

# Taxing the intangible economy



By Roger E A Farmer/London

Some very clever people, including the president of the European Central Bank, Mario Draghi, and Andy Haldane, chief economist at the Bank of England, are expressing concerns over the slowdown in productivity growth.

And, given that productivity (measured as GDP per hour worked) is the ultimate driver of increases in living standards, they are right to be worried.

For most people in the West, wages and living standards have stagnated for decades.

If you were a factory worker in the north of England in 1970, for example, odds are good that your children will earn less in real terms than you did 50 years ago.

The same is true for workers elsewhere in Europe and in the United States, an economic reality that is partly responsible for the rise of populist politics.

The trajectory has been trending down for years.

Average annual productivity growth in five OECD countries – France, Germany, Japan, the US, and the United Kingdom – was 2.4% in the 1970s.

During the decade after 2005, it was 0.6% in those countries. And, although the “Great Recession” that started in 2007 contributed to the decline, the average had been falling well before the financial crisis began.

Lower productivity growth has meant reduced living standards for many, but not all.

For a financial analyst on Wall Street or in the City of London, life isn’t so bad.

And for the independently wealthy – especially those with a majority of income derived from a stock portfolio – standards of living have actually increased in recent decades.

But it’s worth asking how much of this increased prosperity was paid in the form of taxes, because the answer – not as much as if income had been in wages and salaries – is one reason why so many economists are so worried.

Consider that capital gains for top earners in the UK are taxed at 28%, and the ceiling in the US is 20%. By comparison, the top rates for income tax are 45% and 39%, respectively.

In other words, when high-tech companies pay their workers with stock options, as many are increasingly doing, the gap in taxable revenue is significant – 17% in the UK, and 19% in the US, to be precise.

With an ever-greater proportion of national wealth being channelled into stock appreciation, the lost revenue will need to be found in other places.

The disparity is even more striking in other parts of Europe. In Italy and Belgium, residents pay no capital gains tax; a rich Belgian who receives all of his or her income in the form of stock options can avoid paying income tax entirely.

Among Europe’s biggest economies, Germany is the only exception; there, capital gains are treated as ordinary income, so there is no loss to the government when income is received as stock appreciation as opposed to dividends.

Digital music, mobile apps, Google, and Twitter – these and other “intangible” technological miracles have changed our lives.

But the many benefits of modern innovation have not been

reflected in standard measures of GDP.

As Jonathan Haskel and Stian Westlake point out in their new book, *Capitalism without Capital*, one explanation is that the measurements themselves are inadequate.

For example, in the past, making an investment meant purchasing a new factory or a new machine; it was the acquisition of a physical asset that appeared immediately in GDP statistics.

Today, though, investments often refer to something impossible to touch – like computer software, branding, or an archive of data.

These “intangible investments” are booked in GDP accounts as intermediate goods, not as output.

But intangible investments influence company profitability.

If technology companies’ profits are continually reinvested as intangibles, earnings may never appear as output in GDP statistics, but they will affect the company’s market value.

For government leaders concerned with providing goods and services during a period of slow growth, getting a handle on this unmeasured GDP is essential.

Fortunately, there is a solution.

As I have argued on my blog, we must rethink how tax revenue is raised.

If all income were taxed at the same rate, intangible investments made by companies would still generate revenue in the form of taxes paid by the companies’ wealthy owners.

The alternative – to maintain the status quo – will only ensure that as growth in the intangible economy intensifies, current revenue gaps will eventually become gaping holes. –

Project Syndicate

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# Is Europe America's friend or foe?



By Jean Pisani-Ferry/Paris

Since Donald Trump became US president in January 2017, his conduct has been astonishingly erratic, but his policies have been more consistent than foreseen by most observers. Trump's volatility has been disconcerting, but on the whole he has acted in accordance with promises made on the campaign trail and with views held long before anyone considered his election possible. Accordingly, a new cottage industry in rational theories of Trump's seemingly irrational behaviour has developed.

The latest challenge is to make sense of his stance towards Europe. At a rally on June 28, he said: "We love the countries of the European Union. But the European Union, of course, was set up to take advantage of the United States. And you know what, we can't let that happen." During his recent trip to the

continent, he called the EU “a foe” and said it was “possibly as bad as China.” Regarding Brexit, he declared that British Prime Minister Theresa May should have “sued” the EU. Then came the truce, on July 25: Trump and Jean-Claude Juncker, the president of the European Commission, agreed to work jointly on an agenda of free trade and World Trade Organisation reform.

So it seems we are friends again – or perhaps just resting before the dispute resumes. But the deeper question remains: Why has Trump repeatedly attacked America’s oldest and most reliable ally? Why does he seem to despise the EU so deeply? Why should the US try to undermine Europe, rather than seeking closer co-operation to protect its economic and geopolitical interests?

Trump’s approach is particularly striking given that China’s rapid emergence as a strategic rival is America’s main national security issue. Contrary to earlier hopes, China is converging with the West neither politically nor economically, because the role of the state and the ruling party in co-ordinating activities remains far greater. Geopolitically, China has been actively building clienteles, most visibly through its Belt and Road Initiative, and it intends to “foster a new type of international relations” that departs from the model promoted by the US in the twentieth century. Militarily, it has embarked on a significant build-up. Obviously, China, not Europe, is the number one challenge to US world supremacy.

Former president Barack Obama’s China strategy combined dialogue and pressure. He started building two mega-economic alliances that excluded China and Russia: the Trans-Pacific Partnership with 11 other Pacific Rim countries, and the Transatlantic Trade and Investment Partnership with the European Union. But Trump withdrew the US from the TPP and killed the TTIP before it was born. Then he opened a trade rift with the EU. And he has attacked both the EU and its member states, especially Germany.

There are three possible explanations. One is Trump’s peculiar

obsession with bilateral trade balances. According to this view, Trump regards Germany, the rest of Europe, and China as equally threatening competitors. Nobody else thinks this makes economic sense. And the only result he can expect from this strategy is to hurt and weaken the long-standing Atlantic partnership. But he has been complaining about Mercedes cars in the streets of New York City at least since the 1990s.

A second explanation is that Trump wants to prevent the EU from positioning itself as the third player in a trilateral game. If the US intends to turn the relationship with China into a bilateral power struggle, there are good reasons for it to regard the EU as an obstacle. Because it is itself governed by law, the EU is bound to oppose a purely transactional approach to international relations. And a united Europe that commands access to the world's largest market is not a trivial player. But after the EU has been undermined, if not disbanded, weak and divided European countries would have no choice but to rally behind the US.

Finally, a more political reading of Trump's behaviour is that he is seeking regime change in Europe. In fact, he has not disguised his belief that Europe is "losing its culture" because it has let immigration "change its fabric." And Stephen Bannon, his former chief strategist, has announced that he will spend half of his time in Europe to help build an alliance of nationalist parties and win a majority in next May's European Parliament elections.

A few weeks ago, only the first reading looked plausible. The other two could be dismissed as fantasies inspired by conspiracy theories. No US president had ever presented the EU as a plot to weaken the US. Indeed, all of Trump's postwar predecessors would have recoiled in horror at the idea of the EU's dissolution. But the US president has gone too far for Europe to dismiss the more dismal scenarios.

For the EU, this is a pivotal moment. In the 1950s, it was launched beneath the US security umbrella and with America's blessing. Since then, it has been built as a geopolitical experiment conducted under US protection and in the context of

a US-led international system. For this reason, its external dimensions – economically, diplomatically, or regarding security – have always come second to its internal development.

What the recent crisis signifies is that this is no longer true. Europe must now define its strategic stance vis-à-vis a more distant and possibly hostile US, and vis-à-vis rising powers that have no reason to be kind to it. It must stand for its values. And it must urgently decide what it intends to do regarding its security and defence, its neighbourhood policy, and its border protection. This is an acid test.

Economically, the EU still has the potential to be a global player. The size of its market, the strength of its major companies, a unified trade policy, a common regulatory policy, a single competition authority, and a currency that is second only to the dollar are major assets. It could – and should – use them to push for a revamping of international relations that addresses legitimate US grievances vis-à-vis China and legitimate Chinese concerns over its international role. Europe has played a leading role in fighting climate change; it could do the same for trade, investment, or finance.

Europe's main problem is political, not economic. The challenge it is facing comes at a moment when it is divided between island and continent, North and South, and East and West. And the questions posed are fundamental: What defines a nation? Who is in charge of borders? Who guarantees security? Is the EU based on shared values or on the pure calculus of national interests?

If the EU fails to define itself for a world that is fundamentally different from that of ten years ago, it probably will not survive as a meaningful institution. If it does, however, it may regain the sense of purpose and legitimacy in the eyes of citizens that years of economic and political setbacks have eroded. – Project Syndicate

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## **Total's Q2 profit jumps 44% to \$3.6bn**

French oil and gas major Total raised its 2018 savings and oil production targets after a new record quarterly output, cost savings, and high oil prices lifted its net profit in the second quarter. The group said adjusted net profit for the second quarter soared 44% to \$3.6bn, beating analysts' estimates of \$3.4bn. Oil production rose by 8.7% to 2.717mn barrels of oil equivalent per day, driven by the early completion of the Maersk Oil deal, and the ramp-up of several projects including Yamal LNG in Russia and Moho Nord in Congo. Total raised its production growth target to 7% in 2018 from 6% previously, expecting a boost from the start-up of its Kaombo North project in Angola, Egina in Nigeria, Australia's Ichthys LNG and Tempa Rossa in Italy. It said cost savings measures were on track to surpass the \$4bn target for the year and reach \$4.2bn over the 2014-2018 period.

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## **BP pays \$10.5bn for BHP shale assets to beef up US business**





Reuters/Melbourne/London

BP has agreed to buy US shale oil and gas assets from global miner BHP Billiton for \$10.5bn, expanding the British oil major's footprint in some of the nation's most productive oil basins in its biggest deal in nearly 20 years.

The acquisition of about 500,000 producing acres marks a turning point for BP since the Deepwater Horizon rig disaster in the Gulf of Mexico in 2010, for which the company is still paying off more than \$65bn in penalties and clean-up costs.

"This is a transformational acquisition for our (onshore US) business, a major step in delivering our upstream strategy and a world-class addition to BP's distinctive portfolio," BP chief executive Bob Dudley said in a statement.

In a further sign of the upturn in its fortunes, BP said it would increase its quarterly dividend for the first time in nearly four years and announced a \$6bn share buyback, to be partly funded by selling some upstream assets.

The sale ends a disastrous seven-year foray by BHP into shale on which the company effectively blew up \$19bn of shareholders' funds.

Investors led by US hedge fund Elliott Management have been pressing the mining company to jettison the onshore assets for

the past 18 months.

BHP put the business up for sale last August. The sale price was better than the \$8bn to \$10bn that analysts had expected, and investors were pleased that BHP planned to return the proceeds to shareholders. "It was the wrong environment to have bought the assets when they did but this is the right market to have sold them in," said Craig Evans, co-portfolio manager of the Tribeca Global Natural Resources Fund.

BHP first acquired shale assets in 2011 for more than \$20bn with the takeover of Petrohawk Energy and shale gas interests from Chesapeake Energy Corp at the peak of the oil boom.

It spent a further \$20bn developing the assets, but suffered as gas and oil prices collapsed, triggering massive writedowns.

The world's biggest miner said it would record a further one-off shale charge of about \$2.8bn post-tax in its 2018 financial year results. BP The deal, BP's biggest since it bought oil company Atlantic Richfield Co in 1999, will increase its US onshore oil and gas resources by 57%. BP will acquire BHP's unit holding Eagle Ford, Haynesville and Permian Basin shale assets for \$10.5bn, giving it "some of the best acreage in some of the best basins in the onshore US," the company said.

Its bid beat rivals including Royal Dutch Shell and Chevron Corp for the assets, which have combined production of 190,000 barrels of oil equivalent per day (boe/d) and 4.6bn barrels of oil equivalent resources.

The acquisition could push BP's total US production to 1mn barrels of oil equivalent per day (boe/d) in two years and close to 1.4mn boe/d by 2025, said Maxim Petrov, a Wood Mackenzie analyst.

"The Permian acreage offers the biggest longer-term upside, with some of the best breakevens in the play, well below \$50 per barrel," said Petrov. The deal would turn the onshore United States into "a heartland business in the company," Bernard Looney, BP's head of upstream, said in a call with analysts. It will bring BP into the oil-rich Permian basin in

West Texas, where production has surged in recent years. With it, BP's onshore oil production will jump from 10,000 barrels per day to 200,000bpd by the mid-2020s, Looney said. BP said the transaction would boost its earnings and cash flow per share and it would still be able to maintain its gearing within a 20-30% range.

The company also said it would increase its quarterly dividend by 2.5% to 10.25 cents a share, the first rise in 15 quarters. Meanwhile, a unit of Merit Energy Company will buy BHP Billiton Petroleum (Arkansas) and the Fayetteville assets, for \$0.3bn.

Tribeca's Evans welcomed the clean exit for cash, rather than asset swaps which BHP had flagged as a possibility.

"It leaves the company good scope to focus on their far better offshore oil business," he said.

BHP chief executive Andrew Mackenzie said the company had delivered on its promise to get value for its shale assets, while the sale was consistent with a long-term plan to simplify and strengthen its portfolio. BHP shares rose 2.3% after the announcement, outperforming the broader market and rival Rio Tinto.

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## **ExxonMobil second-quarter net income jumps 18% to \$4bn**



Higher Oil prices drove increased profits for US Oil giant ExxonMobil, but the earnings report yesterday missed analyst expectations due to natural gas outages and refining downtime. Net income jumped 18% in the second quarter to \$4bn compared to the same period a year earlier.

That translated into 92 cents a share, well below the \$1.27 expected by analysts. Revenues rose 26.6% to \$73.5bn, the company announced.

The results follow jumps in profits for Royal Dutch Shell and Total reported on Thursday and illustrate the bounce from oil prices.

Crude mostly traded in a range of \$65 to \$75 a barrel during the quarter, up from the \$45 to \$50 range in the year-ago period.

But ExxonMobil reported another significant slide in oil and gas production, which dipped 7% to 3.6mn barrels a day of oil-equivalent. The company said natural gas output was especially weak, diving 10%.

Downtime in refining also hit results, due mostly to an unusually high number of planned refining outages at various plants and some unplanned maintenance following incidents at facilities in the first quarter, the company said. ExxonMobil shares slumped 4.0% to \$80.84 in pre-market trading.

## Chevron

US oil and natural gas producer Chevron Corp posted a lower-than-expected quarterly profit yesterday and executives launched a long-awaited \$3bn share buyback programme.

Shares of the San Ramon, California-based company fell 2.4% to \$121 in pre-market trading.

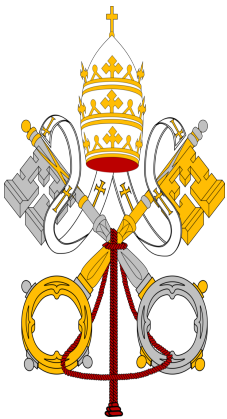
The company posted second-quarter net income of \$3.41bn, or \$1.78 per share, compared to \$1.45bn, or 77 cents per share, in the year-ago quarter.

Analysts expected earnings of \$2.09 per share, according to Thomson Reuters I/B/E/S. Chevron's expenses rose about 15% during the quarter to \$37.33bn.

Production rose about 2% to 2.83mn barrels of oil equivalent per day. "Results in 2018 benefited from higher crude oil prices, strong operations and higher production," chief executive Mike Wirth said in a press release.

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## Vatican launches live translation app for papal events



Catholics can now listen to Pope Francis' speeches live in five languages following the launch of a new smartphone app, the Vatican announced on Friday.

Vatican Audio translates Francis, who usually addresses the faithful in Italian, into Spanish, English, French, German and Portuguese, also offering Italian when he speaks in his native Spanish.

A Vatican spokesperson told AFP that the app will work for the pope's Angelus speech this Sunday, finally enabling the thousands of people who will flock to St. Peter's Square from around the world to understand the pontiff.

Vatican Audio will also work on Tuesday, when Francis will



meet 60,000 altar boys and girls – mainly teenagers – taking part in a week-long pilgrimage to Rome from over a dozen countries. (AFP)

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## **GLOBAL LNG-Prices rise as heat grips Japan, but more Yamal flows seen**



July 27 (Reuters) – Asian spot liquefied natural gas (LNG) prices rose this week as a heatwave gripped Japan and high temperatures swept across South Korea and parts of China boosting cooling demand though relief is set to come from new Russian supplies.

Spot prices for September LNG-AS delivery in Asia were assessed at \$9.75 per million British thermal units (Btu), up 25 cents from the previous week.

Contrary to previous forecasts, temperatures in Japan stayed above average in a prolonged heatwave that killed dozens of people. It also prompted electric utilities to fire up mothballed oil and gas-fired power plants left on standby.

The heat hit South Korea too but any increase in gas demand may be muted by the start-up of the 950-megawatt Hanul No.2 nuclear reactor, which is expected to be fully operational by Sunday.

LNG imports into South Korea hit record levels in the first half of the year but such volumes will not be sustainable as anticipated nuclear start-ups will leave an average of only six reactors offline over the rest of the year.

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The second train at Novatek's Arctic Russian operations in Yamal has started operations, one trader said. Novatek said last year that the second train would start operations in the third quarter of this year.

"The start of Yamal's Train 2 is easing the pain for buyers but demand due to the heatwave seems to be picking up," said one trader.

Papua New Guinea launched a tender offering a cargo for Aug. 22-29 and the bids were seen to be bullish although the result is not yet known, the trader said.

However, Russia's Sakhalin II cargo offered in the first half of September was sold to a shareholder of the plant for an estimated \$9.70 per mmBtu. Another trader cited a potential transaction range of \$9.65-\$9.70 per mmBtu.

He sees September prices around the \$9.75 per mmBtu mark.

Aside from Yamal, traders were also waiting on new supplies from Japan's Inpex, which expects its Ichthys plant in Australia to start up in September.



European spot prices so far remain uncompetitive with Asia in drawing away Qatari cargoes, as storage inventories recover across the continent. (Reporting by Sabina Zawadzki in LONDON, editing by David Evans)

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## Donald Trump hoping to call Gulf states to Washington summit



US hopes to defuse simmering dispute between Qatar and other key states in the region

Donald Trump's advisers are hoping to call the leaders of the Gulf states to a summit in Washington this Autumn, despite Saudi Arabia and the United Arab Emirates' insistence that they will not drop their demand for Qatar to cease its disruption across the region.

Key figures in the alliance of four Gulf states boycotting Qatar are wary of the Trump summit agenda, but say privately they are willing in principle to attend.

Qatar has been pressing for months for a summit, believing there can be no progress in the Gulf dispute without the involvement of the US. It has lobbied the US to acknowledge that the year-long collapse in Gulf unity is damaging to US interests. It also claims US reliance on a reckless Saudi foreign policy could lead to chaos in Iran and the energy markets, paralysis in Yemen and extended proxy conflicts in the Horn of Africa and Libya.

The US secretary of state, Mike Pompeo, has urged all sides to end the dispute.

Gulf leaders privately concede they have collectively become locked in a dispute that appears ugly, and sometimes petty-minded, and so damaging the image of all Arab states in the eyes of the west. Much of the propaganda, such as hiring protesters, is designed for domestic Arab media. But they insist the underlying issues at stake are too important to abandon, and that Qatar's independent-minded royal family is ultimately culpable by reneging on commitments made in 2014.

The four Gulf states – UAE, Saudi, Bahrain and Egypt – launched a blockade on Qatar in June last year, expecting the gas-rich kingdom to succumb to the economic squeeze within months. More than a year later, with millions spent by both sides on lobbyists, PR firms and contracts, the Gulf Cooperation Council is nearly defunct and a frustrated Saudi Arabia is reduced to discussing whether to dig a ditch across its border with Qatar, in effect turning the Qatar peninsula into an island.

The two demands on Qatar, according to the UAE foreign minister, Anwar Gargash, have now boiled down to a requirement that Qatar ends "its million pounds of interference in the

internal affairs” of the boycotting states, and stop its “irresponsible financial support” for political Islam including the Muslim Brotherhood and Hamas.

“The Brotherhood is an incubator – the gateway drug – to jihadism of all kinds,” Gargash said at a speech on Thursday to the British centre-right thinktank Policy Exchange.

Gargash said that if the dispute could not be resolved, the aim should be that Qatar is “no longer seen as a crisis, but as the new state of affairs”. He argued that in the Middle East three forces were competing against each another – Iran, the Muslim Brotherhood, and the modernising Gulf States increasingly open to women’s equality, represented by the UAE and Saudi Arabia.

Qatar, far from siding with its natural allies in the Gulf, was backing extremism and Iran, he said. Gargash also claimed Qatar was funding the Iranian-backed Houthi rebels in Yemen.

But Qatari officials this week, during Emir Sheikh Tamim bin Hamad’s visit to London, presented their country as a reliable ally of the west and pointed to the reckless foreign policy judgments of the Saudis, in particular in Yemen’s civil war.

Qatar and the US “laid the foundation stone for expanding” the chief US airbase in the Middle East at al-Udeid, located 35km southwest of Doha, they said. The US has flown tens of thousands of missions against Islamic State from the base, which houses 10,000 US armed forces. This hardly suggests Qatar is hostile to the US, the officials said.

More concerning for the US is the possibility that if the Gulf dispute drags on, Iran and Qatar could find themselves pushed towards one another in a diplomatic embrace born of mutual isolation. That would be a high price for the US to pay for letting the dispute fester.

Qatar, unlike the other Gulf states, has sided with Europe,

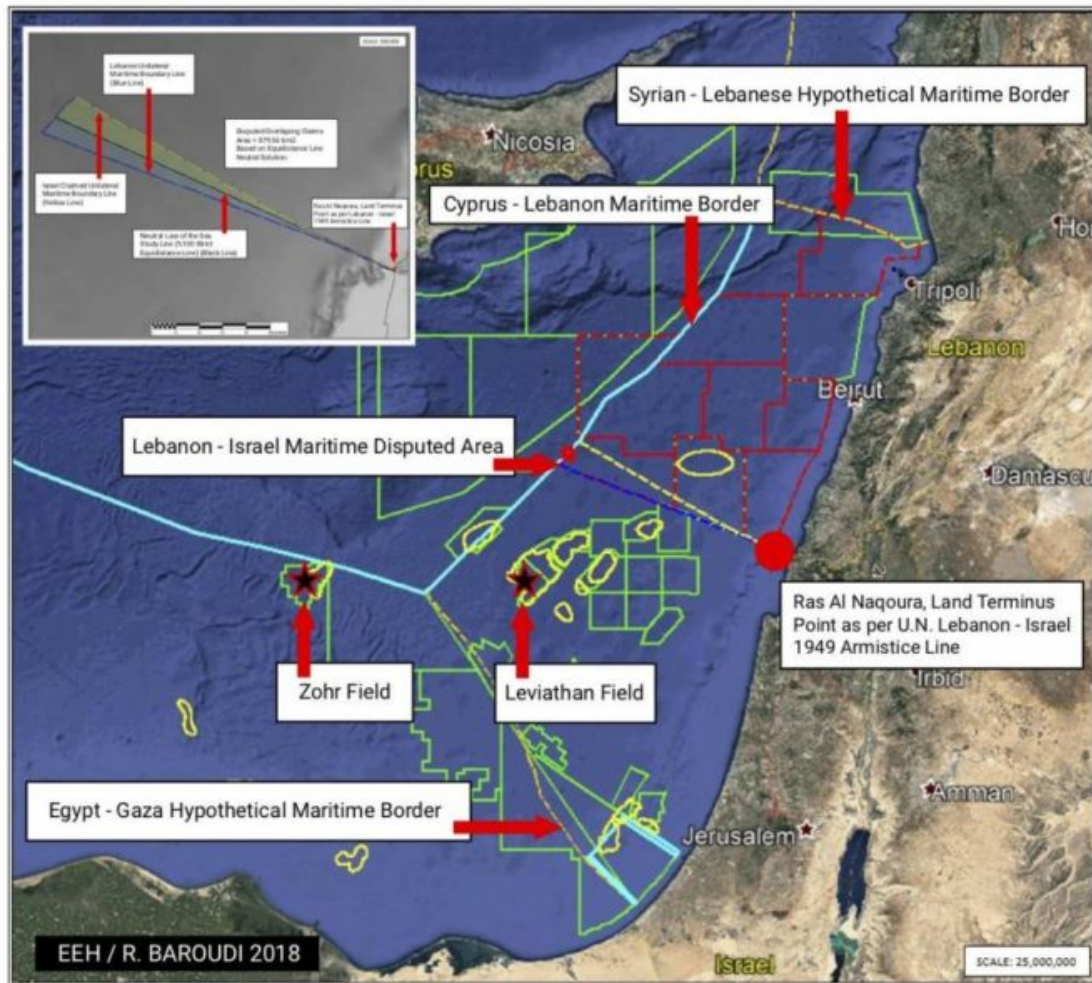
and not the US, in saying Iran has complied with the nuclear deal – the JCPOA – signed in 2015. It regards US policy as likely to lead to chaos, rather than regime change favourable to the west. It was noticeable this week that Qatar was willing to warn Britain that Iran could well block the Straits of Hormuz if the US pushed sanctions too fiercely.

In the battle for Washington's ear, the Saudi-UAE support for Trump's stance on Iran may yet prove decisive. But Gargash admits he is worried by the divergence between Europe and the US on Iran. Privately, some Gulf leaders would like to see Trump temper his anti-Europe rhetoric on trade in the interests of bringing Europe on board for the US plan to isolate Iran.

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**Lebanon-Israel maritime  
dispute: Hundreds of billions  
of reasons to negotiate**

## Artistic/ Hypothetical Maritime Boundaries Lines (For Illustration Purposes Only)



DOHA: For months, Lebanon and Israel have been at a historic crossroads over how to settle their maritime boundary dispute.

Although their competing claims concern a patch of water of less than 900 square kilometers, it is the potential reserves of oil and, especially, natural gas worth billions of dollars that are at the heart of the dispute.

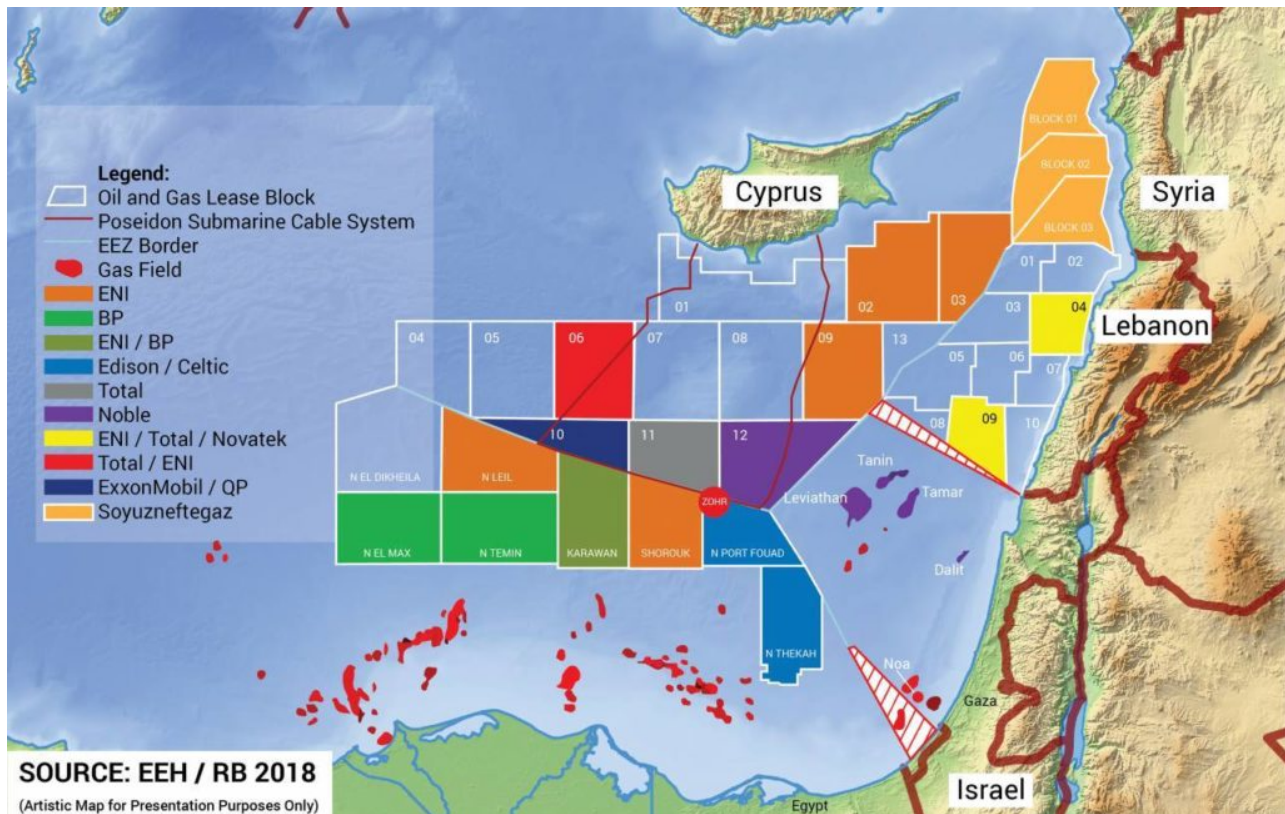
Now both sides acknowledge that US-led efforts to settle the matter diplomatically are still underway. Given the fact that that the two sides do not have diplomatic relations and have been, legally speaking, at war since 1948, resolving this dispute was always going to be a challenge. But it is not impossible. Even if no direct talks can take place between the two countries, both international law, in general, and those associated with the United Nations, in particular, feature institutions, procedures, legal standards, and mechanisms that could help resolve the dispute.

In addition, if attempts to find a solution enjoy the active support and participation of the United States, the UN, and the international community in general, and if the parties are patient, there is a very real chance of success. Significantly, too, as members of the United Nations, both countries have shared obligations under the UN Charter to settle their disputes peacefully and to refrain from the threat or use of force.

Even more crucially, both countries share massive incentives to avoid any kind of action that threatens to upset the development of their respective energy sectors. It is true, as Israeli Energy Minister Yuval Steinitz said recently, that diplomatic negotiations could well delay exploration, delaying Israel's plans to expand its existing production of natural gas. The same applies for Lebanon's efforts to get its own energy sector off the ground. But this is insignificant, in the grand scheme of things, compared to the interruptions in gas exploration that could be expected to result from the outbreak of a shooting war, not to mention the direct and indirect costs – in blood and treasure alike – of such a conflict. All told, the drag on the economic prosperity of



both countries would outlast the fighting itself as foreign investors and qualified insurers would be spooked for years.



By contrast, if the parties successfully avoid conflict, both of them stand to reap enormous rewards. For Israel, the resolution of the dispute would free it to further expand an industry which is already supplying valuable fuel for power generation and other domestic needs, as well as exporting gas since commencing sales to Jordan earlier this year, and is now gearing up to implement the deal to provide Egypt with some USD 15 billion worth of gas over the next 10 years. This is because opening up the disputed area to exploration and production is likely to enlarge the size of Israel's gas reserves and revenues. And more importantly, the real prize of resolving the dispute would be an improved risk environment, which would boost the business and investment environments for all Israeli companies, not just energy ones.

For Lebanon, the potential significance of gas exploration and development starting sooner is even greater since none are yet underway. Almost as soon as production were to begin, the

national fuel bill would fall substantially, and the state-run Electricité du Liban (EDL) would be able to run some of its generating plants on gas, for which they were designed, rather than the more polluting, more expensive, and less efficient gas oil they currently use. Shortly thereafter, Lebanon's improved economic prospects – and the reduction in political risks – would lower the cost of credit and make it cheaper to repay its large debt. Eventually, some of the gas produced could even be exported, providing the Lebanese government with new revenues which, if properly managed and invested, could help fight poverty, improve education, infrastructure, and spark a historic socioeconomic rebirth.

For both sides, then, the best way forward is clearly the same: to get rid of the obstacles as quickly and as painlessly as possible, and then get down to business. Since this is a win-win situation, reaching an agreement would be relatively straightforward if we were talking about countries in other parts of the world. We are, however, talking about Lebanon and Israel and the region that surrounds them. And that makes reaching an agreement much more complicated.

This is because some of the obstacles to any sort of Libano-Israeli agreement are effectively insurmountable, at least for the foreseeable future. From this point of view, overcoming the inability to negotiate directly is the easy part as negotiations can be conducted through intermediaries. It will require considerably greater amounts of imagination and dexterity, though, to do so without disturbing the pillars upholding decades of Lebanese foreign policy.

One of these is Beirut's categorical refusal to recognize Israel because the latter was established at the expense of a brotherly people, namely the Palestinians. Even a Lebanese government inclined to bend on this issue, despite massive internal opposition, would never do so unilaterally for risk of being ostracized by the rest of the Arab world. Let's not forget that Egypt was shunned for a decade by its Arab League



partners for making a separate peace agreement with Israel. Tiny Lebanon would be even more vulnerable to such treatment. It is, in fact, Beirut's unambiguous stance on Israel which proves it is bona fide and guarantees it a seat in the club of Arab governments. It is proof that, despite having paid a high price compared to other front-line countries, Lebanon will not buckle in its commitment to support the Palestinians. It will not, cannot, and should not abandon that status for the sake of monetary gain.

In this regard, it is essential to keep in mind that Israel's foreign policy establishment views the extraction with some degree of acceptance, even if partial and/or informal, as an ever-present objective of any Israeli diplomatic interaction, even if indirect, with any Arab government. In fact, however, there also is a long history of Israeli officials leaking discrete contacts with Arab government officials without mutual consent, thereby embarrassing their interlocutors, erasing any progress achieved and poisoning the well for future dialogue.

Another obstacle to resolving the maritime dispute is that any solution will almost certainly require Cypriot agreement as its Exclusive Economic Zone (EEZ) abuts that of both countries. Cyprus has signed bilateral EEZ agreements with both countries, although Lebanon has never ratified its agreement with Cyprus. Here arises further complication, given that when Beirut and Nicosia signed their EEZ agreement in 2007, the Lebanese side sought to avoid having the document be viewed as de facto recognition of Israel. Accordingly, and in line with international law on maritime delimitation, the agreement did not define the tri-partite maritime border. Instead, it left the final point in the demarcation of the Cyprus/Lebanese border undefined, with the boundary demarcation coordinates starting at the now almost infamous "Point 1".

Unfortunately, the approach taken produced the opposite effect

because, in the Cyprus-Israel EEZ agreement of 2010, Point 1 was used as the starting point in the demarcation of the Cyprus/Israeli EEZ, even though it clearly should not have been. In this way, the buffer zone which the Lebanese/Cyprus EEZ agreement was meant to establish in order to prevent friction with Israel disappeared. An additional discrepancy on land – with Israel pushing its claim slightly north of the actual border – added to the overlap, but the vast majority is caused by Point 1, which lies some 11 nautical miles (18.5 kilometers) north of where the equidistant point (now known as “Point 23”) among the three countries would be drawn under the terms of Customary International Law (CIL) as set out in the United Nations Convention on the Law of the Sea (UNCLOS).

By agreeing to Point 1 being the starting point of its maritime boundary delimitation, Cyprus breached the express term in its agreement with Lebanon which required it “to notify and consult” Lebanon in case negotiations aimed at the delimitation of its EEZ with a “third country” concerned the demarcation points agreed with Lebanon. Moreover, by doing so, both Cyprus and Israel breached their obligations under UNCLOS and CIL, respectively, to refrain from actions that might prejudice Lebanon’s interests.

Lebanon protested against the terms of the Cyprus-Israel EEZ agreement, officially presenting its claims to the UN and seeking intervention from the Secretary-General and other UN bodies. However, since the Lebanese/Cypriot EEZ agreement never entered into force, arbitration under UNCLOS against Cyprus might be seen as undermining relations with a friendly government, and Israel is not a party to UNCLOS and no third party mechanism has been invoked by Lebanon in respect of this breach.

Commencing conciliation proceedings against Cyprus under UNCLOS seems a more promising route: in this scenario, a conciliation commission would be given twelve months to reach conclusions about the laws and facts of the case, and issue

recommendations to help Cyprus and Lebanon agree on a settlement. However, even assuming that the two countries were to accept such findings, the commission would not have the power to determine the tri-partite border and therefore the validity of Israel's claim to Point 1 being the starting point of the demarcation of the boundary of its EEZ with Cyprus and Lebanon. Given the express wording of the EEZ agreement it signed with Lebanon and its obligations under UNCLOS, it is not clear why Cyprus agreed to Point 1 as the starting point of its boundary demarcation with Israel.

However, the existence of these obstacles does not mean that dialogue is impossible, not when both sides stand to gain so much from a peaceful solution and to lose so much if an armed conflict were to break out, or even if the threat thereof were to persist.

In this respect, despite the contentious nature of its scope, the following provisions of the Israel-Cyprus EEZ agreement point to a way for dialogue to commence. First, Article 1 confirms that the Israel-Cyprus agreement is based on the same British Admiralty map referred to in both the unratified Lebanon-Cyprus EEZ agreement and the Cyprus/Egypt EEZ agreement. Second, Article 1(e) expressly acknowledges that the agreement is to be reviewed and modified if necessary to reach a tripartite agreement on EEZ delimitation among Israel, Lebanon, and Cyprus ( even though the agreement does not refer to Lebanon by name). Finally, most supportive of Lebanon's claims is the fact that the preamble expressly refers to the provisions of UNCLOS concerning EEZ and the rules and principles of international law of the sea applicable to the EEZ as bases for drawing up the agreement, Article 1(e) refers to CIL principles concerning maritime delimitation and Article 1(b) and Article 1(c) refers to the median line being the basis on which the EEZ was delimited between Israel and Cyprus. These references by Israel to the provisions of UNCLOS regarding EEZ delimitation make it very hard for it to deny

that these provisions are principles of customary international law to which it is bound despite not being party to UNCLOS.

As such, from an international law perspective, the basis for the claims made by the two countries are not so far apart and there are mechanisms which have been adopted around the world in similar circumstances which could be invoked to resolve the dispute.

Since neither Lebanon nor Israel has accepted the compulsory jurisdiction of the International Court of Justice (ICJ) in The Hague, they would need to reach a special agreement to refer the maritime boundary dispute to it. And since Israel is not a party to UNCLOS, Lebanon cannot force Israel to resolve the maritime boundary dispute via third-party resolution pursuant to its provisions. At the same time, it is important to keep in mind that since the Mediterranean Sea is regarded as a semi-enclosed sea, pursuant to Part IX of UNCLOS (which is also considered part of CIL and as such binding on Israel), both countries are under an express obligation to cooperate in case of a disagreement.

A negotiated solution is within reach if both parties act in good faith, especially since both the Paulet-Newcombe Agreement of 1923 and the Armistice Agreement of 1949 provide clear border demarcation – and both the Lebanon-Cyprus and the Israel-Cyprus EEZ agreements allow for modification. If an EEZ boundary can be agreed, straddling reserves could be shared under the terms of a unitization agreement. If no agreement on delimitation is possible, the two countries could agree to declare the entire disputed area a joint development zone and enter into a joint development agreement along the lines of those adopted by Nigeria and Sao Tome and Principe, or Australia and East Timor, to develop such a zone. There are many models of such agreements which can be explored to find the best solution for this case.

Finally, it is important to note that Israel's objections to Lebanon having been awarded exploration rights in the "disputed area" are on very thin legal ice. In fact, under UNCLOS and the rules of CIL, Lebanon's only obligations are to cooperate to reach an agreement through a third party with Israel on the exploration and exploitation of straddling gas reserves; and to, in the absence of such an agreement, exercise restraint with respect to the unilateral exploitation of straddling reserves. Importantly, it has these obligations to the extent that a gas field can be exploited from both sides of the disputed border. Moreover, the obligation to exercise restraint does not apply to granting licenses to explore since no irreparable prejudice would be suffered by Israel by such exploration. Since it would seem that only 8 percent of Block 9 falls in the disputed area and that the actual gas field which Eni, NOVATEK, and TOTAL plan to explore falls outside the disputed area, by allowing such exploration to go ahead Lebanon is not breaching international law.

Despite being in a strong legal position, Lebanon has very little to lose – and everything to gain – by being tireless in seeking a negotiated solution, and the same applies to Israel. Going down the route of a joint development agreement would allow them both to agree to proceed with energy development without sacrificing their long-term interests.

The value of the energy in question has been estimated at more than USD 700 billion; that's almost three-quarters of a trillion reasons why a solution needs to be found. All Lebanese should want this because it promises, at the very least, to help alleviate so much of the economic/financial pressure that has been holding the whole country back for more than two decades. No opportunity should be lost to state Lebanon's claim loudly but reasonably, and no effort should be spared to reach an agreement.



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## 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.

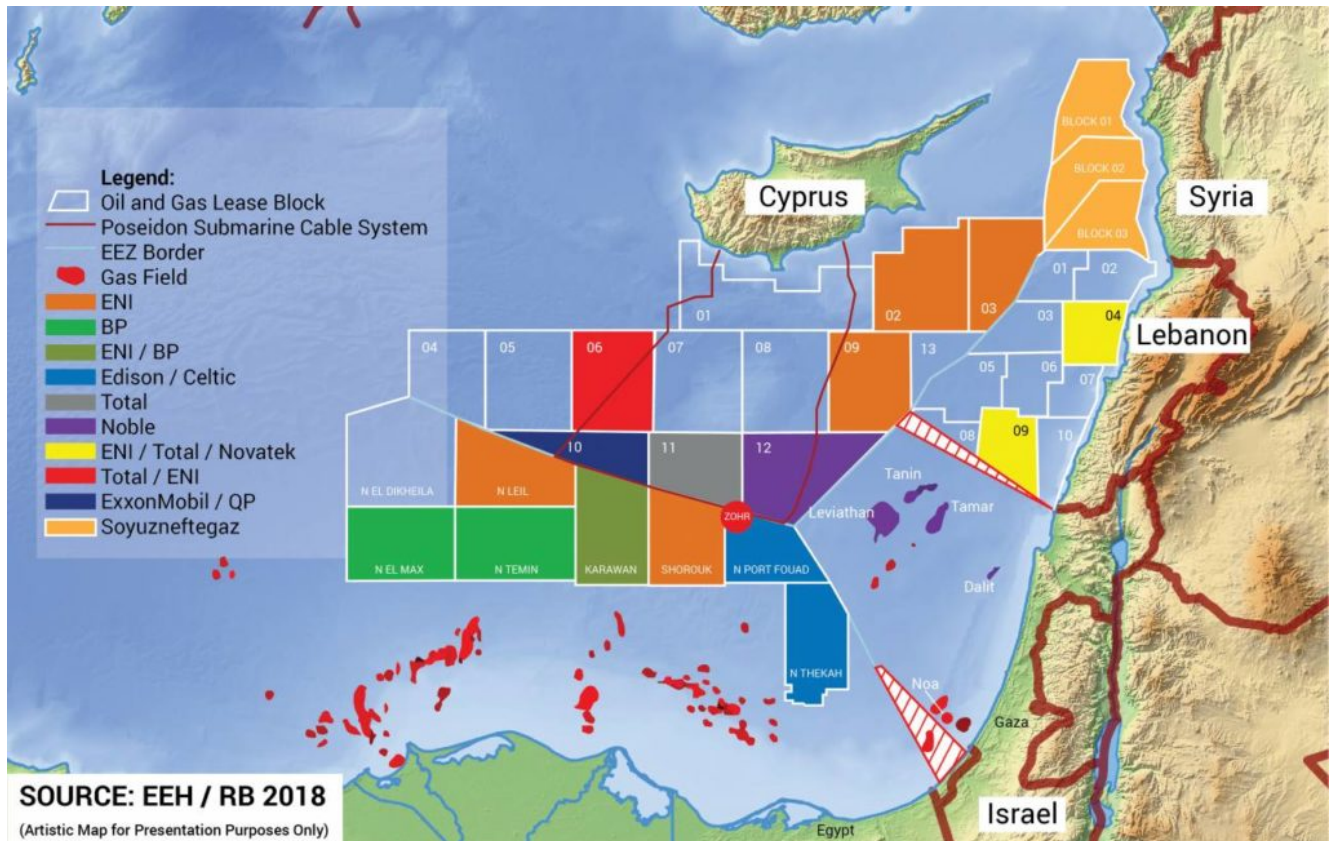
The quality of the information Lebanon has submitted to the UN and other interested parties also gives significant weight to its position, and in more than one way. The Lebanese side has used original British Admiralty Hydrographic Charts – widely recognized as the most accurate and authoritative available – 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.

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