Sea border talks between Israel and Lebanon on verge of imminent collapse

Why did Biden's energy envoy issue a poison pill that is sure not only to kill the deal but give Hezbollah a new reason to fight?

When President Biden appointed his personal friend and former Obama administration energy coordinator Amos Hochstein as his own energy envoy last summer, it seemed that the decades-old deadlock between Lebanon and Israel over their sea boundary, and potentially tens of billions of dollars in energy resources, might finally be resolved.

Hochstein was assumed to be trusted by the Israelis (he was born in Israel and served in the IDF in the early 1990s). He was perceived positively by some of the main Lebanese actors as a foe of a former U.S. envoy, Ambassador Frederic Hof, who had tabled a deal ten years before known as the "Hof Line" boundary that was widely seen in Lebanon as exceptionally unfair. And he came with a deep background in the complexities of the energy sector.

Perhaps most importantly, however, the Biden administration seemed hungry to claim a success in the Arab-Israeli conflict. Although a mutually agreed-upon sea boundary between Lebanon and Israel would fall far short of any Abraham Accord-type arrangement, such a deal would represent a UN-recognized boundary between a democratically elected Arab government and Israel. Given the extensive power of the armed Lebanese political party Hezbollah, which Israel considers its most formidable non-state enemy, the removal of a large offshore area from the regular military exchanges between the two sides onshore would also help to structurally diminish the prospects of another devastating war in the Middle East, something the Biden administration very much wants to avoid.

Unfortunately, eight months on, according to several senior Lebanese officials directly involved in the negotiations, the deal that Hochstein unveiled a few weeks ago in Beirut, one which apparently has Israel's blessing, falls far short of Lebanon's minimum acceptable position. As a result, the talks are in imminent danger of collapsing, perhaps in the coming weeks. Asked about this prospect, the State Department and U.S. Embassy in Beirut both declined to comment.

Hochstein, it seems, badly misunderstood the Lebanese side. First, in proposing that Israel and Lebanon share a potentially rich hydrocarbon field between them (known as the Qana Prospect after a town in South Lebanon), he has ensured that any deal is dead on arrival. No Lebanese political actor can muster the votes to essentially go into business with a state that is officially an enemy and regularly in military conflict with the most powerful political and military actor in the country, Hezbollah. Hochstein surely should know this (a similar offer he made at the end of the Obama administration was rejected by Lebanon), which is why it is especially confounding that after all of his discussions with different Lebanese parties, he still ended up proposing a "unitization agreement."

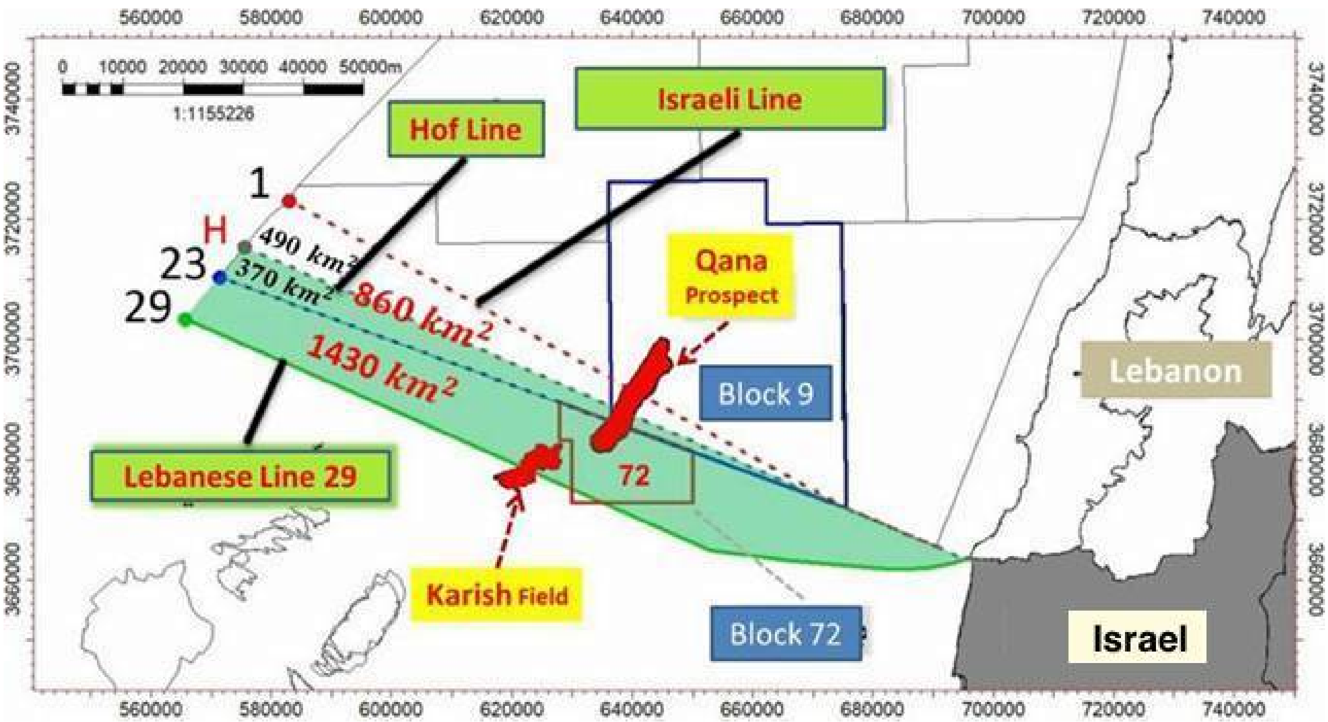
Was he lulled into thinking that Hezbollah's uncharacteristic quiet on the maritime issue over many years offered a rare opportunity for initiating material cooperation between Lebanon and Israel? If this was his assumption, he burned a golden opportunity consecrated when Hezbollah delegated the indirect negotiations to its two allies, Parliament Speaker Nabih Berri and President Michel Aoun.

Indeed, instead of using Hezbollah's self-removal to box it into accepting a deal seen as reasonable by the vast majority of Lebanese on legal, commercial and nationalistic grounds, rather than on imperatives related to an enduring struggle against Israel, Hochstein's field-sharing proposal played right into Hezbollah's hands. In fact, Hezbollah MP Mohammad Raad felt confident enough a few weeks ago, despite the country's mounting economic problems, to deliver the party's first fiery "redline" speech on the issue: "They tell us…it may turn out that you will need to share the gas field with the Israelis…We'd rather leave the gas buried underwater until the day comes when we can prevent the Israelis from touching a single drop of our waters."

Hochstein's "poison pill" deal, as some Lebanese are now calling it, also squandered a second opening the Lebanese side has offered since the fall of 2020 when the Trump administration resumed Washington's mediation efforts.

Although it is the source of much political intrigue and enmity in Beirut, for whatever internal reasons Lebanon opened the indirect talks on the basis of a new, extended boundary claim known as "Line 29" but without officializing it as countries are legally entitled to do given relevant changes in international legal rulings. As a result, and probably for the first time in modern maritime negotiations, the Lebanese team came to the table with a well-grounded “maximalist” position (Line 29) but without having actually deposited it de jure at the United Nations.

This goodwill concession over an additional 1,430 square kilometers of sea unofficially claimed by Lebanon prevented the likely early breakdown of talks by allowing Israel and private companies like Greece’s Energen and America’s Halliburton to legally move forward with exploitation activities over the last year and a half in the energy-rich Karish field, as well as its northern environs (including the southern part of the Qana Prospect). All of the former and some of the latter are outside of Lebanon’s current “minimalist” legal claim known as “Line 23.”



Of course, Lebanon’s restraint in not officializing its new “maximalist” Line 29 also gave Lebanese politicians a convenient way to accept a deal far less than what their own experts and lawyers have been saying for years should be granted to Beirut. After all, anything roughly comparable to

Lebanon’s current “minimalist” Line 23 could technically be spun as a victory.

Hochstein’s proposal, however, that Israel and Lebanon go into business together by sharing the Qana Prospect, decisively quashed any such maneuverability.

Should talks break down in the coming period, as now seems likely, at least two negative outcomes are almost certain. First, with the talks dead and the country sinking ever deeper into a “Deliberate Depression,” Lebanese leaders will have little to lose from officializing the “maximalist” boundary claim they are legally entitled to assert and then taking punitive action in multiple fora. This will put significant pressure on private companies operating in the (soon to be) “disputed” Karish field as well as the Qana Prospect.

Second, and perhaps most important, by offering an unworkable deal that leads to a negotiation breakdown, the U.S. and Israel will be handing Hezbollah a powerful new raison d’être as a resistance group by creating a “Maritime Shebaa,” in reference to the strategic strip of land between Lebanon, Syria and Israel that is occupied by Israel. Lebanon claims this land and considers military operations there, including by Hezbollah, as both legal and necessary in order to liberate it. The United Nations considers Shebaa to be part of Israeli-occupied Syrian land, but Syria itself supports Lebanon’s claim.

In short, a “Maritime Shebaa” will be far more evocative and unifying for more Lebanese – to Hezbollah’s distinct political benefit – than the issue of “Land Shebaa” since Lebanon’s case is much stronger in the water, just as the loss of potentially tens of billions of much-needed dollars to Israel will be daily more evident to everyone. This will likely lead to periodic military engagements in the area that negatively impact drilling and perhaps lead to deaths. At worst, this part of the Eastern Mediterranean sea could become the spark for a devastating new regional war.

Finally, at a time when Europe’s current and future gas needs have suddenly been destabilized following the Russian invasion of Ukraine, any further disruption of international supplies will only create more negative fallout. Just a few weeks ago, Israel and Energen announced that Karish had been hooked up to the national grid, with gas expected to flow in the coming months. Crucially, this extra capacity is now being seriously considered for export to the European Union via Egypt as early as September, according to Israeli and Egyptian officials. A combination of Lebanese legal actions and Hezbollah threats could substantially disrupt this schedule, however, not to mention harm Lebanon’s own hoped-for exploitation of its own blocks.

Given these dangerous consequences, the Biden administration should urgently consider whether proposing a different deal might better serve U.S., Israeli and Lebanese interests as well as regional stability. As it currently stands, there is a narrowing window for creating a stable sea boundary between Israel and Lebanon, one that must avoid, first and foremost, the “poison pill” of a shared field by trading Israel’s imminent exploitation of all of the Karish field for Lebanon’s exploitation of the Qana Prospect (which, it should be recognized, is less certain of producing hydrocarbons).

Such an arrangement would likely have to go beyond Lebanon’s current de jure Line 23 claim with a “zig-zag” around the Qana Prospect in order to be politically viable in Lebanon. This will undoubtedly be difficult for Israel to swallow since successive governments have long hoped Washington could extract for them a large chunk of the sea behind Lebanon’s current claim (as the “Hof Line” proposed a decade ago) and part of the Qana Prospect. But this compromise will also be difficult for Lebanon to accept. Beirut severely undercut its own position by officially sticking with a poorly grounded, “minimalist” boundary claim that failed to take advantage of international legal rulings over the last decade. Generations of Lebanese will have to bear some measure of loss for this.

For both sides, however, and for the U.S., all of these perceived losses should pale in comparison to the immediate and long-term benefits of finally having a stable maritime boundary between Israel and Lebanon, with the stable exploitation of valuable natural resources and the immediate strategic benefit of de-escalating – rather than inflaming – one conflict in a part of the world that simply can’t bear another.

Written by
Nicholas Noe

Sanctioning a nuclear foe is a studied endeavour

By Ana Palacio/ Madrid

Western governments must be clear about what sanctions can and cannot achieve – and how much sacrifice is acceptable

The grim scenes left behind after Russia's withdrawal from Bucha, where Ukraine accuses Russian troops of torturing and slaughtering civilians, have intensified pressure on the West to provide more offensive weapons to Ukraine and for Europe to ban Russian energy imports. But beyond the legitimate question of Europe's willingness to pay such a high price on Ukraine's behalf lies the stark reality that sanctions are hardly a silver bullet.

Calls for sanctions began well before the invasion. When Russia was massing troops near Ukraine's border, the Ukrainian government – and some American lawmakers – urged the United States and Europe to impose preemptive sanctions and offer Ukraine stronger security guarantees. But Western leaders demurred, arguing that sanctions would impede their ability to reach a diplomatic solution.

Of course, in geopolitics, as in life, hindsight is 20/20: we now know that those diplomatic efforts were in vain. What we do not know is whether preemptive sanctions would have motivated Russian President Vladimir Putin to rethink his plans, especially given that preemptive sanctions most likely would not have been as severe as the package of measures imposed after the Kremlin launched the invasion.

That package, after all, is the most comprehensive and co-ordinated punitive action taken against a major power since World War II. Overcoming initial reservations, the European Union joined the US in cutting off Russian banks from the arteries of global finance in a matter of days. The West also froze much of the Russian central bank's foreign-exchange reserves – an unprecedented step that surely triggered a red alert in China, with its $3.25tn in official reserves.

At first, the sanctions seemed to be having the intended effect. Within a week, the rouble had fallen by a third against the US dollar. Tumbling share prices forced the authorities to suspend trading on the Moscow stock exchange for nearly a month. Russia’s GDP is expected to contract by 10-15% this year.

But, even as the sanctions vise continues to tighten, Russian markets appear to be stabilising. Thanks to robust intervention by the authorities, the rouble is now trading close to its pre-war levels, and the stock market has recovered some losses. With the violence showing no sign of abating, Western governments must be clear about what sanctions can and cannot achieve – and how much sacrifice is acceptable.

Sanctions, first used in the Peloponnesian wars, have been an instrument of foreign policy for some 2,500 years. While their sophistication and complexity have increased over time, the basic mechanism has remained the same: inflict enough economic pain to force the target to change its behaviour.

But the most comprehensive analysis of sanctions use, conducted by researchers at Drexel University, found that the goals of sanctions were completely met in only 35% of cases. Where sanctions have had an impact, such as in South Africa during apartheid, they have been combined with other measures to advance a specific foreign-policy objective.

Moreover, even well-targeted sanctions and asset freezes have limited efficacy against autocracies. From North Korea to Iran, regimes shield themselves from economic pain through convoluted schemes to evade sanctions. Putin’s regime – including his cronies – has proved adept at ensuring that sanctions do not affect them.

Instead, it is ordinary Russians who will pay the price for today’s sanctions. And, contrary to the hopes of some in the West, this is unlikely to lead to Putin’s fall from power. Dictators are not particularly vulnerable to shifts in public opinion. And a revolution does not seem forthcoming, not least because of the work of the Kremlin’s increasing repression and powerful propaganda machine.

By “cancelling” Russian culture and mounting “unprovoked” attacks on the country’s economy, the Kremlin narrative goes, the West is trying to destroy Russia – just as Putin had long warned. Anyone in Russia who opposes the "special military operation" in Ukraine is a "traitor" or a "gnat," ready to "sell their souls."

With no independent media left to refute these narratives, Russians seem to be largely convinced. A recent poll by the Levada Center indicates that 83% of Russians approve of Putin's actions in Ukraine, compared to 69% in January – a relevant statistic, notwithstanding the complex realities in Russia.

While Putin's regime insulated itself from the pain of sanctions, Europe is facing high costs of its own. In today's economically interdependent world, sanctions often imply hefty costs for both sides. Though Western economies are not particularly dependent on Russia overall, Europe relies on it for a large share of its energy. So, while the US Congress votes to ban all Russian energy imports, EU leaders have targeted only Russian coal, not oil or gas.

A comprehensive ban on Russian energy imports to Europe would undoubtedly increase the pressure on the Kremlin. But such a decision must be approached with care. As German Chancellor Olaf Scholz recently warned, the economic and social costs of a sudden embargo would be massive. It will take time to wean Europe off Russian natural gas while also maintaining European social and economic stability.

Equally important, sanctions are an integral part of a broader negotiating strategy. Once the West has launched all its biggest economic weapons, it will have no remaining leverage. There must be room to escalate in response to Putin's actions, particularly the deployment of chemical or tactical nuclear weapons.

The West's arsenal in Ukraine is clearly limited. Sanctions are an important and powerful weapon, and they are putting some pressure on the Kremlin. But given their limitations – and the costs that must be borne by both the West and ordinary Russians – they must be used judiciously. Otherwise, Putin, who appears to believe his paranoid propaganda and oversees the world's largest nuclear arsenal, may conclude that he has nothing to lose. – Project Syndicate

• *Ana Palacio, a former foreign minister of Spain and former senior vice president and general counsel of the World Bank Group, is a visiting lecturer at Georgetown University.*

Germany faces $240bn hit if Russian energy cut off

Bloomberg / Berlin

Germany was warned it could face a €220bn ($240bn) hit to output over the next two years in the event of an immediate interruption in Russian energy supplies over the war in Ukraine.
Economic institutes advising the government in Berlin said on Wednesday in a joint forecast that a full halt in Russian natural gas imports would result in a "sharp recession."
"The decision to become independent from Russian supplies of raw materials is likely to remain valid even when the military and political situation calms down again," the report said. "That means part of the energy supply and energy-intensive industry must realign itself."
While the €220bn estimate is the equivalent of 6.5% of annual output, it's nowhere near the almost €890bn in borrowing Germany carried out in 2020 and 2021 to shield the economy from the fallout of the pandemic.
Amid mounting casualties and reports of brutal atrocities, Germany has been under increasing pressure to justify its resistance to an embargo on Russian gas – widely seen as the ultimate leverage against President Vladimir Putin.
Ukraine snubbed a request by Frank-Walter Steinmeier,

Germany's president, to visit Kyiv this week following criticism for his past support for the Nord Stream 2 gas pipeline from Russia to Germany and for his role when foreign minister in encouraging reconciliation and dialogue with the Kremlin.
Finance Minister Christian Lindner highlighted the huge challenges facing Germany as it tries to wean itself off Russian energy as quickly as possible while also pursuing a goal of climate neutrality by 2045.
"Our world will not be the same again as it once was," Lindner, who's chairman of the pro-business Free Democrats, wrote in a guest article for the Handelsblatt newspaper published on Wednesday.
"We need new business models, new ideas, new supply chains and new trade relationships," he said. "We have to reduce one-sided dependencies, be it when it comes to importing energy from Russia or exporting to China."
Berlin-based DIW, one of the institutes involved in the estimate, said on Friday that Germany could be in position to survive without Russian gas, which currently accounts for two-fifths of its gas deliveries. The group said a combination of high storage, bolstering other energy supplies and implementing programmes to lower demand could offset Russia as soon as this winter.
That's not a view that's generally shared by the business community, with industry leaders including Deutsche Bank AG Chief Executive Officer Christian Sewing warning of dire economic consequences if Russian supplies are severed.
Even absent a cutoff, Wednesday's report pared the outlook for Germany's economy, predicting growth this year of 2.7% and 3.1% in 2023. Those numbers compare with previous projections for expansion of 4.8% and 1.9%. Inflation will average 6.1% in 2022 – the most in 40 years.
"The shock waves from the war in Ukraine are weighing on economic activity on both the supply side and the demand side," said Stefan Kooths, vice president of the Kiel Institute for the World Economy. "Increasing prices of

critical energy commodities following the Russian invasion further fuel the upward pressure on prices.”

Germany’s industry-heavy economy faces considerable hurdles after the war sent energy prices higher while disrupting supply chains that had already been suffering from pandemic-related snarls. Inflation reached 7.6% in the first full month of the war – the highest level since records began after reunification in the early 1990s.

Companies are seen as particularly vulnerable because of Germany’s reliance on Russian gas. The ruling coalition last week agreed on an aid package for suffering businesses that includes loans, loan guarantees and capital injections, and is meant to help energy firms in particular.

Rising food costs push Arab world’s vulnerable to breaking point

Seated around the dining table, the family of four stares blankly at pictures of food sketched on the tablecloth. “Tonight,” the father says, “we’re coloring for dinner.”

The scene in a cartoon in a Moroccan newspaper speaks to the predicament facing the kingdom’s 37 million people and their peers across North Africa as the Muslim world marks Ramadan. Normally characterized by abstention broken by plentiful sunset feasts, the holy month for many this year is a confrontation with painful economic reality.

Global food costs are up more than 50% from mid-2020 and households worldwide are trying to cope with the strains on their budgets. In North Africa, the challenge is more acute because of a legacy of economic mismanagement, drought and social unrest that’s forcing governments to walk a political tightrope at a precarious time.

The Middle East and North Africa region’s net food and energy importers are especially vulnerable to shocks to commodity markets and supply chains resulting from Russia’s war on Ukraine, according to the International Monetary Fund. That’s in countries where the rising cost of living helped trigger the Arab Spring uprisings a little over a decade ago.

“Just how much more do we have to take?” asked Ahmed Moustafa, a 35-year-old driver and father of three in Cairo. He already had to sell some appliances to keep food on the table and cover other expenses, he said. “We keep being asked to cut and cut and cut, but there’s not much left to cut from.”

Home to large, mainly urban populations and lacking oil wealth, governments in Egypt, Morocco and Tunisia are struggling to maintain subsidies for food and fuel that have helped keep a lid on discontent.

The World Food Programme has warned that people’s resilience is at “breaking point,” while the United Arab Emirates moved to help ally Egypt, the world’s largest buyer of wheat, to shore up its food security and ward off potential instability. Egypt is also seeking IMF help.

Egyptian President Abdel-Fattah El-Sisi has tried to push ahead with reforms to revive the economy since coming to power in 2014 without fueling popular frustration. He sought last month to unite the nation behind inevitable sacrifices.

That includes shunning old habits of over-consuming — especially during Ramadan, which started on April 2. “People think that my dining table looks different,” El-Sisi said at March 23 event, urging the country of over 100 million to scale back during the Iftar meal that breaks the day-long Ramadan fast. But, “I am responsible before God,” he said.

Just weeks ago, Egyptian officials were quick to take pride in the fact that the economy of the Arab world’s most populous nation had weathered the pandemic and posted solid growth. Inflation, too, was under control.

That changed after Russia’s invasion of Ukraine on Feb. 24. Investors pulled billions of dollars from the country’s debt market and the currency sank 15%. Egypt banned exports of key foodstuffs including flour, lentils and wheat.

By early March, the war had pushed up wheat-flour prices by 19% and vegetable oils by 10%, the government said. That’s in a country where the average family income is about 5,000 pounds ($272) a month — roughly 31% of which is spent on sustenance, according to the state-run statistics agency.

Hilal El-Dandarawy, a retired state employee in the southern city of Aswan, said he’s now bracing for a surge in fuel prices and a tsunami of other increases. “We are living in a price crisis in goods and services, electricity, water and gas,” he said.

A worse situation is playing out in Tunisia, the nation that gave birth to the Arab Spring revolts and which has been mired in political turmoil ever since. The pounding the economy took as a result of that infighting among officials is now amplified thanks to COVID-19 and Russia’s war on Ukraine.

The central bank has warned that strong measures must be taken to reform the economy, but such efforts have been repeatedly blocked by the powerful UGTT labor union. Tunisia, too, is turning to the IMF amid warnings about the risk of default on its debt.

The dilemma for Ahmed Masoud, a 40-year-old merchant in the old city in the capital Tunis, brings those broader issues into sharper focus. He complained that the dearth of tourists, which had begun due to the pandemic, is now exacerbated by the Ukraine conflict.

Government assistance to offset the drop in business has barely made a dent and he can barely cover utility bills. “I think I’ll close my shop and look for another job,” Masoud said, with a resigned shrug.

Back in neighboring Morocco, things aren’t any better. While it managed to avoid the political upheavals of the Arab Spring in 2011, it hasn’t been spared on the economic front. Growth is expected to grind down to 0.7% this year, around a tenth its level in 2021. The central bank predicts inflation, meanwhile, will hit 4.7%, relatively modest compared with even parts of Europe, though still the highest since the 2008 financial crisis.

Managing the “exogenous shock” of the war may force Morocco to seek a precautionary liquidity line from the IMF, Governor Abdellatif Jouahri said. Morocco is facing “an unprecedented situation,” he added. The war in Ukraine is threatening to stoke public anger over prices and send the state’s financing needs to historic highs.

Grains merchant Mohamed Bellamine, whose shop in Rabat’s Rahba market would normally be heaving with shoppers in the days before Ramadan, sees the impact clearly. He gestures to the empty street with a sigh: “Usually you wouldn’t even be able to find a place to park.”

Why Japan will struggle to do without Russian energy

After reports of alleged war crimes in Ukraine by Russian forces, Japan said it will follow the European Union and Group of Seven countries and ban imports of Russian coal. Prime Minister Fumio Kishida said the country will secure alternative sources of energy in a speedy manner, although no time frame was given. But shifting away from Russian fuel will be easier said than done for resource-poor Japan.

WHAT SANCTIONS HAS JAPAN IMPOSED ON RUSSIA?
Ever since the invasion of Ukraine in late February, Japan has joined the US and European countries in sanctioning Russia. It has imposed export controls, including on semiconductors and has sanctioned some oligarchs and their family members. Russia is barred from issuing government bonds in the country. Japan is also taking in Ukrainian refugees.

WHAT ABOUT ENERGY?
Japan had drawn a line there, as it has few resources of its own. Russia supplies Japan with 13 per cent of its coal for power generation, known as thermal coal; 8 per cent of the coal used in steelmaking and 9 per cent of its liquefied natural gas. Japan has stakes in the Sakhalin-1 and 2 oil and gas projects in Russia, which Kishida has called “an extremely important project for energy security.” But on Apr 8 trade

minister Koichi Hagiuda said Japan “will aim to stop importing coal from Russia” as a longer-term goal.

WHY THE CHANGE?
Japan was standing with its G7 partners, who expressed outrage over reports of atrocities committed by Russian forces in Ukraine. “There needs to be accountability for such inhumane acts,” Kishida said, adding that he believes Russia committed war crimes in Ukraine.

WHAT ARE THE CHALLENGES FOR JAPAN?
The global market for thermal coal is already tight, and with the EU also phasing out Russian coal, competition from other countries will increase, said Ali Asghar, an analyst at BloombergNEF. That means prices could rise, which could then translate into even higher electricity bills. Energy-intensive industries such as chemical manufacturers would be especially hard hit, and some might look for other sources of fuel.

Longer term, a drive to cut Japan’s dependency on coal could accelerate the transition to renewable energy and the restarting of nuclear power plants that were taken offline following the 2011 Fukushima disaster, said Isshu Kikuma, another analyst at BloombergNEF.

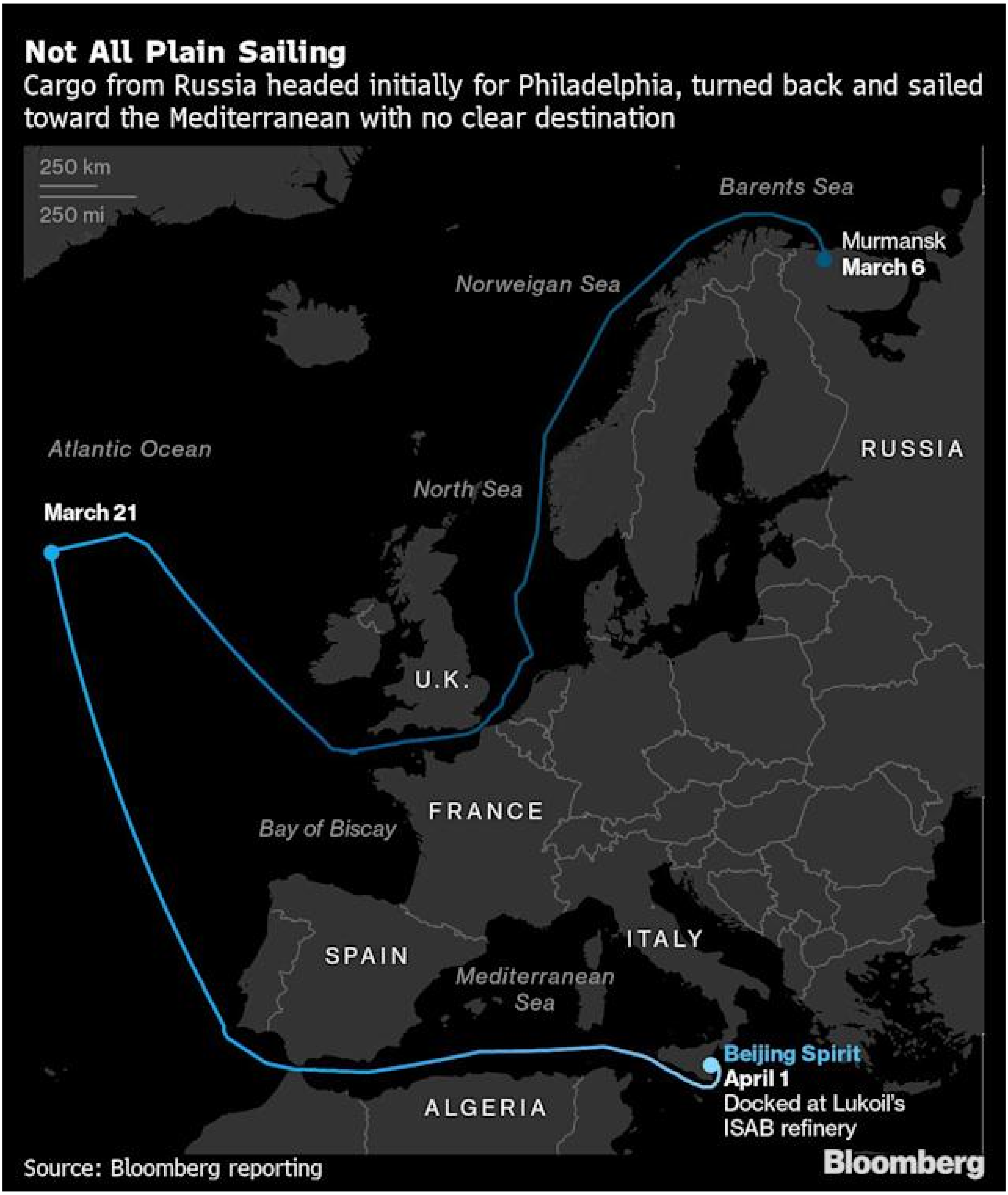
That said, neither offer immediate solutions. Hagiuda, the trade minister, said Japan will, over time, use energy conservation, other power generation and supplies from alternative countries to reduce its dependency on Russia.

CAN OTHER SUPPLIERS REPLACE RUSSIAN COAL
Not exactly, as Japan will have to take into account the variety of coal grades. Some power plants and furnaces are most suited for Russian coal and can’t easily replace it with supplies from Australia or Indonesia.

There are also logistical complications when it comes to quickly pivoting to new sources, as shipments may come from producers that are farther away or there may not be vessels readily available.

WHAT ABOUT THE OTHER FOSSIL FUELS?
Japan is facing a pretty tight supply situation. Tokyo hasn’t announced any intention to walk away from its energy projects in Russia, as UK oil majors BP and Shell have said they would do. It also has avoided any direct action on Russian oil and gas so far, in line with the EU.

Russian oil exports forced to take longer journeys to find buyers



Russia’s crude oil exports, a vital wellspring of income for Vladimir Putin’s regime, are giving no indications that they are beginning to crumble in the midst of the vanishing of European purchasers. Shipments in the seven days to April 8 proceeded with a bounce back that started the earlier week, after reliably falling since Russia’s Feb. 24 invasion of Ukraine. That is as per Bloomberg News’ first tracker of all crude leaving the nation’s export terminals on ocean-going tankers. Week by week shipments hit very nearly 4 million barrels every day in the first full week of April, the most significant level seen up until this point this year. That was up by just about one quarter over the earlier week.

Boosted by a combination of higher export volumes and an increase in the duty payable per barrel in April, the Kremlin earned an estimated $230 million from seaborne crude exports in the week to April 8, based on calculations of the amount payable on each cargo that left Russian ports that week.

And the same pattern holds for the export duty revenues that the Russian state receives on overseas shipments. In the week to April 8, they jumped back to equal their highest level this year, after falling in each of the two previous weeks.

But while overall export volumes are shrugging off import bans and self-sanctioning, there is one area where a clear impact is already being seen — the distances that cargoes are being shipped to find willing buyers.

At the same time, there are signs traders are starting to work on ways to get more crude to Asia, where buyers are willing to take advantage of big discounts on Russian oil. Increasing numbers of Very Large Crude Carriers, supertankers able to carry two million barrels, are loading Russian crude from smaller ships in the Mediterranean Sea and elsewhere.

European oil majors including Shell Plc and TotalEnergies SE, which normally run tanker loads of Russian crudes through their refineries every week, have said they will stop buying out of revulsion over the war in Ukraine. The U.S. has stopped buying all Russian oil and the U.K. will follow suit by the end of the year. The early data suggest it's having an impact.

Before the war, Russia was the world's second-largest oil exporter, behind Saudi Arabia, shipping almost 5 million barrels of crude oil every day with a spot-market value of more than $500 million. Some of that crude is delivered by pipeline directly to refineries in Europe and China, but about 60% moves by sea. In the coming months, we plan to systematically track the flow of seaborne crude from Russia, providing week-by-week insight into how the war is affecting those flows, and showing the impact on Russia's petro-reliant economy.

Disappearing Markets

Traditional markets in Northwest Europe for Russia's Baltic Sea exports are disappearing fast, as buyers self-sanction Moscow's crude. Half of the ships loading at the northwest Russian ports of Primorsk and Ust-Luga last week are either heading to Asia, or not showing final destinations. Most of that second group are signaling destinations such as Gibraltar or Malta, suggesting that they may either be heading to Asia via the Suez Canal or to conduct ship-to-ship transfers in the Mediterranean (see below). The Mediterranean is starting to become a preferred location for transfers of cargoes of Russian crude from smaller vessels onto giant intercontinental supertankers for shipment to Asia.

Exports from the Black Sea terminal at Novorossiysk soared in the past week, surging to just under 800,000 barrels a day, more than three times the volume shipped in the previous week, when a backlog of vessels waiting to load built up off the port. Most shipments from Novorossiysk are staying within the Mediterranean region, which includes the Black Sea ports of Bulgaria and Romania, where three of the seven cargoes have discharged.

Of 21 Urals cargoes loaded from Primorsk, Ust-Luga and Novorossiysk in the week to April 8, six are heading to India, four have unknown destinations and the remainder look set to deliver their cargoes within Europe, according to their destination signals. Shipments from the Arctic port of Murmansk are still finding outlets in northwest Europe, with all three cargoes that loaded in the week to April 8 heading either to Rotterdam in the Netherlands or Wilhelmshaven in Germany, according to their destination signals.

Shipments from Russia’s three Pacific Ocean terminals, dominated by exports of ESPO crude from Kzmino, are almost all now heading to China, with only occasional cargoes going elsewhere. Perhaps the biggest initial impact of the import bans and self-sanctioning of Russian crude is to be seen in the very long and unusual journeys that some cargoes are beginning to make.

Cargoes are being transferred from the ships that call at Russian terminals onto much bigger vessels in order to benefit from economies of scale on the long voyages to China and India. A supertanker, known in industry speak as a Very Large Crude Carrier, or VLCC, can be used to accumulate the cargoes from three smaller vessels, known as Aframaxes, that often load west Russian barrels. Vitol Group, the world’s biggest independent oil trader, booked a supertanker, Searacer, to load from Denmark’s Skaw, a popular location for ship-to-ship transfers of Russian cargoes.

Russia-Ukraine War Could Delay Europe’s Decarbonization Plans for a Decade “The Whole Situation is Very Sad” – Energy Expert

8 April 2022
Roudi Baroudi

DELPHI, Greece: Russia's invasion of Ukraine could force Europe to delay key decarbonization efforts for up to a decade, a prominent regional energy expert warned on Friday.

"They don't have many choices left," said Roudi Baroudi, CEO of Doha-based Energy and Environment Holding, an independent consultancy. "Unless some European countries pull out all the stops, much of the continent could soon be looking at crippling shortages, prohibitively high prices, or both."

Now that Europe is moving to reduce imports of Russian oil and gas, he explained, some of the measures expected to reduce carbon emissions may have to be put off "for eight, nine, maybe ten years", as would planned shutdowns of nuclear generating stations.

"The European Union will need to provide the necessary permissions in some cases, plus financing in others," he said. "Eight to ten nuclear plants and as many as 30 coal stations slated for decommissioning will have to remain online to keep up with electricity demand, and several projects required to replace Russian gas will need to be accelerated with additional funding and/or guarantees."

If and when gas stops flowing through pipelines from Russia, Baroudi told the conference, "it cannot be replaced by simply ordering more liquefied natural gas from Qatar, the United States, and/or other producers. Europe doesn’t have enough receiving facilities to re-gasify such huge amounts, which is why efforts to expand capacity in Germany and the Netherlands are so urgent.”

Coordinated releases of strategic oil reserves by the US and other countries are helping to contain upward pressure on crude and other energy prices, he said, but reasonable levels “cannot be maintained unless more supply makes it to market and that means oil producers –primarily OPEC but others as well – have to start pumping more.”

On yet another front, “Spain has both spare LNG receiving capacity and an undersea pipeline for imports of gas from North Africa – but very little of that can reach the rest of Europe unless and until a new pipeline connects the Iberian Peninsula to the rest of Europe via France,” said Baroudi, who has been advising companies and governments on energy policy for decades. “Paris has recently voiced new openness to that idea, but the EU can and should do more to facilitate it. It should also do more to establish an agreed route for another pipeline to carry gas from the Eastern Mediterranean to Greece and/or Turkey.”

Baroudi also argued that the EU would be wise to ensure adequate capital flows into renewables such as wind and solar. “We might have to retain fossil fuels longer than we had planned, but that’s no reason to stop funding a cleaner future,” he said. “In fact it’s a reason to move as quickly as possible.”

“The whole situation is very sad,” he added. “Ever since the Paris Agreements of 2015, and especially since the Glasgow climate summit last year, Europe had been on the right track to be ready for a decarbonized economy. But now those plans are temporarily being pushed to the back burner. Apart from the lives being lost in the fighting, the energy and economic implications will mean severe hardships across the continent and even beyond, especially for lower-income people, who are the most vulnerable as rising energy prices cause the cost of food to spike as well. So there will be hunger, too. And much of the cause is due to repeated delays in the diversification of Europe's sources of supply. Now it finds itself scrambling to prevent an economic disaster."

Is Putin's war driving up commodity prices?

By Daniel Gros/ Florence

• Understanding why prices are high is essential to devise the right policy response

Sky-high commodity prices have the world reeling. Inflation has reached 7% in both the United States and in Europe – a level unseen for decades – with European consumers facing losses of purchasing power equivalent to those caused by the oil shocks of the 1970s. The economic recovery from the pandemic is now at risk of stalling, and the spectre of stagflation looms over developed countries from the European Union to Japan.

One might assume that Russian President Vladimir Putin’s war in Ukraine is the primary cause of spiking energy and commodity prices. Russia is, after all, the world’s largest exporter of oil and petroleum products, and, together with Ukraine, it accounts for a third of global wheat and barley exports. But there are two compelling reasons to doubt this explanation.

First, the war has not led to large-scale interruptions in the supply of oil, gas, or other important commodities (at least not yet). Of course, the mere expectation in markets that a shortage is imminent can be enough to drive up prices. But such an expectation so far seems to have little basis.

Yes, wheat deliveries from Ukraine have been halted, and this year’s harvest is in doubt, because Ukrainian farmers cannot work their fields. But Ukraine produces only about 3% of the world’s wheat. Russia, meanwhile, produces 11%, and both production and exports remain uninterrupted. Moreover, while Russia has threatened to cut off gas supplies to “hostile countries” unless they pay in roubles – an ultimatum Europe has so far rejected – there is little indication that Russian oil or other commodities will be withdrawn from the market. For most commodities, the war should not affect supply.

A second reason to doubt that the war is responsible for today’s high commodity prices is that most of the price increase happened before the invasion. The International Monetary Fund’s commodity-price index remains below its 2008 peak, standing close to levels seen in 2012-13. And spot prices for gas are in line with their “pre-war” level from the end of last year, when few expected a full-scale invasion of Ukraine.

While oil prices have risen since the start of the war, the increase has been a modest 20%. Although natural-gas prices have been attracting more attention, because they directly affect household heating bills, oil prices are much more important for Europe, because the value of its oil imports is traditionally about five times higher.

If the Ukraine war is not to blame for high energy and commodity prices, what is? One contributing factor might be what economists call the “hog cycle.” The term stems from a phenomenon observed in the Danish hog industry: farmers would rear more animals when prices were high, thereby producing a glut, which reduced prices the following year, causing farmers to rear fewer animals, which then sold for higher prices.

Likewise, when commodity prices are high, there is a larger incentive to invest in exploration and mining. But when they are relatively low – as they have been in recent years – the profitability of such investment declines, leading to reduced production and higher prices in later years. And, indeed, the International Energy Agency has provided powerful evidence that years of under-investment in exploration have reduced production capacity.

The fall in demand in 2020, caused by the Covid-19 recession, masked this development. But when Europe, Asia, and the US began to recover strongly, there was not enough spare capacity to meet rising demand. This put upward pressure on prices throughout 2021.

Another factor contributing to high energy and commodity prices might have been the rise of environmental, social, and governance (ESG) investing, which has increasingly led investors to refuse to finance fossil-fuel exploration and development. They hope that denying the fossil-fuel industry capital will discourage production and spur progress toward a green economy based on carbon neutrality.

This phenomenon has been concentrated in the West. While upstream investment by the major Western oil and gas firms fell by nearly half between 2015 and 2020, such investment remained stable among Middle Eastern producers and rose in China. All of these producers have the same price incentives, but Western firms are the ones that are subject to ESG

guidelines.
Understanding why prices are high is essential to devise the right policy response. If the war was responsible for high prices, it would be politically difficult to refuse price caps and generous compensation to help consumers and enterprises cope. Moreover, one could hope that prices would fall when the war ends.
But if high commodity prices are the result of a hog cycle and ESG pressures, they are sending an appropriate signal to markets; in fact, ESG rules are supposed to lead to higher prices. In this case, the economy needs to adjust to a new level of scarcity – and consumers should not be compensated for their lost purchasing power.
Of course, these explanations are not mutually exclusive; all three factors – the hog cycle, ESG standards, and the war – are probably contributing to higher commodity prices. But price trends before the invasion suggest that the war is a minor factor.
This is not the most politically convenient explanation: if the war is the culprit, it absolves consumers and government of the responsibility to adjust, with the former receiving compensation and the latter running higher fiscal deficits. But it is the more economically sound explanation, and thus the one that should dictate a responsible policy response, despite the pain that adjustment might bring. – Project Syndicate

• *Daniel Gros is a member of the board and a distinguished fellow at the Centre for European Policy Studies.*

US and EU reach LNG supply deal to cut dependence on Russia

Bloomberg / Brussels

The US and the European Union will push to boost supplies of liquefied natural gas to European countries by the end of 2022 in a bid to displace Russian gas, a political framework that now leaves companies to sort out the details.
Under the agreement, Europe will get at least 15bn cubic metres of additional LNG supplies by the end of the year, though it’s not clear where it will come from. Member states will also work to ensure demand for 50bn cubic metres of American fuel until at least 2030. The aim is to work with international partners to help the continent wean itself off Russian gas, which accounts for about 40% of Europe’s needs.
“We’re coming together to reduce Europe’s dependence on Russian energy,” US President Joe Biden said at a joint press conference with European Commission President Ursula von der Leyen, who added that 15bn cubic metres this year “is a big

step in that direction.”
Europe is trying to diversify its energy sources in a bid to starve Russia of the revenues it needs to fund the war in Ukraine. But that’s a mammoth task. Russia ships about 150bn cubic metres of gas to Europe via pipelines every year, and another 14bn to 18bn cubic metres of LNG. That means any disruptions to flows of pipeline gas from Russia would hard to cope with.
“It’s a start, but relatively small compared to the overall supplies from Russia,” said Jonathan Stern, a research fellow at the Oxford Institute for Energy Studies. “All contributions will be welcome but the task is huge.”
The issue is critical as Russia is the EU’s biggest gas supplier. The EU also relies on the country for the biggest share of its coal and oil imports, and has struggled to shift its energy policy away from Moscow. The details of how the plan works is now in the hands of energy companies, with American LNG shippers and German buyers set to meet next week in Berlin to hash out possible deals.
The US has already been providing more LNG to Europe, with shipments doubling to record 4.4bn cubic metres in January and a similar level in February. Supplying another 15bn cubic metres could be feasible as long as Europe continue to pay a premium to cargoes compared to Asian buyers. A significant boost to global LNG supplies will only come from 2025, when new projects are scheduled to come online.
It’s also unclear whether the supplies would be coming from additional production or from cargoes being redirected from other regions. A senior US administration official who briefed reporters on the plan Friday couldn’t say how much of the additional 15bn cubic metres would be provided by US suppliers versus suppliers in Asia or elsewhere.
Currently, European buyers are competing with Asian countries for the world’s limited supply of LNG cargoes.
Germany also unveiled its own plan to dramatically reduce Russian fossil fuel imports and make the country almost completely independent of Russian gas by the middle of 2024.

Critics say the plan is impossible to achieve as Germany is Europe’s biggest buyer of Russian gas.

The US-EU aspirational pact is light on detail. The senior US administration official said permitted US projects can meet the 50bn cubic metres of demand, and added that Europe’s pledge to try to meet that demand might nudge planned US facilities toward a final investment decision.

The US worked with partners in Asia this winter to secure supply but is now working to build up stocks for next winter. The effort will require a lot of diplomacy, another official told reporters.

The European Union wants to replace this year nearly two-thirds of its total gas imports from Russia after the war waged by President Vladimir Putin forced an unprecedented re-think of the bloc’s energy strategy. The new energy strategy, outlined by the European commission earlier this month, aims to replace 101.5bn cubic metres of Russian gas in 2022 by tapping alternative supply sources, building up renewables and boosting energy security. It also seeks to ensure 50bn cubic metres in LNG from new suppliers.

Europe’s ability to import more LNG is constrained by the current regassification capacity, number of terminals and interconnectors, according to an EU official, who asked not to be identified commenting on private talks.

Still, the continent is in a much better place than earlier this year, with mild weather and more LNG imports helping bring inventories level back within the 5-year range, after falling to the lowest in more than a decade. European gas prices have fallen more than 60% since reaching a record earlier this month.

Qatar will stand in solidarity with Europe, won’t divert gas contracts to other customers: Minister of State for Energy Affairs

Doha: Minister of State for Energy Affairs HE Saad bin Sherida Al Kaabi stressed that Qatar will stand “in solidarity with Europe” and will not divert gas contracts to other customers, even if it means losing on possible financial gains.

The Minister told CNN that even though Qatar’s LNG contracts with Europe and the UK were divertible ones, Qatar’s commitment to Europe means “we’re not going to divert contracts and will keep them in Europe, even if there is financial gain for us to divert away, we would not do that,” before adding “that’s in solidarity with what’s going on in Europe.”

On the possibility for Europe to replace Russian gas, Al Kaabi said that replacing Russian gas is “not practically possible.” He highlighted that Russia supplies 30 to 40 percent of Europe’s gas needs, something the continent cannot replace.

The Minister of State rejected imposing sanctions on Russia’s energy sector, adding that Qatar was not choosing sides in the Ukrainian crisis. He added that it was to keep the energy sector out of politics, due to the negative ramifications doing so would have on development. He added that doing so could affect prices the way it did and cause a lot of volatility.

He noted that the Ukrainian crisis had a negative impact on energy transition, highlighting that the use of coal has reached its highest levels ever, as all parties involved are prioritizing their energy security ahead of any long-term gains they are trying to reach. HE the Minister maintained however that the energy sector could do that in a responsible manner.

Commenting on the role the US could play in the future of energy production, he said that the US is certainly one of the biggest suppliers, given the abundance of LNG the country has.

On the prospects of Europe buying fuel jointly from large suppliers, the Minister said that he is yet to see a decision regarding that, noting that this never happened in the past. His Excellency added that many parties in Europe were speaking with Qatar and other large LNG producers because they want to diversify their supply.

On whether Qatar could turn its back on its Asian partners, the Minister of State for Energy Affairs said that QatarEnergy was the biggest company in terms of signing long-term contracts with partners in Asia, with many of those agreements signed over the past three years.

He also told CNN that there is a desire to diversify the buyers of Qatari gas, revealing that the plan is to have half of the customers of the Qatari gas be located to the East of the Suez Canal, with the other half to its West. Currently, 80-85% of Qatar gas buyers are in Asia, with 15-20% of customers located to the West of the Suez Canal.