

# **‘2019 Should Be the Year of Change – and A Change We Deliver’: An Interview With Cypriot President Nicos Anastasiades**



**On the occasion of the 5th South EU Summit – taking place today in Nicosia – the President of Cyprus provided an exclusive interview,**

**highlighting the importance of 2019 for the future of the European Union, the role of Southern Europe in catalysing a reform agenda, while emphasizing the increasing relevance of Cyprus in the attainment of EU energy security and climate targets.**

*South EU Summit: You assumed your duties as President of Cyprus on the 1st of March, 2013 – only a few days before the climax of the financial crisis in the country. Now, in your second term, not only has the island-nation made a smooth exit from its bailout programme, Cyprus returned to investment grade in 2018, and is currently one of the fastest growing Member States in the eurozone (with a 4% GDP growth rate). What were the keys to achieving this feat, and what measures do you believe need to be prioritized to continue building confidence and credibility in the Cypriot economy?*

**President Anastasiades:** During the past few years, we have succeeded in turning an economy in distress into a story of strong economic recovery, that gained international praise.

The positive repercussions of an ambitious reform programme, and the careful management of state finances, are being reflected through, among others: successive budget surpluses, a dynamic growth rate of 4%, a drastic reduction in unemployment, consecutive upgrades of our economy by international rating agencies, as well as a significant reduction in taxation.

At the same time, despite the economic difficulties we have faced, our country's comparative advantages not only remain

intact, but have been further enhanced and expanded. These include one of the most competitive corporate tax rates, a significant network of Agreements for Avoidance of Double Taxation, a highly qualified and professional workforce, and a fully EU harmonised tax and legal system.

The combination of the above, in conjunction with the reforms in the public sector, and the enhancement of the tax and legal frameworks, resulted in renewed substantial investments in a wide range of sectors.

From the operation of oil and gas giants in our Exclusive Economic Zone, to the licensing of the first integrated casino resort (with an investment of more than half a billion euros), an impressive 18 per cent annual increase in the registration of investment funds, the record numbers of the tourism industry in both arrivals and revenue, and the commercialization of the Limassol port, it is evident that our efforts have borne fruit.

The challenge now is to keep up the momentum and ensure that Cyprus remains on a path of sustainable growth. Sound governance of public finances, complemented by a business-friendly investment environment, a comprehensive government strategy for investment facilitation, and continuing to invest in education, research and development, entrepreneurship, and the empowerment of our youth, are critical elements on this path.

To this end, maintaining the reform momentum is imperative. The entire planning for the years 2018-2023 is a continuation of everything we achieved during my first term in office. With this in mind, we will continue consultations with the parliamentary parties, with a view to gain their support for our reforms programme, in the fields of public service, education, health, the judiciary system, research and innovation, and e-governance.

We also aim to continue with the policy of tax reductions, and provide new incentives in order to further boost entrepreneurship and attract new investments, with emphasis placed on innovation and start-ups. The new Investment Law to fast-track licensing procedures for large investments, and the establishment of a new enhanced investment funds framework, are crucial steps in this direction.

At the same time, the newly-established Deputy Ministry of Shipping, offers substantial support and attention to the already thriving maritime sector of Cyprus, and we have no doubt that the Deputy Ministry of Tourism, operational since January 1<sup>st</sup> of 2019, will further enhance the growing tourism industry.

Most importantly, we will continue to invest in our people, and work with determination and passion to drive change, progress, and prosperity in our country.

***South EU Summit: Deepening the Economic and Monetary Union is a critical step towards greater integration at a eurozone level. What measures do you believe need to be prioritised at an EU policy level, leveraging on Cyprus' experience, to safeguard the country – and the eurozone – from future headwinds?***

**President Anastasiades:** Without a doubt, we, the Member States of the Economic and Monetary Union, have come a long way in further deepening and strengthening the architecture of this relatively young structure.

Actually, this year only marks the Eurozone's 20<sup>th</sup> year of existence.

Mediterranean states have significantly contributed to this effort; we have taken part in long, sometimes difficult

debates, on how to best promote the reform of the euro area. We have done so always in a constructive spirit.

As we all acknowledge, there are still a number of open issues that we need to discuss and decide upon, on which compromises have to be made, from all sides. At the end of the day, the further deepening of the Economic and Monetary Union shall, and will bring benefits to all its members, regardless of their geographic position.

Important issues ahead of us include the establishment of a central stabilisation function, in order to cushion Economic and Monetary Union countries from large and asymmetric macroeconomic shocks.

Advancing on the design and gradual implementation of a budgetary instrument, for convergence and competitiveness of the euro area, remains a priority. We stand ready to pursue the discussion within the eurozone towards a stabilisation function in the Euro area as well.

Concerning the Banking Union, significant progress has been achieved, in risk reducing measures for the banks. It is now time to move on with more concrete actions, and timelines, in regard to risk sharing measures, including the establishment of a European Deposit Insurance Scheme, so as to provide protection to depositors, regardless of the geographic location of deposits.

***South EU Summit: Cyprus is the host of the fifth South EU Summit since its launch in September 2016, bringing together 7 governments that jointly represent close to 40% of EU GDP and population. What is the purpose behind this gathering, and what results would you like to see come about?***

**President Anastasiades:** I am certain that we all agree that this year, 2019, will be a defining year for Europe; this year

the legislative programme of the last five years is coming to an end; starting in May, with the European elections, we are opening the cycle of institutional changes; in May, we, the EU leaders, are also called on to set out our strategic vision for the EU, and provide an answer to our citizens' legitimate concerns; in two months' time, we need to be ready to move forward as a Union of 27. Our actions this year will count more than ever.

Europe is facing all sorts of challenges – social, economic, environmental, political threats and security issues, challenges that touch upon the life of our citizens.

European citizens look to us, politicians, for answers to their daily problems; they demand the bettering of their living conditions; they ask for security, tighter control of our borders, and appropriate measures against migration; they seek a bold approach to a changing environment, the impacts of which, we in the Mediterranean feel the most. Our citizens have every reason to turn to their leaders, and the Institutions, expecting solutions to their problems, and the conditions for a more stable, safe and prosperous future.

So, 2019 should be a year of change, and a change we deliver, it should be our defining moment; that we, as the European Union, do more in answering our citizens through targeted and visible actions. We have a historic responsibility to do so, through a calibrated, ambitious, and result oriented strategy, that will put the European project back on track; make it relevant; adapt it to modernity.

We, the Mediterranean states, have common concerns, and we are determined to pursue fair and well-designed policies, for the benefit of Europe and our citizens. Change and progress are both possible if there is vision, determination, leadership, cooperation, and coordination. I have no doubt that all these elements exist, and we can take the Union one step further, for the benefit mostly of the Europeans. That is the reason

and purpose of our gathering.

***South EU Summit: It is widely accepted that Cyprus cannot reach its full potential without a reunification. Besides reducing the political risk of the country, there are estimates that suggest that the reunification of the island could triple the Cypriot economy's growth rate. You recently expressed your commitment to resume "a creative dialogue" to reach "a settlement that brings peace and stability" to Cyprus. Further to the stalemate in Crans-Montana, how do you propose to move forward on the Cyprus issue, and what type of solution to you envisage?***

**President Anastasiades:** I cannot stress enough, the significance, and the consequent multiple benefits, that the solution of the long-lasting Cyprus problem, and the normalisation of our relations with Turkey, would bring about.

In this regard, with a renewed mandate from the people, my top priority remains none other than addressing the unacceptable current state of affairs, with the continuing Turkish occupation of 37 per cent of the territory of the Republic of Cyprus, since there is no doubt, that lasting peace and stability can only be achieved through the comprehensive settlement of the Cyprus Problem.

To this end, on numerous occasions, I reiterated in the clearest terms to the UN Secretary-General, our partners in the EU, the Permanent and non-Permanent Members of the Security Council, and the international community in general, that I remain strongly committed to resuming the negotiating process.

What is of course required, is to create the necessary conditions, that will allow the dialogue to resume, on the basis of good will, and a constructive stance from all stakeholders, particularly from the Turkish side, in order to

safeguard the positive outcome of the negotiations.

The above-mentioned were repeatedly reiterated during my meetings with the UN Secretary-General, during which I also stressed, that I remain sincerely committed to negotiate a solution within the framework set out by the Secretary-General, as clarified on July 4, 2017, with the same determination and positive attitude we have demonstrated since the beginning of the dialogue.

Currently, we expect the arrival of the Special Envoy of the United Nations Secretary-General, who has already held two separate meetings with all parties involved, with the aim of agreeing on the "Terms of Reference", as regards the methodology of a new negotiating process.

Within this context, I do hope that the meetings of the special envoy of the United Nations, which will soon take place with all other interested parties and stakeholders involved, will allow the Secretary-General to be in a position to resume negotiations.

Taking this opportunity, I wish to state that the failure of the Conference on Cyprus in July 2017 was precisely due to Turkey's insistence on its long-standing position, in maintaining the continuation of the anachronistic system of guarantees, the unilateral right of intervention, and the permanent presence of Turkish troops.

I also wish to state that our side submitted comprehensive written proposals for each and every one of Mr. Guterres six-point framework, including on a new security architecture that would replace anachronisms, and the strategic aspirations of third countries against Cyprus.

Having said the above, at the same time, we should also not ignore the remaining significant differences on the other chapters of the Cyprus Problem. Differences that can be easily resolved, by adopting and respecting what is considered



as our obligation: The European acquis.

It is only through adhering to these fundamental principles, which determine that a member-state of the United Nations, and the European Union, can only be considered as truly independent and sovereign, if it is free of any third country dependencies, that we can truly establish the conditions for prosperity, and peaceful co-existence between all the citizens of Cyprus, in an environment of safety and stability.

I truly wish that both our Turkish Cypriot compatriots, and Turkey, will respond positively to the new prospect that is unfolding again upon us, taking into account, in a comprehensive manner, and without being selective, the provisions set by the Secretary-General at the Conference in Crans-Montana.

On my own behalf, I wish to reassure, once again, my determination to work tirelessly to reach a comprehensive settlement, that will finally reunify our island after 44 years of division, ensuring conditions of safety for the future generations of Greek and Turkish Cypriots, without any third country military troops or guarantees.

A settlement that will satisfy the genuine desire of our people, especially of the younger generations, to live together and peacefully co-exist, collaborate and prosper, in a European country which fully respects their fundamental human rights and freedoms.

And, aside from the obvious fact that the solution of the Cyprus Problem, would be first and foremost to the benefit of all Cypriots, please allow me to bring to your attention some other merits that a settlement would bring:

- On a regional level, it would turn Cyprus into a model-country of stability and predictability, and would amplify Cyprus' role as a security provider, in one of the most turbulent areas of the world.

- At a European level, it would end the oxymoron of having one of its member-states being divided, while it would also positively reinforce EU-Turkey relations, and the overall security architecture of the EU.
- Last, but not least, the solution of the international problem, which has been on the agenda of the United Nations during the last decades, will offer a beacon of hope, that even the most intractable problems can be solved peacefully, through the United Nations.

***South EU Summit: Establishing a united strategy to manage migratory inflows currently constitutes one of the biggest challenges for the EU writ large. In fact, in 2018 Cyprus ranked 1st in asylum claims per capita, with close to 6,000 requests. What is your perspective in this regard, and how can the Union strike a balance between upholding EU founding values, such as solidarity, while safeguarding the interests of European citizens? What reforms to you believe should be made to the EU's Common Migration Policy?***

**President Anastasiades:** Last December, at the European Council, we discussed once more the implementation of the EU's comprehensive approach. We had a rather heated discussion, I would say, during which I intervened three times.

We have been striving for months to come to a satisfactory solution to the migratory pressures we are faced with. Since the beginning of the crisis, several measures have been adopted, producing positive results; we welcome these, but there is still work to be done, especially on fair burden sharing, and shared responsibility among Member States.

What do we actually need in the end, in order to come to a lasting solution?

First, solidarity: front line states cannot be left alone anymore, to bear the responsibility of hosting, and providing

adequate reception conditions, to the immense flows of asylum seekers, while other Member States provide only financial and technical assistance. Nor can the EU be dependent on the goodwill of certain third countries, to cooperate, and to carry out their obligations.

Second, measures concerning border control, or prevention of human trafficking and smuggling. The present crisis has an important humanitarian dimension that cannot be overlooked.

Third, effective cooperation with third countries, based on equal partnership, and mutual honouring of respective obligations.

Cyprus has been facing disproportionate pressures from asylum seekers during the last years. We are the first among Member States concerning the number of first time asylum applications in relation to the population. There is a 55 per cent increase for 2018, compared to the same period last year.

Since the beginning of 2018, we have registered the illegal entry of more than 1,840 persons into the areas that are under the effective control of the Republic. The main point of their departure remains Turkey and, recently, to a lesser extent, Lebanon (204 persons since the beginning of 2018).

Irregular migrants entering Cyprus are mostly Syrians, who are entitled to international protection, and cannot be returned. Hence, measures mainly focused on the management of flows of economic migrants, cannot help Cyprus.

There is also a high percentage of economic migrants whose return is not feasible, because Turkey does not apply the EU–Turkey Readmission Agreement towards Cyprus, (and does not apply the third country nationals clause towards any Member State).

Last but not least, the refusal of Turkey to properly implement the EU–Turkey Statement towards Cyprus, and prevent

new migratory routes from emerging, aggravates the situation, since a considerable number of irregular migrants arrive in the areas that are not under the effective control of the Republic of Cyprus.

***South EU Summit: Cyprus, Greece, Italy and Israel are at the forefront of re-designing new energy routes running through the Eastern Mediterranean. Besides the EuroAsia Interconnector, an EU decision regarding the EastMed pipeline is expected within the first months of 2019. Likewise, international attention is set on the results of the exploratory drilling being undertaken by ExxonMobil. What is your evaluation of the potential of Cyprus becoming a decisive player within the context of EU energy security, and how can these cross-border energy projects contribute to the strengthening of EU energy independence?***

**President Anastasiades:** Energy security is of strategic importance for the EU, as it underpins not only our economic growth, but also our ability to alleviate poverty and improve social welfare. Most importantly, of course, it safeguards our ability to make political decisions, based solely on our code of principles, free of undesirable interdependencies.

The European Union has faced challenges in the past, that have illustrated the need to ensure that it is not over-reliant on a limited number of sources of energy, or be vulnerable to external pressure. Diversification of energy resources, and routes, is thus of paramount importance in ensuring secure, sustainable, affordable, and safe energy supply to Europe.

In this respect, I welcome the special attention paid by all to the Eastern Mediterranean, as a region that can become a reliable energy supplier, thus contributing substantially to the EU's energy security.

Towards this end, we are actively working on the EastMed

Pipeline Project, an ambitious project of great geopolitical significance, that will transfer Israeli and Cypriot resources to the EU, via Greece and Italy. We hope that the Intergovernmental Agreement that has been negotiated between Cyprus, Greece, Israel, and Italy, will be signed as soon as possible.

In the same vein, the signing of the Intergovernmental Agreement between Cyprus and Egypt last September, concerning the construction of an underwater pipeline, to export Cypriot natural gas to Egypt, the first of this kind in the region, is an equally important development, since the natural gas, through the Idku LNG plant, will be exported to the EU. In this respect, it has to be clear that the Government of the Republic of Cyprus is acting in the interest of all its citizens, Greek-Cypriots as well as Turkish-Cypriots, who will benefit accordingly.

All these developments highlight our firm conviction, that the wealth of the region can bring the countries of the region together, creating common interests, and contributing to peace and stability. In fact, it can become what coal and steel was for the EU, this time in a new regional context.

Unfortunately, Turkey, almost on a daily basis, continues to issue warnings and threats if we insist on proceeding with our energy programme. It is clear that Turkey's actions in our maritime zones aim at advancing Turkey's interests in the Eastern Mediterranean: to place the region's hydrocarbon reserves under its control, and become the energy hub of Europe.

At the same time, Turkey's behaviour poses a broader security threat in the fragile Eastern Mediterranean, and needs to be addressed, not only as a severe infringement of the sovereign rights of a Member State, but also of the rights and interests of the European Union as a whole.

Unqualified, tangible solidarity, is what is called for by the Treaties, and dictated by Turkey's actions, and we need to send the message that Turkey needs to avoid any kind of friction, threat, or action, directed against a Member State, which damages good neighbourly relations and the peaceful settlement of disputes

***South EU Summit: Taking into consideration the need to shape domestic policies that comply with climate targets on the one hand (penetration of RES in electricity production equivalent to at least 32%, energy efficiency of 32.5% by 2030 and becoming the world's first climate-neutral economy by 2050), guarantee the competitiveness of individual economies on the other, while also catering to the social implications derived from this energy transition – what is your strategy in this regard?***

**President Anastasiades:** Let me start by underlining that the October 2018 report by the Intergovernmental Panel on Climate Change (IPCC), and the COP-24 deliberations are clear: climate change has emerged as the new major threat, especially for the Middle East and Northern Africa.

All countries in the Eastern Mediterranean, and the Middle East, are particularly vulnerable. The forecasted impacts of a changing environment are dire for our region. They include social unrest, conflict, and mass migration, with serious ramifications for international peace, stability, and security.

We need to take immediate action at a national, regional, and an international level. There is no doubt about it.

The EU shall maintain its position as the global leader in the fight against climate change. Thus, we need to support the efforts of the European Commission in putting together the EU's long term strategy, the soonest possible. A strategy that

should be result oriented, and ambitious, with a vision for a climate neutral economy for the future.

Having in mind the worrisome outcome of the latest IPCC report, and other scientific studies, I convened a meeting last June, to evaluate and enhance Cyprus' action in combating the effects of climate change for Cyprus and the region.

Cyprus, due to its location, and its excellent relations with the countries of the region, can play an important regional role in tackling climate change and its impacts. Cyprus offers a particularly attractive institutional setting for a number of international organisations, looking for regional presence/headquarters.

Cyprus could promote coordination and cooperation, between the countries of the region, so that an Action Plan is developed; this will record and mitigate climate change impacts, on sectors like Environment, Agriculture, Tourism, Health, in Eastern Mediterranean and Middle Eastern countries. It will develop an inclusive "dialogue forum"- a platform where national and regional stakeholders, can discuss science-based practical solutions to challenges related to climate change.

The initiative could feed the Eastern Mediterranean and Middle-Eastern region, with environmental observations and predictions required to assess the extent of the rapid warming and drying conditions, as well as better support national policies to meet CO2 emission pledges to the Paris Agreement.

In collaboration with advanced regional and international partners, who are experts in the field, efforts are currently underway to establish a new regional Centre of Excellence on Climate Change in Cyprus, being a knowledge hub for environmental and climate change research, and sustainable solutions, addressing the societal challenges of Cyprus, the Eastern Mediterranean and the Middle Eastern region.

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# What to expect from the 2019 South EU Summit



Spain, Portugal, France, Malta, Italy, Greece and Cyprus will meet to discuss security, energy and migration.

Nicosia, Cyprus – The fifth South EU Summit takes place on Tuesday in the Cypriot capital of Nicosia, where the issue of migration is again expected to be one of the key headlines of the one-day event.

The seven countries that make up SEUS – Spain, Portugal, France, Malta, Italy, Greece and Cyprus – first met in 2016 with the objective to increase cooperation and coordination by the European Union over security and migration.

Together, the SEUS countries, which are united along cultural similarities as well as similar economic models and geopolitical challenges, make up nearly 40 percent of the EU's



total population and gross domestic product, as well as half of the European bloc's coastline.

The global refugee and migrant phenomenon that has landed at the doorstep of Europe in the past few years has alarmed European leaders and contributed to the rise of populism and far-right nationalist movements.

In particular, the Syrian refugees arriving from their war-ravaged country have shone a spotlight on asylum policies with politicians using these selectively to win over voters.

#### EU migration policy

Last year's summit pledged to address the root causes of mass migration, as well as to reform the Common European Asylum System.

Olga Demetrious, an associate professor of post-conflict reconstruction and state-building at Durham University, told Al Jazeera in the last four years there has been a welcome change in discourse, now referring to the issue of migration as "responsibility sharing" as opposed to what used to be conveyed as "burden sharing".

This is "an acknowledgement that refugee protection is the responsibility of states and not a strain," she said.

"However, it is still far from evident that humaneness and inclusion are the driving forces of European and state policies."

SEUS has "widely diverging stances on the issue" and the current system is aimed at greater convergence between policies relating to recognition of asylum across the EU – a factor with a worrying precedent.

"Having looked at rates in a comparative perspective over the last 20 years, history is teaching us that such convergence tends to be downward rather than upward,"

Many EU member states have also not followed through on achieving the target numbers it set regarding a relocation programme that ended in 2017.

Another worrying aspect of this strategy, she continued, is what it says about “qualification for refugee protection”, as it envisions more restrictions on people who awarded “complementary protection” – that is, people who have not been recognised as refugees under the terms of the 1951 Convention but still face a risk if returned to their countries.

“The current plans re-entrench this faulty understanding and in fact make it stricter,” said Demetriou. “And they additionally propose to restrict the temporal aspect of protection with a view to sending refugees back eventually.”

These last two points are at odds with the promise of integration, which the EU sees as a priority.

#### Energy and Brexit

Farid Mirbagheri, a professor of international relations at the University of Nicosia, told Al Jazeera that energy security is another topic that will be focused on during the summit.

“There is the all important of Mediterranean gas being piped to Europe via Cyprus, Greece and Italy,” he said.

“That would include the East-Mediterranean project laying 2,000km of pipes on the seabed,” he continued, adding this will have an effect on the Russian monopoly of fuel supply to Europe.

Other topics include climate change, which was “conspicuously absent from last year’s summit statement”, Demetriou said, and Brexit, “an overriding concern across Europe that has brought home the crisis of political legitimacy” the EU has been suffering from.

What's behind the growing dispute between Italy and France?

"Brexit effect is devastating for the EU in the sense that, ultimately, the idea that has always driven the Union since its inception has been peace," Demetriou explained.

"Considering how much of the discussion on the Brexit as a still-unfolding crisis is premised on the complications arising from the peace agreement in Northern Ireland, that overarching idea is effectively put into question," she said.

According to Demetriou, despite Brexit acting as a deterrent for other EU member states against "experimenting with leaving" the block – as showcased by UK Prime Minister Theresa May's own party and the opposition voting overwhelmingly against her deal – it has shaken other European leaders from being complacent of the role and function of the EU.

"I don't think that European politicians should rest assured in the Union they are left with," Demetriou said.

"Brexit has demonstrated that exiting the EU is a messy, uneasy and probably a very costly option for member states," Mirbagheri agreed.

Furthermore, he said, the current state of international politics, demonstrated by the willingness of the United States' government to part ways with European powers, has highlighted the significance of sustaining "a cohesive and credible EU".

"Without US political support, European countries would find themselves more vulnerable to pressure applied by their eastern neighbour, the Russian Federation," Mirbagheri said.

"Britain leaving the EU obviously reduces the weight of the EU in global affairs, yet it highlights the importance of staying more united to compensate for that deficit."

# Euro-Mediterranean, Regional Security Challenges: “How Defining Maritime Boundaries Would Bolster Stability”



ATHENS, Greece: Steps to define maritime borders between

Lebanon and Israel would help stability throughout the East Mediterranean region, a leading energy expert told a key industry conference in Athens on Monday.

“In the past, borders were defined by wars; nowadays, with the UN and UNCLOS [or United Nations Convention on the Law of the Sea], all Maritime differences can be resolved peacefully,” Roudi Baroudi, a 40-year industry veteran, told the Athens Energy Forum. “With modern science and advanced imagery, new technologies give us unprecedented opportunities to reach our goals for Maritime Boundaries with a diplomatic/legal approach.” Baroudi pointed out also that the Mediterranean countries have 95 Actual Maritime Boundaries out of which 31 only Treaties and 64 are unresolved.

Baroudi, who serves as CEO of Energy and Environment Holding, an independent consultancy based in Doha, spoke on the opening day of the two-day Athens Energy Forum (AEF) at the Grand Hyatt Athens hotel.

“With a multi-disciplinary approach – a mixture of law and science – we can get to fair and just Maritime partitioning without going to war,” he told the audience. “If we review the region’s current offshore oil and gas concession blocks, we quickly determine how these blocks are impacting certain un-demarcated Maritime Boundaries, and this is where the best law and the best science can give all countries a fair share.”

Speaking on the sidelines of the event, Baroudi said a diplomatic resolution of the Lebanese-Israeli maritime dispute and other maritime borders disputes between Cyprus, Turkey and Greece would have positive impacts across the region.

“This would send all the right signals to everyone with a stake in the East Med, from governments and their peoples to major energy companies and other investors,” he said.

“It would demonstrate by example – even more than last year’s landmark five-nation Caspian Sea deal – that even the most

intractable disputes can be sidestepped if the principals are willing to be reasonable.”

Baroudi has advised companies and governments on several continents about how to approach energy issues, and has helped to formulate policy for key agencies of the European Union and the United Nations. He said any form understanding, direct or not, that allows both Lebanon and Israel to focus on developing their resources would confer significant benefits on the entire region.

“Even for countries not currently on the verge of becoming energy producers, the removal of a key source of friction between Israel and Lebanon would cast regional security in a more positive light, lowering the risk profiles of all business, trade, and investment activities,” he added. “And this is not to mention all the advantages that the Lebanon and Israel would gain from new revenues. Israel would make its own choices, of course, but Lebanon would have much more capacity to address pressing national objectives in terms of debt retirement, deficit reduction, health and education spending, and infrastructure development. Best of all, all of these measures would help alleviate poverty, another major source of local and regional instability.”

By all accounts, Baroudi’s remarks were delivered in the right room. As in previous years, the AEF attracted numerous executives and other key decision-makers from the private and public sectors like, including Greek Energy Minister George Stathakis.

“Of course it’s important to keep reminding the Lebanese and Israeli governments that if they want to exploit their respective energy resources to the fullest, the surest way forward is some kind of peaceful one. It may not even matter what route they take, just so long as they avoid armed conflict and the all the costs that would come with it,” he said on the sidelines of the forum. “But we also need to make

sure that other players in the region realize that this matters for them as well: after all, if even an informal understanding on offshore resources can be reached between two of the world's most mutually hostile neighbors, it would demonstrate that other rivalries also can be partially overcome for mutual benefit."

This, Baroudi argued, would "bolster regional stability by encouraging other sets of Mediterranean neighbors – especially Cyprus and Turkey – to commit to peaceful means of dispute resolution".

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## Tax break turns into a levy for Russia's biggest oil companies



Russia's oil majors thought a new fuel-tax break this year would support the sector. Now, low demand for gasoline in Europe is turning what was expected to be a help into a multi-million-dollar hindrance. "Russian oil companies have become hostages of external market conditions," said Ivan Khomutov, chief executive officer of Moscow-based energy consultant

Petromarket. Weak gasoline prices in Europe have turned tax calculations upside down for Russian oil companies. Major producers may now have to pay as much as 11bn roubles (\$167mn) in extra gasoline levies to the government this month alone, according to Petromarket. This is because the export price for Russian gasoline in Europe has dropped below the baseline set in the tax formula designed to cushion the impact of caps on domestic fuel prices. The payments are part of the tax system that comes into force this year and are based on a formula designed to partially compensate fuel producers for potential domestic losses, Alexei Sazanov, director of tax and customs policy at Russia's Finance Ministry, confirmed by e-mail. The extra levies add to financial pressure that Russian oil majors are set to experience in their downstream businesses in 2019. This is due to the government raising both fuel excise duty and value added taxes. It has also capped domestic gasoline and diesel prices to avoid social unrest. "We expect gasoline payments in the range of 3,000 to 4,000 roubles" per ton from oil companies in January, Sazanov said. Russia's energy ministry also sees the industry paying an additional gasoline tax this month, its press service said by e-mail, adding that it's too early to estimate the total amount which will be raised. As the Russian government capped domestic fuel prices last year and locked in minimal crude supply volumes to domestic refineries, it promised the oil industry a tax break to partially make up for potential losses. The export price for gasoline is based on the average monthly price for Russian fuel in the Dutch port of Rotterdam. This is excluding transport costs and export duty but includes the excise and the value-added taxes. As long as the export price for Russian gasoline in northwest Europe stays above the baseline level – set at 56,000 roubles a ton this year – the nation's oil producers can receive 60% of the price difference back every month this year, the government said. Currently, the export price is around 49,000 roubles, according to Russia's energy ministry. With the price below the baseline, Russian producers will now



have to make payments to the state budget rather than receive them, according to the tax code. When the law was drafted in mid-2018, European gasoline prices were above the baseline. But declining margins amid a supply glut have changed the outlook for gasoline. If European gasoline margins stay near current levels, Russia's oil industry may continue paying the surprise tax for as long as Brent crude remains below \$69 a barrel, Petromarket's Khomutov said. The international benchmark is currently trading below \$62 a barrel.

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## Turkey to begin drilling for resources around Cyprus



ISTANBUL (Reuters) – Turkey will begin drilling for resources around Cyprus, Foreign Minister Mevlut Cavusoglu said on

Friday, a move that could create tensions with neighboring Cyprus and Greece over ownership of natural resources.

Attempts to tap gas and oil in the eastern Mediterranean have caused friction between Athens and Ankara.

Turkey and the internationally recognized Greek Cypriot government in Cyprus have overlapping claims of jurisdiction for offshore oil and gas research in the eastern Mediterranean, a region thought to be rich in natural gas.

Turkey will start drilling around Cyprus because the Greek Cypriot government did not listen to Ankara's suggestions to ensure the rights of Turkish Cypriots, Cavusoglu said during an interview following a meeting with the Turkish Cypriot leader Mustafa Akinci.

"Our second platform is coming in February. We were going to send it to the Black Sea, now we are sending it to the Cyprus area," Cavusoglu said.

"Our drill ship Fatih is currently in the Alanya-1 area, its work there will be done in March. We are shifting that to the south too," he added.

He did not specify whether Turkey would drill for oil or natural gas.

Turkey launched its first drill ship "Fatih" in October to drill off the coast of Turkey's southern Antalya province and had said a second ship that it purchased would operate in the Black Sea.

Breakaway north Cyprus, which is supported by Turkey, says any offshore wealth also belongs to them, as partners in the establishment of the Republic of Cyprus in 1960.

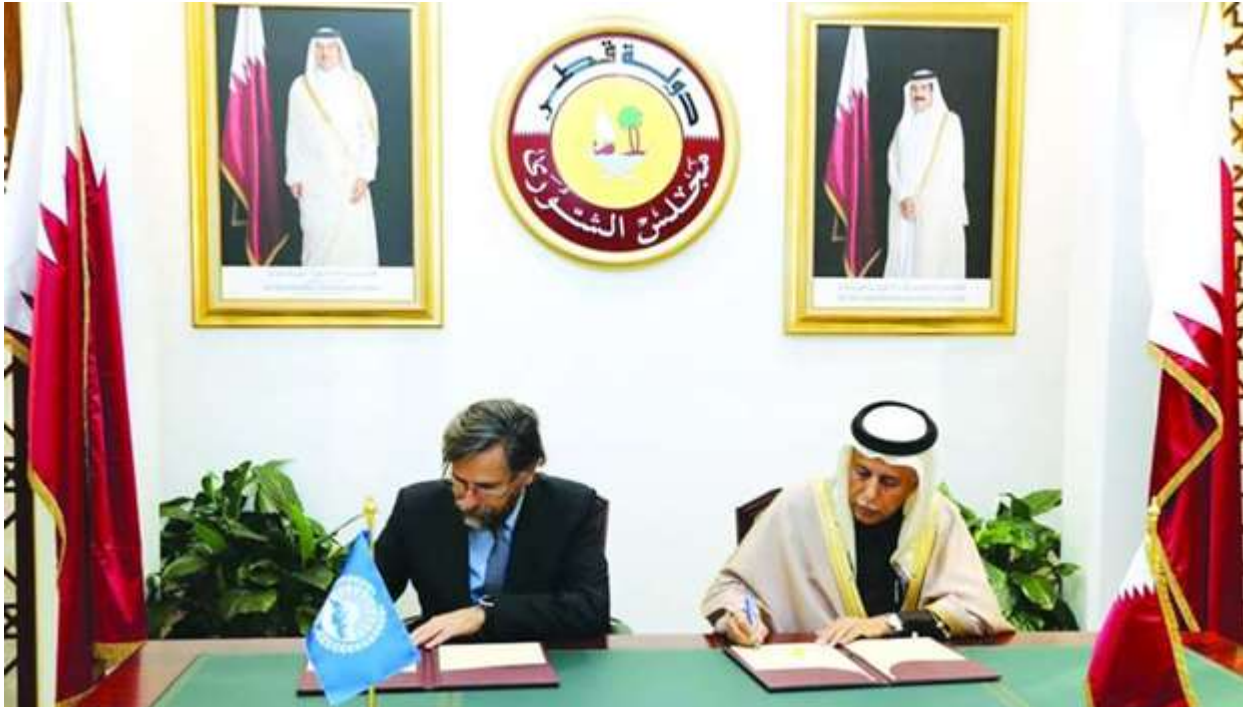
Greek Cypriots, who run the island's internationally recognized government, say any future benefits of gas finds will eventually be shared by all Cypriots.

Cavusoglu said Ankara would not be satisfied by such statements.

The island was split in 1974 after a Turkish invasion triggered by a brief Greek-inspired coup. Countless peacemaking endeavors have failed, and offshore wealth has increasingly complicated peace negotiations even though Greek Cypriots say that matter is not up for discussion.

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## Advisory Council Speaker meets Mediterranean parliamentarians



QNA/Doha

HE the Speaker of the Advisory Council Ahmed bin Abdulla bin Zaid al-Mahmoud met the president of the Parliamentary Assembly of the Mediterranean (PAM), Antonio Pedro Roque, and

Secretary General of PAM Sergio Piazzì in Doha Wednesday.

During the meeting they discussed parliamentary relations between the Advisory Council and PAM, which includes 29 parliaments from Mediterranean countries. They also discussed ways to develop these relations and reviewed a number of issues of common interest.

Following the meeting, they signed a memorandum of understanding (MoU) between the Advisory Council and PAM, reflecting the friendly relations and solidarity that link Qatar with Mediterranean countries. It also reaffirms the role of parliaments in promoting relations between people and maintain peace and security around the world.

The MoU was signed by HE the Speaker of the Advisory Council Ahmed bin Abdulla bin Zaid al Mahmoud and President of PAM Antonio Pedro Roque.

Under the MoU, both parties will co-ordinate on important issues related to bilateral ties, take necessary procedures that contribute to unifying the positions of both parties and cooperation between the Advisory Council delegation and the delegations that represent PAM in different meetings, conferences, forums and international platforms, as well as exchange expertise between both parties.

The MoU involves creating concrete initiatives to promote peace and security in the region and around the world, as well as implement the goals of the United Nations especially those related to achieving sustainable development and fighting poverty.

The MoU also includes working on the proper implementation of the UN principles and international law which target achieving an international community, that is secure and peaceful and free from war and the use or threat of force.

The MoU also involves discussing topics and issues found on international parliamentary conference agendas and co-ordinate and unify positions on the issues, as well as exchange information between both parties on legislative, legal and political matters, exchange publications and legislative texts available to both parties and work to achieve a partnership between the Advisory Council in Qatar and PAM.

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# ECB's Draghi warns of weaker growth ahead



Reuters/Frankfurt

European Central Bank President Mario Draghi acknowledged yesterday that economic growth in the eurozone was likely to be weaker than earlier expected due to the fall-out from factors ranging from China's slowdown to Brexit. The region's economy is already suffering its biggest slowdown in half a decade, raising questions over whether the ECB will be able to increase interest rates for the first time in a decade later this year as its current guidance indicates.

The ECB left that guidance and interest rates unchanged at its meeting yesterday.

But Draghi's downbeat comments, including a reference to "downside" risks, will fuel market speculation that the bank will delay any rate hike, mirroring a more cautious approach by the US Federal Reserve, and may offer new cheap loans to banks.

"The risks surrounding the euro area growth outlook have moved to the downside on account of the persistence of

uncertainties," Draghi told a news conference, citing trade and geopolitical threats and emerging market volatility.

"The near-term growth momentum is likely to be weaker than previously expected."

His comments pushed the dollar to a more than five-week high against the euro.

The single currency was 0.45% lower against the dollar at \$1.1329, after falling as low as \$1.1308, its weakest since December 17.

Despite citing the rising risks, Draghi nonetheless reeled off reasons for not changing policy now, notably the strength of the region's labour market and rising wage growth, which he said would help push underlying inflation up over the medium term.

"The key factor to assess is the persistence of the uncertainty," he said, adding he was confident that those uncertainties – ranging from the outcome of Brexit to China's slowdown and trade protectionism – were being addressed.

"The Governing Council will give itself more time to assess whether all these risk factors have affected confidence and we are going to have another discussion in March when we will also have the new (growth) projections."

Draghi said the Governing Council was unanimous both in acknowledging the growth slowdown and the factors causing it but some policymakers were less optimistic than others about the economic outlook.

With the ECB already owning a quarter of the eurozone's outstanding governing debt, analysts were expecting it to turn to other instruments to keep credit flowing. A new round of cheap multi-year loans to banks, known as Targeted Long-Term Refinancing Operations (TLTRO), was widely seen as the first port of call.

"We do expect an announcement in March that (T)LTROs will be extended, most likely via two-year, variable rate operations," Frederik Ducrozet, an economist at Pictet Wealth Management, said.

Draghi said yesterday TLTROs had been raised by several

policymakers but no decision had been taken.

Having ended a landmark €2.6tn (\$3tn) bond purchase scheme just weeks ago, the ECB said yesterday it still expected to keep interest rates at record lows “through” the summer, sticking with its long-standing guidance even though markets now see a much later move.

Investors see a rate hike only in mid-2020 while a Reuters poll of economists predicted the first rise in nearly a decade in the fourth quarter.

“When markets place the first rate hike in 2020, they are using the state contingent part of our forward guidance...and it shows that they have understood our reaction function,” Draghi said.

With yesterday’s decision, the ECB’s deposit rate, now its main benchmark, remains at -0.40% while the main refinancing rate, its key rate during normal times, stands at 0.00%. Germany, France and Italy, the eurozone’s biggest economies, barely grew in the fourth quarter of 2018 and survey data showed yesterday business activity across the eurozone expanded at the slowest pace since 2013 at the start of this year.

Draghi said yesterday that the ECB did not see recessions as likely in Germany or Italy but the reference to downside risks meant the central bank had now given up its facade of optimism and joined the Federal Reserve in signalling a more cautious stance.

Some policymakers have in the past objected to changing the risk assessment since such a move would raise expectations of policy action and the ECB is not yet prepared for such a move just weeks after ending its biggest stimulus scheme.

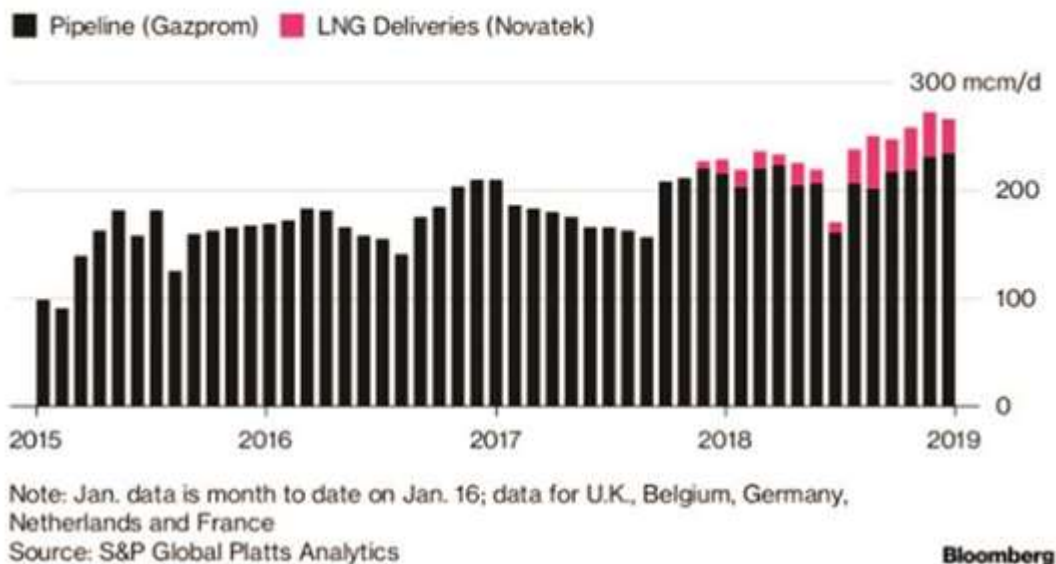
“With today’s meeting, the ECB has joined the crowd of concern,” Carsten Brzeski, an economist at ING, said. “The return of a downside risks to the growth assessment does not, yet, signal any policy changes but only a slight easing bias.”



# Siberian LNG is unexpected rival for Gazprom in key EU markets

## Russian Expansion

Novatek's LNG now adds to already record Gazprom's pipeline gas flows to Europe



Bloomberg/London

Russia's two biggest natural gas producers have for years competed only at home, but that rivalry has unexpectedly spilled into Europe.

Instead of shipping liquefied natural gas to Asia from a new Siberian plant, lower prices meant Novatek PJSC sent most of those supplies to northern Norway, where it is transferred and taken to European markets. The shipments encroach on a region state-owned Gazprom PJSC has dominated for decades just as it faces increased competition from new suppliers including the US.

"Many people think there was a truce between Novatek and Gazprom to not touch the European market, to save the price



for Gazprom,” said Jean-Baptiste Dubreuil, a senior natural gas analyst at the International Energy Agency. “Recently there has been a lot of reloads from Norway, which ended up in some markets in northwest Europe in direct competition with Gazprom.”

Although Gazprom is unlikely to lose its crown in Europe, where it is pumping record volumes to offset declining domestic production and meets more than a third of demand, the increased LNG supply may force it to pare back some flows or risk lower prices. That would be another blow for the state-owned company after Novatek last year briefly overtook it in terms of market capitalisation, despite its far superior production and reserves and its monopoly on Russian pipeline gas exports.

Gazprom and Novatek declined to comment.

Shrinking prices for LNG in Asia made it more attractive for shippers to land the fuel in Europe. That’s expected to remain the case through the next winter. The result is that most of the fuel shipped from Novatek’s Yamal plant has ended up in Europe since the facility started more than a year ago, though some has gone to other regions. The plan was for those supplies to mainly head to Asian markets, which usually offer a premium for the fuel.

Other pipeline-gas suppliers to Europe, such as Norway, Algeria and the Netherlands, have already had to make room to accommodate that extra gas, but Gazprom’s volumes haven’t yet been impacted, said James Huckstepp, lead European gas analyst at S&P Global Platts. Gazprom has also topped up sales under long-term contracts with volumes sold on electronic platforms. “Those platform sales have shifted toward those northwestern European markets, which have seen also an uptick of LNG deliveries,” Huckstepp said in a telephone interview. “It is definitely an area where there is the most competition between the two sources.”

The Yamal LNG has also meant Europe’s dependency on Russian gas has increased but supplies from other sources, including US LNG, have also risen. As the year progresses with a more

comfortable storage situation in Europe than last year, Gazprom is unlikely to maintain its record flows, while Yamal LNG volumes will continue to stay in Europe, according to S&P Global Platts.

“We are expecting a pullback of Russian gas at least from the very strong levels that we saw over the last year as we go into summer 2019,” Huckstepp said, envisaging a decline of 24mn cubic meters per day in the summer and also a contraction next winter. “Part of that is down to the amount of LNG coming to Europe.”

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## **US oil just a few years from eclipsing its two largest rivals combined**



The world's biggest petroleum producer isn't far from pumping more than its two largest rivals combined. By 2025, the US will produce more than 24mn bpd of crude, condensate and natural-gas liquids, exceeding the collective output of Saudi

Arabia and Russia, consultant Rystad Energy AS said in a report. That would continue the pattern of meteoric growth in the American oil industry since Opec and its allies began supply cuts in 2017. Opec producers cut back production sharply during December before their next reductions were due to take effect. "US oil activity and production has built significant momentum," Rystad said on Wednesday. "The growth in US liquids production will naturally be driven by the continuous development of unconventional reservoirs." America's shale revolution has curtailed Opec's power, a shift highlighted when the country briefly became a net oil exporter for the first time in seven decades late last year. That followed 12 months of record crude production, a surge that's continued into 2019. A recent push to 11.9mn bpd topped Saudi output and Russian supply, both of which are subject to cutbacks. Nevertheless, the boom comes at a cost. Capital spending of \$150bn to \$190bn will be needed every year between now and 2025 to meet the forecast level, according to Rystad.

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**UN chief: We are losing race on climate change**



AFP/Davos

The world is “losing the race” against climate change, UN chief Antonio Guterres warned yesterday, demanding bolder action from governments to arrest runaway warming.

Guterres delivered a no-holds-barred appraisal to business and political leaders gathered at the World Economic Forum (WEF) in Davos, which has featured much hand-wringing on the planetary crisis this week.

“In my opinion it is the most important global systemic threat in relation to the global economy,” the UN secretary-general told his high-calibre audience.

“Climate change is running faster than what we are,” he said. “I believe we are losing the race.”

The business community and civil society are increasingly engaged, “but the political will is still very slow”, he said, lamenting the position of climate doubters.

“We are moving dramatically into a runaway climate change if we are not able to stop it.”

A UN summit last month in Poland, which was designed to advance the Paris climate accord, laid bare continuing fissures over the share of responsibility among countries to cap temperature rises.

The Paris accord has been shaken by the withdrawal of the United States under President Donald Trump, and by threats to do the same by Brazil's new hard-right leader, Jair Bolsonaro. Guterres, on an earlier Facebook Live broadcast, said that the commitments made in Paris were already "not enough" but was "not hopeful" that nations would find the necessary resolve.

"If what we agreed in Paris would be materialised, the temperature would rise more than 3.0° (Celsius)," he said.

"We need countries to make stronger commitments," Guterres said, calling for more measures to mitigate climate change and adapt to it, along with financial aid for poorer countries.

A WEF survey ahead of the Davos meeting found that climate change was the leading concern of forum participants around the world, noting in particular the growing frequency of extreme weather events.

Corporate executives in Davos such as Patrick Pouyanne, the chief executive of French energy giant Total, have been touting their own measures to transition to a greener economy.

"We don't look to renewables to be green," he told the CNBC channel in Davos yesterday, noting that electricity is the fastest-growing segment of the energy market.

"We look to renewables because it's the best way to go in to this electricity market, but the electricity market will require also natural gas, so natural gas and renewables."

However, activists say companies are not doing nearly enough.

One vocal voice in Davos this week has been Swedish 16-year-old Greta Thunberg, who has inspired a wave of climate protests by schoolchildren around the world after delivering a fiery speech at the UN climate summit in Katowice, Poland last month.

"They (companies) have known exactly what priceless values they have been sacrificing to continue making unimaginable amounts of money," she told AFP in an interview.

Former US secretary of state John Kerry, who signed the Paris accord for the United States in 2016, said that 38 out of the 50 US states were implementing their own climate policies despite Trump's withdrawal and vocal scepticism on climate

change.

The Paris pact was based partly on the expectation that the private sector would step up with new investment in areas such as batteries and solar panels, he noted.

"It's not happening enough, and even in Katowice recently, you saw the fight that was taking place, just to be able to try to be reasonable here," Kerry said in Davos on Tuesday, also on CNBC.

"We're heading towards 4.0° Centigrade increase in this century, and the passive indifference that most countries are accepting is basically a mutual suicide pact."

Another idea long in the mix of the climate debate is a carbon tax, which would factor in the polluting price of fossil fuels so as to discourage their use over time.

That has been anathema for many governments, including the United States well before Trump.

However, it is gaining ground anew under an initiative by the Climate Leadership Council that is backed by 27 Nobel economics laureates and four former chairs of the Federal Reserve.

Ted Halstead, president of the US organisation, has been in Davos this week selling the idea of US households getting back the revenue raised, in the form of lump-sum rebates.

Greenpeace welcomed the intervention by Guterres.

"The UN secretary general's speech once again drives the urgency of the climate emergency home," said the environmental group's executive director Jennifer Morgan. "Guterres's argument is compelling and has to be heard."