Anti-OPEC Bill Sponsor Expects ‘Positive Reception’ From Trump

The congressman behind a bill that would allow the U.S. to sue OPEC for manipulating oil prices expects President Donald Trump to back the effort once it clears Congress.

“My sense is that the administration is waiting to determine whether we can actually get it through both houses of Congress before they spend any capital on it,” U.S. Representative Steve Chabot, an Ohio Republican, said in an interview on Friday. “I am cautiously optimistic we will be able to get it through both houses and get it to the president’s desk.”

The “No Oil Producing and Exporting Cartels Act” quickly cleared its first hurdle when it was approved by the House Judiciary Committee earlier this month, but a floor vote hasn’t been scheduled yet. The proposed law would subject the

Organization of Petroleum Exporting Countries to possible antitrust action by the Justice Department through an amendment of the Sherman Antitrust Act of 1890, the law used more than a century ago to break up the oil empire of John Rockefeller.

Congressional support for the bill intensified last fall as crude prices neared a four-year high on the back of production limits set by OPEC, and Trump publicly blamed OPEC for high pump prices in the U.S. While the producer group hasn’t set prices since the 1980s, its members periodically agree to boost or cut their production to keep the oil market in balance.

A 2007 version of the so-called “NOPEC” bill passed the House and Senate by large margins, only to face a White House veto. Other attempts to approve the legislation have met similar fates. The difference this time is that Trump has consistently bashed the oil cartel on Twitter for keeping prices artificially high.

“This year, we seem to have a sympathetic White House,” Chabot said. “I hope the president will listen to the right people and be with us.”

The Justice Department is still reviewing the legislation, and the White House hasn’t taken a stance on it. Both the Chamber of Commerce and the American Petroleum Institute oppose the bill, arguing that the role of the U.S. as the world’s biggest oil and gas producer has increased its leverage against OPEC and provided protection against price volatility.
Prices have fallen from last year’s but that hasn’t shaken Chabot’s resolve.

“These things are temporary and can change in the blink of an eye,” he said. “Prices in general seem to go up very quickly whereas they go down very slowly.”

Passage doesn’t necessarily mean that any lawsuits are actually brought against the cartel, Chabot said. But the threat may be enough to “keep OPEC nations more in check so they’re reasonable and not manipulating the world market.”

Companion legislation targeting OPEC has also been introduced in the Senate.

Asia’s crude oil refiners are caught between Trump and OPEC: Russell

LAUNCESTON, Australia (Reuters) – Asia’s oil refiners are increasingly finding themselves trapped between the rock of OPEC’s production cuts and the hard place of U.S. President Donald Trump’s sanctions against Iran and Venezuela.

While the region, which accounts for about half of the world’s refining capacity, is still able to source oil, it’s becoming harder to get hold of the grades of crude that many Asian refiners prefer.

This is because the output restrictions agreed by the Organization of the Petroleum Exporting Countries (OPEC) and its allies, which include Russia, have resulted in mainly heavy and medium sour crude grades being cut.

Add to this the sanctions imposed by the United States on Venezuela, which produces heavy sour crude, and on Iran, another producer of mainly heavy and medium sour grades, and Asia’s refiners are facing operational challenges.

Many of the region’s refineries are new and are optimized to process heavy and sour crudes.

They were designed this way to take advantage of the historical discount these grades were priced at relative to light, sweet crudes, such as global benchmarks Brent and West Texas Intermediate (WTI), and oil from West African producers such as Nigeria and Angola.

The recent developments in the crude oil market have all but eliminated the discount enjoyed by heavy crudes, and in some cases, physical cargoes of some heavy grades have traded at premiums to light crudes.

The Brent-Dubai exchange for swaps, which charts the premium of Brent over the Middle Eastern benchmark Dubai, narrowed to 36 cents per barrel on Tuesday, the weakest in almost nine years.

Looking at specific grades of crude shows that a grade such as Iraq’s Basra Heavy has been increasing in price relative to a light crude such as Nigeria’s Bonny Light.

Basra Heavy, as assessed by Argus Media, was at $60.17 a barrel on Tuesday, while Bonny Light was at $64.38.

This represents a premium of $4.21 a barrel for the light crude, but this is down from a gap of $6.18 as recently as early October last year, and $7.26 at the start of 2018.

ASIA'S HEAVY DISTRESS

The flows of crude oil to Asia also help illustrate the dilemma facing the region's refiners.

Asia imported about 669,000 barrels per day (bpd) of Venezuelan crude in January, according to vessel-tracking and port data compiled by Refinitiv, with eight of the 13 cargoes going to China, four to India and one to Malaysia.

Given the six- to eight-week sailing time between the Latin American country and destinations in Asia, it's likely that the pinch of U.S. sanctions will only be felt in April, given that all February cargoes and most of March's are already en route.

But Asia is facing the loss of almost 700,000 bpd of heavy crude from Venezuela by April, coincidentally the same month that Trump's waivers on Iranian crude exports are due to expire.

The U.S. administration reimposed sanctions against the Islamic Republic's oil exports in November in a bid to ramp up pressure against Tehran's nuclear program, but extended waivers to eight major buyers of Iranian crude, most of them in Asia.

Refinitiv data show that buyers have taken advantage of the waivers, with Iran's exports rising to a three-month high of 950,000 bpd in January, of which 700,000 bpd headed east.

In theory, these exports should drop to zero when the waivers expire in early May, barring a further extension by the Trump administration, or less likely, some kind of agreement between the United States and Iran.

In the lead up to the November granting of waivers by the United States, oil prices had jumped to a four-year high as the market anticipated the loss of Iranian barrels.

However, the granting of the waivers contributed to a sharp reversal in crude prices, with Brent dropping to a 14-month low by late November.

In turn, this spurred OPEC and its allies to impose new output restrictions at a meeting in early December, with these cuts to take effect from January.

Given that much of the heavy lifting of the output restrictions will fall on OPEC’s top producer Saudi Arabia, and fellow Middle East producers Kuwait and the United Arab Emirates, it’s likely that the barrels lost will be heavy, or medium-heavy crudes.

With the actual loss of Venezuelan and some Middle Eastern crude, and the potential loss of Iranian barrels, the dilemma for Asian refiners becomes more acute.

Do they bid ever-increasing amounts for what heavy oil remains in the market, do they lower run rates, or do they try and switch to using more light crude?

None of these options are appealing, and all of them are likely to result in higher costs for refined products, particularly the middle distillates such as diesel and jet fuel that are produced in greater quantities from heavy crudes.

EU moves ahead with Russia gas pipeline despite US opposition

AFP/Strasbourg, France

The European Union pushed ahead yesterday with an agreement that will allow Russia to continue to build a new gas pipeline to Europe, despite US warnings it posed a security risk.

The EU's revised gas directive aims to establish common gas market rules for pipelines entering the bloc from a third country, with all the focus on Russia's Nord Stream 2 project which will pipe gas to Germany.

In November 2017, the European Commission proposed amending the existing legislation in what was seen as a bid to put curbs on Nord Stream 2 launched by the Russian giant Gazprom.

Negotiators for the European Parliament and EU countries struck a provisional political agreement on Tuesday night on the rules that recognise Germany's lead role in the pipeline while putting it under EU oversight.

The Nord Stream 2 pipeline will double the capacity to ship gas from Russia to Germany via the waters of Finland, Sweden and Denmark.

But the pipeline has faced opposition from many countries in eastern and central Europe, the United States and particularly Ukraine because it risks increasing Europe’s dependence on Russian natural gas.

Combined with the planned TurkStream pipeline across the Black Sea, Nord Stream 2 would mean Russia could bypass Ukraine in providing gas to Europe, robbing Moscow’s new foe of transit fees and a major strategic asset. The new regulations require all pipelines on European land and sea to meet with EU law, with exceptions only accorded under the strict supervision of Brussels.

Member states will have oversight of the project, but in light of concerns from eastern member countries, the European Commission, the 28-nation EU’s executive arm, will have the final say. The commission will also have the power to authorise a member state to open negotiations with a non-EU country in future deals.

“The new rules ensure that EU law will be applied to pipelines bringing gas to Europe and that everyone interested in selling gas to Europe must respect European energy law,” EU energy commissioner Miguel Arias Canete said yesterday. US Secretary of State Mike Pompeo said on Tuesday that the United States would do everything in its power to stop the gas pipeline to Europe as he joined Poland in warning of risks.

Pompeo said the pipeline from Russia, which began construction last year, “funnels money” to Russia in a way that ultimately hurts Europe.

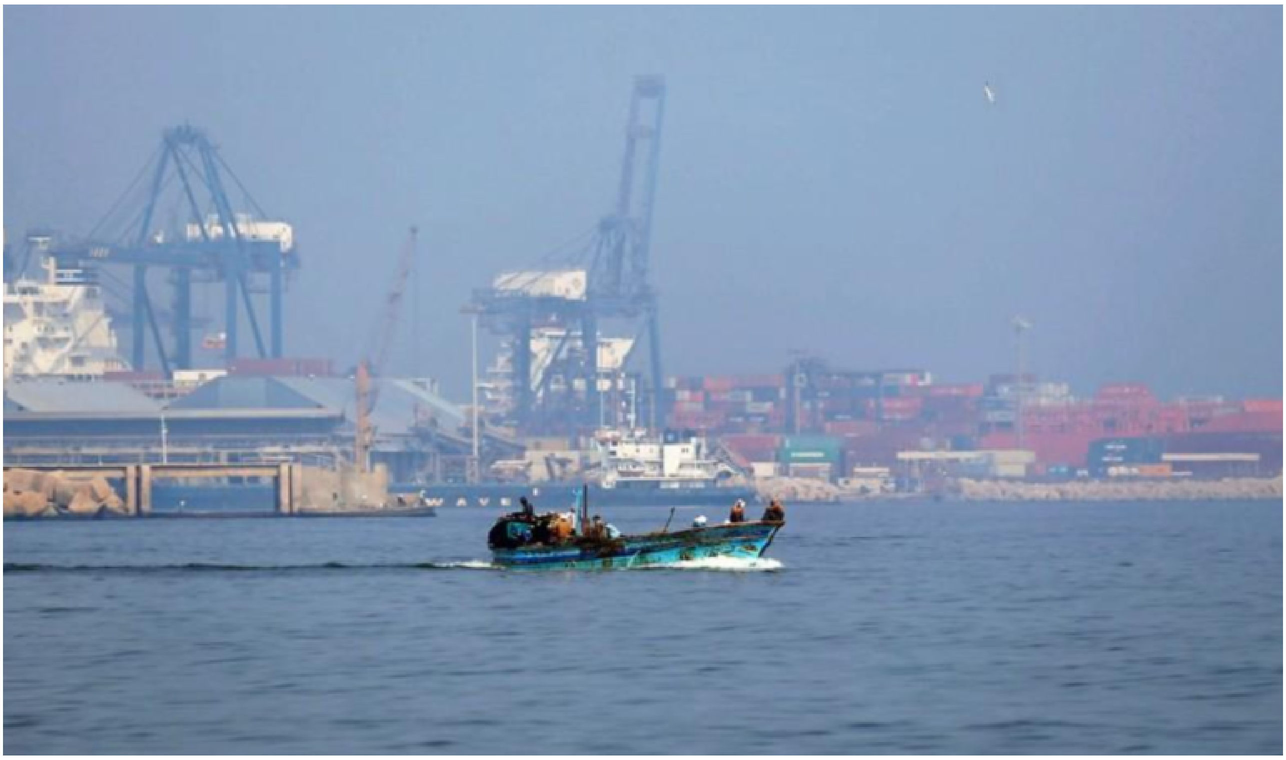
The pipeline project got a new lease on life last week after France, which had demanded EU oversight, struck a compromise with Germany.

Rebecca Harms, who heads the Greens in the European Parliament, said: “With this accord, all the problems with Russia’s gas policy and all the problems on the gas market in eastern Europe are not settled.”

But Harms said: “But we have made a lot of progress.

We have ensured that Gazprom will have to play by European rules from now on.”
Her French colleague Michele Rivasi nevertheless worried the exemptions introduced by the member states “may reduce the impact of the legislation.”
The legislation must still be formally adopted by the European Parliament and the member countries.

Egypt plugs hub status as Shell, Eni, Exxon win energy concessions



CAIRO (Reuters) — Royal Dutch Shell, Eni, BP and Exxon Mobil were among the winners in one of Egypt’s largest ever oil and gas exploration tenders on Tuesday, as the country looks to sustain an investment upswing spurred by major discoveries.

The awards marked Exxon Mobil’s entry into gas exploration in Egypt, while Shell was handed the most concessions, three for oil and two for gas, at an annual petroleum show that Egypt has used to promote itself as a hub for gas production and trading in the Eastern Mediterranean.

Egypt expects investments of at least $750 million to $800 million in the first stage of exploration in the total of 12 concessions announced, Petroleum Minister Tarek El Molla said.

The Egyptian Natural Gas Holding Corporation’s bid round, which was the largest in its history, included border areas in the Mediterranean Sea as well as land areas in the Nile Delta.

Five gas exploration concessions were awarded — in which 20 wells will be drilled — to Shell, Exxon, Petronas, BP, DEA and Eni, the head of Egypt’s state gas board said.

Egyptian General Petroleum Corporation’s (EGPC) tender meanwhile included areas in the Western Desert, the Nile Valley, the Gulf of Suez and the Eastern Desert.

Neptune Energy, Merlon, Shell, Eni and state-controlled EGPC were awarded seven oil exploration concessions in total in which 39 wells will be drilled, Egypt’s petroleum ministry said.

BOOSTING INVESTMENT

Eni’s discovery of the giant Zohr field in 2015, the largest in the Mediterranean and estimated to hold about 30 trillion cubic feet of gas, has raised interest in exploration in Egypt.

The country has reached maritime demarcation agreements with several countries in the region in its push over recent years toward increased oil and gas exploration.

Executives at the forum, which was attended by the CEOs of companies including BP and Shell, said Egypt's advantages as a hub include well-developed infrastructure, established industry expertise, strong local demand, and the country's strategic location between Europe and Asia, allowing it to send gas west or east depending on markets.

They are also encouraged by Europe's desire to diversify gas supplies and find alternative suppliers to Russia, and to reduce carbon emissions.

Egypt hopes to tap long underutilized liquefaction plants, where gas is turned into LNG, to export supplies across the Mediterranean along with that of its neighbors, including Israel, which said it would pipe gas to Egypt later this year.

"I think we're starting to see much more robustness for this concept," said Gasser Hanter, Shell's country chairman, in reference to the concept of Egypt as an emerging hub.
"You're seeing the intergovernmental agreements being sorted out, you're seeing the deregulation of the gas market, a lot of confidence in the economy, in Egypt, that is boosting the investment in the upstream."

However, executives also said longer-term challenges include geopolitical tensions in the Eastern Mediterranean, the need to further develop infrastructure, and competition from other suppliers including Russia and the United States.

Ocean's Monopoly: How Nations Use Science to Conquer the

Sea

What if a country didn’t end at the coastline but would simply continue under water? A territory the size of a continent would come up – a territory uncontrolled and open for seizure. But who owns the sea bed, is it territory still to be claimed?

The fact that the world’s oceans cover three-quarters of the earth’s surface once meant very little to governments around the world. This changed when water exploration teamed with demand for specific resources and the need for power.

The first scientific study of the ocean floor was undertaken by German survey vessel Meteor, which saw it conduct research on the Atlantic Ocean between 1925 and 1927. The information uncovered about the ocean bed changed how nations viewed their once complacent takes on the importance of the ocean – politically and otherwise.

In 1945, spurred on by a demand for oil that could not be met by land resources, US President Harry Truman pioneered the idea of owning oceans by promoting the theory of extended continental shelf of submerged landmass – claiming a continent did not end at the shoreline but ownership by a nation extended into the ocean. Prior to this, countries could only lay claim to the land extending 22 nautical miles (22km) from land's end.

Using the theory of 'continental drift' – the belief that the continents' movement in relation to each other did so across ocean beds – and the 'legitimate' nature of science as evidence to prove his point, Truman's idea was systemised under the Outer Continental Shelf Lands Act of 1953, starting a war of laws. How fair mother nature had been to landlocked nations was another issue to contend with.

"For instance, Russia has a wide [continental] shelf of more than 200 nautical miles, or over 400km. By contrast, South East Africa has a continental edge of only 20km. These features are the result of geological evolution. Some countries are lucky. Others are not," says geophysicist Wilfried Jokat.

Over 40 percent of the world's oceans have already been assigned to legal continental shelves, i.e. a land mass extended from the continent itself to the continental margin which is between the shoreline and the shelf break (where land slopes further into the water). Claims on expanded geological continental shelves make up another 10 percent of the ocean – a process riddled with loopholes, allowing countries. It is now projected that around 57 percent of the oceans will eventually be under the control of coastal states.

As new discoveries of oil and gas continue to further nations' desires to claim their own piece of the ocean bed, geologists have been propelled into the role of decision-makers, proving – or nullifying – claims to these desired areas.

The objectivity of the scientists involved in these processes has also come into question, with economic and strategic gains at stake.

“Science is decisive for expanding the continental shelf, because all the petitions are based on science. Geological data, seismic data, scientific studies. Everything depends on this information,” says head of the French maritime law commission, Elie Jarmache.

“You can’t go to the Commission on the Limits of the Continental Shelf and say, ‘I am a member of the Security Council and want to expand my country’s continental shelf.’ That’s not how it works. Politics has no place here.”

As states attempt to extend their maritime zones as far as possible, many international conflicts have arisen. In the South China Sea, eight countries are fighting for oil reserves valued at $100 billion.

“There is no part of the world that is safer than any other,” says Robert van de Poll, a maritime law expert. “In other words, with 53 percent of all maritime boundaries within the Exclusive Economic Zone unresolved, we are seeing conflicts rising to volatile levels driven predominantly by resource development for the offshore.”

Italy PM calls for a fairer Europe

Reuters/Strasbourg

Italian Prime Minister Giuseppe Conte has called for a less austere European Union more in tune with popular demands for economic growth, but he faced a barrage of criticism after his keynote speech in the EU legislature.

Speaking to the European Parliament in Strasbourg as part of a series of contributions by national leaders to a debate on the future of the Union, Conte stressed the continued commitment of Rome’s populist government to EU integration – a commitment some doubted after the coalition’s election last year.

However, in renewing Italian calls for more flexibility in eurozone budget rules, common debt instruments for the EU currency area, an EU unemployment fund and a change in rules intended to avoid new bank collapses, he said that years of austerity had driven a wedge between elites and people that endangered the Union.

“The powerful opposition that the European people, in its various forms, is demonstrating in the face of the elites speaks to our consciences and reminds us that politics, too assertive on economic rationales, has not done its homework and has given up on its mission,” Conte told the assembled lawmakers.

Insisting that his administration is keeping its “accounts in order”, Conte said it is also seeking to stimulate growth.

He called for the EU to end long arguments over how to handle migrants arriving by sea across the Mediterranean – a longstanding Italian complaint – and to play a stronger, more united role in global affairs while maintaining dialogue with other powers such as the United States, Russia and China.

However, leaders of mainstream political groups, whose Italian allies found themselves excluded from power in Rome by the rise of the populist League and 5-Star Movement (M5S) coalition, lined up to criticise Conte’s government.

They objected to Rome’s straying from eurozone budget rules, passing measures against asylum-seekers, or siding with Russia to thwart EU support for the opposition in Venezuela.

The sharp exchanges with a prime minister who, as an academic and political novice, is seen as the moderate face of a government dominated by radical voices, illustrated themes that will be aired in elections to the EU assembly this coming May.

While Conte himself rejected charges from the floor that he was a mere “puppet” of the League and M5S, his far-right Interior Minister Matteo Salvini, leader of the League, also leapt to his defence.

He called it “shameful” that “European bureaucrats” had “insulted” not just the premier but all Italy.

“The European elites (are) against the choices of the peoples,” Salvini said in a statement. “Prepare the crates. On May 26, the people will finally send these folks packing.”

After weeks of tension with France after senior figures in his government hailed protesters opposed to President Emmanuel Macron, Conte offered a veiled rebuff to French complaints, which culminated in recalling the French envoy from Rome.

“We should not be afraid of conflict. We should show that we can control it,” Conte said. “We should not oppose change with sterile and damaging conservatism. Instead, we should allow conflict to emerge, to demonstrate – in democratic forms – its propulsive force.”

On a day when Rome also irritated Paris by questioning the need for a new Alpine rail link, Conte appeared to tweak French interests by calling for a combined EU permanent seat on the UN Security Council.
Barring soon-to-be ex-EU member Britain, France is the bloc’s lone voice on the global body.
Over nearly three hours of debate, tempers flared at times.
Anti-EU members spoke in Conte’s defence and the chamber’s speaker had to ask his fellow Italians to mind their language.
Manfred Weber, German leader of the main conservative bloc in the European Parliament, accused Conte of running an economic policy based on high borrowing and slow growth.
Socialist leader Udo Bullmann accused Rome of showing “the ugly face of inhumanity” toward-asylum seekers landing on Italy’s shores.
Speaking Italian, former Belgian prime minister Guy Verhofstadt, the liberal leader, said that his “love for Italy”, a founding member of the EU, made it “painful” for him to see what he called the country’s “political disintegration” that began with the administrations of conservative Silvio Berlusconi.

Natural gas plays major role in energy transition: Qatargas CEO

***Sheikh Khalid encouraged Indian government to create conducive environment for increased use of the clean fossil fuel**

Qatargas CEO Sheikh Khalid bin Khalifa al-Thani has underscored the significance of liquefied natural gas (LNG) as a “destination fuel” in the future of energy, playing a major role in the ‘energy transition’ the world is embarking on.

The Qatargas CEO was speaking at a ‘CEO Conclave’ titled ‘Shaping the New Energy World’ held as part of the 13th International Oil & Gas Conference and Exhibition-Petrotech 2019, organised by the Indian Ministry of Petroleum and Natural Gas in New Delhi from February 10 to 12 .

Sheikh Khalid said, “Natural gas remains the fastest growing fossil fuel globally, benefiting from its flexibility, competitive economics, and low emissions profile. Thus, natural gas is called to play a major role in the energy transition, supported by the industrialisation and power demand particularly in emerging countries in Asia and Africa, and the continued ‘coal to gas’ switch, especially in India and China.”

He noted that the energy demand would continue to grow driven by emerging economies and the projected growth in global population, which will touch 9bn by 2040.

LNG demand is expected to increase at an average 4% annually to reach more than 600mn tonnes in 2035 versus 290mn tonnes in 2017.

In view of this, more LNG projects are required to cover the existing and projected demand for clean fuels.

He reiterated Qatar’s contribution to this increase of LNG supply through the addition of another 33mn tonnes per year (tpy) to its existing capacity of 77mn tpy to take the country’s overall production capacity to 110mn tpy by next decade.

Thanks to its low carbon emission profile, natural gas is the ideal complement to renewables, he noted.

In countries like India where coal plays a major role (60% of energy for power), natural gas is a good substitute for oil, ensuring cleaner air and thus improving the standard of living, Sheikh Khalid said.

The CEO encouraged the Indian government to create a conducive environment for the increased use of this clean fossil fuel through a “top down” push for an enhancement of gas distribution infrastructure as well as reform of the applicable regulation and taxation.

During the conference, the Qatargas delegation led by Sheikh Khalid met with a number of key Indian stakeholders.

The company also showcased various projects and key milestones in the exhibition, which was held in parallel to the conference.

Qatargas has a strong, established partnership with India, supplying LNG since January 2004 and delivering more than

1,500 cargoes to date.

How Greece’s PM hopes to solve his election riddle

Reuters /Athens

Prime Minister Alexis Tsipras has been implementing his re-election strategy to the letter over the past six months, steering Greece out of a humiliating bailout and resolving a decades-old dispute with neighbouring Macedonia.
So far, it isn’t paying off.
With a general election no more than eight months away, his Syriza party is far behind in opinion polls.
That is despite two signature projects since last summer, evidence that the economy is climbing out of years of depression and willingness at last among investors to lend.
Tsipras was elected as a firebrand leftist in 2015 on a promise to reject the austerity required in the bailout.

He later caved in to the lenders' demands and has reinvented himself as a conformist.
Now, after years of austerity many ordinary voters cannot afford to keep the lights on, others are deeply indebted, and almost one in five Greeks is unemployed.
"Our debt is huge and it's still growing, unemployment is still very high," said 30-year-old Athens resident Panagiotis, an environmentalist who works in the private sector.
"The crisis isn't over. That's a lie, we are not fools."
Sources close to the prime minister say his strategy is only now reaching the point where his government can deliver on its pre-election promises and make amends for bailout pain – a plan he says aims at "fair growth". Creditors released Greece from its third bailout in August, putting it back on the path to full financial independence.
Tsipras has since used greater fiscal freedom to scrap further pension cuts, cut property and corporate taxes and ease some social security contributions.
He raised the minimum wage for the first time in a decade, by 11%. He also wants to extend a reduced value-added tax regime for five islands with huge migrant arrivals in past years, and to make it easier for people to pay off pension-fund arrears and bank loans, government officials said.
Tsipras aims to hire thousands of public-sector workers by 2020 as well as making constitutional reforms to separate the Greek Orthodox Church clearly from the state, important to left-wing voters.
Moves are also under way to extend Greece's western maritime boundaries to 12 miles offshore from six, two officials said.
This could smooth some nationalist feathers ruffled over Macedonia and enable the creation of exclusive economic zones surrounding Greece, Albania and Italy.
The latest poll by Metron Analysis, for To Vima newspaper, puts Syriza 12 points behind the conservative New Democracy, whose leader Kyriakos Mitsotakis promises to ease tax and social contributions for businesses and boost investment.
The government aims to shrink that gap before European

Parliament elections in May, Tsipras' first official popularity test since winning power.
Analysts say he may opt for a snap vote if the gap keeps widening, though he has repeatedly ruled that out.
His term expires in October.
"We want to showcase that Greece has returned to normality," one of the government officials said. "The aim is to shrink the gap in the EU election to be able to win a national vote later in the year."
His government has a razor-thin majority in parliament, beating a censure motion last month by a single vote with support from independent lawmakers, after his right-wing coalition ally resigned over the Macedonia name accord.
The neighbouring ex-Yugoslav state agreed to rename itself North Macedonia to ease Greek fears that the old name implied a sovereignty claim over its northern province of Macedonia.
The deal proved unpopular for Tsipras at home, where tens of thousands of protesters condemned his decision to sanction the continued use of the word Macedonia.
However, the deal appears to have won him respect from the European Union, Greece's major bailout creditor.
It opens the way for the EU to start accession talks with the Balkan state and continue the bloc's expansion eastward.
The question now is whether Tsipras has built up enough goodwill with EU partners to further loosen the purse strings to win over voters.
Despite the end of the bailout, Athens has agreed to meet specific surplus targets, tied to potential debt relief.
Its lenders are also monitoring its progress to decide whether to disburse millions of euros in bond profits.
Eurozone officials note that although Greece is expected to exceed its fiscal targets this year its reform progress is low.
Tsipras' cabinet applauded him when he announced the minimum wage raise last week, but a meeting of eurozone deputy finance ministers gave it a cooler reaction a few days later.
"The atmosphere was not very positive," said a eurozone

official.
“Greece is moving back in many areas. The general political feeling is of course positive about Tsipras and what he did about Macedonia, but this is not the markets, you cannot trade one thing for the other.”
One eurozone official said a late February progress report on Greek reforms “did not look good”. A negative EU report could unnerve markets – destabilising another plank of Tsipras’ re-election strategy: the need for calm financial markets.
Greece successfully tapped bond markets with a five-year bond last week, its first issue post-bailout, and plans more bond issues this year.
“There is a fine line that Greece needs to make sure it doesn’t cross,” said associate director at IHS Markit Economics Diego Iscaro.”Markets understand it’s a pre-election period but Athens needs to build a post-bailout reputation of reforms.”

Europe, please wake up before it is too late

By George Soros /Munich

Europe is sleepwalking into oblivion, and the people of Europe need to wake up before it is too late. If they don’t, the European Union will go the way of the Soviet Union in 1991. Neither our leaders nor ordinary citizens seem to understand that we are experiencing a revolutionary moment, that the range of possibilities is very broad, and that the eventual outcome is thus highly uncertain.

Most of us assume that the future will more or less resemble the present, but this is not necessarily so. In a long and eventful life, I have witnessed many periods of what I call radical disequilibrium. We are living in such a period today.

The next inflection point will be the elections for the European Parliament in May 2019. Unfortunately, anti-European forces will enjoy a competitive advantage in the balloting. There are several reasons for this, including the outdated party system that prevails in most European countries, the practical impossibility of treaty change, and the lack of legal tools for disciplining member states that violate the principles on which the European Union was founded. The EU can impose the acquis communautaire (the body of European Union law) on applicant countries, but lacks sufficient capacity to enforce member states’ compliance.

The antiquated party system hampers those who want to preserve the values on which the EU was founded, but helps those who want to replace those values with something radically different. This is true in individual countries and even more so in trans-European alliances.

The party system of individual states reflects the divisions that mattered in the nineteenth and twentieth centuries, such as the conflict between capital and labour. But the cleavage that matters most today is between pro- and anti-European forces.

The EU’s dominant country is Germany, and the dominant political alliance in Germany – between the Christian Democratic Union (CDU) and the Bavaria-based Christian Social Union (CSU) – has become unsustainable. The alliance worked as long as there was no significant party in Bavaria to the right of the CSU. That changed with the rise of the extremist Alternative fur Deutschland (AfD). In last September’s lander elections, the CSU’s result was its worst in over six decades, and the AfD entered the Bavarian Parliament for the first time.

The AfD’s rise removed the raison d’être of the CDU-CSU alliance. But that alliance cannot be broken up without triggering new elections that neither Germany nor Europe can afford. As it is, the current ruling coalition cannot be as robustly pro-European as it would be without the AfD threatening its right flank.

The situation is far from hopeless. The German Greens have emerged as the only consistently pro-European party in the country, and they continue rising in opinion polls, whereas the AfD seems to have reached its highpoint (except in the former East Germany). But now CDU/CSU voters are represented by a party whose commitment to European values is ambivalent.

In the United Kingdom, too, an antiquated party structure prevents the popular will from finding proper expression. Both Labour and the Conservatives are internally divided, but their leaders, Jeremy Corbyn and Theresa May, respectively, are so determined to deliver Brexit that they have agreed to co-operate to attain it. The situation is so complicated that most Britons just want to get it over with, although it will be the defining event for the country for decades to come.

But the collusion between Corbyn and May has aroused opposition in both parties, which in the case of Labour is bordering on rebellion. The day after Corbyn and May met, May announced a programme to aid impoverished pro-Brexit Labour constituencies in the north of England. Corbyn is now accused of betraying the pledge he made at Labour's September 2018 party conference to back a second Brexit referendum if holding an election is not possible.

The public is also becoming aware of the dire consequences of Brexit. The chances that May's deal will be rejected on February 14 are growing by the day. That could set in motion a groundswell of support for a referendum or, even better, for revoking Britain's Article 50 notification.

Italy finds itself in a similar predicament. The EU made a fatal mistake in 2017 by strictly enforcing the Dublin Agreement, which unfairly burdens countries like Italy where migrants first enter the EU. This drove Italy's predominantly pro-European and pro-immigration electorate into the arms of the anti-European League party and Five Star Movement in 2018. The previously dominant Democratic Party is in disarray. As a result, the significant portion of the electorate that remains pro-European has no party to vote for. There is, however, an attempt underway to organise a united pro-European list. A similar reordering of party systems is happening in France, Poland, Sweden, and probably elsewhere.

When it comes to trans-European alliances, the situation is even worse. National parties at least have some roots in the past, but the trans-European alliances are entirely dictated by party leaders' self-interest. The European People's Party (EPP) is the worst offender. The EPP is almost entirely devoid of principles, as demonstrated by its willingness to permit the continued membership of Hungarian Prime Minister Viktor Orbán's Fidesz in order to preserve its majority and control the allocation of top jobs in the EU. Anti-European forces may look good in comparison: at least they have some principles, even if they are odious.

It is difficult to see how the pro-European parties can emerge victorious from the election in May unless they put Europe's interests ahead of their own. One can still make a case for preserving the EU in order radically to reinvent it. But that would require a change of heart in the EU. The current leadership is reminiscent of the politburo when the Soviet Union collapsed – continuing to issue ukases as if they were still relevant.

The first step to defending Europe from its enemies, both internal and external, is to recognise the magnitude of the threat they present. The second is to awaken the sleeping pro-European majority and mobilise it to defend the values on which the EU was founded. Otherwise, the dream of a united Europe could become the nightmare of the twenty-first century.

– Project Syndicate

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A mixed economic bag in 2019

By Nouriel Roubini /New York

After the synchronised global economic expansion of 2017 came the asynchronous growth of 2018, when most countries other than the United States started to experience slowdowns. Worries about US inflation, the US Federal Reserve's policy trajectory, ongoing trade wars, Italian budget and debt woes, China's slowdown, and emerging-market fragilities led to a sharp fall in global equity markets toward the end of the year.

The good news at the start of 2019 is that the risk of an outright global recession is low. The bad news is that we are heading into a year of synchronised global deceleration; growth will fall toward – and, in some cases, below – potential in most regions.

To be sure, the year started with a rally in risky assets (US and global equities) after the bloodbath of the last quarter of 2018, when worries about Fed interest-rate hikes and about Chinese and US growth tanked many markets. Since then, the Fed has pivoted towards renewed dovishness, the US has maintained solid growth, and China's macroeconomic easing has shown some promise of containing the slowdown there.

Whether these relatively positive conditions last will depend on many factors. The first thing to consider is the Fed Markets are now pricing in the Fed’s monetary-policy pause for the entire year, but the US labour market remains robust. Were wages to accelerate and produce even moderate inflation above 2%, fears of at least two more rate hikes this year would return, possibly shocking markets and leading to a tightening of financial conditions. That, in turn, will revive concerns about US growth.

Second, as the slowdown in China continues, the government’s current mix of modest monetary, credit, and fiscal stimulus could prove inadequate, given the lack of private-sector confidence and high levels of overcapacity and leverage. If worries about a Chinese slowdown resurface, markets could be severely affected. On the other hand, a stabilisation of growth would duly renew market confidence.

A related factor is trade. While an escalation of the Sino-American conflict would hamper global growth, a continuation of the current truce via a deal on trade would reassure markets, even as the two countries’ geopolitical and technology rivalry continues to build over time.

Fourth, the eurozone is slowing down, and it remains to be seen whether it is heading toward lower potential growth or something worse. The outcome will be determined both by national-level variables – such as political developments in France, Italy, and Germany – and broader regional and global factors.

Obviously, a “hard” Brexit would negatively affect business and investor confidence in the United Kingdom and the European Union alike. US President Donald Trump extending his trade war to the European automotive sector would severely undercut growth across the EU, not just in Germany. Finally, much will depend on how Euroskeptic parties fare in the European Parliament elections this May. And that, in turn, will add to the uncertainties surrounding European Central Bank President Mario Draghi’s successor and the future of eurozone monetary policy.

Fifth, America’s dysfunctional domestic politics could add to uncertainties globally. The recent government shutdown suggests that every upcoming negotiation over the budget and the debt ceiling will turn into a partisan war of attrition. An expected report from the special counsel, Robert Mueller, may or may not lead to impeachment proceedings against Trump. And by the end of the year, the fiscal stimulus from the Republican tax cuts will become a fiscal drag, possibly weakening growth.

Sixth, equity markets in the US and elsewhere are still overvalued, even after the recent correction. As wage costs rise, weaker US earnings and profit margins in the coming months could be an unwelcome surprise. With highly indebted firms facing the possibility of rising short- and long-term borrowing costs, and with many tech stocks in need of further corrections, the danger of another risk-off episode and market correction can't be ruled out.

Seventh, oil prices may be driven down by a coming supply glut, owing to shale production in the US, a potential regime change in Venezuela (leading to expectations of greater production over time), and failures by OPEC countries to co-operate with one another to constrain output. While low oil prices are good for consumers, they tend to weaken US stocks and markets in oil-exporting economies, raising concerns about corporate defaults in the energy and related sectors (as happened in early 2016).

Finally, the outlook for many emerging-market economies will depend on the aforementioned global uncertainties. The chief risks include slowdowns in the US or China, higher US inflation and a subsequent tightening by the Fed, trade wars, a stronger dollar, and falling oil and commodity prices.

Though there is a cloud over the global economy, the silver lining is that it has made the major central banks more dovish, starting with the Fed and the People's Bank of China, and quickly followed by the European Central Bank, the Bank of England, the Bank of Japan, and others. Still, the fact that most central banks are in a highly accommodative position means that there is little room for additional monetary easing. And even if fiscal policy wasn’t constrained in most regions of the world, stimulus tends to come only after a growth stall is already underway, and usually with a significant lag.

There may be enough positive factors to make this a relatively decent, if mediocre, year for the global economy. But if some of the negative scenarios outlined above materialise, the synchronised slowdown of 2019 could lead to a global growth stall and sharp market downturn in 2020. – Project Syndicate

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