

Japan LNG imports hit post-Fukushima low as reactors restart



Japan's liquefied natural gas imports in the first half of the year dropped to the lowest since the 2011 Fukushima nuclear disaster as reactor restarts and mild weather cut demand for the fuel. The world's biggest buyer of LNG purchased 38.59mn tonnes in January-June, down 8.2% from the same period last year, the biggest semi-annual drop since 2009, according to preliminary data from the ministry of finance. The slump in imports comes amid an uptick in atomic and renewable output, and as mild summer temperatures limit seasonal demand. After the Fukushima triple meltdown, Japan LNG imports jumped nearly 20% as the nation's nuclear fleet was forced to shut amid safety reviews. But from there gas demand has stagnated, and as more reactors slowly return and renewable generation grows, stalwart LNG buyers like Kyushu Electric Power Co and Kansai Electric Power Co have limited spot purchases. "We are forecasting a general decline in LNG usage as more nuclear plants restart and as more solar and wind capacity comes

online,” Zhi Xin Chong, a Singapore-based analyst at IHS Markit, said by e-mail. “The main uncertainty is always weather. In Japan, summer thus far has also appeared to be fairly mild.” Utilities have restarted nine of the nation’s 37 operable reactors under post-Fukushima safety rules, producing 19.7 terawatt-hours worth of electricity in the first three months of the year. That is almost 3-fold the atomic output over the same period last year. Despite the drop in LNG imports, Japan is still likely to retain the title as world’s biggest buyer of the fuel. China – the world’s second largest buyer – imported 23.9mn tonnes in the five months through May, putting it on track to import more than 57mn tonnes compared with projected 77mn tonnes for Japan.

Will ECB walk or just talk as rate circus comes to Europe?



BRUSSELS (Reuters) – The global march towards lower interest rates reaches Europe this week with the European Central Bank expected at least to signal easier monetary policy, while Turkey’s new banking chief is seen taking an ax to the country’s rates.

Slowing global growth, increased protectionism and in some cases weak domestic data have persuaded major central banks to loosen monetary policy, with a rate cut more or less inked in for the U.S. Federal Reserve at the end of the month.

The ECB, whose Governing Council meets on Wednesday and Thursday, said last month that euro zone interest rates would remain at present levels at least through the first half of 2020 – an extension from previous period of until the end of 2019.

Two-thirds of economists polled by Reuters expect the ECB next week simply to change its guidance, such as for rates to be at “present or lower levels” ahead, with a cut of the deposit rate to an all-time low of -0.50% at its September meeting.

"I think for now, they'll only get to point where they consider a rate cut is on the table and then do it later. The ECB has a long history of moving very slowly," said Capital Economics' senior Europe economist Jack Allen-Reynolds.

But some economists believe the ECB will have to do more.

Carsten Brzeski, chief economist for Germany at ING, says he thinks of the chances of just words as 51%, versus 49% for action.

"Draghi has surprised us more often in terms of being ahead of the curve, of over-delivering, but it's very hard to say. I think there will be a tough discussion," he said.

If the Fed starts cutting rates and the ECB does not send out an extremely dovish message, the euro could strengthen, although at Friday's level of \$1.12 it is hardly near the pain barrier for EU exporters.

Commerzbank is one bank that predicts the ECB will act, cutting by 20 basis points

"Maybe they want to prevent an appreciation (of the euro) and, like the U.S., they want to prolong the upswing. The data though is not as bad as you might think," said economist Bernd Weidensteiner.

Unemployment in the euro zone is, at 7.5%, at its lowest level since July 2008, while industrial production and exports improved in May, albeit after declines in April.

In the United States, the case for a rate cut is ostensibly even thinner, with strong labor markets despite U.S.-China trade tensions and factory activity strong – at a year high in the mid-Atlantic region.

Yet markets were by Thursday expecting a half percentage point cut in U.S. rates at the end of July, double the reduction they expected just a day earlier. The action has been sold as

insurance against any negative development. U.S. economic growth is expected to have cooled in the second quarter, set to be confirmed in a first GDP estimate on Friday.

TURKISH AX, NEW BRITISH PM

In Turkey, the case for action is more clear-cut given a recession-hit economy. Economists polled by Reuters expect the central bank under new governor Murat Uysal to reduce the current 24% interest rate by an average 250 basis points.

It will follow Indonesian and South Korean rate cuts on Thursday and the Reserve Bank of Australia, which reduced interest rates in both June and July.

The trend leaves only the Bank of Canada, buoyed by higher oil exports and consumer spending, and the Bank of England as outliers, though the latter could change.

Arch-Brexiteer Boris Johnson is expected to be named as Britain's next Prime Minister on Tuesday, raising the chances of a 'no deal' Brexit and potentially lowering growth forecasts.

Only 27 of 76 economists polled now expect an increase to British interest rates before the end of next year, compared to 36 of 69 last month. On the flip side, nine of 76 were expecting a cut by end-2020 compared to five of 69 in June.

"We don't necessarily share the view that the UK economy will see a substantial pick-up in growth even in a smooth Brexit," Royal Bank of Canada, a primary dealer of British government bonds, said.

Reporting by Philip Blenkinsop; Editing by Toby Chopra

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<https://www.reuters.com/article/us-global-economy/will-ecb-walk-or-just-talk-as-rate-circus-comes-to-europe-idUSKCN1UE1LU>

Venti di guerra scaldano il Mediterraneo. La soluzione: un arbitro internazionale



Tra confini contesi e tesori energetici. Gli Usa non bastano più. Baroudi: “Vanno applicate legge e tecnologia”

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Non c'è pace nel Mediterraneo dell'Est. Pressoché ignorata dai giornali italiani è in corso una escalation militare nella zona: la marina di vari Paesi, dalla Turchia, alla Russia, agli Usa incrocia al largo della Grecia, della Turchia, di Cipro, del Libano. È qualche giorno fa la notizia di una imponente manovra della marina turca nell'Egeo e nel Mediterraneo dell'Est, con 131 navi, 55 aerei, e 25 mila soldati, che ha portato a tensioni con gli altri paesi presenti nella zona con le loro unità e i loro marinai. Crocevia del Grande Gioco nel Mediterraneo, la zona sembra sempre più calda e qualcuno prova a lanciare l'allarme al Segretario Generale delle Nazioni Unite, António Guterres. L'imprenditore dell'energia, nonché personalità di spicco nel mondo politico-diplomatico mediorientale, Roudi Baroudi, ha lanciato un appello preoccupato proprio a Guterres. Dopo aver rilevato l'escalation militare nella zona, Baroudi spiega che l'oggetto delle tensioni sono i confini marittimi tra i paesi

confinanti, e in particolare i nuovi giacimenti di idrocarburi scoperti nell'area. Pensiamo solo al giacimento Leviathan, al largo delle coste Israeliane: quasi sei miliardi di metri cubi di gas, o al giacimento Zohr, al largo dell'Egitto, di nove miliardi di metri cubi stimati. A fronte di queste e altre scoperte, e della ricchezza immensa dei giacimenti offshore ivi presenti (sono 231, tra petrolio e gas, un numero impressionante), c'è un coacervo di paesi che non hanno confini marittimi stabiliti con certezza: parliamo di Cipro, Egitto, Israele, Libano, Siria, e Turchia, e il problema ulteriore che alcuni paesi accettano la convenzione internazionale per il diritto marino (Unclos), altri no. E il risultato che quasi il 70 per cento delle dispute marittime della zona sono, di fatto, insolute. Date le tensioni politiche ed economiche in gioco la situazione è davvero rischiosa, per tutti, rileva Baroudi nel suo appello. Come risolvere la situazione? Baroudi propone a Guterres di creare uno «Special advisor» che si occupi del problema, ma soprattutto «di lanciare un processo di mediazione dell'Onu. Va notato che, mentre il ruolo degli Stati Uniti da solo si è rivelato insufficiente, il coinvolgimento in un'operazione patrocinata dalle Nazioni Unite sarebbe indispensabile. In particolare per limitare le tensioni tra Libano e Israele lo sforzo Usa è uno dei requisiti per il successo». Ma quale sarebbe la strada per definire una buona volta i confini marittimi, epicentro di tutte le tensioni della regione? Baroudi propone un «approccio integrato, multidisciplinare» fatto di «buona legislazione e buona scienza». «Le nuove tecnologie di geolocalizzazione e mappatura sono così affidabili che qualsiasi procedimento arbitrale internazionale può valersi di un terreno comune scientifico». E sul versante legale, Baroudi afferma: «La Corte di giustizia internazionale che è il principale organo giudiziale delle Nazioni Unite, ha affermato in molti casi che le regole di delimitazioni marittime contenute nell'Uclos riflettono la legge internazionale, quindi sono applicabili in generale. Questa giurisprudenza offre una guida autorevole per gli stati



costieri, nel risolvere le loro dispute».

http://www.ilgiornale.it/news/mondo/venti-guerra-saldano-mediterraneo-soluzione-arbitro-1712245.html?mobile_detect=false

Incoming government raises Papua LNG doubts



Oil minister Kerenga Kua has pledged to re-examine controversial deal following the collapse of scandal-hit government

The newly elected Papua New Guinea (PNG) government wasted no time in announcing it will review the recently signed Papua

LNG agreement—as well as the country's wider hydrocarbon regulatory framework—fuelling speculation the project will face extended delays. The announcement was made barely a month after prime minister Peter O'Neill was forced to resign from office following a parliamentary vote of no confidence. Details from a report carried out by the Ombudsman Commission revealed O'Neill had failed to consult his government on a \$1.2bn loan, unconnected to LNG projects, issued by Swiss bank UBS five years previously. Former finance minister James Marape, who had earlier defected from O'Neill's administration over the gas expansion project, was also named in the report. Nonetheless, he was unanimously elected by parliament to be the new prime minister. The timing of the political fallout could scarcely be worse for Papua LNG's partners. In April, the government finally signed an agreement to begin front-end engineering design (Feed) development on the \$13bn expansion project, which is projected to double LNG exports. A 7.5 magnitude earthquake in February 2018 had already delayed the agreement. Under the arrangement, the project partners would target around 1bn bbl oe of gas from the Total-operated Elk-Antelope fields, in the Eastern Highlands, which will then be fed into ExxonMobil's LNG plant at Caution Bay. A further two trains of 2.7mn t/yr are planned to be added to the facility, with a final investment decision (FID) expected to be made in 2020.

Hostile reception

Domestic opposition to the project remains strong. "The failure of earlier projects to live up to expectations has generated public and political frustration, which is driving the shift in outlook," says Joseph Parkes, Asia analyst at Verisk Maplecroft. A Jubilee Australia Research Centre report in April 2018 found that the economic benefits of the previous project, PNG LNG, have fallen well below expectations. PNG's economy only grew 10pc since the project's completion in 2014, despite predictions it would double. Household income and

government expenditure on education, health, law and infrastructure even fell 6pc and 32pc, despite previous expectations they would increase 84pc and 85pc respectively. The report revealed that government spending plans factored in tax revenues that never appeared. The figures were surprising considering the project was completed ahead of schedule and by 2017 was outputting 8.3mn tonnes of LNG—a 20pc increase over the original capacity specification of 6.9mn t/yr. The project was also affected by the 2018 earthquake, which disrupted operations and forced ExxonMobil to close its export terminal. But although 2018 output dropped 15pc year-on-year, according to the World Bank, maintenance at the Hides gas conditioning plant and LNG trains was brought forward and over the second half of the year output swiftly recovered. Oil Search reported an average annualised rate of 8.8mn t/yr, almost 30pc above nameplate capacity.

Economic importance

Conflict over land claims and royalty payments continues to drive pressure on the government to renegotiate the agreement. In June 2018, armed civilians in Angore, Hela Province, damaged equipment at ExxonMobil's pipeline project. Around 97pc of land in Papua New Guinea is classified customary tenure, owned by indigenous communities, which makes royalty payments central to the development of large-scale projects such as Papua LNG. But Shane McLeod, project director at Lowy Institute, an Australian think tank, says the government will be reluctant to delay or reverse any deal. "The new leadership is pro-development and has said it just wants to ensure there are good returns for landowners and local interests." The government has prioritised improving access to electricity across the country and the development of natural gas is its chosen route. "10pc of [new] output will be going to domestic use. For Port Moresby, that will be transformational," says Anton Safronov, former head of operations at Total's Papua LNG project development. The government plans to increase access

to electricity to 70pc of the country by 2030. Around 20pc of power capacity from PNG LNG currently supplies Port Moresby. Expansion of the project into the P'nyang field will also depend on interruptions to the current deal. In December, an assessment raised gas reserves there 84pc to 4.36tn ft³. Likewise, the government is aware of the growing number of competing LNG projects. "Total and ExxonMobil have so many LNG development opportunities globally at the moment," says David Hewitt, head of European oil and gas research at Australian bank Macquarie. "We expect the PNG government to be aware of [oil companies'] other opportunities when it considers how to deal with gas agreement discussions."

<https://www.petroleum-economist.com/articles/politics-economics/asia-pacific/2019/incoming-government-raises-papua-lng-doubts?hootPostID=462dd833b4a042d78c047690cdd1b952>

Oil Giant Shell's Pivot to Electricity Could Bring Investors Less Sizzle



By
Giulia Petroni
July 13, 2019 7:00 am ET

Oil giant Royal Dutch Shell RDS.B -0.93% PLC aims to become the world's largest electricity company without necessarily generating very much power. The Anglo-Dutch company last month detailed its plans to transform into a cleaner business centered on selling electricity. Hoping to capture the most profitable part of the business, Shell's power strategy will be light on assets and focus on trading electricity generated by others.

"Trading will sit at the heart of the integrated approach as a very important source of value," Shell Chief Executive Ben van Beurden said at the company's management day last month. "Of course we will be involved in generating electricity [...] but we have a preference for being asset-light and balance our supply by providing electricity from other producers." Oil and gas will remain Shell's core business, the company says, but it is aiming to be the world's largest electric power company by the early 2030s.

Income attributable to Royal Dutch ShellshareholdersSource:

the company

.billion2014'15'16'17'1805101520\$25

The shift presents challenges. Sizable companies already exist in the power industry, and generating power has historically produced smaller profits than oil-and-gas production, because utilities often carry more debt and are heavily regulated. "The oil companies have always been used to high rates of returns with the production of crude oil," said Paul Stevens, senior research fellow at Chatham House, a London-based think tank. "Those rates are just not available in power generation." Shell says it hopes to achieve equity returns of between 8% and 12% from its power business, lower than the 12% to 15% target for its traditional oil-and-gas business. The company currently is the second-biggest power trader in the U.S., with a trading desk that predominantly buys and sells electricity that other companies generate. Shell, however, doesn't disclose its trading profits or profit margin on its power-trading business. "Many utilities are hopeless at trading and marketing their power, so it makes sense to let them operate the power plants and have Shell market their power more efficiently," said Craig Pirrong, a professor of finance at the University of Houston. Shell's pivot is part of a broad movement among European oil giants to show they can help meet global goals to reduce fossil-fuel emissions while continuing to churn out profits. It also is an acknowledgment that demand for oil, its chief moneymaker, is expected to peak sometime in the early 2030s, according to a host of studies. The company's recent interest in Dutch energy provider Eneco could serve as an asset-light model for where Shell's power business might be heading. Earlier this year, Shell announced a joint bid with Dutch pension-fund manager PGGM for Eneco, a firm that sold around three times more power than it produced last year. The size of the bid wasn't disclosed but analysts have estimated the company to be worth about \$3.4 billion. As electricity rapidly makes its way into domestic heating, transportation and industrial processes, more than a quarter of global energy demand by 2030 will be for electric power,

according to Shell forecasts. That compares with 18% today and Shell's forecast of as much as 50% by 2060. Shell could play a leading role in new businesses such as electric charging points in fuel stations, said Nick Stansbury, head of commodity research at Legal & General Investment Management, a shareholder in Shell. "What I am not yet convinced by is whether—in order to be good at power-market trading, be good at making money—they necessarily need to own and have on the balance sheet the renewable assets," Mr. Stansbury said.



A London taxi plugged into a charging station at a Shell gasoline station in London in 2017, not long after Shell agreed to buy electric-vehicle charging firm NewMotion. PHOTO: TIM IRELAND/ASSOCIATED PRESS

Many of the oil industry's biggest companies are investing in clean energy projects. France's Total SA owns a majority share in U.S. solar-system maker SunPower and acquired French battery manufacturer Saft Groupe. In the U.K., BP PLC acquired electric-vehicle charging company Chargemaster last year for about \$170 million and invested over \$20 million in fast-charging battery company StoreDot. Norway's state-backed oil

company Equinor and Italy's ENI also have committed to large investments. Overall, European major oil companies are allocating a fraction of their budgets to low-carbon investments, which accounted for a combined 7% of capital expenditures last year, according to investment research firm CDP. Shell's acquisitions in power include German battery company Sonnen, retail energy providers First Utility and MP2 Energy, electric-vehicle charging companies NewMotion and Greenlots, and U.K. energy technology company Limejump Ltd. Shell also has outlined an ambitious plan to share profits with investors, with a plan to pay at least \$125 billion in dividends and share buybacks between 2021 and 2025. Mr. van Beurden has told The Wall Street Journal that the payouts will come from returns on investments the company already has made.

In the long term, those generous dividends could be at risk if the world's switch to cleaner forms of energy changes pace. Oil giants' ability to make high profits remains dependent on their core industries, and failing to embrace the change means they'll eventually be forced out of the business, according to Chatham House's Mr. Stevens.

"The energy establishment is grossly underestimating the speed and depth of the energy transition," he said. "I think it's going to happen a lot faster and be a lot deeper."
<https://www.wsj.com/articles/oil-giant-shells-pivot-to-electricity-could-bring-investors-less-sizzle-11563015600?redirect=amp#click=https://t.co/wqT12UoCEc>

Australia, a Top Natural-Gas Exporter, Considers Imports

to Stop Blackouts



By
Rhiannon Hoyle in Sydney and
Robb M. Stewart in Melbourne
June 6, 2019 10:07 am ET

Australia is experiencing an energy crisis so severe that the country, one of the world's biggest exporters of liquefied natural gas, is considering imports to shore up supplies for manufacturers and avoid possible blackouts. The country's commitments to sell LNG overseas as well as the shuttering of aging coal-fired plants have made it a struggle for electricity producers at times of peak demand. Some of Australia's manufacturers have threatened to move production overseas to escape a costly and unreliable energy supply. Sydney, Melbourne and other cities on the country's eastern coast have experienced occasional blackouts, hitting everything from health clinics to schools. Analysts predict a widening shortfall of LNG, raising concern manufacturers won't have enough power to run food-processing factories or chemical

plants. While Australia is rich in natural gas, it lacks a nationwide network of pipelines to supply users at affordable rates. The fuel is super-chilled into LNG for shipment around the country and abroad. Australia is projected to export 80.73 million metric tons of LNG this year, compared with 70.23 million metric tons in 2018, according to the research firm Wood Mackenzie. The electricity blackouts occurred as Australians endured a scorching Southern Hemisphere summer, with heat waves across the country that were unprecedented in scale and duration. On a couple of days in January, the temperature in Sydney reached 108 degrees Fahrenheit. This year, the country recorded its warmest January-through-May period ever, according to the Bureau of Meteorology. Electricity use for cooling spikes with such temperatures, but it isn't only in summer that demand for LNG can outpace supply. In the southern city of Melbourne, gas supplies are at their tightest in the winter when demand for heating kicks in.



The Australian Industrial Energy consortium plans to lease this floating storage and re-gasification vessel to process natural gas imports. PHOTO: SQUADRON ENERGY

Climate change became a central issue in Australia's latest election campaign following a summer of wildfires, drought, floods and extreme temperatures. Voter support for policies

targeting climate change was at its highest level since 2007, though it wasn't enough to save Australia's center-left party, which put the issue at the heart of its campaign. It was defeated by the incumbent conservative government in the May election on fears ambitious environmental targets would boost the cost of living and hurt the country's coal industry. Several state governments have restricted gas developments due to environmental concerns. Proposals to prevent energy shortages involve supplying regions in need with LNG from elsewhere in the country and even from overseas. Those looking to import LNG include a billionaire entrepreneur who made his fortune shipping iron ore to China, U.S. energy giant Exxon Mobil Corp. and Australia's biggest power retailer, AGL Energy Ltd. They are planning to use vessels to store LNG, before heating it to supply customers directly or through local gas-transmission networks. Their goal is to offer a stable supply of fuel that can help prevent blackouts. Andrew Forrest, the billionaire who in a decade built Fortescue Metals Group Ltd. from a tiny natural-resources explorer into the world's No. 4 iron-ore exporter, has said that a floating import terminal costs a fraction of what would be required to connect eastern Australia with offshore gas fields in the western part of the country via a pipeline.

World Beater Australia is set to become the world's top producer of liquefied natural gas after a decade-long \$200 billion investment spree. Global liquefied natural gas supply .million metric tons a year Australia Rest of world 2011'12'13'14'15'16'17'18 0100200300

Average natural gas price for industrial and commercial users in Australia*

.Australian dollars a gigajoule 2016'17'18 6789\$10

LNG netback price in Australia † Sources: Wood Mackenzie (supply), Australian Competition and Consumer Commission (industrial price and netback price)* Under long-term contracts in Australia's eastern-coast market. † Netback is a benchmark export-parity price. Note: A\$1 = US\$0.70

.Australian dollars a gigajoule 2016'17'18'19 0.02.55.07.51 0.012.5\$15.0

Australian Industrial Energy, a consortium of domestic and foreign companies that counts Mr. Forrest's Squadron Energy as its biggest investor, recently received government approval for an import terminal in Port Kembla, an industrial hub south of Sydney. The consortium, which includes several Japanese investors, has arranged to lease a storage vessel almost 1,000 feet in length. It plans to spend as much as 250 million Australian dollars (\$174 million) on infrastructure to berth the unit and connect it with a gas-transmission network on the eastern coast. The plan is one of five proposals for storage and re-gasification vessels across southeastern Australia.

Some local commentators mock the push for imports, given that Australia is on track to overtake Qatar as the world's top exporter of LNG by volume this year following a decadelong investment boom. One Sydney radio station "described me as bonkers" when outlining Squadron Energy's vision, said Stuart Johnston, Its CEO and a former Royal Dutch Shell senior manager.

Executives at Squadron Energy envisage using gas shipped from Australia's northwestern coast, about 3,000 miles from Sydney and Melbourne, reflecting the lack of cross-country pipelines and the huge cost to build them. Yet Mr. Forrest and AGL Energy also see an opportunity to source gas from farther afield, including the U.S. U.S. exports of LNG rose 68% in the first four months of 2019, compared with the same period a year earlier. Trade tensions between China and the U.S. may actually play in Australia's favor. Beijing has levied tariffs on U.S. LNG in response to Washington's raising tariffs on Chinese imports. U.S. LNG could be diverted to new markets such as Australia if the added cost puts off Chinese buyers. The trade conflict "probably makes people trying to sell gas to Australia even more attractive," Mr. Forrest said. Australia's eastern coast is abundant in gas, primarily at

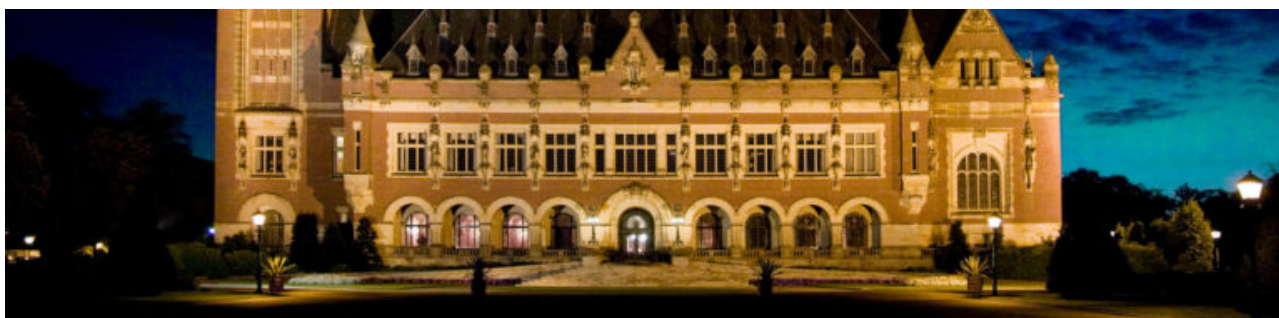
coal fields, but policy makers nearly a decade ago didn't ensure enough supply would remain at home as they approved plans for a combined \$50 billion worth of processing plants to export fuel to such countries as China and Japan. Natural-gas costs have roughly tripled in eastern Australia in recent years, leading to warnings of factory closures and job losses. The Australian Energy Market Operator, the nation's electricity overseer, forecast in March a potential gas shortfall in eastern states beginning in 2024. Others see the shortfall happening sooner. LNG imports are urgently needed in Sydney and Melbourne to reduce risks of a shortage, said Graeme Bethune, chief executive at Australian energy advisory firm EnergyQuest.

The five import terminals under study are proposed to start up between 2020 and 2022 near major cities. The Australian Industrial Energy consortium said its terminal would supply the equivalent of more than 70% of annual gas demand in New South Wales, the country's most populous state. Exxon said it is considering an import terminal near Melbourne, although it prefers to supplement gas supply for the domestic market by finding new deposits or squeezing more from existing fields. Australia could learn from the U.S. and focus on several supply-and-demand hubs in a national network, according to Nigel Hearne, Chevron Corp. 's president of Asia-Pacific exploration and production. "I would see one, two or three terminals on the east coast as just being other nodes in that network," he said.

But some worry that the cost of importing gas is too high, and investors could be overestimating what consumers are prepared to pay. "After overbuilding LNG export capacity, eastern Australia is now at risk of overbuilding LNG import capacity," said Saul Kavonic, a Credit Suisse analyst. "There isn't sufficient domestic demand to justify all five LNG import terminals being built." **Write to** Rhiannon Hoyle at rhiannon.hoyle@wsj.com and Robb M. Stewart at robb.stewart@wsj.com

<https://www.wsj.com/articles/australia-a-top-natural-gas-exporter-considers-imports-to-stop-blackouts-11559830044?redirect=amp#click=https://t.co/KuDmR4F8hR>

FAILING OR INCOMPLETE? GRADING THE SOUTH CHINA SEA ARBITRATION



On July 12, 2016, an arbitral tribunal at the Permanent Court of Arbitration in The Hague issued its ruling in Manila's case against Beijing's claims in the South China Sea. Convened under the compulsory dispute settlement provisions of the United Nations Convention on the Law of the Sea (UNCLOS), the tribunal's five arbitrators ruled overwhelmingly in the Philippines' favor. Beijing refused to participate in the arbitration and rejected the outcome. Meanwhile, the newly-inaugurated president of the Philippines, Rodrigo Duterte, downplayed the victory in the hopes of coaxing China toward a more conciliatory policy and, as a result, international pressure on China to comply with the award has evaporated. The ruling clarified important aspects of UNCLOS and customary international law, but there was never much hope Beijing would accept its findings. Nonetheless, many observers hoped that over time China might find politically face-saving ways to

bring its claims and behavior into line with the substance of the ruling, even while rejecting the process. In the three years since the arbitral award, and since Manila's adoption of a more accommodating policy toward Beijing, has China moved any closer to compliance? AMTI has compiled a list of actionable findings from the tribunal and assessed whether China's recent actions are in-line with them. Overall, China is in compliance with just 2 of 11 parts of the ruling, while on another its position is too unclear to assess. In one of the two most far-reaching decisions in the case, the arbitrators found that "the Convention [UNCLOS] defines the scope of maritime entitlements in the South China Sea, which may not extend beyond the limits imposed therein" (Judgement, para. 278). This means that "China's claims to historic rights, or other sovereign rights or jurisdiction, with respect to...the 'nine-dash line' are contrary to the Convention and without lawful effect" if they extend beyond the territorial sea, exclusive economic zone (EEZ), and continental shelf to which it is entitled by UNCLOS (para. 279). Nevertheless, the day after the arbitral award was issued, the Chinese Ministry of Foreign Affairs released a white paper which insisted, "In addition [to internal waters, territorial sea, contiguous zone, EEZ and continental shelf], China has historic rights in the South China Sea." In the last three years, Chinese officials have spoken less often about the nine-dash line as the basis of their claim over the South China Sea, but China continues to claim ill-defined historic rights to virtually all waters and seabed in the South China Sea. It is on this basis that Chinese fishers operate in the EEZs of Vietnam, the Philippines, and Indonesia, and on which Beijing objects to all oil and gas operations within the nine-dash line, regardless of how far they lie from Chinese-claimed land features.

Scarborough Shoal and high-tide features in the Spratlys generate territorial seas but not EEZs or continental shelves. The second key finding in the case was that neither

Scarborough Shoal nor any of the high-tide features in the Spratly Islands “are capable of sustaining human habitation or an economic life of their own” and “are therefore legally rocks for purposes of Article 121(3) and do not generate entitlements to an exclusive economic zone or continental shelf” (paras. 643 and 646). This means that the only EEZs and continental shelves in the South China Sea are those generated by the coastlines of the surrounding states and, possibly, some of the Paracel Islands. The Spratlys and Scarborough Shoal generate only a series of 12-nautical-mile territorial seas. Combined with the tribunal’s rejection of China’s claim to historic rights throughout the nine-dash line, this reduces the legally disputed areas around islands and reefs to the following: It is widely believed that China claims EEZs and continental shelves from Scarborough Shoal and many, if not all, of the Spratlys, but this has not been made explicit in Chinese law or public statements. Beijing’s 2016 white paper insists that “China has, based on the Nanhai Zhudao [islands of the South China Sea], internal waters, territorial sea, contiguous zone, exclusive economic zone and continental shelf.” But it could be argued that this only means that some of the islands, particularly the Paracels, generate these entitlements. Additionally, Chinese actions in its neighbors’ EEZs can be explained by its ongoing demand for historic rights and are therefore not proof of a claim to EEZs and continental shelves from the Spratlys or Scarborough. Future developments, for instance the declaration of straight baselines around Chinese-claimed features in the Spratlys, could make Chinese non-compliance with this piece of the arbitral award more explicit, but for now Beijing’s claims remain too ambiguous for a clear assessment.

Second Thomas Shoal and the waters around it are part of the EEZ and continental shelf of the Philippines.

The tribunal found that Second Thomas Shoal, which has been occupied since 1999 via the intentional grounding of the Philippine navy ship BRP *Sierra Madre*, is underwater at high-

tide and generates no maritime entitlements of any kind. And because none of the Spratly Islands can generate EEZs or continental shelves, “There is, accordingly, no possible entitlement by China to any maritime zone in the area.” Second Thomas Shoal sits within 200 nautical miles of the Philippine coast and is therefore “part of the exclusive economic zone and continental shelf of the Philippines” (paras. 646 and 647). Nevertheless, China Coast Guard vessels continue to patrol near Second Thomas regularly and in May 2018 a People’s Liberation Army-Navy (PLAN) helicopter dangerously harassed a Philippine resupply mission to the *Sierra Madre*.

China illegally occupied Mischief Reef, which is part of the Philippine continental shelf.

Like Second Thomas Shoal, the arbitral tribunal ruled that Mischief Reef is a low-tide feature that constitutes part of the EEZ and continental shelf of the Philippines. Further, the arbitrators found that “China has, through its construction of installations and artificial islands at Mischief Reef without the authorisation of the Philippines, breached Articles 60 and 80 of the Convention...The Tribunal further finds that, as a low-tide elevation, Mischief Reef is not capable of appropriation” (para. 1043). This is probably the most difficult part of the ruling to imagine China ever complying with because it would require abandoning its naval and air base at Mischief or securing Philippine permission to continue its occupation. In the meantime, China not only occupies the reef but seemingly continues to claim maritime entitlement to it as evidenced by its objections to U.S. freedom of navigation operations within 12 nautical miles of the facility.

China illegally prevented the Philippines from exploiting the resources of its continental shelf.

The arbitral award concluded that Reed Bank, which is entirely underwater and sits within 200 nautical miles of the Philippines, is part of that country’s continental shelf. Referring to a specific incident in which Chinese law

enforcement vessels prevented the operations of a Philippine survey ship, the tribunal found that “China has...breached Article 77 of the Convention with respect to the Philippines’ sovereign rights over the non-living resources of its continental shelf in the area of Reed Bank” (para. 716). China continues to block the Philippines from exploring for oil and gas at Reed Bank despite the ruling. In November 2018, the two sides signed a memorandum of understanding that could pave the way for oil and gas development at Reed Bank. The details have not been hashed out yet and it is possible that the agreement could pave the way for China to come into technical compliance with the ruling. If Beijing agrees to have a Chinese company invest in a Philippine service contract (SC 72) at Reed Bank under Manila’s supervision, the agreement will be consistent with the ruling. But if China insists on a joint development agreement outside of Philippine jurisdiction, it will cement its noncompliance.

China violated the Philippines’ rights to fish within its EEZ.

The tribunal found that China violated the Philippines sovereign rights to the living resources of its EEZ, in particular “by promulgating its 2012 moratorium on fishing in the South China Sea, without exception for areas of the South China Sea falling within the exclusive economic zone of the Philippines and without limiting the moratorium to Chinese flagged vessels” (para 716). China nonetheless continues to declare a unilateral fishing ban from May to August each year covering all waters north of the 12th degree of latitude, including large sections of the EEZs of the Philippines and Vietnam. The most recent ban provoked an angry response from the office of the president of the Philippines.

China failed to prevent its fishers from operating illegally in the Philippine EEZ.

The arbitrators determined that China had “failed to exhibit due regard for the Philippines sovereign rights with respect to fisheries in its EEZ,” citing cases in which Chinese law

enforcement vessels tolerated and failed to prevent Chinese-flagged vessels from operating at Mischief and Second Thomas Shoals in 2013 (para. 757). Hundreds of Chinese fishing vessels continue to operate under the supervision of the China Coast Guard at Mischief Reef and throughout the Spratlys on a daily basis, though most spend more time serving in the maritime militia than they do fishing. In June, a Chinese fishing vessel operating in the Philippine EEZ at Reed Bank sank a Filipino fishing boat, leading to an ongoing crisis in Sino-Philippine relations. Elsewhere in the South China Sea, fishing vessels from China continue to operate with the support of the coast guard and navy as far away as Indonesia's EEZ.

China illegally blocked traditional Filipino fishing at Scarborough Shoal.

At Scarborough Shoal, which has a handful of rocks that break water at high-tide, the tribunal concluded that both Chinese and Filipino fishers have the right to engage in traditional fishing regardless of who ultimately has sovereignty over the shoal. But the arbitrators ruled that China had, "through the operation of its official vessels at Scarborough Shoal from May 2012 onwards, unlawfully prevented Filipino fishermen from engaging in traditional fishing" (para. 814). By late 2016, in an apparently gesture of goodwill to the Duterte government, China Coast Guard vessels stationed at Scarborough began to allow Filipino fishing vessels to operate along the exterior of the reef, though they were not permitted to fish inside the lagoon. That remains the case today, though the situation remains tense amid frequent reports of harassment and intimidation of Filipino fishers by the Chinese law enforcement personnel at the feature. Nonetheless, this is the one aspect of the arbitral award with which China is most clearly in compliance. And that fact is so politically important to the Duterte government that the president recently claimed to have made a secret verbal agreement with President Xi Jinping in 2016 to turn a blind eye to Chinese

fishing in the Philippine EEZ in exchange for Filipino fishing rights at Scarborough—in effect trading non-compliance with one part of the judgement for compliance with another.

China allowed its fishers to illegally engage in environmentally destructive harvesting of endangered species.

The award concluded that China had, “through its toleration and protection of, and failure to prevent Chinese fishing vessels engaging in harmful harvesting activities of endangered species at Scarborough Shoal, Second Thomas Shoal and other features in the Spratly Islands, breached Articles 192 and 194(5) of the Convention” (para. 992). This was largely, though not exclusively, in reference to the large-scale extraction of endangered giant clams which destroyed or severely damaged more than 25,000 acres of shallow coral reef from 2012 to 2016, often under the eye of Chinese law enforcement vessels. After a sharp drop-off in activity after 2016, Chinese clam harvesters have returned to their destructive activities at Scarborough Shoal and throughout the Paracels, often acting within clear view of the China Coast Guard.

China illegally destroyed the marine environment through its island-building campaign.

The tribunal found that from late 2013, China’s “island-building activities at Cuarteron Reef, Fiery Cross Reef, Gaven Reef (North), Johnson Reef, Hughes Reef, Subi Reef and Mischief Reef, breached Articles 192, 194(1), 194(5), 197, 123, and 206 of the Convention,” which mandate obligations to protect and preserve the marine environment. (para. 993) China completed its dredging and landfillwork in the Spratly Islands by late 2016, and its last documented island-building anywhere in the South China Sea was in the Paracels in mid-2017. It could be argued that some of China’s ongoing activities, for instance the installation of monitoring stations on reefs in the Paracels, are still illegally damaging marine habitat without proper environmental impact assessments. But having run out of space for new landfill, China is now technically in

compliance with the bulk of this section of the ruling. That could change, however, should China launch new dredging or landfill work at Scarborough Shoal or elsewhere.

Chinese law enforcement vessels violated COLREGS by creating a risk of collision and danger to Philippine vessels.

Finally, the arbitrators ruled that during the 2012 standoff following their seizure of Scarborough Shoal, Chinese law enforcement vessels “created serious risk of collision and danger to Philippine vessels and personnel” which meant China had “violated Rules 2, 6, 7, 8, 15, and 16 of the COLREGS [International Regulations for Preventing Collisions at Sea] and...Article 94 of the Convention.” While there has been no repeat of these incidents at Scarborough Shoal due to Philippine authorities keeping their distance, China Coast Guard, PLAN, and maritime militia vessels continue to regularly engage in the same violations of COLREGs to create the risk of collision for foreign vessels in the South China Sea. The harassment of a Philippine resupply vessel near Second Thomas Shoal in May 2018 was one example. The dangerous actions of a PLAN ship during the USS *Decatur*’s freedom of navigation operation through the Paracels in October 2018 was another. And then there are the frequent violations of COLREGs by Chinese fishing vessels and state-directed militia toward both fellow claimants and outside actors.

**Leviathan natural gas
platform starts voyage to**

Israel



JERUSALEM, July 14 (Reuters) – The gas platform for the Leviathan natural gas field is on its way to Israel from the Gulf of Mexico, the partners in the project said on Sunday.

The first of four barges transporting the production structure units has left Texas and the other three will set sail in the coming weeks. In September, all the units will be installed on the jacket of the platform already in place 10 kilometres from Israel's shore.

<https://www.reuters.com/article/israel-natgas-leviathan/leviathan-natural-gas-platform-starts-voyage-to-israel-idUSL8N24F058>

Nicosia to reject Turkish natural gas proposal



A proposal by Turkish Cypriot leader Mustafa Akinci for a committee that would jointly administer natural gas affairs is expected to be rejected by the government and party leaders when they meet on Tuesday. President Anastasiades received the proposal through the UN and shortly after Turkish Foreign Minister Mevlut Cavusoglu expressed the view that until Greek Cypriots adopt the proposals set out by Akinci, Turkey would continue its drilling “with determination and without change”. According to an official statement President Anastasiades received over the weekend in Limassol the head of the office of the Special Representative of the UN in Cyprus Sergiy Illarionov who presented to the President Akinci’s proposal. The President called a meeting of the National Council for July 16th to inform political leaders on the details of the proposal. Sources say the plan involves the establishment of a committee under the coordination of the UN with an equal number of representatives from both sides and an independent observer. The proposal also includes details on the

composition, establishment and operation of the hydrocarbons fund. News reports citing diplomatic sources said that the plan is similar to an earlier proposal submitted by former Turkish Cypriot leader Eroglu. The move comes as the EU is set to adopt a number of punitive measures against Turkey for its illegal activities off Cyprus. Cyprus had hoped for targeted EU sanctions against the Turkish Petroleum Company in order to dissuade Turkey from drilling in its EEZ. Analysts argue that the geography of the Eastern Mediterranean leaves Turkey with limited marine area while the status quo of divided Cyprus is seen as a leverage to gain a foothold in the potentially resource rich East Med basin.
<https://knews.kathimerini.com.cy/en/news/nicosia-to-reject-turkish-natural-gas-proposal#.XSw4gLzv9HE.twitter>

Wind farms threaten to speed up North Sea decommissioning



Oil and gas operators planning to prolong fields' lifespan may find themselves increasingly in conflict with wind farm developers

The projected timeline for oil and gas decommissioning in the North Sea could be forced forward by spatial constraints created by offshore wind farm construction, according to the developers of a planned wind hub in the region.

A consortium of Dutch, German and Danish companies wrote in a concept paper on 9 July that the North Sea Wind Power Hub (NSWPH) they are developing would have an estimated capacity of 180GW by 2045, providing clean power to “hundreds of millions of Europeans” in those countries and the UK. “To meet the ambitious targets as set in the Paris Agreement, a large-scale roll-out of offshore wind is required. Increased spatial use by offshore wind energy and transmission infrastructure is then expected accordingly.” Because the turbine foundations deemed the most cost effective need a water depth of less than 55 metres—and as the targeted area is already used extensively for shipping, military exercises and fisheries—there is not currently enough available space for the required number of offshore wind farms (OWFs). “If we take an exclusionary approach, and only install farms in areas that are not currently being used, there simply is not enough room for a cost effective, large-scale build out of offshore wind power in the North Sea” says Peter Larsen, a development consultant at Danish grid firm Energinet. The firm is developing the project with the Dutch power grid operator Tennet, its gas equivalent Gasunie and the Port of Rotterdam.

Competing timeframes

The NSWPH's first phase would be connected to shore as early as the 2030s. But the British authorities expect decommissioning work to continue in the area until 2060. Larsen says the

eventual decision on whether projects such as the NSWPH should take precedence over the oil and gas sector in the North Sea is one that must be taken by governments. “Which will be the most cost-effective source of power from a social-economic perspective, as part of the green energy transition?” he asks. It is fair to say that it is a leading question. Currently only 3pc of the area the NSWPH would need is available, or only 14,000 km², according to the NSWPH researchers’ February feasibility study. The largest spatial risk created by the oil and gas sectors is not platforms themselves, but the helicopter landing safe zone of 2.5 nautical miles around these. In some cases, it may be possible to site an OWF’s turbines to accommodate these zones—but not all. “After drawing OWFs in the GIS mapping tool, it was discovered that there are attractive farm locations that have so much overlap between helicopter zones, that one can actually not adapt the wind farm, so the oil and gas function needs to adapt,” the study says. The authors also say confidentiality on which specific platforms will be gone by the year 2030 makes it harder to make spatial plans. While that information is commercially sensitive, oil producer lobby group OGUK found last November in a report on decommissioning that higher oil prices and a “relentless focus” on efficiency were pushing field retirements further into the future. Its report forecasts that decommissioning activity will remain relatively stable over the next decade.

Peaceful co-existence

OGUK’s view is that there is no need for conflict between the wind power and oil and gas in the North Sea—and that sharing the spatial resources could be beneficial. “Strong cooperation between different sectors is crucial as the UK invests in all forms of energy production to meet its future energy needs”, OGUK says. “The overlap phase when decommissioning takes place alongside the installation of new offshore wind structures could provide the opportunity for the different sectors to

align interests and collaborate on things like logistics costs and stakeholder engagement.” For its part, the NSWPH developers also accept that “co-utilisation” will be necessary in the future, adding that “the extent to which co-utilization will be needed highly depends on future developments such as the decommissioning of oil and gas platforms”.
<https://www.petroleum-economist.com/articles/politics-economics/europe-eurasia/2019/wind-farms-threaten-to-speed-up-north-sea-decommissioning?hootPostID=271f29a013ef2922e07192d9cb92b6b3>