

# **U.S. oil industry lobbies against tighter sanctions on Russia**

WASHINGTON, July 20 (Reuters) – The U.S. oil and gas industry is lobbying against tighter sanctions on Russia that could impact U.S. investments there, congressional sources said on Friday.

The U.S. Senate has revived a bill, called DETER, that would allow for swift sanctions if Moscow was found meddling in future U.S. elections. Both Democrats and Republicans are looking to redress what they consider President Donald Trump's weak stance on accusations of Russian interference in the 2016 election when he met Russian President Vladimir Putin on Monday.

Top U.S. energy company Exxon Mobil is among the firms that have previously opposed U.S. sanctions on Russia. Opponents claim sanctions unfairly penalize U.S. companies while allowing foreign energy rivals such as Royal Dutch Shell and BP to operate in the world's biggest oil producer.

Western powers imposed sanctions in 2014 after Russia's annexation of Crimea.

Democratic Senator Chris Van Hollen told Reuters on Friday there was growing bipartisan support for his DETER bill.

When asked whether energy industry lobbyists were either opposing the bill or seeking revisions, Van Hollen said that "a range of issues need to be discussed including ... ones related to U.S. and European energy projects."

Van Hollen said that while he was willing to address "reasonable concerns" from industry representatives and other

lawmakers, the legislation needed to be robust enough to discourage Moscow from meddling in future U.S. elections.

“Don’t trip the wire because if you do, sanctions are automatic and harsh” should be the message, Van Hollen said. He said he had not been directly contacted by energy lobbyists.

Lobbyists representing oil and gas firms with interests in Russia were opposing the legislation, two Senate aides said. They did not mention specific companies and spoke anonymously because private conversations were still underway.

One of the Senate aides said the U.S.-Russia Chamber of Commerce was raising concerns about the legislation.

The chamber describes itself as a non-profit organization headquartered in Houston that promotes trade between Russia and the United States. Its members include Shell, Exxon Mobil, and Chevron.

Chamber representatives and the three energy companies did not respond to requests for comment.

Exxon has already taken a hit because of sanctions. In February, the firm said it would exit some joint ventures with Russia’s Rosneft.

The company still has operations in Russia, including an oil venture on an island in the North Pacific called Sakhalin. (Reporting by Richard Cowan and Timothy Gardner, Writing by Richard Cowan Editing by Mary Milliken and Rosalba O’Brien)

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# Opec+ pushes on with supply boost, yet split on quotas



Bloomberg/Kuwait

Opec and its allies are raising output to keep world markets adequately supplied, yet remain divided on how much each country should produce.

During a conference call on Wednesday, oil ministers discussed how much they planned to pump in July, while side-stepping more contentious questions about production quotas, according to people familiar with the matter. Technical experts meeting the same day failed to reach a recommendation on how the supply increase should be distributed among members amid disagreements between Saudi Arabia and Iran, they said.

As far as global oil markets are concerned, the differences between the two might not matter immediately, as Saudi Arabia and Russia press on with increasing production regardless. Yet, a prolonged clash risks shattering Opec's hard-earned cohesion after it worked with its allies to bring crude out of the biggest price-slump in a generation.

Further production increases from the Saudis are almost

certainly on the way. The kingdom has told fellow producers that its output will be slightly higher this month than in June, the people said.

It had reported 10.489mn barrels a day of output for last month, not far from the record reached in 2016. Russia has also signalled it's pumping more.

Getting a formal blessing from the Organization of Petroleum Exporting Countries for these increases is proving more difficult.

Although Opec and its partners – led by Russia – agreed to boost output last month to cool rallying prices, the size of the increase was contested. For Russia and the Saudis, it was about 1mn barrels a day. To Iran, which is seeing its exports slide amid renewed US sanctions, it was much less.

The dispute flared again at Wednesday's committee meeting in Vienna, when Iran's representative repeated the country's position that output limits assigned in late 2016 still apply and countries shouldn't exceed these, according to people familiar with the talks, who asked not to be identified as the discussions are private.

Supply increases by the Saudis and Russia are compensating for losses elsewhere in the coalition, particularly in Venezuela, and bringing the alliance closer to its target. Higher production from these two means overall compliance of Opec+ with the output levels agreed in 2016 was 121% in June compared with 147% in May, according to data from the committee.

US President Donald Trump is exacerbating the Saudi-Iran split by pressing Riyadh to replace Iranian shipments that he intends to partially shut down through sanctions. While the Saudis seem to be paying heed by offering extra cargoes to some buyers in Asia, Iran has said Opec should defy US demands.

Saudi Arabia has indicated a production level of 10.5mn barrels a day in July. That would actually be slightly lower than expected as the kingdom was on track to reach 10.8mn, people briefed with production policy said late last month.

As for whether Opec can smooth out the differences between the Saudis and Iran, settle on individual country limits, and preserve its unity, ministers will hold another teleconference next month and meet in person in Algiers in late September.

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## **The law that broke up the Rockefeller oil empire 100 years ago may soon be used on OPEC**



OPEC is consulting with lawyers to prepare a strategy to defend against proposed U.S. legislation that could open the

cartel up to antitrust lawsuits, according to people familiar with the matter.

The organization's legal team will hold talks in the coming days with law firms including White & Case about the "No Oil Producing and Exporting Cartels Act," one of the people said, asking not to be identified because the information is not public. The cartel is seeking strategy recommendations for dealing with the NOPEC bill, which could allow the U.S. government to sue it for manipulating energy prices, the person said.

A spokesman for White & Case declined to comment.

The planned meeting highlights the growing pressure on the Organization of Petroleum Exporting Countries from the world's largest oil consumer. President Donald Trump has repeatedly criticized the group on Twitter, accusing it of inflating prices and urging it to increase production. The cartel has bowed to Trump's will, pledging last month to add about 1 million barrels a day of crude to the market, yet lawmakers have continued to push NOPEC forward.

The House of Representatives introduced a version of the bill in May. The Senate earlier this week also brought up a draft of the legislation, which would amend the Sherman Antitrust Act of 1890. That's the law used more than a century ago to break up the oil empire of John Rockefeller.

Congress has discussed various forms of NOPEC legislation since 2000, but both Presidents George W. Bush and Barack Obama threatened to use their veto power to prevent it becoming law. The risk for OPEC is that Trump could break with this precedent.

OPEC pumps about a third of the world's crude, and the biggest of its 15 members is Saudi Arabia, one of America's closest friends in the Middle East. While the group doesn't target a specific oil price, it adds or removes supplies in the market and therefore can affect the cost of crude. Since January 2017, the group and allies including Russia have cut

production by about 1.8 million barrels a day, helping to lift international prices to a three-year high of more than \$80 a barrel in May.

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## **UPDATE 1-Saudi oil exports to drop by about 100,000bpd in Aug- OPEC governor**

DUBAI, July 19 (Reuters) – Saudi Arabia expects its crude exports to drop by roughly 100,000 barrels per day in August as the world's top oil exporter works to ensure it does not push oil into the market beyond its customers' needs, the kingdom's OPEC governor said on Thursday.

Adeeb Al-Aama said in a statement that Saudi Arabia's crude oil exports in July would be roughly equal to June levels. There was no mention in the statement of Saudi June crude exports.

An industry source familiar with the matter said Saudi oil exports in June were about 7.2 million bpd, while the latest official figures show May exports at 6.984 million bpd.

Al-Aama said Saudi Arabia's policy is to work on satisfying customers' needs, but to do so while adhering to OPEC and non-OPEC supply agreements.

OPEC agreed with Russia and other oil-producing allies last month to raise output from July, with Saudi Arabia pledging a "measurable" supply boost but giving no specific numbers.

OPEC and non-OPEC said they would raise supply by returning to 100 percent compliance with previously agreed output cuts, after months of underproduction. That would mean a roughly 1

million bpd increase in output.

“Despite the international oil markets being well balanced in the third quarter, there will still be substantial stock draws due to robust demand and seasonality factors in the second half,” Al-Aama said in the statement.

He also said concerns that Saudi Arabia and its partners are moving to substantially oversupply the market are “without basis”.

“Stable and balanced markets are the ideal market form for both producers and consumers, and just as Saudi Arabia would not like to see unmet customer demand, an oversupplied market repels potential investment in the oil industry, curtailing future supply and contributing to volatility,” he added.

Saudi Arabia has told OPEC it pumped 10.488 million bpd of crude oil last month, an increase of 458,000 bpd from the level it said it produced in May.

The kingdom’s total crude supply to the market in June were even higher than well-head production, OPEC sources told Reuters, suggesting the Kingdom sold crude from storage. (Reporting by Rania El Gamal; Writing by Ghaida Ghantous; Editing by Jan Harvey and Alexandra Hudson)

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## **[GGP] EUROPEAN COMMISSION TAKES AIM AT QATAR’S LNG CONTRACT**





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### **European Commission Takes Aim at Qatar's LNG Contracts**

- Japan Fair Trade Commission's recent market study on clauses in LNG SPAs indicates that agreements may run afoul of Japanese antimonopoly laws.
- European Union (EU) cases may provide guidance on the application of competition law to destination clauses, diversion clauses, profit-sharing clauses and take-or-pay clauses.
- The European Commission (EC), having just concluded its seven-year investigation into Gazprom, has opened an investigation into "destination clauses" in Qatar Petroleum's LNG supply agreements with EEA importers.
- Previous EC investigations into destination clauses in LNG and pipeline gas agreements suggest that commitments from Qatar Petroleum are a more likely outcome than a fine.
- The investigation is likely to conclude sometime in the next three years, unless the Qatar government decides to become more involved in the investigation.

### **Summary**

The European Commission's (EC) current investigation into Qatar Petroleum is likely to have a major impact on Qatar Petroleum's LNG supply agreements with European Economic Area

(EEA) importers. Based on previous EC investigations into LNG contracts and neighbouring gas markets, Qatar Petroleum appears likely to settle the investigation with the EC in exchange for a commitment (or a “common understanding” with the Qatar government, depending on the extent of its involvement) to remove any territorial restriction clauses from Qatar Petroleum’s LNG contracts with EEA importers.

Qatar Petroleum is unlikely to receive a fine from the EC (which technically could be up to 10% of its worldwide turnover), unless it is later found to have breached its settlement agreement with the EC. We do not expect an imminent outcome in this investigation, with a likely time frame being circa 18 months on the short end, extending to circa three years at the long end. However, the time frame could become very unpredictable if the Qatar government decides to become more involved in the investigation.

### **The EC Investigation into Restrictions to the Free Flow of Gas Sold by Qatar Petroleum in Europe**

The EC has launched an investigation into whether supply agreements between Qatar Petroleum companies exporting LNG and European importers have hindered the free flow of gas within the EEA through so-called “destination clauses.” According to reports, the EC is looking into at least three types of destination clauses:

1. clauses that stop cargoes from being diverted to another terminal;
2. clauses that restrict the list of countries that they can sell the LNG on to;
3. clauses that limit the volumes of LNG that can be diverted.

The investigation currently involves concerns in relation to both Article 101 (ban on anticompetitive agreements) and Article 102 (prohibition on the abuse of a dominant market

position) of the Treaty on the Functioning of the European Union (EU). We are not aware of any other companies being investigated alongside Qatar Petroleum, which has, in turn, stated that it will cooperate with the investigation.

Qatar Petroleum is EU's largest seaborne gas supplier, accounting for 40% of the EU's overall LNG imports (and much more in some Member States). The EC press release states that Qatar Petroleum's long-term agreements (typically 20 or 25 years) for the supply of LNG into the EEA contain direct and/or indirect territorial restrictions on EEA importers' freedom to sell the LNG to alternative destinations within the EEA. Destination clauses have historically been a fixture of long-term LNG deals that tie buyers to receiving shipments at a specific port, thereby preventing cargo diversions that could undercut Qatar Petroleum in a third market.

It is unclear whether clauses containing so-called "profit-sharing mechanisms" (which, the EC has previously considered, act as a restraint on cross-border resale of LNG) are also being investigated. While "take or pay" clauses under the LNG agreements are understood not to be under investigation, reports have noted that these clauses amplify the perceived harm to EEA importers from restricting their ability to resell LNG across borders (by forcing Member States to pay for a fixed amount of LNG even when there is insufficient demand or storage space). The scrutiny of destination clauses intensifies under these circumstances, since they prevent the onward sale of this excess LNG to other Member States.

Reports suggest that one focus of the investigation will be whether the complexities of the LNG market (compared with pipeline supply of gas in, e.g., Gazprom—discussed in further detail below) justify the use of destination clauses. Qatar Petroleum will be well aware of the EC's history in investigating destination clauses in LNG contracts. Between 2002 and 2007, the EC investigated Nigeria's NLNG and Algeria's Sonatrach (AT.37811), the second and third largest

LNG suppliers to the EU after Qatar Petroleum. The EC settled both investigations, with NLNG and Sonatrach each committing to ending the use of territorial sales restriction clauses in contracts with EEA importers. While the EC's approach (i.e., targeting specific companies) is narrower than, e.g., Japan's (which took an industry-wide approach by banning the use of destination clauses in LNG contracts – discussed in further detail below), commentators have noted that, if the EC does not find a justification for destination clauses in LNG contracts in the current investigation, then this would likely have implications for the wider European LNG market as well.

The current investigation into Qatar Petroleum was formally launched under the EC's own initiative, although we cannot exclude the possibility that the investigation has also been motivated by receipt of third-party complaints. However, according to reports, the EC sent out questionnaires in relation to LNG markets in Spain, France and the United Kingdom as early as 2016. The EC is also understood to have engaged in extensive consultation with Japan's Ministry of Economy, Trade and Industry in recent months to explore the impact of destination clauses on gas market development and price transparency, which may have helped build the EC's case against Qatar Petroleum.

### **The EC Internal Energy Market**

The current investigation falls within several broader EU priorities. The EU is taking steps on the one hand to remove territorial restrictions across the EU Single Market (including in energy markets) and; on the other hand, to diversify the EEA's energy supply away from monopolistic companies that are prone to commercial expediency or external political influence, undermining the EEA's energy security.

The EC's Follow-up Study on LNG and Storage Strategy (2017) noted that "There was, perhaps, in the early stages of the industry, a reason for putting destination clauses into LNG

contracts. Because of the boil off nature of LNG, cargoes need to be in transit for as short a time as possible. Traditionally, buyers, sellers and financiers all needed to know that when a cargo left the liquefaction terminal, it would go directly to a regasification terminal without delay and with a guaranteed reception. In the early days of the LNG industry, when there was no spot market to send cargoes to, it perhaps made sense for both parties to agree to destination clauses so as to minimise risk and attract the project financing. **It is not so clear now though why destination clauses have been maintained, except perhaps for a certain inertia in the industry.** According to EU competition rules, destination clauses are anti-competitive and for this reason they have already been removed from some contracts for LNG sales to Europe.”

The EC also signed a memorandum of co-operation with Japan (the world’s largest importer of LNG) last year whereby the two countries agreed to commit to ending the use of destination clauses in LNG contracts. Later that year, the Japan Fair Trade Commission announced an industrywide ban on the destination clause or restriction on buyers in any new LNG contracts (see link to our previous article on the JFTC ban here).

### **Gas Market Investigations**

The EC concluded its seven-year investigation into Gazprom (AT.39816, 2011-2018) last month. That investigation included concerns that Gazprom imposed territorial restrictions in its supply agreements with EEA wholesalers and industrial customers. The restrictions included export bans and clauses requiring the purchased gas to be used in a specific territory (i.e., destination clauses) and other measures that prevented the cross-border flow of gas.

In response, the EC imposed binding obligations on Gazprom by way of a decision on 24 May 2018 (see the EC’s press release

in relation to the decision here), requiring Gazprom to remove all territorial contractual barriers to the free flow of gas within the internal market, regardless of whether they make cross-border sales impossible or merely financially less attractive, and prevented Gazprom from reintroducing such clauses in the future. While no fines were imposed, the EC noted that, "If a company breaks any of these obligations, the Commission can impose a fine of up to 10% of the company's worldwide turnover, without having to prove an infringement of EU antitrust rules."

We note that, due to contemporaneous Russian-European relations we cannot rule out that political concerns may have played a role. Other enforcement actions in neighbouring gas markets include investigations against Statoil and Norsk Hydro (now merged and known as Equinor, in 2002), Eni (2003 and 2005), GDF (now Engie, 2004) and E.ON Ruhrgas (now Uniper, 2005).

There have also been national investigations into gas markets. For instance, the U.K. investigated the domestic bulk LPG market in 2004-2006. However, this investigation related to barriers to domestic households switching LPG suppliers and did therefore not involve an EU internal market element relevant to the Qatar Petroleum investigation.

## **Conclusion**

Based on the previous investigations discussed above, it appears that Qatar Petroleum could settle the investigation, allowing it to escape a fine of up to 10% of its worldwide turnover. However, Qatar Petroleum may likely face a commitment decision requiring it to remove all destination clauses from current contracts with EEA importers and preventing it from imposing any new destination clauses in the future. A breach of these commitments would, in turn, increase the risk of the EC imposing a fine of up to 10% of Qatar Petroleum's worldwide turnover.

As the EC press release notes, there is no legal deadline within which the EC must conclude its investigation. By way of indicative timing, we note that, while the EC took seven years to conclude its investigation into Gazprom, that was a seemingly more complex investigation involving several allegations of anticompetitive conduct in addition to the use of destination clauses. The Qatar Petroleum investigation, however, appears to be limited to destination clauses.

The EC did not publish a launch date for its LNG investigations into NLNG and Sonatrach, so we cannot say with certainty how long it took to conclude these. What is clear is that the time frames can vary significantly, since we know that the investigation into Sonatrach lasted some five years longer than the investigation into NLNG. Based on its previous experience from these investigations, the EC is well-equipped to handle the Qatar Petroleum investigation, and it could be expected to deliver a quicker result – this could involve a settlement within the next two years. The investigation is likely to conclude at the earliest in about 18 months with three years being a likely long-end time frame.

We note, however, that the Sonatrach investigation, which lasted for at least five years, technically culminated in a “common understanding” between the EC and the Algerian government (as opposed to a settlement between the EC and Sonatrach). We cannot exclude a similar EC-to-government outcome in the Qatar Petroleum investigation, which would render the time frame less predictable.

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# Qatar benefits from Russian experience for 2022 World Cup



QNA/Moscow

Major General Ali al-Ali, Assistant Executive Director for Security Affairs at the Supreme Committee for Delivery & Legacy (SC), has confirmed reaching final stages of the security programmes with the Russian side in securing the 2018 World Cup, which included shadow monitoring, field observation and fieldwork.

“We have sent about 70 officers who have been deployed to several cities. The focus has been on the major events that took place. The teams have worked in stadiums, in the streets and in the places where the masses are gathered,” said al-Ali.

Four officers participated with the Spanish, Russian and English police in securing fans during matches, he added.

“We look forward to benefiting from the Russian experience and applying it in the State of Qatar to secure the 2022 World Cup. We hope that the World Cup will be a starting point for other countries to follow us and to take advantage of our experience in the future,” he noted.



He said that one of the most prominent things that were observed in the security of the World Cup Russia is the management of crowds, saying, "They were very special in the management of crowds as well as proactive step."

Al-Ali praised the gains and great benefits achieved through this co-operation, most notably the implementation of FIFA's best standards, especially that the application of "FIFA Handbook" in coordination with the Russian side, and there were many additional things to enhance security and safety.

### **Majlis Qatar hosted a football legends match Friday**

Organised in collaboration with Save the Dream, from the International Centre for Sport Security, the match featured Christian Karembeu, David Trezeguet, Didier Drogba and Honey Thalijeh.

They played alongside women and children from local communities in order to support the programmes ambition to provide hope and opportunities to young people through sport.

Majlis Qatar and Qatar Elements are running alongside various other activations in Doha, Moscow and St Petersburg.

These include interactive digital portals that connect fans via live video feeds.

The SC is also hosting the Qatar roadto2022 Exhibition at GUM department store in Moscow.

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## **French banks score capital victory against ECB**



Reuters/Frankfurt

French banks won a landmark court victory against the European Central Bank yesterday, giving them an exemption from holding capital against customer deposits parked with a state-owned fund.

The European Union's top court annulled an ECB decision demanding that the six banks set aside capital against special deposits they have with state investment institution Caisse des Dépôts et Consignations (CDC).

The ruling marks the first high-profile success for banks in a case brought against the ECB since the central bank became the industry's main supervisor in 2014 under the lead of France's own former chief regulator, Daniele Nouy.

"The ECB has erred in law and committed manifest errors of assessment," the court said. The ruling will lower capital requirements for BNP Paribas, Societe Generale, Credit Agricole, Credit Mutuel, Groupe BPCE and La Banque Postale by billions of euros in total.

French tax-free savings accounts, such as the Livret A, were worth some €386bn at the end of May but their popularity is waning due to the low interest rate they pay.

Banks can deposit up to 60% of that cash with the Caisse des

Dépôts et Consignation, which uses the funds to invest in public housing and other projects.

La Banque Postale and BPCE, which long had a monopoly on French regulated savings accounts, were likely the main beneficiaries of the verdict. Under EU rules, banks must hold capital worth at least 3% of their total assets.

By stripping out the deposits with the CDC, banks would get a higher leverage ratio for a given amount of capital.

La Banque Postale said in its annual report it had capital worth 4.5% of its assets at the end of 2017 but that ratio would come in at even healthier 5.3% if its deposits with the CDC had been excluded.

As the bank's assets were worth 205bn at the end of last year, according to its annual report, that 0.8% difference is worth €1.64bn (\$1.91bn).

BPCE and Credit Agricole SA knocked 30 and 15 basis points respectively off their leverage ratios in 2016 to take account of their deposits with the CDC.

The court accepted that these deposits qualify for an exemption because they are "deposits that the institution is legally obliged to transfer to (a) public sector entity...for the purposes of funding general interest investments".

In 2013, before moving to the ECB, Daniele Nouy herself said that French banks would be "strongly impacted" by new liquidity rules due to their exposure to regulated savings accounts, among other reasons.

The ECB is facing a number of lawsuits from banks that disagree with its decisions, including BNP Paribas.

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## **Time to untie the ECB's hands**



By Stefan Gerlach/Zurich

The European Central Bank's recent announcement that it will try to end asset purchases by this December means that it has confidence in its ability to achieve price stability.

But those who decided that price stability should be the ECB's single, overriding policy goal may have shot themselves in the foot, not least by denying policymakers much-needed flexibility.

The ECB defines price stability as inflation "below, but close to, 2% over the medium term." That is a lower inflation rate than even the Bundesbank achieved during its celebrated pre-euro history, and it is a tighter target than virtually all other central banks pursue.

For some, too much of a good thing is apparently wonderful.

To be sure, the ECB's definition of price stability was not a problem during the period between the global financial crisis and the adoption of quantitative easing, when inflation was well below 2%. To those who believed that monetary policy had been too tight, the ECB was right to do whatever it could to push inflation up toward the target range.

Yet for those in favor of the ECB's "stability-oriented monetary policy" – a term suggesting that others disregard the

risk of monetary instability – the price-stability objective has evidently become too constraining.

From their perspective, asset purchases never should have happened, and interest rates should have been raised long ago, despite the eurozone's too-low rate of inflation.

It is safe to assume that those who hold this view were highly supportive of the ECB's hardline price-stability objective.

They would contend that low interest rates raise financial-stability risks that grow more acute with time.

That is probably true.

And yet it ignores the fact that raising interest rates prematurely can also fuel financial instability.

In any case, the argument is moot, because the ECB's mandate rules out any rate increase that could conflict with price stability.

Of course, those in favor of higher interest rates would counter that inflation of 1% or even less is in fact "close" to 2%, implying that price stability has been achieved and monetary policy can be tightened.

In other words, they do not share the view that "close to 2%" means something in the range of 1.7-1.9%. But this is a pernicious argument.

Running inflation below the level debtors had reason to expect translates into high real interest rates, which in turn risks triggering defaults among borrowers, including mortgagors, firms, and governments.

Undershooting the inflation target is also dangerous because inflation expectations and interest rates will decline over time, which makes it more likely that the ECB will reach the zero lower bound when the next downturn occurs.

It also increases the likelihood that asset purchases will become necessary once again.

Those in favor of a policy tightening would also note that low rates are problematic for savers, insurance companies, and pension funds, whose portfolios often include few equities.

But nowhere does the ECB's mandate say that monetary policy should be set in the interest of savers or the financial

industry.

As a practical matter, the ECB's price-stability objective, originally designed to protect the eurozone from Italian-style inflation, has ended up protecting it from German-inspired deflation.

But just because the ECB's mandate has forced it to do the right thing on occasion does not mean that we will be so lucky in the future.

The global financial crisis required advanced economies' central banks to contend with circumstances that those who crafted their mandates scarcely could have imagined.

The fact that things often do not work out as expected is precisely why central banks' objectives should be written to give policymakers flexibility – or poetic license to bend the rules – when extreme events occur.

Otherwise, policymakers will be less effective than they otherwise could be.

Because the ECB's price-stability mandate is legally codified by the Treaty on the Functioning of the European Union, it cannot be altered without a treaty amendment.

But the phrase “below, but close to, 2%” is the ECB's own, and thus can be changed with the stroke of a pen.

As such, the ECB should consider two alterations.

First, it should get rid of the ambiguity inherent in the words “close to,” by setting a point target to provide clarity to the public – and to ECB Governing Council members – about what its monetary policy aims to achieve.

Whether that target is 1.8% or 2%, or whether it is surrounded by a range, is less important.

Second, the ECB must clarify how financial stability and business conditions factor into its policy decisions.

Many have argued that lengthening the policy horizon by precisely defining “the medium term” would give policymakers room to pursue other objectives temporarily.

After all, because financial crises and deep recessions are deflationary, they, too, jeopardize price stability.

With the ECB finally exiting the last crisis, now is a good

time to reflect on what lessons it has (or should have) learned.

The ECB must not delay in positioning itself for the next downturn. – Project Syndicate

\* Stefan Gerlach, former Deputy Governor of the Central Bank of Ireland, is Chief Economist at EFG Bank in Zurich.

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## **Russia says may step up oil output to tackle deficit**



MOSCOW (Reuters) – Russia and other leading oil producers may boost oil output further if supply shortages hit the global oil market, Russian Energy Minister Alexander Novak said on Friday.

The expected drop in Iranian crude exports this year due to renewed U.S. sanctions, coupled with a decline in Venezuela's production and outages in Libya, Canada and the North Sea have driven oil prices to their highest since 2014 in recent weeks.

OPEC and other key producers including Russia responded to the tightness by easing a supply-cut agreement in June.

The deal effectively increases combined oil output by 1 million barrels per day (bpd), of which Russia's share stands at 200,000 bpd.

"If we need more than 1 million bpd, I don't rule out that we can quickly discuss it and make a quick decision," Novak told reporters, adding that the leading oil producers can get together and discuss the market situation at a teleconference.

He also said Russia may surpass the 200,000 level of increases if there is a need for it.

The International Energy Agency said on Thursday that there were already "very welcome" signs that output from leading producers had been boosted and may reach a record.

The global energy watchdog however said the disruptions underscored the pressure on global supplies as the world's spare production capacity cushion "might be stretched to the limit".

Novak said higher crude prices this year would add 2.5 trillion rubles (\$40.14 billion) to state coffers this year.

The minister also said that the war of tariffs between the United States and China have a negative impact on the global economy and boosted oil price volatility.

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# JP Morgan raises oil price outlook, but trims demand-growth forecast



(Reuters) – Investment bank JP Morgan on Friday raised its outlook for oil prices, but lowered its forecast for global crude demand-growth this year amid increasing uncertainty over international trade.

A gauge of global stock markets hovered at a month high while Wall Street traded near a five-month high as investors digested another significant day of corporate earnings.

The dollar index, which measures the greenback against a basket of six currencies, rose 0.18 percent, to 95.113 after rising as high 95.407. The euro was down 0.13 percent to \$1.1644.

Demand increased after upbeat comments from Federal Reserve

Chairman Jerome Powell about the U.S. economy in congressional testimony on Tuesday, a message he reiterated on Wednesday before a U.S. House panel.

“Strengthening economic growth and a confident Fed is helping to support the dollar,” said Alan Gayle, president of Via Nova Investment Management LLC in Fredericksburg, Virginia.

“Higher short-term interest rates make the dollar more attractive relative to other currencies.”

On Wall Street, the Dow Jones Industrial Average rose 57.03 points, or 0.23 percent, to 25,176.92, the S&P 500 gained 2.19 points, or 0.08 percent, to 2,811.74 and the Nasdaq Composite dropped 5.72 points, or 0.07 percent, to 7,849.39.

Morgan Stanley shares rose 2.8 percent after the bank’s better-than-expected profit.

The pan-European FTSEurofirst 300 index rose 0.60 percent, as shares of Swiss drugmaker Novartis and Sweden’s Ericsson gained after their reports.

MSCI’s gauge of stocks across the globe gained 0.08 percent, and touched its highest point in a month.

Benchmark U.S. 10-year notes last fell 1/32 in price to yield 2.8637 percent, from 2.862 percent late on Tuesday. The U.S. yield curve remained near its flattest in nearly 11 years.

Oil benchmark Brent crude hit a three-month low after government data showed a rise in U.S. crude inventories and oil production, which highlighted increasing global supply and concerns over weak demand.

U.S. crude fell 0.29 percent to \$67.88 per barrel and Brent was last at \$71.89, down 0.37 percent.

Gold, which is regarded as a hedge against inflation, extended its downtrend and sank to its lowest in a year on a buoyant

dollar and falling oil prices.

“In this environment where we also see oil prices falling, and so less concern from investors about rising inflation, that’s another negative for the gold price,” said Jens Pedersen, senior analyst at Danske Bank in Copenhagen.

Spot gold was down 0.1 percent at \$1,226.23 an ounce.