

# Europe looks on with dismay as Brexit disarray deepens



By Laura King /London

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Watching the growing disarray unfolding in Britain, the rest of Europe is worried.

With British Prime Minister Boris Johnson battling his own party and parliament over Brexit, smashing political norms as he goes, the prospect of Britain “crashing out” of the European Union on October 31 is still seen by many as a real possibility – even though British lawmakers have passed a bill meant to preclude that scenario.

Britain’s parliament – suspended early Tuesday by Johnson amid a raucous outcry from the opposition – is now in a five-week hiatus that ends just two weeks before the Brexit deadline.

The prime minister says he still wants to make a deal with the EU, but there’s been no sign of significant progress on the major points of contention, including how to deal with what will be a new EU-UK land border on the island of Ireland.

Economists generally agree that if Britain departs the 28-nation bloc with no withdrawal accord, the British economy will suffer a far greater shock than will its European counterparts.

But repercussions will be felt across Europe and beyond, with fears in several EU states that Brexit could help nudge a prospective economic slowdown towards full-blown recession.

The EU, which never wanted Britain to leave, is still likely

to grant an extension of the October 31 deadline, although Johnson swears he won't seek one, and the bloc is increasingly pessimistic that Britain can find a way out of its conundrum. The EU is also unsettled over continuing uncertainty about the fate of its 3.6mn nationals living in Britain, many of whom are discovering, to their dismay, that decades of working and paying taxes in the UK are no guarantee they will be allowed to stay.

And while Brussels is accustomed to worrying about anti-democratic tendencies in member states like Hungary and Poland, and about far-right inroads being made there and elsewhere, EU officials have been alarmed by the spectacle of emerging constitutional stresses and strains in Britain, one of the traditional pillars of the postwar order.

Here's a look at some of the major EU players and how they view the latest developments:

#### \* IRELAND

Ireland might have the most to lose. It views Brexit – especially a no-deal departure – as a threat to both peace and prosperity.

For nearly two decades, the border with Northern Ireland has been open, and that invisibility is considered a crucial element in reversing decades of sectarian strife that killed thousands in the three decades leading up to 1998's Good Friday accord.

With the looming prospect of a "hard" frontier between EU member Ireland and Northern Ireland, which is part of the UK, there are worries that barriers and checkpoints would become a magnet for extremist attacks.

The EU has been adamant in its insistence that the border stay open; Johnson has demanded the scrapping of a withdrawal accord provision meant to ensure that.

The prime minister travelled to Dublin on Monday, where his Irish counterpart, Leo Varadkar, said he hasn't yet seen any concrete British proposals to address the border quandary – and added pointedly that a no-deal departure would only be the beginning of tortuous new negotiations over the Irish

frontier.

"There is no such thing as a clean break," he told Johnson.

#### \* GERMANY

As the continent's economic powerhouse – but one seeing fiscal storm clouds on the horizon – Germany wants to help ease Britain's path out of the EU, if it insists on going.

Chancellor Angela Merkel last month appeared to try to throw Johnson a lifeline when she suggested during a Berlin meeting with him that Britain try in the next 30 days to come up with some concrete new proposals for an accord that the EU previously said was not open to renegotiation.

But three weeks have already elapsed, with no new Johnson talking points disclosed.

Germany's Foreign Minister Heiko Maas said this week that "we remain in principle ready to talk" about Brexit terms, but that that "ultimately requires clear decisions and proposals from London."

Brexit is already depressing German economic projections.

The Federation of German Industries, the main umbrella group for industrial trade associations, says a no-deal departure by Britain would bring already weak growth forecasts for the year down to zero.

But business uncertainty brought on by a new delay would also dampen economic prospects, said the head of the German Institute for Economic Research, an independent research group. Meanwhile, powerful German companies are already preparing for the possibility of a no-deal break with plans to reduce their footprint in the UK.

BMW, the automaking giant, said it would curtail production at its plant in Oxford as the deadline approaches.

#### \* FRANCE

French President Emmanuel Macron has shown some willingness to play the EU's disciplinarian in dealings with Britain, while remaining supportive of an orderly departure if one must take place.

This week, Foreign Minister Jean-Yves Le Drian signalled impatience with Britain's inability to either move towards a

definitive break with the EU, strike a deal with the bloc or call the whole thing off.

"The British must tell us what they want," Le Drian said exasperatedly in a weekend radio interview, referring to the polarisation and deadlock that have prevailed since the 2016 Brexit referendum, which won narrow approval.

"For three years, the UK... has found no way forward."

Any Brexit extension requires unanimous approval by EU members, and France is unlikely to use its veto power. But the country is preparing for no-deal contingencies, getting ready for a weeks-long "rehearsal" by customs authorities at airports, train terminus points and ports, especially Calais, the gateway to the tunnel under the English Channel.

France, like Germany, has been taken aback by Johnson's take-no-prisoners style on Brexit, but has stressed that Britain, not France or the EU, would bear the economic brunt of a no-deal departure.

However, Macron has already seen his popularity dented by months of "yellow vest" populist protests, and can ill afford bad economic news.

#### \* THE NETHERLANDS

Holland is a relatively small player among European economies, but Britain looms large in its financial relationships as a main trading partner and its biggest international investor.

The Dutch port of Rotterdam, Europe's largest, now enjoys seamless intra-EU trade with Britain, but will be burdened by the need for customs checks and goods inspections if Brexit goes ahead as scheduled.

Still, the Dutch position on Brexit is hardening.

Holland is working to woo companies that are abandoning Britain to relocate operations within the EU.

Dutch Minister for Trade Sigrid Kaag told the financial newspaper *Het Financieele Dagblad* last week that there would need to be a "good reason" for granting a new Brexit delay.

The Netherlands, like Britain, once bestrode a far-flung empire.

As the Brexit crisis intensified earlier this year, Dutch

Prime Minister Mark Rutte offered some succinct advice about the global standing of former colonial powers.

Britain, he told the Guardian newspaper, “is going to become an economy of middling size in the Atlantic Ocean. It is neither the US nor the EU. It is too small to appear on the world stage on its own.”

Policymaking in the Netherlands tends to be influenced by a strong pragmatic streak, but Johnson’s seeming loss of control over the Brexit process has dumbfounded some influential Dutch politicians.

“We thought the Brits were rational pragmatists,” said Anne Mulder, a Dutch lawmaker who leads the country’s Brexit planning in parliament, told the Financial Times.

“Well, they aren’t.” – Tribune News Service

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## **Britain’s Brexit breakdown**



British democracy was once widely seen as a model for others to follow. But it has now sunk into its deepest crisis in living memory. At stake is not only whether the United Kingdom crashes out of the European Union without an exit deal, but also how far a country once famed for stability and moderation descends into political civil war. Prime Minister Boris Johnson seems determined to take the UK out of the EU on October 31 at any cost. The chances of a chaotic no-deal Brexit increased dramatically on August 28, when Johnson moved to suspend the UK parliament for five weeks between mid-September and October 14.

It will now be much harder – but not impossible – for his parliamentary opponents to thwart him. Johnson claims that he wants a deal, but that the threat of leaving without one is needed to force the EU to compromise. In his view, curtailing parliament's ability to block a no-deal Brexit was necessary to make the threat credible. It is not inconceivable that EU leaders, who meet as the European Council on October 17-18,

might agree on a revised deal that British MPs would then rubberstamp, for fear of the alternative. But Johnson's demands are extreme. In particular, he wants to scrap, not just modify, the "backstop" designed to keep the Irish border open – and to preserve the fragile peace in Northern Ireland – after Brexit. That suggests his real aim is to blame EU intransigence for the failure of renegotiations and to provoke his parliamentary opponents into forcing a general election, for which he is already preparing with a blizzard of spending promises and catchy policy announcements. In the election campaign, Johnson would accuse parliament of thwarting "the will of the people," meaning the narrow 2016 vote to leave the EU. This tactic might erode support for Nigel Farage's Brexit Party and rally most Leave voters under Johnson's Conservative banner. With Remainers divided, Johnson might win the sizeable parliamentary majority that eluded his predecessor, Theresa May, in the 2017 general election. But for now, there is no democratic mandate for a no-deal Brexit. The 2016 referendum did not specify how the UK would leave; the Leave campaign simply promised that doing so would be easy, painless, and by agreement. A no-deal Brexit would be none of those things. The government's own planning envisages ports seizing up and businesses going bust as tariffs on UK exports to the EU go up overnight. Food, medicines, and fuel could run short. Civil unrest would be likely. And a painful recession would doubtless ensue. Worse, such an outcome would cut the UK adrift from its European neighbours. A post-Brexit trade deal with the EU, with which the UK does nearly half its trade, would be postponed indefinitely; even starting talks would require Britain to swallow the terms of the rejected withdrawal agreement. Bad blood would also jeopardise security and foreign-policy co-operation. No wonder US President Donald Trump, who hates the EU because it enables Europeans to stand up to him together, is cheering Johnson on. A no-deal Brexit also would be painful for the EU, and especially Ireland. The fragile eurozone economy, which already is grappling with China's slowdown and the uncertainty created by

Trump's trade wars, could plunge into recession. And given the limited scope for European monetary or fiscal stimulus, the damage could be more severe than expected. How, then, might a no-deal Brexit still be stopped? Rebel MPs' preferred option had been to pass legislation instructing Johnson to seek a further extension to the UK's exit deadline. They might still do so next week, or even just after the October European Council meeting. But the timing is very tight, and government delaying tactics could stymie the rebels. Moreover, Johnson might ignore such an instruction; the EU could reject an extension request; or, more plausibly, it might impose conditions on the extension that Johnson would reject. The rebels' second choice – a no-confidence vote – now seems likely next week. With his allies from Northern Ireland's Democratic Unionist Party, Johnson has a parliamentary majority of just one. And because his suspension of parliament has outraged rebel Conservatives who had previously balked at bringing down their own government, a no-confidence vote now stands a greater chance of success.

But bringing down the government would not be sufficient to stop a no-deal Brexit. The motley crew of rebels also would need to support the formation of a caretaker government that would seek a Brexit extension, call a general election, and perhaps also legislate for a second referendum. Moreover, Labour Party leader Jeremy Corbyn, a hardline socialist and closet Brexiteer, insists on leading such a government. That would require Conservative rebels, opposition Liberal Democrats, and also MPs who quit Labour in protest over Corbyn's leadership to rally behind him – a tall order.

Alternatively, if Corbyn failed to muster a majority, he could give Labour's backing to a caretaker government led by someone less controversial – but that is also unlikely. If an alternative government could not be formed within two weeks of a successful no-confidence vote, rebels would need to hope that Johnson called – and lost – an election before October

31. Johnson might calculate that it would be easier for him to win an election before no-deal chaos materialises; for now, at least, he says he won't trigger a pre-Brexit poll. That leaves the nuclear option of parliament voting to revoke unilaterally Britain's notification of its intention to leave the EU under Article 50 of the Treaty on European Union. This is the only surefire way to thwart a no-deal Brexit. But it would be an incendiary move. Many Leavers would see it as an anti-democratic coup. And because it would reverse the 2016 referendum result, such a step would necessitate a new plebiscite pitching Remain against No Deal. With luck, Johnson's scorched-earth tactics will spur his disparate opponents into overcoming their differences to stop a no-deal Brexit. But whatever happens, the pragmatic centre is being squeezed out of British politics. Both hardline Brexiteers and diehard Remainers have rejected the only available exit deal. As each side ups the ante, Brexit is now an all-or-nothing fight to the death among absolutists. – Project Syndicate

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**Britain and Italy are now the terrible twins of Europe**



By Martin Kettle London

For most of the time since 1945, the politics and government of Britain and Italy have seemed like polar opposites. True, both were important European powers. True too, each had a place among the world's major economies. Even now, Britain and Italy will be among the select group of economically powerful nations whose leaders will gather in the Second Empire splendour of Biarritz's Hotel du Palais this weekend for the latest G7 summit.

In the past, that was where the similarities began to ebb away. In politics, Britain was famously stable while Italy was infamously not. British governments were domestically strong, while Italian governments were weak and short-lived.

In Britain, leftwing politics was rooted in industrial unionism, while Italy possessed the largest, most modern-minded and most alluring communist party in the West. When Britain looked in the mirror it saw the embodiment of probity and practicality, while Italy was all too often synonymous with crime and corruption. While Britain maintained its autonomy by refusing to join the eurozone, Italy enthusiastically embraced its upper mid-table place in the EU and its membership of the single currency was shamelessly

engineered.

Today, the political comparison is marked not by divergence but by an increasing convergence. Politically, Britain is becoming more like Italy. Like Italy, Britain is an increasingly hard to govern country that makes less and less effort to address its underlying economic, social and political problems. Instead, like Italy, Britain appears to be drifting steadily to the right under skilful populist leaders whom the political institutions are proving unable to control. The collapse of Italy's populist coalition this week is not, at first sight, an event with many British resonances. Both parties in the coalition are recent creations, a far cry from a Conservative party that traces its history deep into the 19th century. The rightwing Lega is the latest iteration of the old anti-migrant Lega Nord, which dated from only 1991, while the Five Star Movement is more recent still, a root-and-branch anti-establishment party. Yet the division that brought down the coalition and led to prime minister Giuseppe Conte's resignation on Tuesday has real echoes of the battles in the Conservative party.

Like Theresa May, Conte was forced to quit because the Lega, under Matteo Salvini, has created a position in which it thinks it can win an election. That is precisely the belief that fires Boris Johnson. Salvini's mix of anti-immigrant braggadocio, confrontational hostility to the EU in general, and to Germany in particular, plus his readiness to borrow and increase the deficit, and his intention, if elected, to slash taxes, has its reflections in Priti Patel's potentially brutal migration controls, Johnson's sabre-rattling approach to May's withdrawal agreement and the UK government's election-mode fiscal liberality.

None of this is to pretend that Britain and Italy are marching to exactly the same political drum. But if Angela Merkel, who hosted Johnson's first European trip as prime minister on Wednesday, were to be asked privately to nominate her most unwelcome EU leader colleagues, it is a fair bet that Johnson and Salvini would come top of her current list, above even

Hungary's Viktor Orbán.

The Italian and British rightwing populist leaders, egged on by Donald Trump's administration in Washington, represent a deliberate challenge to traditional politics in general and to the EU's future in particular. Until recently, the visit of a British prime minister to the German chancellor was a ritual reaffirmation of commitment to stability. Not any more, and not on Wednesday. It is an alarming thought – though it should not be overplayed either – that Wednesday's was almost certainly the most destabilising Anglo-German summit since Munich in 1938.

To add the words "except Italy" to every generalisation about Europe would become tiresome, historian AJP Taylor once said. From now on, he added, the words should therefore be taken as read. Many of us grew up looking at Italy's place in Europe in that way. Cooler and more stylish than us, certainly, but also more corrupt and more unshakeably right wing, Italy seemed to follow its own unique and inimitable route through European modernity.

For much of the postwar era, this way of looking at Italy made some sense. Compared with centralised France and Britain, Italy was a devolved state. Power lay in the cities and the regions, where Rome's writ did not run. Compared with Germany and Scandinavia, Italy was economically protectionist, inefficient and institutionally rotten. While the citizens of most countries in Europe liked to think that they obeyed the laws, paid their taxes and provided for their poor, many Italians picked and chose which rules to follow, joked about paying their taxes and were often overtly hostile to the impoverished south of the country, as Salvini is today to African and Arab migrants.

For a while, it was possible to believe that, if there were convergence between the two, it would be Italy that managed to change, adapting itself to the liberal democratic capitalist habits of the EU. But that hasn't happened. Italy's exceptionalism is now, if anything, more pronounced. Under Johnson, Britain is accelerating in a similar direction of its

own. Since the fall of the Syriza government in Greece, Italy and Brexit Britain together pose the most direct challenges to the EU's legal, budgetary and human rights underpinnings. For the avoidance of doubt, precise parallels between Italy and Britain, or Salvini and Johnson, should not be pushed too far. There remain many profound differences between the two national conjunctures. But their rightward trajectories, their preoccupation with winning votes on the right not the centre, and their mastery of the black arts of political campaigning in the digital age all come from the same soil. Those who have argued for many years for Britain to become more like Germany or Sweden have to wake up to what is happening. Italy and Britain, an improbable political duo if ever there was one, have become the terrible twins of Europe. – Guardian News and Media

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## **Greece mulling defense deal extension with US**



Athens is looking to extend the US-Greece defense agreement, also known as the Souda Agreement, by a year when US Secretary of State Mike Pompeo visits in October or November, it emerged after Wednesday's meeting between Prime Minister Kyriakos Mitsotakis and US House Appropriations Committee Chairwoman Nita Lowey at the Maximos Mansion in Athens.

Meanwhile, the prospect of a meeting next month between Mitsotakis and US President Donald Trump was also reportedly discussed.

Lowey also met with Foreign Minister Nikos Dendias and his deputy Antonis Diamataris for talks that reportedly focused on areas of the US-Greece Strategic Dialogue and efforts to promote common interests in the Eastern Mediterranean region.

In a tweet, US Ambassador to Greece Geoffrey Pyatt, who was at both meetings, said the discussion with Dendias focused on "progress in all areas of the US-Greece Strategic Dialogue and the commitment of both our governments to do even more to promote common interests in the EastMed and strengthen Greece as regional pillar of stability."

As for the meeting between Mitsotakis and Trump, this could reportedly take place on the sidelines of the United Nations General Assembly in New York in late September. Pyatt reportedly said that the timing is right for such a meeting.

Meanwhile, Mitsotakis begins his tour of European capitals on Friday, starting in Paris for talks with French President Emmanuel Macron.

The prime minister is expected to tout the momentum of New Democracy's election victory, which has been reflected in the positive reaction of markets, as well as the notion that his government is a pillar of stability in the European south.

The bottom line is to restore confidence in Greece and to convey the message that it is no longer a "problematic" country in Europe, but one that is ready to undertake and support EU initiatives – among them Macron's green agenda and the strengthening of European defense cooperation.

By getting this message across, Mitsotakis aims to pave the way for discussions on the primary surpluses Greece has agreed to achieve.

He is expected to provide reassurances that the targets for 2019 and 2020 will be met, but also that his reform package to stimulate the Greek economy will allow for a new outlook as of 2021.

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## **Turkish navtex sparks fresh tension with Cyprus**



Tensions are expected to heighten again in the Eastern Mediterranean after Turkey issued another navigational telex (Navtex) Wednesday reserving areas within Cyprus' exclusive economic zone (EEZ) for renewed exploratory activities by its Barbaros seismic vessel.

Ankara reserved an area spanning blocks 2, 9 and 13 of Cyprus' EEZ which it claims belong to the Turkish Cypriots in the occupied north of the island.

Cyprus has already licensed blocks 2 and 9 to South Korean energy company Kogas and Italy's Eni while France's Total was recently also given rights to these blocks.

Moreover, Paris has signaled its willingness to send frigates to the region to safeguard its interests. As yet no license has been awarded for Block 13.

Cyprus reacted to Ankara's move by issuing its own navtex calling on the Barbaros to refrain from illegal activity within its territorial waters.

Meanwhile, Turkish F-16 jets conducted two overflights

Wednesday over the Aegean islet of Agathonisi and one over Farmakonisi.

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# Oil Tankers' Tracking Signals Are Vanishing in the Strait of Hormuz



Oil tanker owners are finding a way to reduce the risks of navigating the Strait of Hormuz, the world's most important – and lately most dangerous – energy chokepoint: vanish from global tracking systems.

Copying from Iran's own playbook, at least 20 ships turned off their transponders while passing through the strait this month, tanker-tracking data compiled by Bloomberg show. Others

appear to have slightly altered their routes once inside the Persian Gulf, sailing closer than usual to Saudi Arabia's coast en route to ports in Kuwait or Iraq.

Before the latest increase in tensions with Iran, ships were more consistent about signaling their positions as they passed through a waterway that handles a third of seaborne petroleum. Once inside the Gulf, shipping routes took them fairly close to the Iranian coast, skirting the offshore South Pars/North gas field shared by Iran and Qatar. Most still do, but a growing number appear to be trying something new.

It's little surprise that ships are doing everything possible to minimize risk. The Gulf region has witnessed a spate of vessel attacks, tanker seizures and drone shoot-downs since May, all against the backdrop of U.S. sanctions aimed at crippling Iran. War-risk insurance soared for tanker owners seeking to load cargoes in the region.

Two British warships are now situated in the waters around Hormuz where they were recently escorting the nation's ships. The U.S. 5th Fleet also permanently operates in the region. On Wednesday, the Norwegian Maritime Authority advised the country's flagged vessels to minimize transit time in Iran's territorial waters. Tanker captains have become increasingly nervous about the risks of getting caught up in the conflict.

See QuickTake on the Strait of Hormuz

At least 12 vessels loaded in Saudi Arabia and shut off their transponders while passing through the strait within the past month. They include the supertanker Kahla, which turned off its signal on July 20 before passing through the strait. It reappeared two days later on the other side of the waterway.

Likewise, at least eight vessels that loaded in Iraq and Kuwait went dark while leaving the Strait of Hormuz. A vessel shipping from the U.A.E. also dropped off tracking systems.

The apparent shutdown of signals coincides with a slew of

disruptions in the region. On July 11, the Royal Navy intervened to prevent Iran from impeding a tanker operated by BP Plc from passing through Hormuz. Three days later, Iran seized a Panama-flagged vessel. On July 19, Iranian forces took control of a British-flagged tanker in retaliation for similar action by U.K. authorities. The vessel, the Stena Impero, remains impounded.

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## **US sanctions Iran's Foreign Minister Mohammad Javad Zarif**



The US Department of the Treasury has imposed sanctions against Iranian Foreign Minister Mohammad Javad Zarif.

The sanctions freeze any assets Mr Zarif may have in America, the department said.

“Javad Zarif implements the reckless agenda of Iran’s Supreme Leader (Ayatollah Ali Khamenei),” Treasury Secretary Steven

Mnuchin said.

Mr Zarif tweeted the US had imposed sanctions on him because it considered him as a threat to its agenda.

- Iran-US tensions: What's going on?
- US-Iran relations: A brief history
- Gulf crisis: Are we heading for a new tanker war?

Tensions between the US and Iran have heightened since the US last year withdrew from the 2015 nuclear deal that aimed to curb Iranian nuclear activities.

There are growing concerns that a number of recent incidents in the Gulf could lead to a military conflict in the vital shipping region.

On Wednesday, the US extended waivers which allow Russia, China and European countries to continue civilian nuclear cooperation with Iran.



Media captionIran's Foreign Minister: We cannot leave our own neighbourhood

White House security adviser John Bolton said on Wednesday that it was a "short 90 day extension".

“I think the idea here is we are watching those nuclear activities very, very closely,” he added.

## What did the US say?

Mr Mnuchin described Mr Zarif as the Iranian “regime’s primary spokesperson around the world”.

“The United States is sending a clear message to the Iranian regime that its recent behaviour is completely unacceptable.

“At the same time the Iranian regime denies Iranian citizens’ access to social media, Foreign Minister Javad Zarif spreads the regime’s propaganda and disinformation around the world through these mediums,” Mr Mnuchin said.

## How did Mr Zarif respond?

Mr Zarif said the US move “has no effect on me or my family, as I have no property or interest outside of Iran”.



“The US reason for designating me is that I am Iran’s ‘primary spokesperson around the world. Is the truth really that painful?” he asked.

“Thank you for considering me such a huge threat to your agenda.”

## What about the 2015 nuclear deal?

Last year, the US unilaterally withdrew from the agreement between Iran and world powers.

Washington has since reimposed tight sanctions affecting the Iranian economy, and also

The other parties of the 2015 deal – China, France, Germany, Russia and the UK – criticised Mr Trump’s decision and said they remained fully committed to the deal.



Media captionInside Iran: Iranians on Trump and the nuclear deal

Iran responded by breaching the limit on its stockpile of low-enriched uranium set under the nuclear deal.

Tehran stepped up production of enriched uranium, used to make reactor fuel but also potentially nuclear bombs, in May.

- Is the Iran nuclear deal finally dead?

- Why do the limits on uranium enrichment matter?
- Iran nuclear crisis in 300 words
- Iran nuclear deal: Key details

Last week, talks were held in Vienna to try to save the nuclear deal.

After meeting representatives from Britain, France, Germany, Russia and China, a senior Iranian official said the atmosphere had been “constructive”.

## And what about recent tanker incidents?

Tensions between the UK and Iran rose in July after British forces seized the Iranian tanker, Grace 1, off Gibraltar. It was alleged to be carrying oil to Syria in breach of EU sanctions, a claim denied by Iran.



Media captionFootage released by Iran's Revolutionary Guard-affiliated Fars news agency appears to show Stena Impero being seized

Several days later the British-flagged Stena Impero was

impounded by Iran, which said it had been “violating international maritime rules”.

Britain sent a second warship on Sunday to escort its ships sailing through the Strait of Hormuz.

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## **Israel, Saudis Talked Gas Deals, Netanyahu Ally Says**



Saudi Arabia has looked into buying Israeli natural gas, according to a former member of Prime Minister Benjamin Netanyahu’s cabinet, the latest sign of warming ties between two formally hostile nations.

The countries have discussed building a pipeline that would connect Saudi Arabia to Eilat, former Israeli parliamentary

member Ayooob Kara, who cited conversations with “senior officials” in the region, said in an interview in Jerusalem. Eilat, the Israeli city which banks the Gulf of Aqaba and is about 40 kilometers (24.9 miles) from the border, was chosen for its proximity to Saudi Arabia.

An energy project of this magnitude would require formal diplomatic relations between Israel and Saudi Arabia and is likely to elicit political pushback. Israel remains largely unpopular in the Arab world for its treatment of Palestinians, who live under occupation in the West Bank and under siege in Gaza. Israel and Saudi Arabia have united behind closed doors in their antagonism toward Iran but formalizing an alliance may still be hard to achieve.

Kara has been one of Netanyahu’s closest advisers on relations with Arab countries and was among a handful of Israeli ministers to appear publicly in a Gulf state in the past year. “This is about mutual interest,” he said.

Representatives for the energy ministries in Israel and Saudi Arabia didn’t respond to requests for comment. The Saudi Information Ministry’s Center for International Communication also didn’t respond to a request for comment.

In Saudi Arabia, Israel would find an eager partner for its emerging natural gas industry. Companies found massive quantities of gas in Israeli waters about 10 years ago but have struggled to realize the fuel’s potential. The partners developing Israel’s biggest reservoir, have inked \$25 billion in contracts but still have more than 80% of the reservoir untied to any buyers.

Saudi Arabia plans to invest more than six times that amount in gas over the next decade, in part to meet rising demand for cheaper electricity.

## Regional Opposition

Mass demonstrations broke out in Amman in 2016 after the companies developing Israel's biggest offshore gas fields signed a \$10 billion contract with Jordan, home to millions of people of Palestinian origin.

While some Saudis argue that normalizing relations with Israel is a natural merging of interests, many others vehemently oppose the idea. Public resistance to establishing relations with Israel is so strong that a group of more than 2,000 citizens from different Gulf countries circulated an online petition last year "to stop all forms of normalization with the Zionist entity." They signed their full names – a rare step in a region where freedom of expression is limited.

While leaders of the Arab world used to be united behind the Palestinians, that support began to wane with the rise of the Iranian threat to Sunni Gulf countries, Kara said. Saudi Arabia and its regional allies now pay "lip service" to the Palestinian cause, and are seeking upgraded military and economic ties with Israel to counter Iran, he said.

Gulf states are "not interested in the Palestinian issue," Kara said. "All they care about is the security and future of their countries."

Part of the discussions between officials center on a new energy corridor that would connect Saudi Arabia to the Eilat-Ashkelon Pipeline in Israel. This would allow the Arab kingdom to export its oil to Europe and markets further west while skirting a sea route where the U.S. has accused Iran of carrying out several attacks against commercial ships, Kara said.

Set up in 1968, Eilat-Ashkelon Pipeline Co. was then jointly-owned by Iran and Israel and facilitated oil exports from Iran to Europe. That relationship ended after Ayatollah Ruhollah

Khomeini rose to power in Tehran in 1979 and he marked Israel as an enemy to the Islamic Republic.

– *With assistance by Donna Abu-Nasr, and Vivian Nereim*

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# Italy to play low 2019 deficit card to avoid EU procedure



EU Commission threatened Rome with disciplinary steps; 2019 deficit could be 2% of GDP or lower, officials say; league economics chief says 1.8% is possible; coalition still undecided how to use savings emerging Reuters Rome Italian coalition officials say the country's public accounts are throwing up positive surprises this year, strengthening Rome's

hand as it tries to ward off a possible Euro-pean Union disciplinary procedure. Recent data suggest the deficit this year will not only be below the European Commission's forecast of 2.5% of gross domestic product (GDP) but could even be below the 2.04% agreed with Brussels in December, two senior coalition members said. However, it remains to be seen how far the anti-austerity government will actually slash its current 2.4% target, because some in the 5-Star Movement, one of the two ruling coalition parties, want the savings that are emerging to be quickly spent on new expansionary measures.

The other ruling party, the League, is a push- ing for deep tax cuts, but only from 2020. It is also not certain that an unexpectedly low 2019 deficit would be enough to convince Brussels that Italy's finances are on a sustainable path. But the latest data at least give Rome fresh arguments – something that looked impossible a few months ago. The Commission on Wednesday paved the way to disciplinary steps against Italy, complaining that its debt had risen in 2018 instead of falling and would continue to do so. It said Rome had also not reined in its annual budget deficit as promised in 2018 and would continue to run excessive deficits this year and next. A disciplinary procedure, which could eventually end in fines, had already been averted at the last moment in December when Italy cut its original 2.4% deficit target for this year to 2.04%, with the agreement of the Commission. In April, Italy restored the original 2.4% target because of a slump in growth, while the Commission forecast 2.5%.

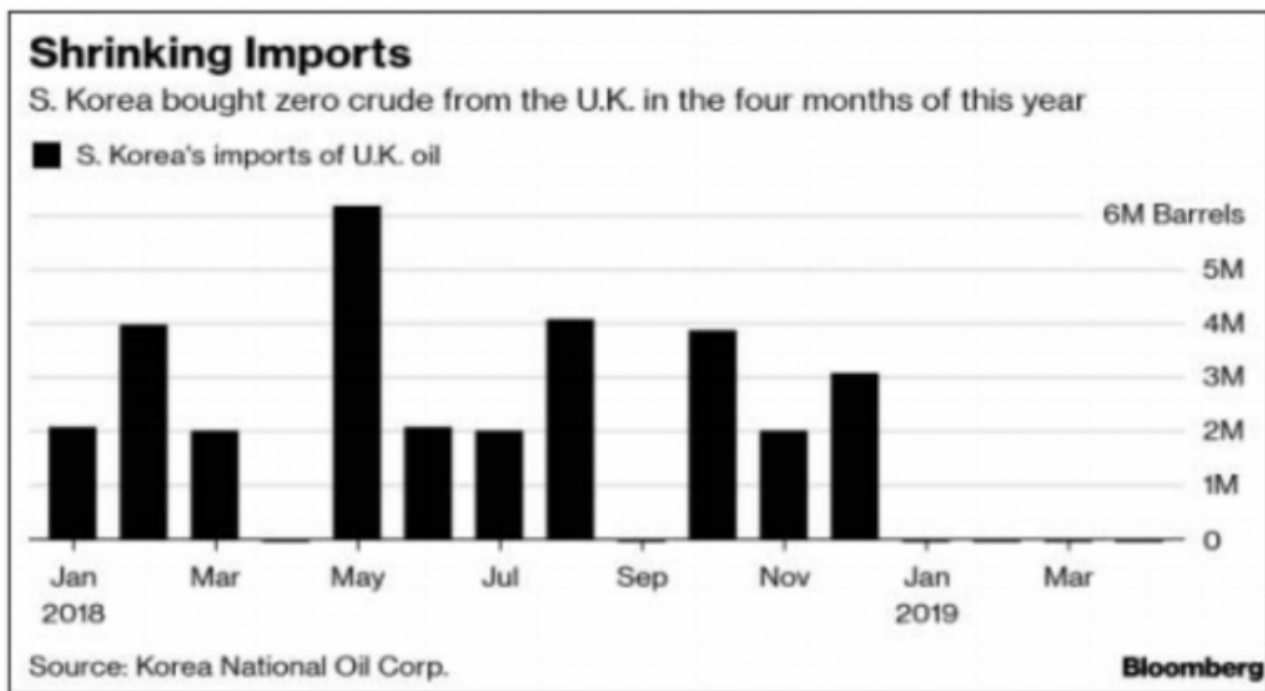
Prime Minister Giuseppe Conte surprised observers when he said on Wednesday, in response to the Commission, that a deficit of 2.1% was possible. But now, senior officials in the government of the right-wing League and the anti-establishment 5-Star say it could be even lower. Claudio Borghi, the League's economics chief, told Reuters 1.8% was possible if current trends continue. The main reason for the surprise trend is that two flagship government measures – an early retirement option and

a new means-tested welfare benefit – are proving less popular, and therefore less costly than expected. Taken together, it now looks as if the combined cost of the two policies will be €4bn (\$3.4bn) less than was set aside in the 2019 budget, Borghi said.

This estimate was confirmed by a government member closely involved in economic policy, who asked not to be named. Borghi said tax amnesties allowing people to settle disputes with the authorities by paying a limited sum had yielded more than expected, as had measures against tax evasion. Among these, the requirement from January this year that a copy of virtually all transactions must be transmitted electronically to the taxman produced squeals of protest from companies but has bolstered sales tax revenues. State coffers have also been swelled by out-of-court settlements with several large multinationals accused of tax evasion, the largest of them a €1.3bn deal with Kering, the holding company of fashion house Gucci.

A senior Treasury official declined to confirm Borghi's 1.8% 2019 deficit projection but said it now looked "possible" that the deficit would be 2% or lower. Public finance data so far this year has been encouraging. The central government deficit for the first four months was just €1.5bn above last year's equivalent figure – below the trend projected in Rome's 2019 Stability Programme, which forecasts that the full-year deficit would rise by €16bn. Tax revenues through April were up 1.0% year-on-year despite a stagnant economy, compared with an official full-year target of 0.6% growth. In addition, dividend payments by the central bank and state-owned enterprises will also exceed the projections in the Stability Programme by more than 0.1% of GDP, the Treasury said in documents sent to Brussels this month.

# UK oil's appeal returns for S Korea even as Brexit looms



After staying away for four months, South Korea is back in the market for North Sea crude. Hyundai Oilbank Co bought 2mn barrels of North Sea Forties crude for August delivery, a rare purchase this year, said traders who asked not to be identified because the information is private. The import was made after refiners in the Asian nation were given incentives to look beyond the Middle East for oil, and it followed a discharge of UK crude in May, the first such purchase this year. South Korea imported zero oil from the United Kingdom in the first four months of this year as the possibility of Brexit threatened to erode the appeal of the crude to one of Asia's top refining hubs. Britain's exit will mean the return of a 3% import tariff on Forties purchases that was waived by South Korea under a free-trade agreement with the European Union since 2011. While the Asian country is a steady buyer of UK oil, purchasing an average of over 2.6mn barrels a month

in 2018, refiners were reluctant to bring cargoes earlier this year as the government delayed renewing a freight rebate scheme that encouraged purchases from regions other than the Middle East. The very-large crude carrier Farhah is scheduled to load Forties crude from Hound Point on June 20 for delivery to Daesan in August, according to traders and shipping fixtures compiled by Bloomberg. Last month, supertanker Athenian Freedom also made a similar voyage, discharging a smaller cargo of the grade, ship-tracking data showed. Hyundai Oilbank operates a refinery in Daesan with crude processing capacity of 650,000 barrels a day.