

Greece's Credit Rating Upgraded by Fitch on Debt Sustainability



(Bloomberg) –Greece's credit rating was raised by Fitch Ratings to the highest level since 2011 as the country approaches a successful exit from the ESM program and its sustained economic growth bodes well for debt sustainability. "Debt sustainability is also underpinned by a track record of general government primary surpluses, our expectation of sustained GDP growth; additional fiscal measures legislated to take effect through 2020 and somewhat reduced political risks," the agency said.

Greece's bailout program ends on Aug. 20, which is also the last day that the European Central Bank will still accept Greek bonds as collateral for providing cheap funding to Greek lenders, and the country is expected to take some time to

secure an investment grade rating as it tries to convince investors that normality is back.

Without a program, Greece needs that rating from at least one agency to be eligible for the ECB's funding facilities for its banks. Investment grade would also make the nation's sovereign bonds attractive to more investors, helping the government to regain sustainable access to markets.

Fitch upgraded Greece's long-term foreign currency debt to BB- from B, showing that the agency isn't that worried about the International Monetary Fund's glum assessment of the country's prospects.

"We expect fiscal performance to remain sound over the post-program period", Fitch said in the report, adding that public finances are improving. "GDP growth is gathering momentum," the rating agency said, forecasting a growth of 2 percent in 2018 and 2.3 percent in 2019.

With Greece exiting an eight-year period of bailout programs in just over a week, Greek governments must continue to implement reforms and stick to the fiscal path that has already been agreed with creditors to reassure investors.

"The domestic political backdrop has become somewhat more stable and the working relationship between Greece and European creditors has substantially improved, lowering the risk of a future government sharply reversing policy measures adopted under the ESM program," Fitch said.

Greek bonds are still vulnerable to external risks which makes sticking to the fiscal agenda and implementing reforms even more important for securing investor confidence. Greek 10-year note yields hit their highest level since June 22 this week amid uncertainty around Italy.

Among the major rating companies, Moody's Investors Service gives Greece the lowest grade and hasn't changed its rating

since February, well before the conclusion of the last bailout review and the decision in June by euro-area finance ministers for further debt relief measures for Greece. S&P Global Ratings was the first to act after the Eurogroup decision and it raised its rating by one notch to B+.

Brexit : HSBC transfère sept succursales de Londres à Paris



Par Anne Bodescot

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La banque investit également lourdement en Asie pour accélérer sa croissance.

Dans la finance, les préparatifs en prévision du Brexit s'accélèrent. La Grande-Bretagne redoute désormais une sortie de l'Union européenne (UE) sans accord avec Bruxelles. Ce qui compliquerait encore davantage le travail de ses banques sur le Vieux Continent. Prenant les devants, HSBC a annoncé lundi que plusieurs de ses succursales européennes, jusqu'alors contrôlées depuis Londres, seront l'an prochain rattachées à sa filiale française.

Ses activités en République tchèque, Irlande, Italie, Luxembourg, Pays-Bas et Espagne seront pilotées depuis Paris par HSBC France, en principe à partir du premier trimestre 2019. Soit juste avant la sortie effective du Royaume-Uni de l'UE, prévue fin mars. «Ce que nous avons prévu depuis le début, depuis plus de deux ans, a été fondé sur le pire des scénarios», explique John Flint, le nouveau directeur général.

» LIRE AUSSI – Brexit: Bruxelles n'exclut pas une sortie sans accord

L'annonce a été faite quelques heures après la publication de résultats mitigés pour le groupe bancaire britannique. Après avoir mené un vaste plan de restructuration ces dernières années et fait des économies à tous crins, la banque a enregistré une hausse de 7 % de ses coûts sur les six premiers mois de l'année, en raison de ses investissements en Asie, où elle veut pousser plus encore son avantage. Elle y réalise déjà près de la moitié de son activité. «Nous sommes en train d'investir pour gagner de nouveaux clients, pour accroître notre part de marché et poser les fondations d'une croissance régulière des bénéfices», souligne John Flint. Aux manettes depuis février, il est d'ailleurs prêt à aller beaucoup plus loin, puisqu'il a dévoilé en juin un plan d'investissement sur trois ans de 15 à 17 milliards de dollars.

Les dépenses déjà engagées ces derniers mois par la banque ont permis d'embaucher afin de conquérir davantage de clients et de se renforcer dans les activités numériques, en particulier en Chine. Mais cette hausse des dépenses a été plus forte que celle du chiffre d'affaires, qui augmente de 4 % (2 % ajustés des éléments exceptionnels). Voilà qui explique l'accueil plutôt froid réservé aux résultats semestriels de la banque à la Bourse de Londres, où le titre a terminé lundi en léger repli (- 1,06 %).

Pourtant, le bénéfice semestriel dévoilé lundi est légèrement supérieur aux prévisions, avec une progression de 2,5 %, à 7,173 milliards de dollars. En Asie, le bénéfice avant impôt du premier semestre a même bondi de 23 %, à 9,4 milliards de dollars, ce qui représente 88 % du bénéfice total du groupe.

Baisse des profits en Europe

Mais ces bonnes performances ont été contrebalancées par une baisse des profits sur d'autres marchés, en particulier en Europe, où l'activité est pénalisée notamment par la faiblesse des taux d'intérêt. Toutefois, le patron de HSBC espère toujours stimuler les revenus de son groupe dans les prochains mois, pour que, sur l'année, la progression des recettes soit plus forte que celle des coûts.

Mais la guerre commerciale entre les États-Unis et la Chine, qui préoccupe toujours les marchés financiers, lézarde la confiance dans la capacité de la banque à tenir cette promesse. Pour l'instant, HSBC affirme que cette guerre douanière n'a eu aucun effet sur son activité et ses clients. Le président du groupe, Mark Tucker, a même tenu à rappeler que le marché asiatique restait solide. Mais John Flint reconnaît que la croissance chinoise pourrait en être légèrement affectée.

Touchée par de nombreux scandales financiers ces dernières années, HSBC a aussi annoncé avoir trouvé un accord en juillet

avec le département américain de la Justice. La banque paiera une pénalité financière de 765 millions de dollars pour mettre fin aux poursuites sur son activité dans les prêts immobiliers avant la crise financière de 2008.

Under Pressure From Trump, Saudis Put Brakes on Oil's Rally



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- Riyadh supports a gradual increase in oil output over summer
- Middle East oil producers worried about U.S. anti-trust laws

The world's largest oil exporter just made quite a policy swerve. Within six weeks, Saudi Arabia has gone from advocating higher prices to trying to stop the rally at \$80 a barrel.

The U-turn scrambled the outlook for oil markets, hit the share prices of oil majors and shale producers and set up a diplomatic wrangle with other members of the Organization of Petroleum Exporting Countries.

What changed? The supply threats posed by the re-imposition of U.S. sanctions on Iran oil exports earlier this month and the quickening collapse of Venezuela's energy industry are both part of the answer, but they're secondary to Donald Trump. On April 20, the president took to Twitter to lambaste the cartel's push for higher prices. "Looks like OPEC is at it again," he tweeted. "Oil prices are artificially Very High!"



Donald J. Trump 
@realDonaldTrump

Looks like OPEC is at it again. With record amounts of Oil all over the place, including the fully loaded ships at sea, Oil prices are artificially Very High! No good and will not be accepted!

11:57 AM - 20 Apr 2018

Trump's intervention gave typically strident voice to a concern held more widely in the U.S. and other consuming countries: oil's rally from less than \$30 in early 2016 to more than \$80 this month risked becoming a threat to global

economic growth.

On Friday, Saudi Oil Minister Khalid Al-Falih responded, saying his country shared the “anxiety” of his customers. He then announced a shift in policy that all but gave a green light for a market sell-off, saying OPEC and its allies were “likely” to boost output in the second half of the year.

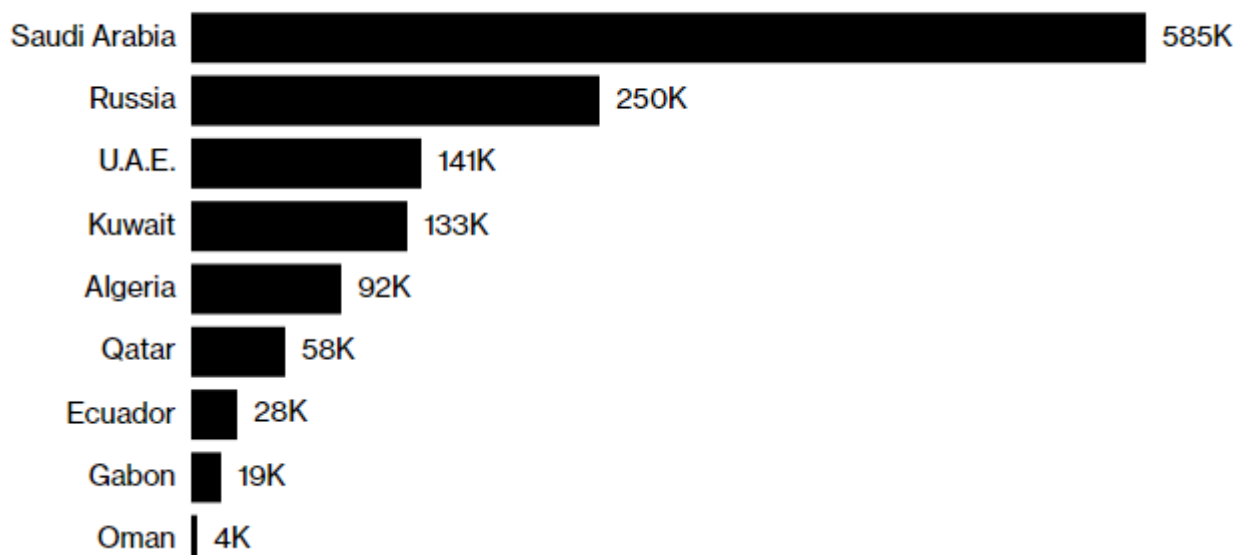
“The tweet moved the Saudis,” said Bob McNally, founder of consultant Rapidan Energy Group LLC in Washington and a former White House oil official. “The message was delivered loud and clear to Saudi Arabia.”

After Al-Falih’s comments, made following a meeting with his Russian counterpart in St. Petersburg, saw crude drop more than \$3 to below \$67 a barrel in New York on Friday. The bullish tone of recent market chatter, increasingly punctuated with talk about oil prices climbing past \$100, \$150 and even \$300, suddenly looks overdone.

Who’s Got the Juice?

Saudi Arabia and Russia could potentially return the most oil to the market.

■ Size of output cut since 2016 in barrels a day



It wasn't just the U.S. Other major buyers of Saudi crude also put pressure on Riyadh to change course, albeit a little more diplomatically than Trump. Dharmendra Pradhan, the Indian petroleum minister, said he rang Al-Falih and "expressed my concern about rising prices of crude oil."

OPEC officials were in a meeting at the opulent Ritz-Carlton hotel in Jeddah on Saudi Arabia's Red Sea coast when Trump tweeted his views and they immediately saw it as a significant intervention.

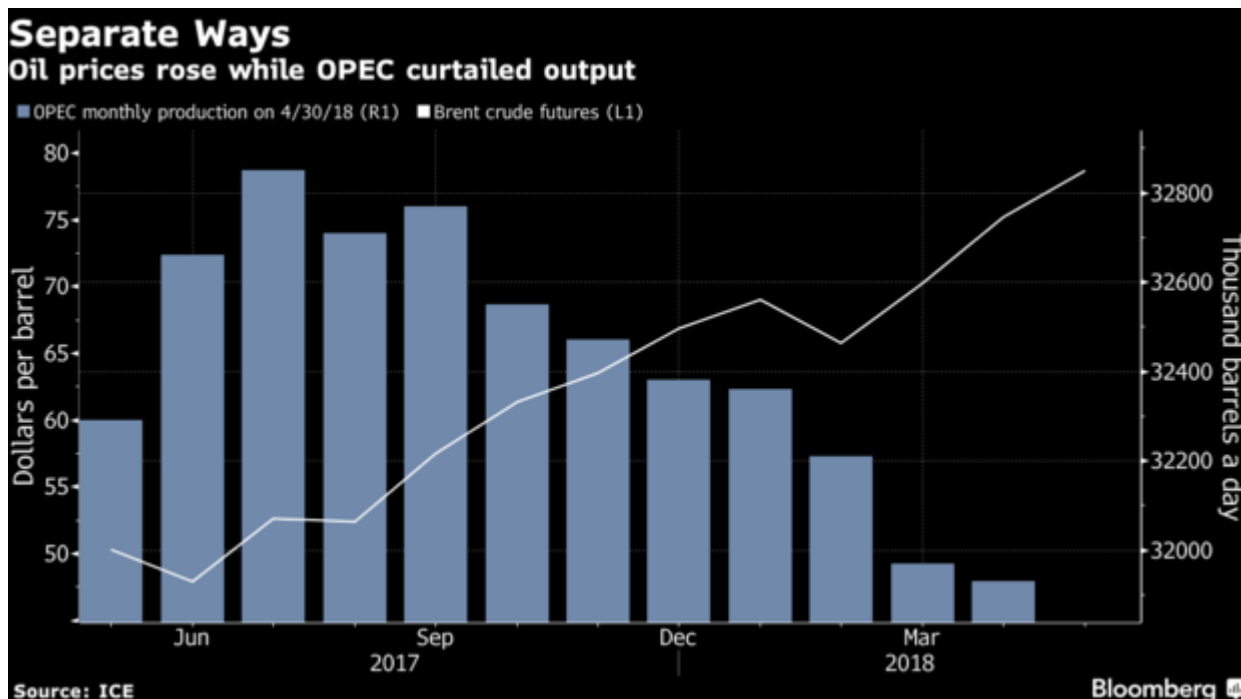
"We were in the meeting in Jeddah, when we read the tweet," OPEC Secretary General Mohammad Barkindo said on Friday. "I think I was prodded by his excellency Khalid Al-Falih that probably there was a need for us to respond," he said. "We in OPEC always pride ourselves as friends of the United States."

To read a story on how consumers are responding higher prices, [click here](#).

Diplomats and oil officials in OPEC countries were also worried about the potential revival in Washington of the so-called "No Oil Producing and Exporting Cartels Act," which proposes making OPEC subject to the Sherman antitrust law, used more than a century ago to break up the oil empire of John Rockefeller.

The bill first gained prominence in 2007 when George W. Bush was president and oil prices were flirting with \$100 a barrel and made a comeback several years later under Barack Obama. While it was opposed by those presidents, the risk for OPEC was that Trump "could break with his predecessors and support its passage," said McNally.

In a sign that oil prices were climbing Washington's agenda as gasoline prices approached the \$3 a gallon mark, last week a sub-committee in the U.S. House of Representatives held a rare hearing on the NOPEC act.



There are also indications that Russia, whose decision to participate in OPEC's cuts helped turnaround the oil market, has decided the rally has run far enough.

"We're not interested in an endless rise in the price of energy and oil," Putin told reporters in St. Petersburg on Friday. "I would say we're perfectly happy with \$60 a barrel. Whatever is above that can lead to certain problems for consumers, which also isn't good for producers."

OPEC and its allies will gather in Vienna for a policy meeting on June 22 to hammer out a deal. While Al-Falih and Russia's Novak have indicated that output will most likely increase, the details – how many barrels from which countries – are still a question mark.

"In an environment of low inventories and rising geopolitical outages, raising some supply is prudent," said Amrita Sen, oil analyst at Energy Aspects Ltd.

Oil producers are debating an increase ranging from 300,000 barrels a day at the low end, backed by Gulf producers including Saudi Arabia, and a larger increase of about 800,000 barrels a day favored by Russia, a person familiar with matter said on Friday.

“It’s too early now to talk about some specific figure, we need to calculate it thoroughly,” Novak said.

Even though Al-Falih’s comments brought about an immediate price reaction, there are still reasons for people to be bullish as traders await the impact of U.S. sanctions against Iran and wider political tensions in the Middle East.

And with global oil demand growing strongly, hedge funds will shift their focus on diminishing global spare capacity as OPEC returns barrels to the market. The U.S. government estimates the cushion at just 1.34 million barrels a day next year, below the 1.4 million reached in 2008 when oil prices surged to nearly \$150 a barrel.

In a letter to investors earlier this month, Pierre Andurand, the bullish oil hedge fund manager, warned that if Saudi Arabia needs to “offset production declines from Iran and Venezuela” global spare capacity would decline to perilous levels.

“Oil prices could potentially surge to record high levels to force demand destruction very quickly,” he wrote.

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A Trump Darling, Gas Exports, Set to Gain as Iran Deal Dies



Another darling of the Trump administration is poised to gain from the Iran deal breakup as oil surges: Natural gas exports.

With the move to curb Iran's oil output encouraging more shale drilling, prices for natural gas produced alongside crude in West Texas could crater, falling to zero some days, according to Tudor Pickering Holt & Co. Already, the gas sold at West Texas' Waha hub is down 51 percent for the year.

That's bad for producers selling the fuel in the U.S., but good for companies that export it in tankers. As the market for liquefied natural gas grows in Asia, being able to source gas at its cheapest should give U.S. exports a leg up.

From Secretary of Commerce Wilbur Ross to the President himself, the White House has long sung the praises of increasing American LNG exports to help trim the trade deficit with Asian countries. Meanwhile, the Permian boom has filled pipelines to capacity, trapping gas in the region and making prices there the cheapest of any major U.S. shale play.

Lebanon-Israel maritime dispute: Rules of (diplomatic) engagement



Thus far attempts to resolve the dispute have been

unsuccessful, but while the challenge is clearly a difficult one, the situation is far from irretrievable if the parties practice restraint and resolve to settle their differences via diplomacy and dialogue.

BEIRUT: Tensions between Lebanon and Israel are flaring once again, this time over the demarcation of their maritime border and, therefore, the rightful ownership of offshore oil and gas deposits.

Thus far attempts to resolve the dispute have been unsuccessful, but while the challenge is clearly a difficult one, the situation is far from irretrievable if the parties practice restraint and resolve to settle their differences via diplomacy and dialogue, however indirect.

Diplomatic efforts are complicated by several factors which block many of the usual avenues of dispute resolution. Awareness of these factors and the conditions they impose is a must, especially from the perspective of Lebanon, which will need to walk a virtual tightrope if it is to protect its rights while avoiding both further escalation of the conflict and any erosion of its refusal to recognize Israel.

First and foremost, Lebanon and Israel have no diplomatic relations, having remained in a legal state of war since 1948. Lebanon does not recognize Israel, armed non-stated groups have periodically used its territory as a staging area for attempts to liberate Palestine from Israeli occupation, and Israel has attacked, invaded, and/or occupied Lebanon numerous times, the most recent large-scale conflict having taken place in 2006.

The plain fact is that the absence of diplomatic relations is highly problematic for disputes over offshore resources. Most maritime demarcations are set out in treaties between the countries in question, which then serve as legal bases for any

necessary adjudication of disputes. Israel and Lebanon have no such treaty, and there is no prospect in the foreseeable future of any kind of reconciliation that would allow them to so much as discuss one.

In addition, the two parties appear to disagree not just on the angle at which the southern boundary of Lebanon's EEZ should extend from the border along the coast, but also on where, precisely, that coastal border lies. Obviously, then, a purely bilateral process is out of the question. And as we shall see below, the absence of relations also throws up obstacles for the conventional use of international institutions.

Second, while Lebanon has signed and ratified the primary international agreement on maritime border demarcation, the 1982 United Nations Convention on the Law of the Sea (UNCLOS), Israel has not. Accordingly, there is no binding mechanism under which either state can refer the maritime border dispute for resolution without the express agreement of the other. However, since Israel has signed an Exclusive Economic Zone agreement with Cyprus, Lebanon does have options on this level.

One could lodge some form of protest against Cyprus on the basis that its EEZ pact with Israel prejudices Lebanon's borders, but that seems unlikely and even more inadvisable as it would jeopardize Beirut's strong relations with Nicosia. Alternatively, Lebanon could invite Cyprus to join it in seeking conciliation under Article 284 of UNCLOS in order to resolve the dispute caused by the Israel-Cyprus EEZ agreement with Israel. Cyprus would have the right to reject such an approach, but it is certainly worth investigating what the Cypriot stance would be. If Cyprus has no objections, this kind of proceeding would demonstrate Lebanon's commitment to its obligation, under the UN Charter, to seek the peaceful resolution of disputes.

Third, while states regularly refer maritime border disputes for resolution to the International Court of Justice (ICJ) this is typically done by way of a special agreement between the states. This is because, as is, in fact, the case for Lebanon and Israel, very few states have signed up to the compulsory jurisdiction of the ICJ. Unless a state has accepted the compulsory jurisdiction of the ICJ, claims cannot be brought against it before the ICJ without its express agreement in relation to a specific claim.

It is unlikely that either Lebanon or Israel would consider submitting the maritime border dispute to the ICJ for fear that this might set a legal and/or politico-diplomatic precedent. Israel has only ever invoked the ICJ's jurisdiction once, in 1953, while Lebanon has been involved in two cases before the ICJ, most recently in 1959. Since the ICJ's 2004 advisory opinion reprimanded Israel for the construction of its wall around the Occupied West Bank, it is unlikely that Israel would consider referring any dispute, let alone one with Lebanon, to the ICJ. Lebanon's reservations with regard to appointing the ICJ or any third party to resolve the maritime border dispute are two-fold.

First, it has concerns that Israel would seek to condition any agreement to refer the maritime dispute to the ICJ or any other international tribunal provided that Lebanon agrees to subject all border issues for resolution by such body. Second, it worries that any direct agreement with Israel to seek third-party involvement to resolve the dispute may be considered as *de facto* and *de jure* recognition of the state of Israel.

Third, and perhaps most importantly, even if the Lebanese-Israeli dispute were to be heard by ITLOS, the ICJ, or some other legal forum (e.g. *ad hoc* arbitration), the process would have to root its decision(s) in a body of law that would necessarily include what is referred to as "Customary International Law" (CIL) – which neither Israel nor Lebanon

accepts in its entirety.

Israel's policy has long been to stay out of multilateral agreements that presume its acceptance of any international law – customary or otherwise – that might expose its occupation and settlement policies, *inter alia*, to independent scrutiny and/or sanction. In other words, when Israel “rejects” “accusations” that it's settling of occupied land violates international law, it does not deny that it commits the acts in question: it simply states its refusal to be bound by a law it does not recognize.

In practice, CIL allows for countries to remain largely outside its reach, but only if they consistently reject its applicability; governments cannot “cherry-pick” which laws to obey based on how they are affected in a particular case. Once you accept CIL in any way, shape, or form, you risk coming under its jurisdiction – a fate that Israel has worked hard to avoid for more than 70 years.

Beirut's approach is subtly different. Basically, it is happy to enter into multilateral agreements that commit it to meet certain standards, but only provided that doing so neither implies any recognition of Israel nor subjects all of Lebanon's borders to the judgment of the ICJ, whose verdicts are final and cannot be appealed. That leaves room – not a lot, but some – for the Lebanese state to achieve satisfaction on the offshore issue without sacrificing its general positions *vis-à-vis* Israel and borders.

In addition, while there are particular elements that make the Lebanon-Israel dispute unique in some ways, the general conditions, in this case, are not unusual. Every coastal state on the planet, for instance, has at least one maritime zone that overlaps with that of another state, and many of these disputes remain unresolved. In the Eastern Mediterranean alone, several pairs of countries have yet to sign bilateral agreements on the boundaries between their respective EEZs,

including Cyprus and Turkey, Cyprus and Syria, Greece and Turkey, and Israel and Palestine. Moreover, many of the bilateral maritime treaties that have been reached are opposed by neighboring countries with overlapping zones – as is the case with Lebanon's opposition to the Israel-Cyprus deal.

What these cases demonstrate is that even when there is plenty of bad blood but no delineation agreement between two states, there is no need to go to war. Quite the contrary, states with sharply opposed interests can and do coexist despite the absence of an agreed maritime boundary. All they have to do is show restraint and practice a modicum of common sense – which is what all states are supposed to do in any event, under their UN Charter obligations.

Restraint and (indirect) dialogue should be especially attractive in this case, not least because there is likely to be significant outside support for some kind of solution. In addition to the UN and US efforts, the involvement of France's TOTAL, Italy's ENI, and Russia's Novatek in the region means that each of their respective governments, plus the European Union as a whole, has a vested interest in using their own good offices to mediate an understanding that would, at the very least, open up Lebanon's Block 9 – thus far its most promising acreage – for exploration.

The real difference between this dispute and others is in the urgency, and that works both ways. It is true, for instance, that the threshold for conflict between Lebanon and Israel is lower than those between other neighbors: threats and even the actual use of force are habitual features of Israeli foreign policy, memories of shooting wars are fresher in Israel and Lebanon than most other places, and the value of the resources means there is plenty to fight over.

On the other hand, those same memories should serve as useful reminders that war is an inherently expensive business, and that any future conflict will extract a heavy cost – human,

financial, reputational, etc. – from all concerned. The same goes for the stakes: with so much to gain from drilling and so much to lose from fighting, both countries have a clear interest in removing obstacles so that their respective oil and gas sectors can be developed as quickly as possible.

The important thing for Lebanon is to keep showing good faith and demonstrating commitment to its obligations to uphold peace and security as a signatory to the UN Charter, and thus far it has lived up to this responsibility. While remaining consistent in its refusal to even tacitly acknowledge Israel as a state, Beirut has engaged with two consecutive US envoys who have used a form of shuttle diplomacy to mediate the dispute. It also has made repeated appeals to the UN to help settle the matter. Whatever happens in the future, it is crucial that Lebanon retains this cooperative stance, for it not only protects its legal rights but also helps contain tensions that might otherwise cause Israel to act unilaterally.

One of the levers Lebanon can use to keep demonstrating a constructive position is in UN Security Council Resolution 1701, which ended the 2006 war.

Paragraph 10 of that document gives Lebanon (and Israel) the option to request that the UN Secretary-General proposes the delimitation of the Lebanese-Israeli border. Beirut has indeed asked for the Secretary General's intervention, but it can help its cause by remaining focused on the issue, particularly the application of UNSCR 1701(10). Again, even if this effort falls short, it cannot but help to have a positive influence on tensions and to further burnish Lebanon's stature as a responsible state seeking peaceful resolution of a dispute with another party.

Apart from being meticulous about its commitment to peace and security, Lebanon's leadership also needs to be open and transparent with the general public, whose expectations for

the oil and gas sector should be based on facts, not wishes. Educating public opinion will serve not only to address concerns that oil and gas revenues will be squandered by domestic mismanagement, but also reduce fears that Lebanese officials will sacrifice the national interest for the sake of their own personal gain.

The average Lebanese needs to understand that diplomacy often requires give-and-take, and that when it comes to energy especially, there are few zero-sum games: both sides often gain by accepting something less than their maximalist positions – or at least by allowing the time for due process to play out. In this instance, much has been made of the fact that Israel could end up sharing the revenues from any oil- or gasfield that straddles the eventual boundary between the two parties' respective EEZs. That is certainly possible, but it is also not especially relevant: the same rules of international law apply to straddling fields the world over, including some shared by mutually hostile nations. The same fact also cuts both ways because any agreement requiring Lebanon to share straddling fields first identified on its side of the line would likewise require Israel to do the same. While Lebanon might indeed have to share the potential revenues of fields that have yet to produce (or even be explored), therefore, the same international law principle could well require Israel to share in those of fields that already are producing, possibly including some highly lucrative ones.

Of course, simply convincing Lebanese citizens that a fair settlement can be reached is not the same as promising that one will be reached. Nonetheless, it must be acknowledged that a) the Lebanese case is a strong one; and that b) Israel might well be convinced to accept an arrangement that falls well short of its stated demands.

The strength of Lebanon's position goes all the way back to the 1923 Paulet-Newcomb Agreement, which sets the border

between what were then French Mandate Lebanon and British Mandate Palestine, and the 1949 Armistice Agreement, which ended hostilities in the 1948 war between an independent Lebanon and the recently established “state” of Israel. In the words of Israel’s own Ministry of Foreign Affairs (website), the 1949 document “ratified the international border between former Palestine and Lebanon as the armistice line”. This is important, not only because the Paulet-Newcomb pact sets Lebanon’s southern border at Ras Naqoura, an advantageous point (for Lebanon) from which to delimit the two sides’ EEZs, but also because in the absence of bilateral relations and therefore of a substantial record of cross-border trade, diplomacy, or other non-military interaction regarding the border, documents like these carry even more weight than might otherwise be the case.

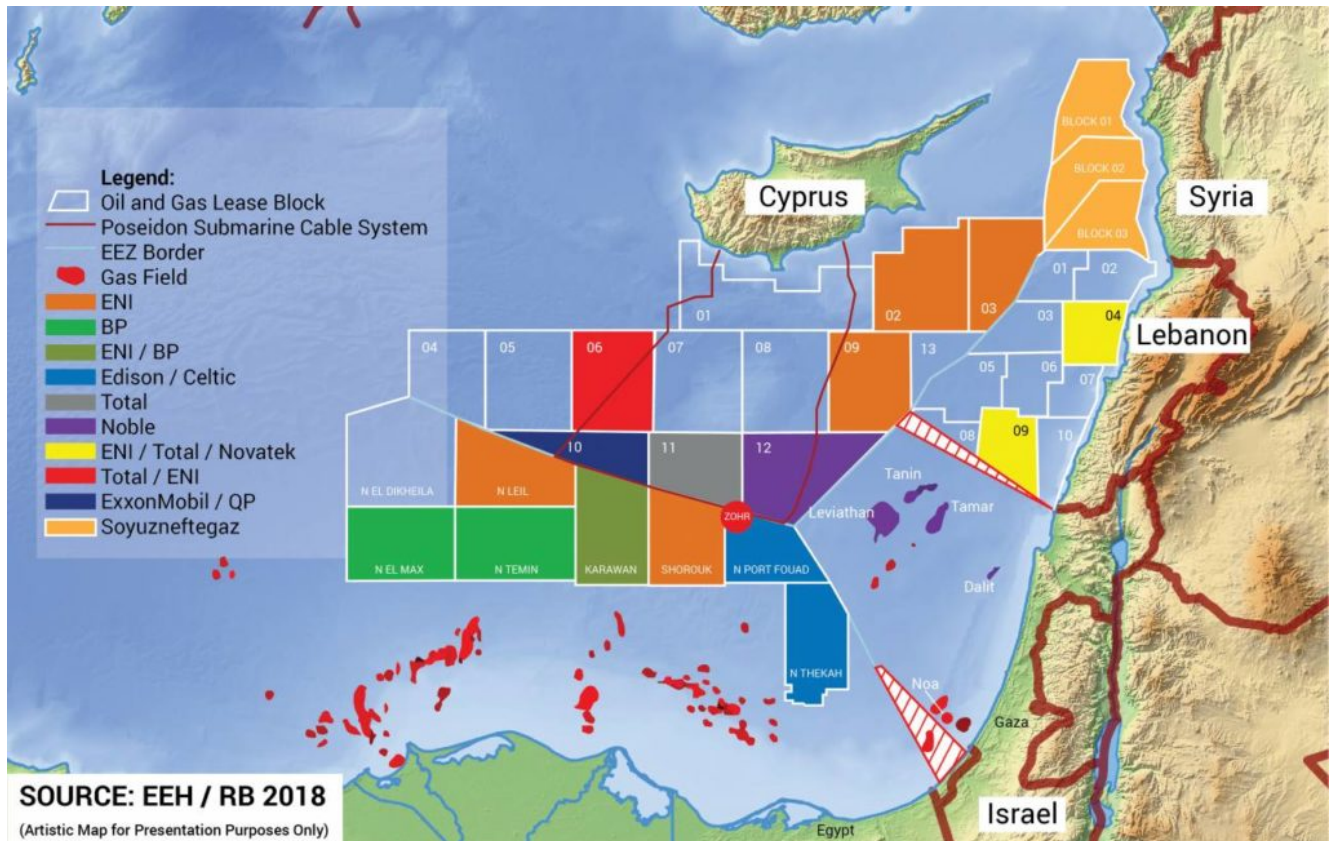
Block 9 in which TOTAL, ENI, and Novatek are most interested clearly lies well within Lebanon waters – even if one were to accept Israel's maximalist claims. That leaves plenty of room for at least a short-term compromise that would allow exploration in areas not subject to dispute while leaving more difficult questions for a later time.

The quality of the information Lebanon has submitted to the UN and other interested parties also gives significant weight to its position, and in more than one way. The Lebanese side has used original British Admiralty Hydrographic Charts – widely recognized as the most accurate and authoritative available – as the starting point for the southern boundary of its EEZ, which lends even more credibility to its contentions. And by fortunate coincidence, the Israelis have relied on that very same source for their EEZ agreement with Cyprus (as have the Cypriots for their deal with Egypt).

Even on the issue of accepting CIL, there are signs that Israel may have relaxed its objections. In a March 2017 submission to the UN, the Israeli government said the dispute should be resolved “in accordance with principles of international law”. The missing “the” before “principles” indicates that Israel may well be trying to cherry-pick which elements of CIL it wants to recognize, but the language offers hope that it is ready to be more flexible. Given that there may now be agreement between the parties on certain principles of CIL regarding border delimitation, this could be an opening for a Lebanese submission to the UN Secretary-General to ask that he put forward a proposal.

Even before the 2017 submission, there were already indications of possible Israeli movement. In the December 2010 EEZ agreement between Israel and Cyprus, the preamble refers to both provisions of UNCLOS and principles of international law of the sea applicable to EEZs, even though Israel has never recognized either UNCLOS or international law itself. The same document also allows for review and modification if

this is necessary in order to facilitate a future EEZ agreement acceptable to “the three states concerned”, which cannot be interpreted to mean anything but the signatories and Lebanon.



This is not to pretend that the case is cut and dry. On one issue in particular, Israel can be expected to stress that its EEZ Agreement with Cyprus is based on the same maritime starting point that Lebanon used in its own EEZ agreement with Cyprus, which was reached in 2007 but has not been ratified by Parliament. This, however, is basically the only gap in Lebanon’s legal armor in this case, and Beirut has several strong arguments with which to close it: Lebanon could counter a) that in line with the Article 18 of the Vienna Law of the Treaties, which forms part of CIL, the 2007 EEZ agreement is not valid and binding as it was never been ratified by the Lebanese Parliament; b) that point 1 was chosen as the starting point for demarcation of the Cyprus/Lebanese EEZ in order to avoid either implicitly recognizing Israel or giving it a pretext for unilateral action; and c) that the line was

never intended to be a permanent one, just an interim solution until a triple point is defined among itself, Cyprus, and Israel.

In short, the average Lebanese needs to know that a well-negotiated deal through third-party mediation or arbitration would mean a far bigger victory for Lebanon than for Israel. The latter, one should keep in mind, is already producing gas from offshore fields, so opening up new ones represents only an incremental gain, making delay less meaningful. Lebanon, by contrast, has yet to start reaping such rewards at all, so the impact of an early start means an instantly massive improvement on the status quo; the sooner it can do so without fear of Israeli aggression, therefore, the better.

There is always the possibility that Israel could seek to short-circuit any diplomatic process in which it feels unable to dictate the outcome. It might not even have to use military force to achieve its ends, only to keep tensions high enough so that no drilling can even take place.

Even a spoiling strategy could cost Israel dearly, however, by further eroding its standing in the international community, alienating key allies, and discouraging investment in its own energy sector. A shooting war would be even worse for Israel, especially since its vulnerable offshore gas facilities would figure to be the highest-value targets of any conflict and would be almost impossible to defend. It is difficult to imagine how any combination of Israeli political and military objectives in Lebanon could justify losing these facilities, which constitute one of the Israeli government's most productive cash cows.

Once again, there are signs that Israeli officials have performed similar calculations. Most conspicuous has been the absence of Israeli drilling activity in the disputed areas: no licenses have been issued for any of the Israeli blocks that extend into waters claimed by Lebanon. At least for now, and

notwithstanding some of the more strident voices, most of Israel's leadership appears willing to take a wait-and-see approach.

To keep expectations in line with realities, then, Lebanese leaders need to be mindful of what they say in public. While being as transparent as they can for domestic purposes, they also must be politically astute to avoid compromising Beirut's negotiation position, sending mixed signals, and/or closing diplomatic doors. Measured rhetoric is not a common feature of the Lebanese political arena, but the country does have a first-rate diplomatic service, so perhaps some resources could be invested in a program of regular briefings seminars – for the president, prime minister, speaker, all Cabinet ministers and MPs, and relevant senior civil servants – on how to avoid such missteps, whether at a press conference or a gala dinner.

Apart from maintaining a united front and keeping the public informed, the other priority must be to leave no stone unturned in the search for a peaceful solution. This means that in addition to the US and UN avenues, Beirut would do well to enlist other participants as well, starting with the home countries (France, Italy, and Russia) of the companies forming the consortium that won the rights to Block 9. Then there is the European Commission, which knows full well that all of its member-states stand to benefit from the development of an East Mediterranean gas industry, which would diversify the sources of energy imports, improve the security of supply, and even put downward pressure on prices, adding higher living standards and greater economic competitiveness for good measure.

All of these players could potentially help mediate a formula that works for all concerned, but nothing is more important than reanimating and extending the US mediation role. Whatever one thinks of Washington's credibility as an honest broker in the Middle East, no other actor has its capacity to influence Israeli decision-making – and so to create sufficient time and

space for diplomatic efforts to mature.

Roudi Baroudi is the CEO of Energy and Environment Holding, an independent consultancy based in Doha, and a veteran of more than three decades in the energy business.

New Energy era for Europe “there for the taking”





ATHENS: Offshore gas from the Eastern Mediterranean could usher in a new era of energy independence and economic renaissance for Europe, a regional energy expert told a high-profile industry conference in Athens on Friday.

“Almost instantly, the flow of East Med gas into Europe would mean additional diversification and flexibility of supply, closely followed by enhanced competitiveness for European industry, accelerated economic growth, and dramatic long-term improvements for public finances,” Roudi Baroudi, a veteran of more than 36 years in the oil and gas business, told the Athens Energy Conference.

While “East Med gas would be more of a complement than a competitor to supplies already flowing ... from Russia” and other countries, he explained, other factors were also likely to help Europe diversify its energy supply, putting downward pressure on prices and “reducing the potential impact of possible interruptions elsewhere”.

Baroudi, who currently serves as CEO of Energy and Environment Holding, a Doha-based independent consultancy, has advised governments, companies, and multilateral institutions on energy matters, even helping to craft policy for agencies of the European Union and the United Nations. Speaking on the sidelines of the conference, which drew a broad audience including senior figures from both the public and private sectors, he said the timing “could not be better” for Europe.

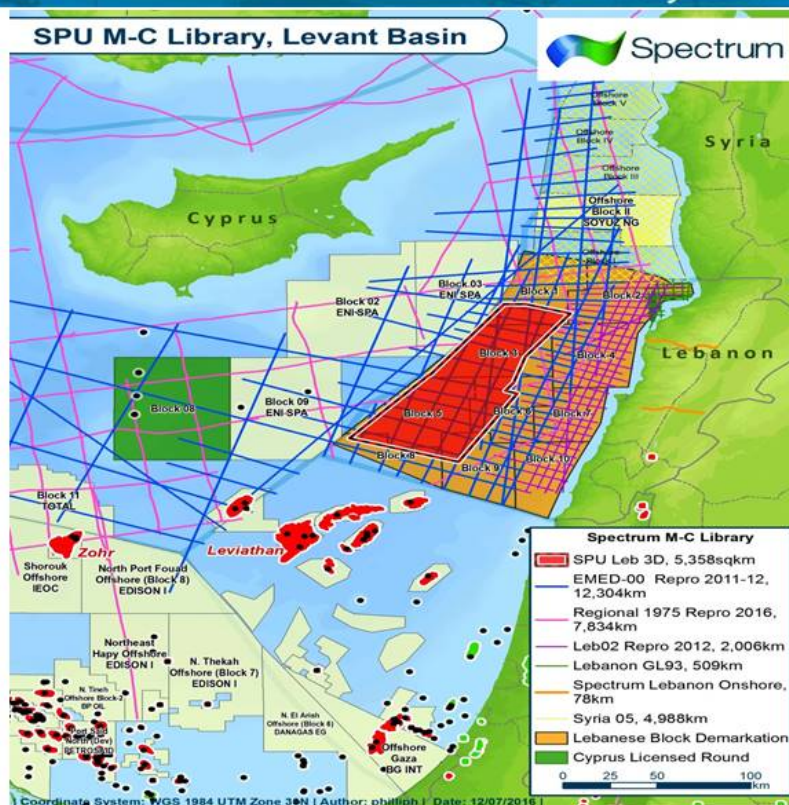
“Shale gas has made America another energy superpower alongside Russia and OPEC, and liquefied natural gas is now a fully fledged global commodity,” he said. “Plus, the East Med producers will be sitting on Europe’s doorstep, and several countries are already gearing up to start taking massive LNG

shipments. Decades of benefits for hundreds of millions of people, all there for the taking."



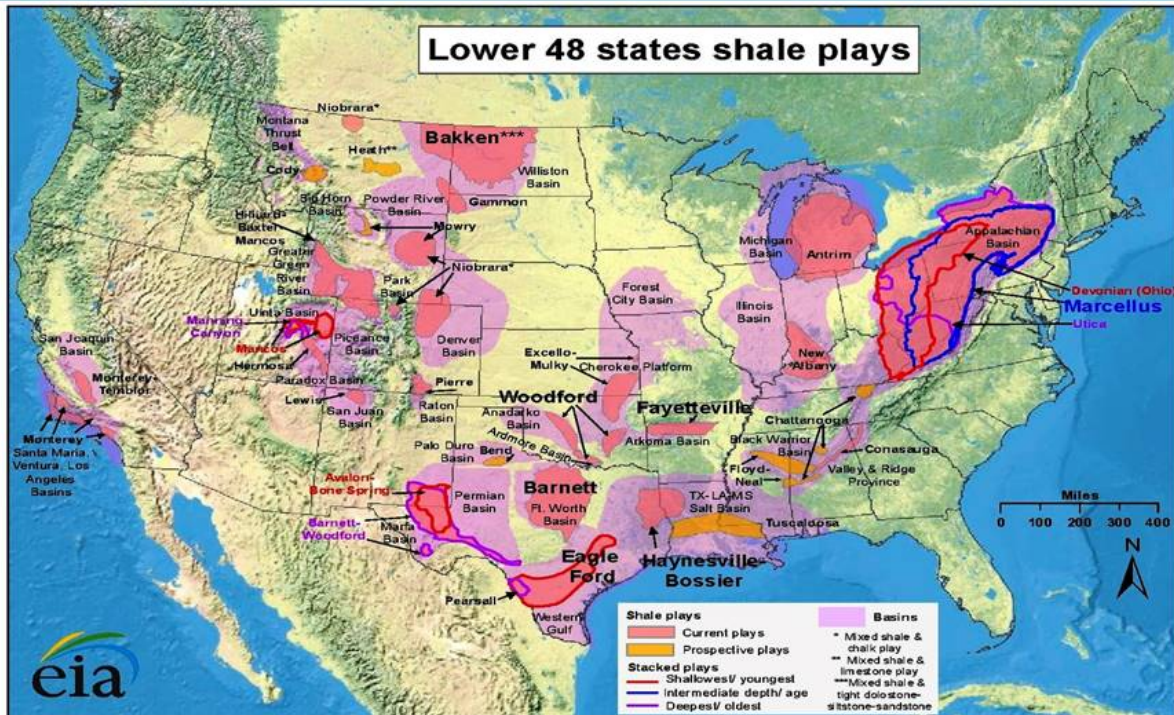
Athens Energy Forum 2018

Energy Security and Strategic Investments: The Way Forward



Athens Energy Forum 2018

Energy Security and Strategic Investments: The Way Forward



Game-changer: "Shale O&G puts America on global energy stage"

2

And expected producer countries like Cyprus, Greece, and Lebanon, Baroudi added, stand to gain even more. "For a variety of historical reasons, most of these countries have not yet achieved the levels of development enjoyed in most of the European Union," he told the conference. "Given the potential rewards for their peoples, the governments involved have nothing less than a moral responsibility to take advantage of propitious circumstances by tapping the oil and gas wealth within their respective social, economic, and geopolitical reaches." Baroudi also has emphasized some of East Med countries are not party to UNCLOS but all countries are signatories to the UN Charter. Therefore, Baroudi reminded that all these countries are under an obligation to "settle their international disputes by peaceful means in such a manner that international peace and security, and justice, are not endangered."

He also sounded notes of caution, however. For one thing, he

stressed the need for producer countries to ensure proper management of the proceeds from gas sales to pay social justice. For another, he reinstated on the same countries to avoid international tensions that might impede development of the sector.

Athens Energy Forum 2018: February 15 – 16, 2018



Overview

2017 has been another year marked by regional geopolitical tensions and rivalries but despite this very high level of volatility, new exploration projects are underway in Greece and Cyprus creating new **potential for investments in the oil & gas industry**. At a global scale, the uncertainties created by **Brexit** and the renewed friction in US-Russian relations continue to mar the possibility for regional stability as US and EU sanctions against Russia remain in full effect. The new set of challenges that will affect **EU's Climate and Energy Policy** to 2030 and beyond after President Trump's decision to

withdraw from the Paris Climate Accord.

AGENDA

THURSDAY | FEBRUARY 15

11.30

PARTICIPANTS ARRIVAL – REGISTRATION

12.00

WELCOME REMARKS:

- **Achilles Tsaltas**, Vice President, International Conferences, The New York Times

12.10

OPENING SPEECH:

- **George Stathakis**, Minister of Energy and Environment, Hellenic Republic

12.25

REMARKS:

- **Konstantinos Skrekas**, MP – New Democracy Party, Head of Energy and Environment Sector, f. Minister of Development and Competitiveness, Hellenic Republic

12.35

REMARKS:

- **Prof. Yannis Maniatis**, MP – Democratic Coalition, f. Minister of Environment, Energy & Climate Change

12.45

PANEL 1: THE GLOBAL GEOPOLITICAL PARAMETERS

- Diversification of energy sources to bring about energy independence for the region
- The impact of Brexit on EU Security & Energy Policy

- **Geoffrey R. Pyatt**, Ambassador of the United States of America to the Hellenic Republic
- **Kate Smith**, British Ambassador to the Hellenic Republic

– Energy sector as a leveraging tool despite geopolitical challenges

- **Nabil Fahmy**, Dean, School of Global Affairs & Public Policy, American University of Cairo, f. Minister of Foreign Affairs, Egypt
- **Defne Sadiklar-Arslan**, Executive Director, Atlantic Council Turkey

Introduction & Chair: **Athanasios Ellis**, Editor in Chief, Kathimerini English Edition

13.30

NETWORKING BREAK – LIGHT LUNCH

14.30

PANEL 2: STRATEGIC PRIVATIZATION OPPORTUNITIES IN THE ENERGY SECTOR

- **Laurent-Charles Thery**, Director for International Development, GRTgaz
- **George Longos**, Managing Partner, Alantra

14.50

PANEL 3: COMPLETING THE MIDSTREAM PUZZLE: EXPORTING GAS FROM THE EASTERN MED AND THE CASPIAN SEA

- Progress report on IGB and the dynamics of a second LNG imports facility in Alexandroupolis
- TAP: Progress Report and Phase 2
- The feasibility of the East Med Gas Pipeline
- The LNG export option

- The View from Greece

- **Dimitrios-Evangelos Tzortzis**, CEO, Public Gas Corporation, Greece*
- **Sotiris Nikas**, President & CEO, Hellenic Gas Transmission System Operator – DESFA, Greece*

- **Panayotis Kanellopoulos**, Managing Director, M&M Gas S.A., Greece
- The View from the Region
- **Katerina Papalexandri**, Country Manager Greece, TAP
- **Albert Nahas**, Vice President, International Affairs, Tellurian Inc., U.S.A.
- **Theodore Tsakiris**, Assistant Professor, Geopolitics & Hydrocarbons, University of Nicosia, Cyprus & Scientific Adviser Athens Energy Forum

16.45

NETWORKING BREAK

17.00

PANEL 4: THE DOMESTIC AND REGIONAL ELECTRICITY MARKET DYNAMICS

- The continuous need for complete market liberalization
- Progress report on the Inter-connectivity between the Islands and Mainland Greece
- ADMIE's privatization: the day after

Speeches:

- **Manousos Manousakis**, Chairman and CEO, Transmission System Planning Department, IPTO S.A., Greece
- **Prof. Nikos Chatziargyriou**, Chairman & CEO, Hellenic Electricity Distribution Network Operator S.A.- HEDNO, Greece
- **Stavros Goutsos**, Deputy CEO, Public Power Corporation, Greece*
- **Dinos Benroubi**, General Manager Electric Power Business Unit, MYTILINEOS, Greece

17.45

END OF THE 1ST DAY OF THE FORUM

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* TO BE CONFIRMED

FRIDAY | FEBRUARY 16

09.30

ARRIVAL OF DELEGATES – COFFEE/TEA

10.00

KEYNOTE ADDRESS:

- **Konstantinos Skrekas**, MP – New Democracy Party, Head of Energy and Environment Sector, Former Minister of Development and Competitiveness, Greece

10.15

PANEL 5: REGIONAL UPSTREAM DEVELOPMENTS: POLITICAL, REGULATORY AND ECONOMIC CHALLENGES

- The results of Cyprus' Third Licensing Round and the Onisiphoros Discovery
- Future exploration prospects in Egypt and Israel and Lebanon's untapped potential
- The entry of Exxon and Total in the Greek Upstream market
- **Yannis Bassias**, President, Hellenic Hydrocarbons Resources Management S.A., Greece
- **Yannis Grigoriou**, General Manager Exploration & Production of Hydrocarbons, Hellenic Petroleum S.A.
- **Dr. Constantinos Hadjistassou**, Ass. Professor, School of Sciences & Engineering, University of Nicosia*
- **Bernard Clement**, Vice President for Caspian and Southern Europe, Total E&P, France
- **Dimitris Gontikas**, Managing Director, Energean Oil & Gas, Greece*
- **Dr. Carole Nakhle**, CEO, Crystol Energy, U.K.

11.45

NETWORKING BREAK

12.15

PANEL 6: SUSTAINABLE DEVELOPMENT – CLIMATE CHANGE AND ENERGY

- Making energy technologies cleaner

- Responsible steps to cut carbon pollution
- Winning the global race for clean energy innovation
- **Dr. Dionysia Avgerinopoulou**, MP, f. Chairman of the Standing Committee for the Environment of the Hellenic Parliament
- **Konstantinos Xifaras**, Secretary General, World Energy Council, Hellenic National Committee
- **Dr. Spyros Kiartzis**, Manager New Technologies & Alternative Energy Sources, Hellenic Petroleum S.A.
- **Dionissis Christodoulopoulos**, Managing Director, MAN Diesel & Turbo Hellas Ltd

13.00

PANEL 7: RES, ENERGY EFFICIENCY AND TECHNOLOGICAL INNOVATION

- RES as a means of energy security
- Energy efficiency technologies as a new area for growth
- Overcoming regulatory hurdles for RES development
- **George Gkiaouris**, Senior Banker, Power & Energy, EBRD
- **Professor Xenophon E. Verykios**, Managing Director, Helbio Hydrogen & Energy Systems, Greece
- **Zisimos Daniil Mantas**, Chief Business Development Officer, Eunice Energy Group, Greece

13.45

END OF FORUM

Gulf crisis and gas: Why Qatar is boosting output



Qatar may be under economic siege but it pulled an ace from up its sleeve on 4 July by announcing that it will bolster liquid natural gas production by some 30 percent.

The move will secure Doha's position for years to come as the world's top exporter of LNG.

Naser Tamimi, a Qatari energy analyst, told MEE: "It is a very significant announcement as it will put huge pressure on the LNG projects underway in countries with higher extraction costs. It is also signals that Qatar is fighting for market share."

The announcement is also seen as a shot across the bows of Saudi Arabia and the UAE, the leads in the embargo, that Qatar is not buckling under the pressure.

Roudi Baroudi, the chief executive of Energy & Environment Holding, an independent consultancy in Doha, said: "The bottom line is this was a business decision. If politics had an impact, it was in the timing: it's possible that the move was accelerated in order to signal the country's resolve and ensure that if the siege persists, more revenues will be available to help soften the blow."

The Australia-US-Qatar tussle

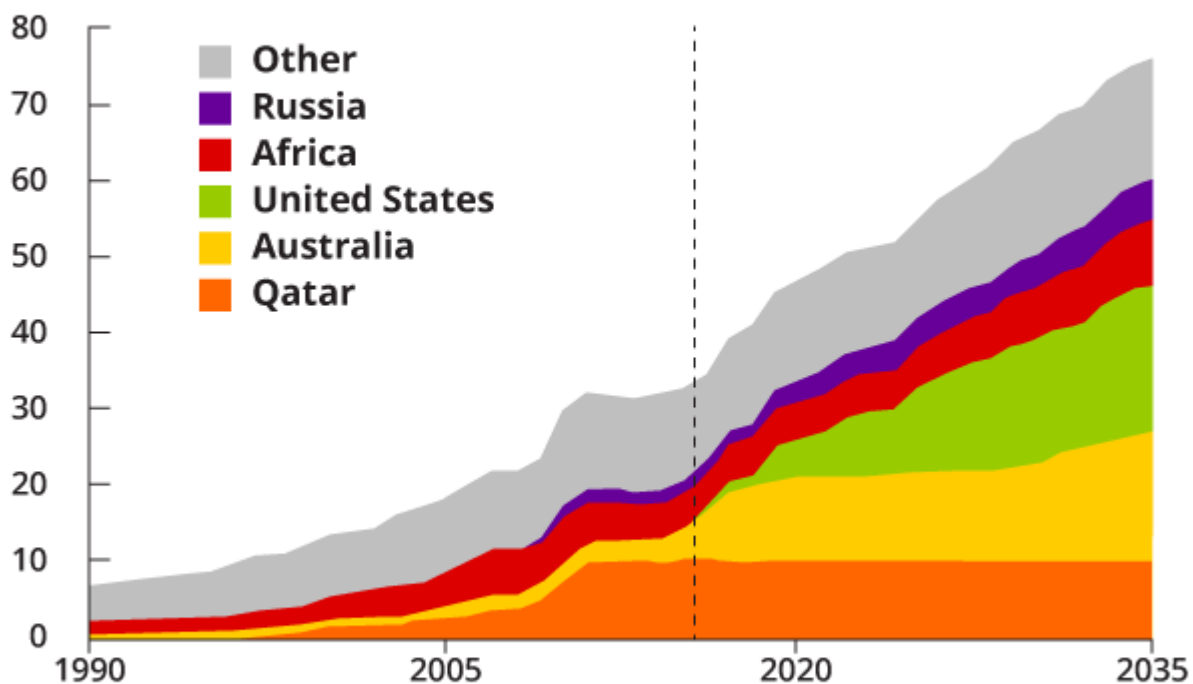
Qatar had indicated earlier this year that it would increase LNG output by 15 million tonnes (MT) but it has more than doubled that figure to 33 MT. It brings annual production up

from the current world-record of 77 MT to 100 MT.

Analysts have generally downplayed the timing of the announcement, which coincides with Doha rejecting the demands of Riyadh and its allies.

Liquid natural gas: Top suppliers 1990 -2035

*Billion cubic feet
per day*



Source: BP/2017 Energy Outlook

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But the move clearly shows that, at a global level, Qatar wields power when it comes to LNG. Claudio Steuer, director of SyEnergy, a UK-based energy consultancy focused on natural gas and LNG value chains, said: "Qatar's timing is impeccable to exploit the weakness in the current US LNG business model, and pre-empt competition from Russia, Iran, East Africa and East Mediterranean."

Australia is scheduled to become the world's largest LNG supplier during the next two years, but it's anticipated that Qatar will then be back on top by 2022 once new production

from its huge offshore North Field begins producing.

The US is also increasing its output and expected to become the world's third-largest LNG exporter by 2020, now that LNG export terminals have come online and the Trump administration is pushing energy exports.

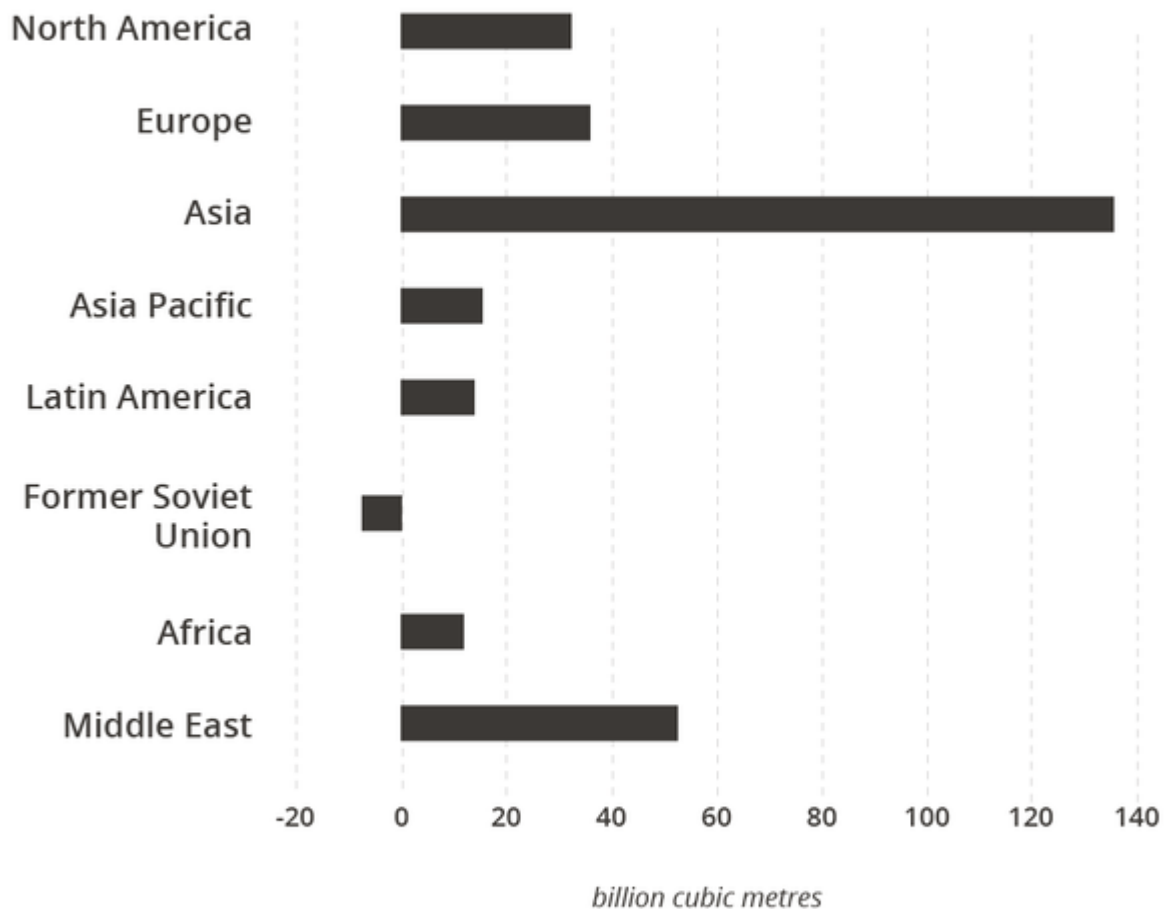
Qatar's increase will ward off such competition, primarily due to lower extraction costs in the North Field and at its liquefaction facilities, especially when compared with fracking in the US.

This will enable Doha to gain market share in countries with rising LNG demand, particularly in Asia, currently the destination for two-thirds of its LNG exports.

"Despite the strong US propaganda, the current US LNG projects costs and business model are not competitive in the growing southeast Asian markets," said Steuer.

He said that as things stand, the high costs of American LNG extraction only becomes competitive at oil prices of more than \$60 to \$70 a barrel, which will limit the scale of the expected surge of LNG supplies from the US. By way of comparison, oil prices have ranged from \$40 to \$50 a barrel during the past year.

Change in worldwide demand, 2015 – 2020



Source: Nexant



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Trevor Sikorski, head of gas and carbon at Energy Aspects, says that US gas producers will need around \$8 to \$8.50 per million British Thermal Unit (BTU) – a standard unit used for gas – to cover their capital expenditure costs and enjoy a return on their investment.

The Qataris, he said, will want a similar figure to cover investment in their new liquefaction trains – the part of an LNG plant which reduces the volume of the gas by chilling it to liquid form.

“But US costs are a dollar or two higher than what Qatar pays. If it’s a race to the bottom on prices, the US will lose.”

The risks ahead

But Qatar does face one risk: finding long-term buyers of its LNG to secure funding to underwrite the expansion.

Previous LNG projects were greenlit on the expectation of gas prices being double the current \$5 to \$6 per million BTU. Now, they’re struggling.

Qatar has managed to launch out projects, like the RasGas Train 6 – one of 13 liquefaction trains operated by state-owned RasGas and Qatargas – without long-term buyers to guarantee capital expenditures, which eases financing conditions.

Instead it operated on a “merchant basis” that reassures financiers with forecasts of rising demand.

That gamble paid off for Qatar in 2009, when RasGas 6 came online. In 2011 it was given a further boost when it used spare capacity to meet a sudden demand in LNG from Japan after the Fukushima nuclear disaster.

“They’ve taken that risk before and it worked well. If anyone can take that risk it is the Qataris,” said Sikorski.

Riyadh and Abu Dhabi will not be able to use leverage with international oil companies (IOCs) to prevent investment in Qatar. Majors like Royal Dutch Shell, Total and ExxonMobil – already heavily involved in Qatar – have already signalled their neutrality in the GCC crisis.

“I do not see any major show stoppers for Qatar in wanting to ramp up production,” said Steuer, “as all major oil and gas engineering and service providers would welcome the opportunity to secure new business in Qatar.”

The LNG expansion strengthens Qatar's ties with major oil companies while signalling to buyers that Doha can keep taps turned on, despite the crisis.

"Above all else, Qatar Petroleum must be sure it can keep its customers supplied," said Baroudi. "And they're not taking that step alone: they have partnered with some genuine heavyweights of the industry."

A blow to Saudi Arabia?

Opinion is divided as to whether Qatar's announcement raises the regional stakes in the global shift away from oil to gas.

Saudi Arabia and the Emirates, which are not gas exporters, will struggle to match Doha's output.

Shaybah, base for Saudi Aramco's LNG plant and oil production in Saudi Arabia's Empty Quarter in 2016 (AFP)

LNG is considered a cleaner fuel than oil. Major economies such as China, India and South Korea have been moving from coal power plants to gas to reduce pollution.

Steuer said: "As gas is the only fossil fuel with sustainable long-term prospects for the next 25 years, this only reinforces the current tensions involving Saudi Arabia and Qatar.

"As oil demand and prices decline, the economic power is gradually shifting away from oil-rich nations to gas and LNG rich nations. This game changes the balance of political and economic power in the Middle East."

Oil prices are key to balancing the budgets of Saudi Arabia and the UAE. Each needs target prices of \$90 and \$60 per barrel respectively in 2017 to balance the books, according to the Institute of International Finance.

Asia is considered the battleground between Qatar and Saudi Arabia for energy exports.

"I think the Saudis will lose more than the Qataris, as the Qataris depend on gas and condensate more than oil, which is not their main export," said Tamimi. Oil accounts for around 50 percent of Saudi Arabia's GDP and 85 percent of its export earnings, according to OPEC.

In December 2016, Russia overtook Saudi Arabia as the world's largest oil producer. Moscow has also been expanding its market share in China, the world's largest oil importer and third-biggest LNG importer.

"Saudi Arabia used to have 20 percent share of the Chinese market, in 2011, but in the first five months of 2017 it's down to 11 percent," said Tamimi. "It will be difficult or maybe impossible to regain that."

But while Qatar's LNG increase is equivalent to around 10 percent of global LNG capacity, Sikorski thinks it is "a bit of a stretch" to say that gas will replace oil dependency.

"To me this is a case of, 'Look GCC, we [Qatar] are not dependent on you to make our economy work, we can expand our gas exports if you try to squeeze us, and we will continue to make a lot of money on that.' That was the message to me, rather than saying LNG is the future and oil is dead."



Paul Cochrane

Gas and the Gulf crisis: How Qatar could gain the upper hand



Asian markets, military allies and a crucial pipeline all offer Doha leverage against its adversaries amid the current crisis

The blockade of Qatar, led by Saudi Arabia and the United Arab Emirates, has already had an economic impact.

Qatar, the world's second largest producer of helium, has stopped production at its two plants as it cannot export gas by land. Qatar Airways can no longer fly to 18 destinations. Qatari banks are feeling the pinch, particularly the Qatar

National Bank (QNB), the region's largest by assets, and Doha Bank: both have extensive networks across countries which are members of the Gulf Cooperation Council (GCC).

Ratings agency Standard & Poor's (S&P) downgraded Qatar's credit rating from AA to A- on 8 June. It could put it on credit watch negative, a sign that the crisis could impact investment and economic growth. Moody's followed suit, placing Qatar's AA long-term foreign and local currency Issuer Default Ratings (IDRs) on rating watch negative.

Doha is unlikely to buckle soon. It has plenty of financial muscle, not least in its sovereign wealth fund, the Qatar Investment Authority (QIA), which holds an estimated \$213.7 billion, according to the Institute of International Finance. The seed capital for that fund comes from Qatar's oil and gas exports.

Energy receipts account for half of Qatar's GDP, 85 percent of its export earnings and 70 percent of its government revenue. The crisis may affect the emirate's medium- to long-term energy contracts, as buyers diversify their imports to be less reliant on Qatari gas.

Roudi Baroudi is CEO of Energy & Environment Holding (EEH), an independent consultancy (the principal holder in EEH is Sheikh Jabor bin Yusef bin Jassim al-Thani, director general of the General Secretariat for Development Planning). He says that when it comes to oil, the advantage is with the Riyadh-led group: Saudi Arabia recently overtook Russia as the world's biggest producer; the UAE is also in the top 10.

"When it comes to gas, however, Qatar holds more and better cards," Baroudi adds.

Doha can use energy as a diplomatic tool to its advantage: how it does this will be crucial as to its attempts to ride out the current storm.

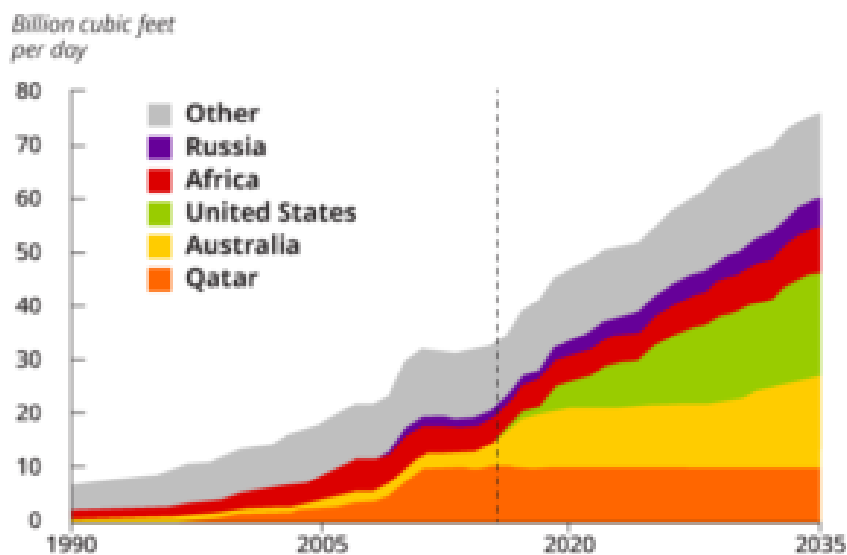
How will Qatar ship its exports?

Qatar is the world's largest liquefied natural gas (LNG) exporter, accounting for nearly one-third of global trade, at 77.8 million tonnes (MT) in 2016, according to the International Gas Union. So far there have been no interruptions to Qatari extraction or exports via the 60-plus LNG carriers that belong to the Qatar Gas Transport Company (Nakilat in Arabic).

But as a result of the crisis, state-owned firms Nakilat, Qatar Petroleum and Industries Qatar have all been downgraded.

Much of Qatar's liquefied natural gas is shipped by tanker. While there have been no reports of oil shipments being interrupted, there is concern about Qatari routes to Asia, the key buyer for the bulk of its oil as well as much of the Gulf's exports.

Liquid natural gas: Top suppliers 1990 -2035



Source: BP 2017 Energy Outlook

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Historically, Asian buyers demand a mixture of crude oil from the Gulf: usually the taker would depart the emirate with Qatari oil, then stop to refuel and add Saudi, Emirati and Omani grade crude, usually at UAE ports.

Karim Nassif, associate director at Standard & Poor's in Dubai, says: "If they are not allowed to stop and refuel as some reports suggest, then this could affect the buyers who may be anticipating a variety of crude grades."

The Daily Telegraph reported that two LNG ships bound for the UK were re-routed due to the crisis, but Baroudi says this is not an issue. "If the reports are true, it's just a by-product of how international companies are coping with the Saudi-led embargo by playing it safe."

"Say Company A was planning to deliver LNG from Qatar to the UAE, but the latter now bans Qatari ships from docking and unloading. Company A's response may well be to send an LNG carrier based in a third country to make the delivery instead, then reroute one or more others to make sure all customers are supplied."

Naser Tamimi, an independent Qatari energy expert, says that the same scenario applies to the possibility of Egypt stopping Qatari tankers using the Suez Canal; or raising fees for Qatari vessels. "The Qataris could get around it through tankers registered elsewhere, like the Marshall Islands," says Baroudi, "or divert some of their cargo going to Europe via South Africa."

He says that such moves could add about half a dollar to the cost of each British Thermal Unit (BTU) – but that the Qataris could cope with that, even if they had to absorb the cost instead of the consumer.

Around 70 percent of Qatar's LNG exports are under long-term contracts – typically of around 15 years – so production and payments are secure. The remaining exports are on short-term or spot prices that are dictated by the international markets.

Sources within the shipping industry speculate that some deals may have been called off or delayed: there have been reports from insurance and petrochemical companies that 17 LNG vessels

are now moored off Qatar's Ras Laffan LNG port – a much higher number than the usual six or seven vessels.

Will Asian markets look elsewhere?

The bulk of Qatar's LNG is destined for east Asia – and analysts say that that is unlikely to end soon.

Theodore Karasik, senior adviser at Washington-based consultancy Gulf State Analytics, says: "Qatari LNG is not affected by the sanctions and blockades, simply because GCC states require good relations with east Asian partners."

He said that if Saudi Arabia and UAE were to interrupt LNG exports to Asia, then those customers may not want to invest in the programmes intended to transform the economies of the UAE or Saudi Arabia, such as the 2030 Visions strategies.

His opinion is echoed by Baroudi. "The Asian markets aren't going anywhere. Asian countries need – and know they need – long-term relations with stable producers, and by this measure Qatar is in a class by itself. The same applies for consumer nations elsewhere, so even if the crisis were to escalate, and right now it appears to be settling down, then any interruption would be a short-term phenomenon.

"Qatari LNG simply cannot be replaced. Australia [LNG] will begin to have an impact on international markets by the end of the decade, but that just means an added degree of market competition, not replacement."

But Tamimi thinks the crisis could prompt Asian buyers to diversify their energy portfolios and lessen their dependency on Qatari gas. "They are under pressure now, and in a global context with an LNG glut," he says.

"All Qatar customers are asking for better deals, and Qatar's market share is decreasing compared to 2013 because of competition from Australia, Indonesia and also Malaysia. The

crisis is a reminder to everyone in Asia that the Middle East is not stable, that everything could change within days.”

Will Qatar shut down a key pipeline?

One scenario that would deepen the crisis still further is a lockdown of the Dolphin gas pipeline, which runs between Qatar and some of its fiercest critics.

While two-thirds of Qatari LNG is bound for Asia and Europe, around 10 percent is destined for the Middle East. Two export markets, Kuwait and Turkey, are secure due to better political relations.

But the other two – Egypt and the UAE – are among those nations currently blockading Qatar. If Riyadh and the UAE raise the ante, then it might raise questions about the pipeline’s future.

Egypt gets two-thirds of its gas needs, some 4.4 MT in 2016, from Qatar on short-term and spot prices. Cairo is firmly in the Saudi camp – but has not halted gas shipments.

Baroudi says: “Since the crisis erupted, Egypt has continued to accept shipments of Qatari gas on vessels flying other flags. The 300,000 Egyptians who live and work in Qatar have carried on as before.

“Neither country wants to burn its bridges for no good reason,” he says, “especially Egypt, which only recently staved off bankruptcy because of Qatari financial largesse,” a reference to the \$6 billion Qatar provided in the wake of the 2011 Egyptian uprising.

But it is the Dolphin pipeline, which carries Qatari gas to the UAE and Oman, that is the most contentious issue. The UAE imports 17.7 billion cubic metres (BCM) of natural gas from Qatar, according to the BP Statistical Review 2016, equivalent to more than a quarter of the UAE’s gas supply.

Nassif says: "The Qataris have indicated that the supply of gas through Dolphin to the UAE and Oman will continue. We have no concerns at present of any armageddon scenario of Qatar changing its stance on this."

Either side would lose significantly if the gas was stopped, especially during the summer when power generation is at its peak to keep the air conditioning on. Halting supply would be the Gulf equivalent of Russia turning off the gas to Ukraine in January 2009.

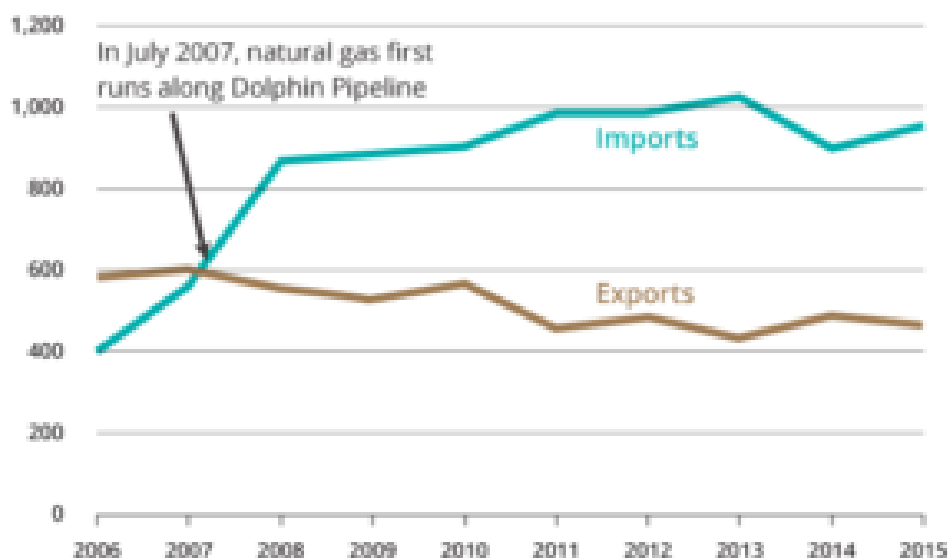
"The UAE would immediately face extensive blackouts without it," says Baroudi. "They would be shooting themselves in the foot if they were to interfere with gas shipments, and Qatar views the pipeline as a permanent fixture, not something to be manipulated for the sake of short-term political gain."

"As a result, neither side has any interest in changing the status quo – and neither has communicated any consideration of such a step."

Analysts say that both sides have contingency plans should the Dolphin pipeline shut down – but, says Tamimi, the UAE will find it hard to compensate for the loss of Qatari gas.

United Arab Emirates natural gas imports and exports

Billion cubic feet



Source: OPEC Annual Statistics Bulletin 2016

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“They’ll have to import LNG as no one can send it by pipeline. That will cost three times the price they’re getting from the Qataris. There is no official price but it is estimated at \$1.6 to \$1.7 per BTU, so around \$1.1 billion [in total].

“If the UAE wants to stop the Qatari imports, they’d have to pay three times that amount at the current price as LNG is linked to the price of oil.”

A stoppage on either side would also violate bilateral agreements. “If the UAE violates it, the Qataris can sue them and vice versa. If the Qataris do it, it would also send a bad message to their customers, to use gas for political reasons.”

Such a move by Qatar would also undermine its strategy of saying it has been unfairly treated by the GCC and is abiding commercial contracts – unlike the UAE and Saudi Arabia, as Qatar Airways CEO Akbar Al-Baker told the press.

Will there be a land grab by Saudi?

Analysts have not ruled out further sanctions by the UAE and

Saudi amid the current crisis. Any move on blocking energy exports, including the Dolphin pipeline, would be viewed as a serious escalation by Doha as it would cripple its economy.

One hypothetical scenario being actively debated at a political level, according to analysts, is an all-encompassing blockade of Qatar as part of Riyadh's and the UAE's plans to re-organise the Gulf Cooperation Council – and, unless there is a change of regime in Doha, kick out Qatar (let's call it a "Qatexit").

An extension of this scenario is an outright land grab by Saudi Arabia of Qatar's energy assets. These would then fund Deputy Crown Prince Mohammed bin Salman's Vision 2030 strategy to diversify the kingdom's economy.

Karasik says: "Arguably the national transformation plan and Vision 2030 may not be going so well. In addition the (\$2 trillion) Saudi Aramco IPO may not achieve its fully stated value. If this is the case, then Saudi is going to need an injection of wealth and will have to do it fast.

"In other words, Riyadh may look for a piggy bank to rob."

Such a move by Riyadh would be armageddon for the Qatari royal family. The emir of Qatar would be forced to stand down – as Emirati real estate mogul and media pundit Khalaf al-Habtoor has suggested – or Riyadh could take control of the kingdom.

Baroudi believes that the crisis is settling down and will soon be resolved. Other analysts have pointed to the recent \$12 billion US fighter jet deal with Qatar, indicating that Riyadh and the UAE will not get their way. The Al-Udeid US air base, which is the headquarters of Central Command, covers 20 countries in the region.

Turkish troops, who arrived in Qatar for training exercises this week, could also help turn the heat down, now that the two countries have signed a defence pact. Ankara has the

region's largest standing army, with its presence near the Saudi border (Qatar's only land border) considered a deterrent.

But other analysts see no sign of tension ebbing soon. They flag how the descendants of Ibn Abd al-Wahhab – the founding father of Wahhabism, both Saudi and Qatar's dominant theology – have distanced themselves from the emirate's ruling family, undermining its legitimacy. The rhetoric against Qatar from Riyadh and the UAE continues unabated. Last week, the UAE called on the US to move the Al Udeid air base out of Qatar.

"There are no more black swans in our world," says Karasik. "This idea [of a land grab] is something people are starting to talk about."

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