grantham published data showing that excluding any single sector of the economy had no real effect on long-term financial returns. But the Rockefeller Brothers and Grantham were active participants in the fight against global warming, so perhaps, the fossil-fuel industry suggested, motivated reasoning was influencing their conclusions.

The latest findings are making that charge difficult to sustain. For one thing, they come from the research arm of BlackRock, a company that has been under fire from activists for its longtime refusal to do much about climate. (The company’s stance has slowly begun to shift. Last January, Larry Fink, its C.E.O., released a letter to clients saying that climate risk would lead them to “reassess core assumptions about modern finance.”) BlackRock carried out the research over the past year for two major clients, the New York City teachers’ and public employees’ retirement funds, which were considering divestment and wanted to know the financial risk involved. Bernard Tuchman, a retiree in New York City and a member of Divest NY, a nonprofit advocacy group, used public-records requests to obtain BlackRock’s findings from the city late last month. Tuchman then shared them with the Institute for Energy Economics and Financial Analysis, a nonprofit that studies the energy transition.

In places, BlackRock’s findings are redacted, so as not to show the size of particular holdings, but the conclusions are clear: after examining “divestment actions by hundreds of

funds worldwide,” the BlackRock analysts concluded that the portfolios “experienced no negative financial impacts from divesting from fossil fuels. In fact, they found evidence of modest improvement in fund return.” The report’s executive summary states that “no investors found negative performance from divestment; rather, neutral to positive results.” In the conclusion to the report, the BlackRock team used a phrase beloved by investors: divested portfolios “outperformed their benchmarks.”

In a statement, the investment firm downplayed that language, saying, “BlackRock did not make a recommendation for TRS to divest from fossil fuel reserves. The research was meant to help TRS determine a path forward to meet their stated divestment goals.” But Tom Sanzillo—I.E.E.F.A.’s director of financial analysis, and a former New York State first deputy comptroller who oversaw a hundred-and-fifty-billion-dollar pension fund—said in an interview that BlackRock’s findings were clear. “Any investment fund looking to protect itself against losses from coal, oil, and gas companies now has the largest investment house in the world showing them why, how, and when to protect themselves, the economy, and the planet.” In short, the financial debate about divestment is as settled as the ethical one—you shouldn’t try to profit off the end of the world and, in any event, you won’t.

These findings will gradually filter out into the world’s markets, doubtless pushing more investors to divest. But its impact will be more immediate if its author—BlackRock—takes its own findings seriously and acts on them. BlackRock handles more money than any firm in the world, mostly in the form of passive investments—it basically buys some of everything on the index. But, given the climate emergency, it would be awfully useful if, over a few years, BlackRock eliminated the big fossil-fuel companies from those indexes, something they could certainly do. And, given its own research findings, doing so would make more money for their clients—the

pensioners whose money they invest.

BlackRock could accomplish even more than that. It is the biggest asset manager on earth, with about eight trillion dollars in its digital vaults. It also leases its Aladdin software system to other big financial organizations; last year, the *Financial Times* called Aladdin the “technology hub of modern finance.” BlackRock stopped revealing how much money sat on its system in 2017, when the figure topped twenty trillion dollars. Now, with stock prices soaring, the *Financial Times* reported that public documents from just a third of Aladdin’s clients show assets topping twenty-one trillion. Casey Harrell, who works with Australia’s Sunrise Project, an N.G.O. that urges asset managers to divest, believes that the BlackRock system likely directs at least twenty-five trillion in assets. “BlackRock’s own research explains the financial rationale for divestment,” Harrell told me. “BlackRock should be bold and proactively offer this as a core piece of its financial advice.”

What would happen if the world’s largest investment firm issued that advice and its clients followed it? Fifteen trillion dollars plus twenty-five trillion is a lot of money. It’s roughly twice the size of the current U.S. economy. It’s almost half the size of the total world economy. It would show that a report issued by a small London think tank a decade ago had turned the financial world’s view of climate upside down.

*A previous version of this post incorrectly described some aspects of Tuchman’s public-records request.*

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# OPEC oil output rises in March, led by Iran: Reuters survey



The 13-member Organization of the Petroleum Exporting Countries pumped 25.07 million barrels per day (bpd) in March, the survey found, up 180,000 bpd from February. Output has risen every month since June 2020 with the exception of February.

The rise in Iranian supply comes as OPEC and allies, known as OPEC+, have delayed unwinding more of their output cuts as the impact of the pandemic persists.

OPEC+ meets on Thursday and delegates expect most cuts will be kept.

“I can feel the cautious momentum,” one OPEC source said of Thursday’s meeting.

Oil topped \$71 a barrel this month, the highest since before the pandemic, but has since fallen to about \$64. A slow

recovery in demand and rising Iranian exports have weighed on prices, analysts said.

OPEC+ decided to keep supply mostly steady for March while Saudi Arabia made an extra cut out of concern about the slow demand recovery. Iran, plus fellow OPEC members Libya and Venezuela, are exempt from making cuts.

The Saudi move means OPEC still pumped much less than called for under the OPEC+ deal, despite the Iranian increase. Compliance with pledged cuts in March was 124%, the survey found, up from 121% in February.

## **IRAN PUMPS MORE**

Iran has managed to raise exports since the fourth quarter despite U.S. sanctions, according to various assessments.

There is no definitive figure for the exports. Iran has said documents are forged to hide the origin of its cargoes. Tankers have satellite tracking but this can be switched off and the use of ship-to-ship transfers makes it harder to spot the shipments.

The Reuters survey puts Iranian supply in March at 2.3 million bpd, up 210,000 bpd from February and the biggest rise in OPEC.

OPEC's second-largest increase, of 40,000 bpd, came from Iraq, the survey found. There were also small increases by the other two exempt producers, Libya and Venezuela.

Top exporter Saudi Arabia pledged an additional 1 million bpd output cut for February and March. Riyadh achieved virtually all of this in March, the survey found, more than in February.

Output was steady in other large producers United Arab Emirates, Kuwait and Nigeria, the survey found.

The Reuters survey aims to track supply to the market and is based on shipping data provided by external sources, Refinitiv Eikon flows data, information from tanker trackers such as Petro-Logistics and Kpler, and information provided by sources at oil companies, OPEC and consultants.

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## **OPEC+ panel revises down oil demand estimate before key meeting**



(March 31): A panel of OPEC+ technical experts agreed to revise down oil-demand estimates for 2021, signaling a more negative view of the market just days before the group decides on production policy.

The OPEC+ Joint Technical Committee now estimates that global oil demand will expand by 5.6 million barrels a day this year, down from 5.9 million previously, according to delegates and documents seen by Bloomberg.

The revision, which mainly affects the next few months, follows a recommendation from OPEC Secretary-General Mohammad Barkindo earlier on Tuesday that the coalition should remain very cautious.

At the previous meeting, that sense of caution led to a surprise decision to maintain almost all of the cartel's output curbs, instead of boosting production in anticipation of the economic recovery from the coronavirus pandemic. The Organization of Petroleum Exporting Countries and its allies believe that decision has since been vindicated and the group is widely expected to take a similar stance this week.

The panel "noted with concern that despite the accelerated rate of vaccination roll-outs across the world, there are a rising number of confirmed Covid-19 infections globally, with lockdown measures and travel restrictions being reimposed in many regions," according to the documents.

The reduction is most pronounced from April to June, when on average consumption is now seen 1 million barrels a day lower than prior projections.

That implies that the cartel's primary goal for the coming months – running down excess fuel inventories built up during the pandemic – would only happen slowly unless its production cuts are maintained close to current levels.

While fuel demand in the U.S. has shown strong signs of a rebound, a resurgence of the virus has undermined the recovery elsewhere. That has convinced the cartel it made the right call at its last meeting.

"While last month saw many positive developments, it also

witnessed reminders of the ongoing uncertainties and fragility caused by the COVID-19 pandemic,” Barkindo said at the start of the videoconference of the OPEC+ Joint Technical Committee on Tuesday, according to a statement from the group.

In the days after the March 4 meeting, when OPEC+ shocked the market by maintaining most of its production cuts, Brent soared to US\$70 a barrel.

Yet the rally soon dissolved as parts of Europe reimposed lockdowns to contain a virulent strain of the coronavirus, while India and Brazil contended with worsening outbreaks. Crude purchases in Asia slowed as a lackluster tourist season failed to stimulate fuel demand. Meanwhile, oil supplies swelled as Iran ramped up exports to China in defiance of U.S. sanctions.

Within a week of hitting a one-year high, oil futures had surrendered almost US\$10. Brent crude, the international benchmark, closed at US\$64.05 a barrel on Tuesday.

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## **The Oil Industry's Biggest Spending Driller Is Now in China**



(Bloomberg) – China’s fear of dependence on foreign suppliers means its biggest oil company plans to be the world’s top-spending driller this year, even as it says the nation’s demand for crude is plateauing.

PetroChina Co. plans 239 billion yuan (\$37 billion) in annual capital expenditure, the company said Thursday in its annual results. That’s more than global majors including Saudi Arabian Oil Co., Exxon Mobil Corp. and Royal Dutch Shell Plc, who’re trimming spending as they handle the fallout of the coronavirus pandemic on oil prices and fuel demand.

China’s quick recovery from Covid-19 means that its demand for oil and gas has fully recovered from the pandemic-induced swoon of early 2020, and President Xi Jinping continues to make energy security a top priority. The government earlier this month called for increased domestic production of coal, oil and gas over the next five years, an effort that’s ostensibly at odds with Xi’s long-term plan to decarbonize the economy.

The nation's demand for crude oil has already reached a plateau, and refined product consumption will peak and begin to decline in the next decade, Duan Liangwei, PetroChina's outgoing president, said on a conference call Thursday.

Demand for natural gas, one of the cleaner fossil fuels, is still expected to grow, and PetroChina is focusing its upstream operations there.

CNOOC Ltd., the country's biggest offshore driller, is budgeting 90 billion to 100 billion yuan in spending for this year, compared with a bit less than 80 billion in 2019, although the figure could still be adjusted, Chairman Wang Dongjin said Thursday during the company's annual earnings call.

Still, PetroChina's world-leading capex plan doesn't compare to pre-pandemic levels. The firm had intended to spend 295 billion yuan last year, before lockdowns beginning in January crippled the economy. It ended up shelling out about 246 billion yuan.

PetroChina and Cnooc, along with China's third oil major Sinopec, were forced to cut spending as oil prices cratered on the impact of the pandemic in 2020. Crude has rebounded this year amid production cuts and optimism that vaccines will help revive demand. Sinopec reports its earnings on Sunday.

Green Energy Their focus on fossil fuels aside, China's oil giants are still expected to help the country meet its ambitious goal of reaching net-zero emissions by 2060. PetroChina didn't identify spending targets on green energy on Thursday, although it did say it planned to incrementally increase such spending every year going forward.

The company is looking to peak its carbon emissions by 2025, and achieve "near-zero" emissions by around 2050, although it didn't specify whether that relates only to its own operations, or whether it includes the much vaster challenge

of accounting for the emissions from the fuel it sells.

Chairman Dai Houliang said the company plans to utilize wind, solar and geothermal resources and boost industrial use of hydrogen. For its part, Cnooc said it will increase its proportion of natural gas production to 30% by 2025, and expand its offshore wind power business in coming years.

## أسعار البنزين.. الهدوء ما قبل العاصفة



:"كتبت جويل الفغالي في "نداء الوطن

تستمر أسعار المحروقات في لبنان بالإرتفاع بشكل متواصل. حيث سجلت منذ أوائل سنة 2021 حتى اليوم ارتفاعاً بنسبة 40 في المئة لصفحة البنزين الواحدة. ومن المتوقع أن تستمر الأسعار بالإرتفاع مع انهيار العملة الوطنية، والتداول بالدولار في السوق الثانوية على ليرة. أعتاب 10 آلاف ليرة.

سجل سعر صفحة البنزين بشقيها 95 و98 أوكتان زيادة بقيمة 1000 ليرة، وارتفع المازوت 900 ليرة والغاز 400 ليرة، وأصبحت الأسعار

على الشكل الآتي: بنزين 95 أوكتان: 32200 ليرة، بنزين 98 أوكتان: 33200 ليرة، المازوت: 22300 ليرة، والغاز: 24800 ليرة. وكتبرير لهذا الإرتفاع، أوضحت وزارة الطاقة والمياه - المديرية العامة للنفط في بيان، الآلية المعتمدة أسبوعياً لتحديد أسعار مبيع المحروقات، ومنها البنزين والديزل أويل. وفي التفصيل فان جدول تركيب الأسعار يتكوّن من: المعدل الأسبوعي للأسعار العالمية ؛ وهو عنصر متغير، ويشكل أكثر platts للمشتقات النفطية وفق نشرات من 70% من ثمن البضاعة. من ثم تضاف عناصر تشكل كلفة البضاعة من بلد المنشأ إلى الأراضي اللبنانية من نقل بحري، تأمين، مصاريف مصرفية، ربح وغيرها. وهذه العناصر منها ثابتة، ومنها تحتسب على أساس نسب مئوية ترتبط بحركة الأسعار العالمية للمشتقات النفطية من بعدها تأتي عناصر ثابتة تحتسب بالليرة ومنها الرسوم platts والضرائب وهذه العناصر ثابتة ومحددة بالليرة اللبنانية. فيما يدعم مصرف لبنان ولا يزال حتى تاريخه شراء المشتقات النفطية بنسبة 90 في المئة، فتحتسب هذه النسبة على أساس سعر الصرف الرسمي، في حين يتم إحتساب نسبة الـ10 في المئة المتبقية على أساس سعر صرف الدولار في السوق السوداء.

## إتجاه النفط عالمياً

الإرتفاعات الأسبوعية الذي شهدتها أسعار المشتقات النفطية في الآونة الأخيرة، "في طريقها إلى التراجع مرحلياً، بالتزامن مع الإنخفاض المحتمل في سعر برميل النفط عالمياً"، بحسب الخبير النفطي الدولي رودى بارودي. "فمنذ أن بدأت عملية التلقيح ضد فيروس كورونا على المستوى العالمي، بدأت أسعار النفط بالإرتفاع. وهذا يعود لإعادة فتح الأسواق العالمية ومعاودة النشاط الإقتصادي. إلا انه في المقابل شهدت سوق الطيران تراجعاً ملحوظاً. حيث انخفض عدد الرحلات الجوية من حوالى 140 ألف رحلة في شهري آذار ونيسان من العام 2020، إلى حدود 30 ألف رحلة حالياً. وإذا استمر وضع سوق الطيران في الفترة القصيرة المقبلة على ما هو عليه اليوم، واستمر التراجع في الطلب على النفط، من القطاعات التي تعتمد على الطاقة بكثافة، فان سعر برميل النفط عالمياً سيعود وينخفض مرحلياً إلى ما بين 55 و62 دولاراً". وهذا ما سيؤدي، برأي بارودي، "إلى تخفيف الضغط في السوق المحلي من أحد أهم عنصرين يشكلان الأسعار، أي أسعار النفط عالمياً، وسعر صرف الدولار. ومن وجهة نظر بارودي فان "هذه الانخفاضات العالمية في حال حدوثها ستكون موقته. حيث من المنتظر ان تعاود "أسعار النفط ارتفاعها مع استعادة الاقتصادات تدريجياً لعافيتها

## دولار لبنان يبقى المعيار

لكن في حال استمر انهيار الليرة مقابل الدولار، فان قيمة الـ10 في المئة التي على المستوردين تأمينها بالعملة الصعبة سترتفع. الأمر الذي سيؤثر سلباً على الأسعار، ويحرم المواطنين من تراجع أسعار النفط عالمياً. هذا طبعاً، من دون أي حديث عن رفع الدعم أو حتى ترشيده. في ما يتعلق بإرتفاع سعر الدولار في السوق السوداء وتأثيره على أسعار المحروقات، فإن دعم مصرف لبنان الذي لا يزال حتى اللحظة يؤمن دولار استيراد المحروقات بنسبة 90 في المئة سيكون قاصراً عن لجم الاسعار. إذ إن الإرتفاع الحتمي للأسعار عالمياً، وانهيار العملة الوطنية محلياً، واستمرار الغموض وعدم الوضوح في ما خص سياسة الدعم عوامل ثلاثة سترفع، بحسب بارودي، "سعر صرف الدولار مقابل الليرة، وتؤدي إلى مزيد من ارتفاع الاسعار في المشتقات النفطية ومختلف السلع والخدمات". ومن هنا لا يستبعد أن يصل سعر صفيحة البنزين إلى 50 ألف ليرة أو أكثر، لأن عملية تسعير المحروقات تستند إلى عدة عوامل ومنها سعر النفط العالمي، وطمع وإحتكار المستوردين، وشبهات الفساد في وزارة الطاقة، التي من الصعب حلها في المدى المنظور.

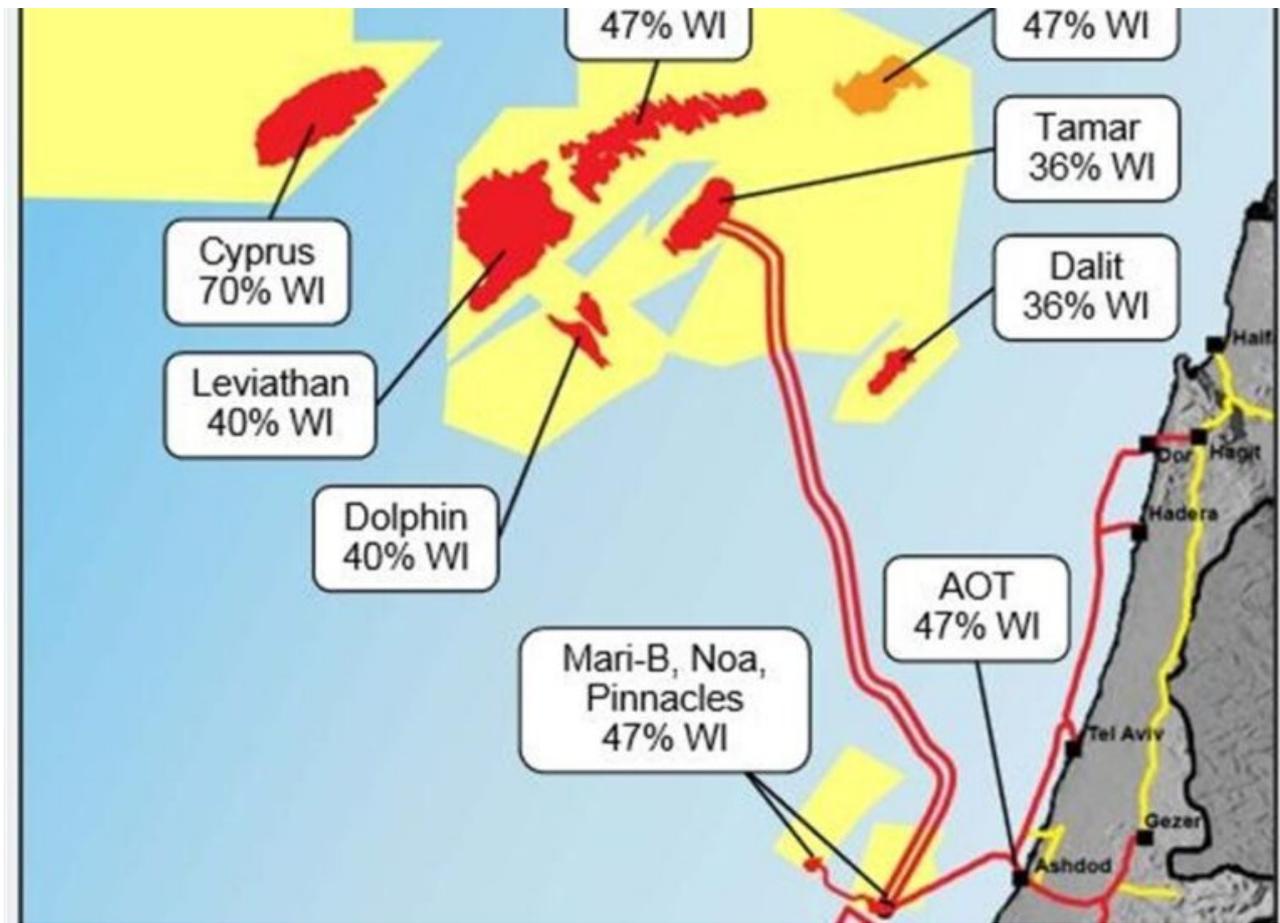
## الفقر ثم الفقر

الهمّ النفطي يأتي في الوقت الذي تتفاقم فيه معاناة اللبنانيين يوماً بعد آخر. فالمصير المجهول، وترقب المزيد من الإنهيار والتدهور في القادم من الايام، "يعززهما غياب حكومة تكون بخدمة الشعب"، يقول بارودي. "والبدء بتنفيذ السياسات الإصلاحية المطلوبة، فالمواطنون يقومون بواجباتهم كاملة، سواء بدفع الضرائب والرسوم أو الالتزام بالقوانين. لكن مع الاسف فان الدولة لا تقوم بواجباتها تجاههم. فالموضوع لا يتوقف فقط عند البنزين والمياه والكهرباء، "فهنالك شعب بأكمله يفتقر إلى الحصول على أدنى حقوقه

في المحصلة فان لبنان الغارق في رمال الدولار المتحركة وفساد الطبقة السياسية لن يتأثر ايجاباً من تراجع أسعار النفط عالمياً في الفترة القادمة. حيث من المتوقع الا ينخفض سعر صفيحة البنزين عن 30 ألف ليرة. وفي حال صدقت التوقعات بان يكون انخفاض سعر برميل النفط هو الهدوء الذي يسبق "عاصفة" الارتفاع بعد فتح الاسواق، فان سعر جميع المشتقات النفطية سيقفز في السوق الداخلية إلى معدلات قياسية. ذلك بالطبع من دون أن يكون هناك أي رفع أو حتى ترشيد للدعم، حيث إن أي تخفيض في الدعم مع ارتفاع السعر العالمي

للنفط، سينتج عنه سعر، لن يكون بمتناول 95 في المئة من الشعب اللبناني.

## بالمصور والوثائق... اعتداء إسرائيل على حقوقنا



في الوقت الذي لا تزال فيه مفاوضات الناقورة بشأن ترسيم الحدود البحرية بين لبنان وإسرائيل متوقفة، وفي الوقت الذي يتردد لبنان في اتخاذ قرار بتعديل حدود هذه المنطقة لصالحه، أقدمت إسرائيل على المزيد من الخطوات العملية التي تسمح لها بالإستيلاء على حقوق لبنان في ثروة النفط والغاز ولا سيما في المنطقة التي تدعي إسرائيل أن لها حقوقا فيها وهي تشكل امتدادا للبلوكات الجنوبية اللبنانية ولا سيما البلوكين ٨ و ٩.

technipFMC ففي رسالة مؤرخة في ٢٣ من الشهر الجاري أشارت شركة اليونانية بأعمال بناء energen الفرنسية إلى أنها مكلفة من شركة المنصة البحرية في حقل كاريش الإسرائيلي الملاصق الحقول اللبنانية، وهو حقل لو عدل لبنان حدود منطقتة البحرية ولو استمرت المفاوضات فإن مساحة كبيرة منه ستكون من حق لبنان، وبالتالي فإن هو محاولة لتكريس energen ما أقدمت عليه إسرائيل من خلال شركة أمر واقع يصعب على لبنان تخطيها في مرحلة لاحقة من المفاوضات غير المباشرة إذا لم يسارع لتعديل مرسوم حدود المنطقة الاقتصادية البحرية الخالصة.

وفي هذا الإطار قال الخبير في شؤون النفط والطاقة رودي بارودي اليونانية للنفط التي تعمل في energen إنه "بعدما أعلنت شركة حقل كاريش الواقع على الحدود الجنوبية، أنها لزمّت أعمال بناء الاوفشور بلافورم ومد الانابيب ومضخات استخراج النفط في الحقل الفرنسية، نحذر من التماذي في خرق technipFMC المذكور الى شركة المعاهدات الدولية من قبل الشركة اليونانية ما يعد تعدياً واضحاً على المناطق الحدودية البحرية المتنازع عليها بين لبنان وإسرائيل.

وطالب بارودي الدولة اللبنانية بارسال كتاب انذار بهذا الخصوص الى الشركة المعنية للتوقف عن خرق المواثيق الدولية والتوقف عن القيام بأعمال داخل المناطق المتنازع عليها على ان يكون هذا الكتاب بمثابة ربط نزاع مع الشركة للتقدم بشكوى امام المحاكم الدولية المختصة لمنعها من العمل في المنطقة المذكورة وتغريمها في حال عدم توقف الاعمال المخالفة لابطس القواعد القانونية الدولية.

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## Saudis, Russia Differ Again on Oil Strategy Before OPEC+

# Meeting

Saudi Arabia and Russia are once again heading into an OPEC+ meeting on opposite sides of a crucial debate about the oil market.

Riyadh is publicly urging fellow members to be “extremely cautious,” despite prices rebounding to a one-year high. In private, the kingdom has signaled it would prefer that the group broadly holds output steady, delegates said. Moscow, on the other hand, is indicating that it still wants to proceed with a supply increase.

The positions mirror those taken at recent meetings, but this time the Saudis have a new bargaining chip – 1 million barrels a day of voluntary cuts. The kingdom pledged to make these extra curbs only in February and March, but some see signs that could change as the negotiations get underway.

“The key question for me is how they return the Saudi barrels,” said Bill Farren-Price, a director at research firm Enverus and veteran observer of the cartel. The kingdom could potentially use them as “leverage for getting a deal,” he said.

## Bargaining Chip

Ten months after slashing crude production when Covid-19 crushed global demand, the Organization of Petroleum Exporting Countries and its allies are still withholding 7 million barrels a day from the market, about 7% of global supply.

It’s been a sacrifice, with members such as Iraq and Nigeria struggling economically as exports dropped. But it has yielded results, reviving prices to above \$65 a barrel in London and shoring up producers’ battered revenues.

By most estimates, the cuts have meant oil demand exceeded

production this year by a wide margin. The supply gap grew even wider last week as freezing weather in Texas caused a slump in U.S. output.

When OPEC+ gathers on March 4, it will discuss whether to provide more crude to the market in April. There will be two crucial decisions.

First, the group as a whole must choose whether to restore as much as 500,000 barrels a day, the next step in a gradual revival of production that was agreed on in December, but paused at the January meeting.

Second, Saudi Arabia must determine the fate of the extra 1 million barrels a day of extra voluntary cuts it is making this month and next to help clear surplus inventories even more quickly.

The kingdom initially announced this reduction would be reversed in April, but their latest thinking is fluid and the next move hasn't been finalized, delegates said. Offering to maintain some part of this voluntary cut in April could give Riyadh a useful bargaining chip if it's seeking to limit the group's overall output increase.

"Some easing in production restraint is likely at the March meeting," said Bob McNally, president of consultant Rapidan Energy Group and a former White House official. "The real bargaining has yet to start and no decision has been pre-baked."

## **Looming Debate**

Having differed over the pace of supply increases at the last two ministerial meetings, public comments from Riyadh and Moscow indicate that another debate looms.

Russian Deputy Prime Minister Alexander Novak said on Feb. 14 that "the market is balanced." While he hasn't publicly

expressed a policy preference for the March 4 discussions, Novak argued at the last two OPEC+ meetings for production increases.

Novak's Saudi counterpart also appears to be sticking to a familiar position.

Acknowledging his stance might be unpopular, Saudi Energy Minister Prince Abdulaziz bin Salman warned his fellow producers against complacency. The group must recall the "scars" of last year's crisis and be "extremely cautious" in its next move, he said.

"The football match is still being played, and it's too early to declare any victory against the virus," the prince said. "The referee is yet to blow the final whistle."

## **Saudi Gift**

Both arguments have merit.

This year's 20% rally in crude prices has been sharp enough for major consumers such as India to complain about the squeeze, and for Wall Street banks and trading houses to predict further gains.

Global inventories are falling "very fast" and are set to diminish sharply later this year, according to the International Energy Agency. Demand for petroleum products that cater to societies working and consuming at home is booming.

After freezing storms in Texas shuttered as much as 40% of U.S. crude production in the past week, the clamor for barrels from refiners in some regions has grown stronger. There's also the risk for OPEC+ that, once the weather-related disruption in the shale heartlands abates, high prices would provoke a new flood of supply.

But at the same time, inventories remain significantly above average levels and the IEA forecasts they could pile up again next quarter. The supply disruption from the U.S. freeze won't last long enough to cause a shortage, according to OPEC+ delegates, who asked not to be identified because the information isn't public.

Even after the rally, prices are still below the levels most OPEC members need to cover government spending, giving Riyadh extra leverage.

"The elephant in the room is Saudi Arabia's gift of 1 million barrels a day in extra cuts," said Bjornar Tonhuagen, an analyst at consultants Rystad Energy AS. "If the gift is snatched back, prices cannot do else but decline."

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## **Restarting Texas's Frozen Energy Heartland Will Be a Climate Mess**



Like a cold-blooded animal—a lizard or a snake—the petrochemical hub that is the state of Texas went dormant during the deep freeze. Eventually, it'll wake up again, and when it does the damage will be worse than if it never went to sleep.

Filings submitted in recent days to the Texas Commission on Environmental Quality, or TCEQ, already show significant emissions related to stopping and restarting fossil fuel infrastructure. It's an indication of what's to come in a state that's home to a quarter of U.S. natural gas production as well as half the oil production.

An Exxon Mobil Corp. ethylene plant in Baytown, one of the world's biggest, reported the release of nearly a ton of the carcinogen benzene and 34 tons of carbon monoxide, which contributes to air pollution. Shutting off Valero Energy Corp.'s Port Arthur Refinery resulted in the release of more than 2 tons of sulfur dioxide, another pollutant. Events at two facilities belonging to Pioneer Natural Resources Co. led to the escape of more than 12 tons of natural gas; methane, main component of natural gas, has many times the

global warming potential of carbon dioxide.

“This is an environmental disaster on top of a public safety and human health disaster,” said Luke Metzger, executive director of Environment Texas, an advocacy group.

Refineries must flare off or otherwise release trapped pockets of gas when starting up or shutting down. While weather-based shutdowns are often unavoidable and done in the interest of safety, they can result in emissions that go far above allowable levels. “These events are not exempt from pollution laws,” Metzger said. “It’s likely the events at these facilities could have been avoided.”

Exxon spokesman Todd Spitler emphasized that the shutdowns were due to the freezing weather and curtailment of natural gas supplies. “Any units that remain in operation are dedicated to exporting electricity back into the grid,” he said. Representatives from Valero didn’t respond to a request for comment; a spokesperson for Pioneer declined to comment.

This is the second time in less than six months the Texas oil industry has dealt with mass shutdowns due to extreme weather. The 12 hours after Hurricane Laura hit Port Arthur in August saw the release of more than 2,000 tons of emissions.

“I expect the oil industry is going to have numerous problems restarting, similar to what they encounter after a hurricane, such as damaged cooling towers and other equipment,” said Andy Lipow, president of Lipow Oil Associates in Houston. “The industry also has to be wary of water freezing and cracking pipes, which could release hydrocarbons into the atmosphere and cause an explosion and fires.”

As of Monday, at least seven Texas refineries were attempting to restart; all of them sustained some weather-related damage, and some still lacked sufficient power to begin the process. More challenges will likely emerge in the coming days, and it may take a few weeks for operations to return to normal.

The heightened risk of explosions are a grim reminder of what followed the onslaught of Hurricane Harvey in 2017. Floods at an Arkema SA chemical plant about 25 miles east of Houston knocked the refrigeration system offline, which imperiled the facility's store of heat-sensitive organic peroxides. People living within 1.5 miles of the facility evacuated a day before trailers holding the chemicals "spontaneously combusted," according to a Chemical Safety Board investigation. Arkema did not respond to questions.

The full scope of pollution from restarting petrochemical facilities following the freeze won't be clear until next month. Companies must file final reports within two weeks, and TCEQ evaluates the disclosures against its rules governing emissions.

TCEQ is responsible for both the state's air and water, the latter of which is also a concern for leadership. "We'll examine what worked, what didn't work so well, and what we can do to make things better next time—or, better yet, prevent it from happening again," said Toby Baker, the agency's executive director.

Environmentalists fault the state's political leadership and oversight agencies with extending the industry too much leeway, potentially endangering people and property as a result. They're also concerned that this week's failures won't be properly investigated to document their causes.

The state regulatory agencies' approach "means we aren't going to find out because they're aren't going to look," said Sharon Wilson, Texas organizer for Earthworks, an environmental nonprofit. "We have no reason to believe that they're going to try to find the pollution fallout from this extreme weather."

– *With assistance by Kevin Crowley*

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# US rejoins Paris climate accord with warning: this year's talks are 'last, best hope'



The US has marked its return to the Paris agreement by urging countries to do more to confront the climate crisis, with America's climate envoy, John Kerry, warning that international talks this year are the "last, best hope" of avoiding catastrophic global heating.

On Friday, the US officially returned to the Paris climate accord, 107 days after it left at the behest of former president Donald Trump. Joe Biden moved to reverse this on his first day in office and Kerry conceded that the US is returning "with a lot of humility, for the agony of the last four years".

"This is a significant day, a day that never had to happen," Kerry said to Al Gore, the former US vice-president, in a conversation filmed on the eve of the re-entry. "It's so sad that our previous president without any scientific basis or any legitimate economic rationale decided to pull America out. It hurt us and it hurt the world."

The contrition of the Biden administration is, however, balanced by a desire to resume the mantle of leadership at a time when almost every country is struggling to undertake the swift emissions cuts required to avert disastrous global heating of 1.5C above the pre-industrial era, as outlined in the Paris deal.

Kerry said that none of the world's major emitters, including China, India and the EU, are doing enough and that key UN climate talks later this year in Glasgow, Scotland, provide the "last, best hope we have" to get the world on track to avoid runaway climate change.

"The meeting in Glasgow rises in its importance," said Kerry, a former US secretary of state. "We are at this most critical moment where we have the capacity to define the decade of the 20s which will make or break us to get to net zero carbon in 2050." Kerry said that countries will have to "define in real terms their roadmap for the next 10 years, the next 30 years. We are talking about a reality we haven't been able to assemble in these meetings so far."

Kerry said that coal use needs to be phased out far more quickly, coupled with a rapid escalation of electric vehicles and renewable energy, and that he hoped to "build some new coalitions and approach this in a new way". The US climate envoy said he had reached out to the pro-fossil fuel leaderships in Brazil and Australia, which have "had some differences with us, we've not been able to get on the same page completely".

“For the last four years there were a lot of times when a lot of us thought the failure of this enterprise may rest on one word: Trump,” Kerry said in an event on Friday to mark the Paris re-entry. “But the international climate regime is still standing.”

While emissions worldwide from factories, airplanes and cars dipped sharply last year due to pandemic-related lockdowns, there are already signs of a roaring comeback that risks blowing past the agreed temperature limits and unleash worsening heatwaves, flooding, storms and societal unrest. The narrowing window of time to avoid climate breakdown means there is only brief cheering over the return of the US, the world’s second largest emitter of greenhouse gases.

“It’s good to have the US back in the Paris agreement, but sadly we have no time to celebrate,” said Laurence Tubiana, France’s climate change ambassador and a key architect of the Paris agreement. “The climate crisis is deepening and this is the year we need all major polluters to step up and deliver stronger plans to deliver a safe, clean and prosperous future for everyone.”

The US will release a new emissions cut pledge ahead of a 22 April summit convened by Biden with other major emitting countries and Tubiana said this goal should be “at least” a 50% reduction in greenhouse gases by 2030, from 2005 levels. The US, under Barack Obama, promised a 26% cut by 2025 and got about halfway to this target before the Covid-19 outbreak.

A coalition of nearly 200 environmental and humanitarian groups have urged the Biden administration to move well beyond the largely symbolic act of rejoining the Paris agreement by contributing billions of dollars to help defend poorer countries vulnerable to climate impacts and “lead with actions rather than just words”.

“The climate crisis is a race against time, and the US is just

reaching the starting line after years of inaction,” said Jean Su, energy justice director at the Center for Biological Diversity. “As the world’s largest historical polluter, the United States must take its fair share of robust climate action on both the domestic and global stage.”

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## Germany’s Empty Pipeline Logic



Although the Nord Stream 2 gas pipeline is only 100 miles from completion, the transformation of world energy markets since construction began implies that the project no longer makes economic sense. So why is German Chancellor Angela Merkel determined to see it through to the end?

HAMBURG – Nord Stream 2, the almost-finished pipeline running

directly from Russia to Germany, is not really about securing cheap natural gas. It is about personal gain and these two countries' national interest.

The pipeline across the Baltic has pitted the United States and the European Union against Germany, and a swelling chorus of domestic critics against Chancellor Angela Merkel. If it were just a matter of gas molecules, the project might never have seen the light of day. So, why did it?

Go back to 2005, when Gerhard Schröder and Russian President Vladimir Putin sealed the deal just before Schröder stepped down as chancellor. Shortly after handing power over to Merkel, the Russian energy giant Gazprom, essentially a Kremlin affiliate, named Schröder chairman of Nord Stream AG's shareholders committee. In 2016, Schröder rose to the top of Nord Stream 2, with Gazprom the only shareholder.

Ever since, Schröder has been Putin's tireless point man. Schröder never tires of repeating that he did it for the good of Germany, because it locked in energy security at decent prices.

In fact, Germany and Western Europe do not need Nord Stream 2. The oil price has more than halved since its 2008 peak. And with ever more new gas fields coming onstream, especially in the Mediterranean, not to mention North America, the price of gas has dropped by almost four-fifths over this period. Nor is the gas glut likely to be temporary, given ever more renewables surging into the market.

There are already 13 pipelines running from Russia to Europe, delivering some 250 billion cubic meters (m<sup>3</sup>) of gas. Nord Stream 2 will raise dependence on Russia, but much more is at stake, because the pipeline circumvents Ukraine and Poland. For Putin, Ukraine, a former Soviet republic, rightfully belongs to the *rodina*, the Motherland, and he has already grabbed two pieces: Crimea and the Donbas. Likewise, he

believes that Poland, a former satrapy, should be part of Russia's sphere of influence.

Nord Stream 2 enables Putin to weaken both countries by depriving them of transit fees and breaking Ukraine's grip on the tap. In 2020, Ukraine earned \$3 billion in fees from transporting some 50 billion m<sup>3</sup> of gas. Nord Stream 2 could pump about the same amount of gas – a neat coincidence. Schröder's Gazprom gambit would enable Putin to apply the screws to Ukraine (and Poland), at a time when the government in Kyiv is desperately trying to resist Russian pressure on Ukraine's already-weak economy.

Schröder was not really thinking of Germany or Europe when he got his friend Putin to top up his modest chancellor's pension of €93,000 (\$113,000) per year. The real puzzle is Merkel. When former US President Donald Trump told her, "You've got to stop buying gas from Putin," she did not budge. An unnamed German official vowed: "We will do anything it takes to complete this pipeline."

Presumably, energy supplies are not uppermost in Merkel's mind. This is not about the "low politics" of gas and cash, but the "high politics" of states seeking power and position. Regardless of how often Germans and Russians have been at each other's throats, the enduring reflex goes back to Bismarck, who famously told the country in the middle: "Never cut the link to St. Petersburg." In other words, keep the peace with the giant on Germany's eastern flank.

Though now sheltered by NATO, the Federal Republic has been honoring Bismarck by practicing propitiation, or at least benevolent neutrality. With her fine sense for power, Merkel is not swooning over Russian gas, but sticking to a classic rule of German diplomacy.

Even during the Cold War, West Germany defied three American presidents – Nixon, Carter, and Reagan – by bartering steel

pipes for Soviet energy. But what might have made economic sense during the global oil shocks of the 1970s now reflects only Bismarck's admonition: Don't rile the Russians.

Today, however, Merkel is acting on a new stage, and not only because of oversupply and dwindling demand as the industrial world shifts to solar, wind, and higher efficiency. Suddenly, Merkel is "home alone." It is not just the US, Britain, and nervous East Europeans who want to reduce Nord Stream 2 to scrap. Even the French are turning against the deal.

Reliant on nuclear power, France doesn't need Russian gas. It worries more about Germany's "special relationship" and Russia's lengthening shadow over Europe. Just this month, Russian foreign minister Sergey Lavrov threatened to rupture relations with the EU if it imposed new sanctions.

In addition, Merkel faces unprecedented headwinds on her own turf. Even prominent fellow Christian Democrats and the pacifist-minded Greens have turned against Putin. So have parts of the liberal media, which usually zeroes in on imperial America.

Why? Two words: Alexei Navalny. Facing his most dangerous rival yet, Putin has overplayed his hand. The Kremlin's attempted murder of Navalny, and now the longish prison sentence meted out to him, has rattled Germany's political class. In democracies, moral revulsion beats Merkel-style realpolitik.

Merkel has maneuvered Germany into isolation. But the smart bet is that Nord Stream 2 will be completed. With only 100 miles left to go, it defies the imagination to believe that a €10 billion project would be buried beneath the Baltic sands. In the end, the Germans will not affront the Russians, and US President Joe Biden will go easier on Germany than Trump did. The wheeling and dealing has already begun. Germany is dangling some juicy carrots before Biden, promising to raise subsidies for the construction of German liquefied natural gas

terminals that will take in American LNG. Germany also vows to work hard on new rules that would ensure the continued transit of gas through Ukraine. Poland will get funds for LNG terminals. There is talk that Germany would shut off Nord Stream 2 if Russia violated international law and human rights. Please, President Biden, just lift the sanctions.

A deal *will* be struck. But who will “negotiate” with the energy market? The court of supply and demand may issue this definitive verdict: no need for another pipeline. If so, Nord Stream 2 may just rot away underneath the Baltic – a monument to greed and folly.