The ECB needs a new mandate

BERLIN – The European Central Bank's (ECB) decision in September to pursue more monetary-policy easing was controversial, with one board representative, from Germany, resigning over the move. But one of the most remarkable features of the ECB's position has not gotten enough attention: the admission that inflation expectations have become de-anchored, and that without fiscal-policy support, the central bank will probably fail to fulfill its price-stability mandate for the foreseeable future.

In fact, many observers, and even several members of the ECB's governing council, now argue that the bank needs to adapt its mandate with a new definition of price stability in mind. They are right, but there is one crucial caveat.

Since central-bank independence was strengthened in the 1990s, it has become clear that, in normal times, the specific mandate does not matter much. The United States Federal Reserve managed to guide expectations and achieve price stability with its dual mandate, price stability and maximum employment, just as well as the Bank of England or the ECB, with their narrower price-stability mandates.

After the global financial crisis, however, the traditional mandate proved inadequate to cope with large-scale financial instability, fickle market confidence and political paralysis. Developed-country central banks had to devise policies on the fly, without a guiding framework. Each in its own way pursued unprecedented monetary easing, massively expanding its balance sheet, in order to provide much-needed support to the economy.

In many ways, these measures succeeded: Monetary expansion played a major role in pulling the economy back from the brink. But, over time, central banks' capacity to affect the real economy declined. Today, and for the foreseeable future, domestic inflation is increasingly affected by global, rather than local, developments, and financial (in)stability and fiscal policy are far more influential than monetary policy.

For the ECB, this generates a particularly serious challenge. After all, unlike other central banks, it must account for the preferences of 19 sovereign national governments, with little to no structural or fiscal-policy coordination. The eurozone is also highly fragmented financially, lacking a common capital market, a unifying safe asset or macroeconomic stabilisation tools.

The ECB needs a more realistic and flexible mandate. Given the eurozone's fragmented nature, that mandate should probably still be centered on price stability. But it should also recognise that the current definition of price stability, "below, but close to, 2 per cent inflation over the medium term", is too narrow.

A broader definition is needed, according to which the ECB pursues a symmetric inflation target of 2 per cent, within a 1.5-2.5 per cent band, over a longer time horizon. Some advocate an even higher target: For example, Olivier Blanchard, a former International Monetary Fund chief economist, has proposed re-anchoring expectations at 4 per cent. A different proposal, from New York Federal Reserve President John Williams, is to target a price level, rather than an inflation rate.

A commitment to more broadly defined price stability in the long term would give the ECB more space during times of crisis, thereby enabling it to account better for risks to financial stability and the real economy. This would help it to stabilise prices more quickly, bolstering its credibility.

By contrast, when the ECB consistently fails to meet its price-stability objective, as it has for the last five years, it loses credibility. And, indeed, the ECB has faced harsh criticism, sometimes warranted, often not, over its implementation of untested expansionary monetary policies since 2008, partly because the measures were often poorly understood by the public. The loss of credibility has undermined the ECB's capacity to fulfill its objectives, creating a vicious circle that threatens its de facto independence.

This is why the timing of any mandate change must be chosen very carefully. If the ECB tries to move the goalpost while it is missing the shot, the short-term blow to its already diminished credibility could be serious. Given this, the ECB must work to strengthen its standing before it adjusts its mandate, including by attempting to reach the existing price-stability objective after years of failure.

At the same time, the ECB must communicate better what its capabilities are. Some have urged the ECB to try addressing the solvency problems of banks or governments during the crisis. Others would like the ECB to discipline governments to do the "right" thing and consolidate spending. A central bank must do neither and would utterly fail if it tried. But these attempts have hurt the ECB's standing, particularly in Germany, and have diminished its credibility.

Clarifying the contents of the ECB’s policy toolbox, including sovereign-bond purchases and other non-standard measures, would go a long way toward protecting the ECB from such attacks in the future. And when the time comes to shift its objectives, the ECB must communicate the change, which, to be sure, may not need to be as big as many believe, clearly and thoroughly.

US President John F. Kennedy was right: the time to repair the roof is when the sun is shining. The ECB cannot revise its mandate until the current storm has passed. But, with water pouring in, it cannot afford to wait very long. The sooner the ECB does what is needed to restore its credibility, the sooner it can do what is needed to protect itself from future storms.

Marcel Fratzscher, a former senior manager at the European Central Bank, is president of the think tank DIW Berlin and professor of macroeconomics and finance at Humboldt University of Berlin.

Thousands of UK jobs at risk as E.ON breaks up Npower

German energy group E.ON plans a £500mn ($642mn) break-up of the struggling British Npower division it inherited from Innogy, which a union said could put up to 4,500 jobs at risk.
The revamp, the latest among established British retail power providers, effectively removes one of the market’s so-called ‘Big Six’ players, which have lost customers to nimbler recent entrants and been hit by a regulatory price cap.
E.ON’s plan includes managing Npower’s residential and small

and medium-size business customers on the same platform as its own, while putting Npower’s industrial and commercial customers into a separate business.
The rest of Npower will be closed.
E.ON chief executive Johannes Teyssen said the group would examine options for Npower’s industrial and commercial business, the division’s only profitable part, suggesting it might be sold at some point.
The shake-up will result in up to 4,500 job losses at Npower, British union UNISON said, nearly 80% of the division’s total staff.
“The UK market has been very challenging for several years,” Teyssen said. “Churn (customer switching) rates are high, margins slim, and the price caps introduced this year have exacerbated the situation.
No company operating there has been spared these difficulties.”
Teyssen said talks with British unions about the plans had started. Shares in E.ON were up 1.6% at 0951 GMT.
“We see this initial update as encouraging, given likely low market expectations around the outlook for Npower,” Jefferies analysts wrote, keeping a “buy” rating on E.ON stock.
Npower has been suffering more than its large rivals, including E.ON itself, Centrica’s, SSE, EDF and Iberdrola, partly because of internal billing problems.
E.ON said it expected its combined British business to achieve at least 100mn pounds of earnings before interest and tax (EBIT) and positive free cash flow from 2022 onwards. E.ON took over Npower as part of a far-reaching asset swap with RWE that included the break up of Innogy.
The deal, first announced in March 2018, has turned E.ON into a pure energy retail and networks group.
As a result of the transaction, E.ON’s net debt nearly doubled to €39.6bn ($43.7bn) at the end of September.
E.ON also said yesterday the deal had led it to raise its 2019 adjusted EBIT forecast to €3.1-3.3bn from 2.9-3.1bn.
In the first nine months of the year, adjusted EBIT fell 6% at

€2.2bn.

Solar power project for auction in South Pakistan

Pakistan is entering into a new era of attracting power projects through competitive bidding to provide cheaper electricity to end-con- sumers, as Sindh government is all set to auction the fi rst-ever project through the bidding process by March 2020. To date, the country has at- tracted power projects by off er- ing incentives to investors un- der the cost-plus tariff formula, which ensured a fi xed internal rate of return (IRR) to investors.

The achievement of sur- plus installed capacity of power production in recent times al- lowed authorities to make a shift towards new power projects through the tariff -based com- petitive bidding. “We are set to auction the fi rst 50-megawatt (MW) solar power project at Manjhand (district Jamshoro) through competitive bidding by February-March,” Sindh Solar Energy Project (SSEP) Project Director Mehfooz A Qazi said. The 50MW project is part of the planned 400MW solar pow- er park in Sindh that is estimated to attract new investment of around $250mn. “We aim to auction all the potential 400MW solar power projects by 2021 and start sup-plying electricity to the national power grid within the next fi ve years (2023-24),” he said. The World Bank is providing fi nancial and technical support for establishing the solar park. “Word Bank has provided an as- sistance of $100mn for four dif- ferent solar power projects, in- cluding $30mn for establishing the 400MW solar park,” he said. In this backdrop, the energy department of the government of Sindh appointed a consorti- um of foreign and local advisers to auction the 400MW power projects.

The consortium comprises Bridge Factor (Pakistan) and Tractebel Engie (Germany) in association with Renewable Resources Limited (Pakistan), Ashurst Law (Singapore) and Axis Law (Pakistan). On behalf of the government of Sindh, Qasim inked the con- tract with the consortium to hire its services in the presence of Provincial Energy Minister Imtiaz Ahmed Shaikh at Energy Department. The project director hoped the solar projects would attract an investment of around $250mn, considering the country has re- cently attracted $38mn invest-ment for a 50MW solar project under the old formula of cost-plus tariff . “We are highly hopeful the projects will provide cheaper and clean energy in the country,” he said. Earlier, the National Electric Power Regulatory Authority (Ne- pra) had announced an upfront tariff of 5.23 cents per unit (Kilo- watt per hour) to attract solar projects under the old formula of cost-plus tariff . “The competi- tive bidding will surely attain a comparatively cheaper tariff than the upfront tariff ,” he said. The competitive bidding process allows the Sindh gov- ernment to accept the lowest tariff -bid from new potential investors. Later-on, it may ask other in- vestors to match the lowest bid to become part of the 400MW solar park. He said the investors would off er the much cheaper tariff than the upfront one, as cost of solar power projects has massively gone down over a period of time. “The government awarded a (high) tariff of 15-16 cents per unit for the fi rst solar park (Quaid-e-Azam Solar Park of 100MW set up in Bahawalpur, Punjab) years back. The cost of solar power projects has further cut down since Nepra approved the upfront tariff of 5.23 cents per unit for solar power,” he said. Solar remains one of the low- cost sources of electricity generation in the energy mix in the country. More importantly, the federal government has planned to in- crease the share of solar power to around 25% by 2025 compared to around 4-5% at present. Qazi said the demand for elec- tricity has been increasing by 5-7% per year. “The surge in de- mand may come comparatively higher and quicker considering the country is set to see acceler- ation in economic growth going forward.”

Qatargas LNG production achieves ‘best in class’ reliability performance of 98.8% in 2019

Qatargas' liquefied natural gas (LNG) production is on target achieving the "best in class" reliability performance of 98.8% while the Laffan Refinery achieved a strong reliability of 98.6%, well ahead of the current year targets.

The world's top LNG company's "achievements in 2019 and its strong performance" in a wide range of areas were highlighted at its Annual Town Hall meetings held in Doha and Al Khor recently.

The company also completed "successful and safe" shutdowns of three of its mega LNG trains to ensure their reliability.

Qatargas maintained a "strong environmental and safety performance" as it achieved a flaring rate of 0.38 against a target of 0.44 thanks to a successful flare reduction project whereas the greenhouse gas (GHG) emission rate showed 0.35 against a target of 0.42.

In the year under review, Laffan Refinery 1 marked 10 years of operation without any Lost Time Incident (LTI) and the company successfully completed two key environmental projects – the Waste Materials Management facility and the Treated Industrial and Process Water facility.

Updates on the North Field Expansion (NFE) and North Filed Production Sustainability (NFPS) projects were provided during the event.

While the NFPS project will ensure that the current production capacity of the North Field offshore wells is well maintained into future, the NFE project will further enhance Qatar's production capacity from the current 77mn tonnes per year (Mtpy) to 110mn Mtpy by 2024. Updates on the Barzan Pipeline and Helium 3 projects were also provided during the event.

The 2020 strategic goals, as explained during the meetings, included striving for an "Incident and Injury Free" workplace, improving uptime availability, reliability and utilisation of the LNG plants to achieve full plant capacity and meet supply rights; and enhancing and promoting reliability culture across the organisation to drive efficiency.

In addition, further strategic goals were identified as maximising revenue by penetrating new markets; maximising customer satisfaction while retaining contractual and financial performance; and achieving Qatarisation targets through a skill-based Qatarisation strategy.

At the events, Qatargas performance, challenges and strategic goals were reviewed.

The Town Hall meeting is an open forum for employees to meet with Qatargas' chief executive officer and the management leadership team for discussions on the company's performance, future challenges and strategic goals for the year ahead.

A question and answer session followed in which Qatargas CEO Sheikh Khalid bin Khalifa al-Thani, and the management team replied to employee's questions and enquiries on work-related matters.

Natural gas in increased focus on world stage, al-Kaabi tells GECF meeting

Natural gas is getting increased focus on the world stage as it provides the right balance of reliable and secure sources of energy, which can not only drive growth but also help address the environmental concerns, Qatar has said.
HE Minister of State for Energy Affairs Saad bin Sherida al-Kaabi, made this remark at the extraordinary ministerial meeting of the Gas Exporting Countries Forum (GECF) in Malabo, Equatorial Guinea.
The extraordinary meeting is held in preparation of the fifth Heads of State Summit, which will also be held in Equatorial Guinea.
Referring to the relevance of associating the UN Sustainable Development Goals with greater access to a versatile, flexible, economic, and clean source of energy, he said: "we are pleased to note the increasing attention natural gas is receiving as an important clean fuel in the global energy mix, and as a significant contributor to economic prosperity and environmental efforts to reduce emissions."
Many countries around the world are reaching the conclusion that natural gas does provide the right balance of reliable and secure sources of energy, which can drive economic growth, and help address environmental concerns at the same time, said al-Kaabi, who led Qatar's delegation.
Qatar will hold the sixth heads of state summit of GECF in 2021.

Demand slowdown in top gas buyer set to worsen

Bloomberg/ Beijing/Singapore

A slowdown in gas demand growth in China, the driver of global use over the past two years, is expected to slacken further, adding to investor concern as supply continues to build.
Consumption in 2021-2025 will grow at a slower pace than it has in the current five-year period, a researcher at China's economic planning department said at the BloombergNEF summit in Shanghai on Wednesday. Furthermore, a weaker economy and rising imports via pipeline could shrink the share of liquefied natural gas in the overall Chinese market, according to gas utility ENN Energy Holdings Ltd.
The country's overall gas use has expanded 9.5% so far this year, down from 18% in 2018, amid concerns that the slowing economy has prompted the government to focus less on pollution control, which had earlier helped spur demand for the fuel.
That contrasts with the boom in 2017-2018, when President Xi Jinping's calls for blue skies sparked a race among local governments and businesses to switch millions of homes and

factories from burning coal to using more of cleaner-burning gas.

The demand slowdown has pushed LNG prices in Asia lower by almost 40% this year, a slump also aided by China's rising domestic output of the fuel.

China's gas demand growth will likely slow over the duration of the 14th Five-Year Plan from 2021 to 2025 compared with current levels, Tian Lei, an assistant professor at the National Development & Reform Commission's Energy Research Institute, said in an interview on the sidelines of the BNEF summit.

Consumption will probably be weaker at the start of the five-year period, before accelerating toward the end due to environmental pressure, he added.

A sharp deceleration in China's economic growth – with gross domestic product expanding in the third quarter at the slowest rate in decades – coupled with rising pipeline imports following the start-up of the Power of Siberia line from Russia, could cut LNG's market share in China and lower import growth, according to Mark Lay, deputy general manager of ENN.

China's LNG imports gained 14% this year through October after rising more than 40% in each of the prior two years. Increased domestic gas production amid the nation's efforts to bolster energy security will also erode overseas purchases, said Daniela Li, a BloombergNEF analyst.

Despite prospects of a slowdown, the current gas consumption levels still represent "extraordinary growth," said Bernard Samuels, vice president of China gas development at Royal Dutch Shell Plc. The government's plans for a national pipeline company could help lower prices for domestic customers and boost demand, he said.

Future of solar panel production will have two faces

Solar customers increasingly want panels that capture energy from both their sunny and shady sides, as plummeting component prices finally allow such products to be cost-effective.

Panels that are bi-facial, as the technology is known, will probably become the industry standard, according to one of the world's biggest solar manufacturers, LONGi Green Energy Technology Co. They already dominate in the Middle East and are making inroads in the U.S., Europe and elsewhere, according to another top maker.

The shift is being driven by ever-cheaper parts, which are making the products profitable even though adding solar glass on the underside of panels boosts power output by less than 10%, according to BloombergNEF. Bi-facials will likely make up 15% of the global market next year, up from 4% this year, BloombergNEF analyst Wang Xiaoting said Tuesday at the research firm's annual summit in Shanghai.

Russia says new crude-only Opec+ target isn’t a loophole

Bloomberg/ Vienna

The exclusion of a light oil called condensate from Russia’s output target under the Opec+ deal is not a loophole, but a way to bring the country in line with the rest of group, said Energy Minister Alexander Novak.

At Friday’s meeting of the Organization of Petroleum Exporting Countries and its allies in Vienna, Russia was given permission to exclude the liquid hydrocarbon that condenses out of natural gas from its production target. The change brings Russia’s November oil output in line with its pledged cut, where previously it had fallen short.

Novak denied the decision was a loophole that would give Russia an opportunity to pump more oil and still claim compliance with the Opec+ deal because the oil nation’s statistics don’t publish separate crude and condensate volumes.

“We have a very precise way to calculate our crude oil and condensate output field by field, crude variety by crude variety," Novak said in an interview with Bloomberg TV in the Austrian capital. "It is impossible to create a loophole."

Russia has every means to reflect the breakdown in its data and will be transparent about the oil production levels with Opec, analysts and media, Novak said. The country reached an agreement with Opec on feeding data from its computerised oil-tracking system to the agencies monitoring the group's output, he said.

Russia, one of the architects of the Opec+ deal, has consistently failed to comply with its pledged output cut this year. Last month, Novak said one of the key hindrances was rising production of condensate from new natural gas fields. The nation includes condensate in the total oil production volumes, while its Opec partners do not.

At the Vienna meeting, Opec+ agreed to reduce its output target by 500,000 barrels a day in the first quarter.

Russia's cuts target will be deepened by about 70,000 barrels a day, bringing its total obligation for crude-only supply curbs to some 300,000 barrels a day.

The new rules on condensate will help Russia achieve full compliance with its pledges, Novak said. Already in November, if condensate had been excluded, Russia's crude-only daily cuts reached some 232,000 barrels, more than required under the Opec+ deal, Novak said.

The nation is determined to deliver the pledged cuts in full in the first quarter, even as low winter temperatures in Siberia, Russia's main oil region, make supply reductions difficult, Novak said.

Will Judges Have the Last

Word on Climate Change?

In the fight against climate change, one tool is proving increasingly popular: litigation. From the U.S. to India, activists, governments and concerned citizens are suing at a breakneck pace. Supporters want the courts to force oil companies, energy users and governments to pay for past harms and avert future threats. Opponents say climate change policy is a matter for national governments and international treaties, not a handful of judges.

1. Why turn to the courts?

Activists and environmentally minded lawyers are seeking new ways to use the law to slow global warming and assign responsibility for the resulting economic damages. They've been given new urgency by President Donald Trump's decision to remove the U.S. from the 2015 Paris climate agreement. Some believe courts are uniquely suited to impose controls where legislatures and government agencies have failed. U.S. states and cities seeking redress in the courts say it is the only avenue open to them as the federal government has spent the past three years trying to undo climate regulations put in place by President Barack Obama.

2. Who are the defendants?

In the U.S., it's mostly the big oil companies, but energy producers and state and federal agencies have also been sued. Governments are the targets in much of the rest of the world, including Canada, Pakistan, India and Uganda. In Europe, local and national governments have been sued because their clean-air plans fail to meet minimum European Union requirements. These include emissions caps that target older, less efficient diesel cars that are more harmful to the environment.

3. What's the argument?

Some claim the oil and gas industry created a "public nuisance" — an illegal threat to community welfare. Others target their products as unreasonably dangerous to the planet's health. In the U.S., state officials have claimed that the oil corporations knew about the dangers of climate change for decades and schemed to hide the information. Many cases are based on the claim that the health of the environment is a public trust, held by the government for the benefit of future generations.

4. So it's about human rights?

Yes, human-rights arguments are a small but growing approach. Plaintiffs make the case that climate change has threatened or taken away the basic rights to shelter, health, food, water and even life. Arguments range from Colombian children's claims that the deforestation of the Amazon deprives them of a healthy environment, to the assertion of hundreds of elderly Swiss women that their country has not done enough to protect them from rising global temperatures.

5. How have governments responded?

They argue that judges should not be setting government policies. And they often say that the social and economic benefits from pollution sources outweigh the environmental concerns. That was the case South Africa made when it was challenged for building a coal-fired power station, since 16 percent of the population still has no access to electricity.

6. What about energy companies?

They point to the vast economic benefits created by their products. And they say that individuals, industries and governments willingly contributed to climate change through their use of fossil fuels. They deny seeking to mislead consumers about global warming and accuse plaintiffs’ lawyers of demonizing them in search of a big bonanza.

7. How have the cases fared?

Environmentalists have won major cases against the Netherlands, Colombia and South Africa. And pending suits have changed behaviors. Germans, for example, are avoiding buying diesel cars since more of them are getting banned from cities that fail to meet standards for particulate matter and nitrogen oxides.

8. How have lawsuits fared in the U.S.?

Initially badly. A federal judge threw out a suit by New York City against five of the world’s biggest oil companies in 2018. (An appeals court is considering the city’s arguments to reinstate the case.) But the Trump administration, like its predecessor, has so far been unsuccessful in derailing a suit brought by youths who claim the government’s role in causing climate change is a violation of their Constitutional rights. A federal appeals court in San Francisco is considering whether the case can go forward to trial. There are more than a dozen "public nuisance" lawsuits seeking to hold energy companies responsible for billions of taxpayer dollars spent on acclimating to a warming world, or picking up the pieces following unprecedented hurricanes, floods and wildfires. Exxon Mobil Corp. is being sued in New York City (the trial is over and a judge is considering the case) and Massachusetts for allegedly hiding its early knowledge of climate change from the public and misleading investors about the future financial impact of global warming.

9. Why do environmentalists keep trying?

They're seeking their tobacco moment. Anti-smoking activists and the families of cancer-stricken smokers lost claims against Big Tobacco for decades in the U.S. before the 1990s. A group of state attorneys general turned the tide by teaming up with top private lawyers to take on the industry in state courts. The victory resulted in settlements totaling $246 billion and permanent changes in the sale and marketing of cigarettes. It's a model that climate change activists would love to duplicate.

Persistent emissions signal global climate goal out of reach

Bloomberg/ Sydney/New York

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While global carbon emissions growth is slowing, the persistent rise is a warning that governments aren’t doing enough to stave off the worst consequences of climate change, according to a new report.
Carbon-dioxide emissions from burning fossil fuels likely increased by 0.6% this year, down from 2.1% in 2018, according to a report from the Australia-based Global Carbon Project. Declines in the US and Europe were offset by increases in the fast-growing economies of China and India, it said.
“Current climate and energy policies are not enough to reverse the trends in global emissions,” the report’s authors said in a press release. “Continued support for low-carbon technologies need to be combined with policies directed at phasing out the use of fossil fuels.”
The warning comes as envoys from nearly 200 countries gather this week for UN-organised climate talks, aimed at implementing the 2015 Paris Agreement to limit fossil fuel pollution, and as a global protest movement calling for tougher action on climate change gathers momentum. The global climate outlook is “bleak” and the planet’s pathway back to a safe climate is narrowing, the UN warned last week.
The increasingly dire estimates about the pace of climate change are leading to calls for more extreme solutions than the actions that nations have already committed to.
The slowdown in global emissions growth was still significant, Canadell said. Given the margin of error in the projection, an actual decline could not be ruled out, he added.

“It’s never good news when emissions go up, but it’s still not as bad as I had feared,” said Corinne Le Quere, professor of climate science at the University of East Anglia and a member of the GCP.

The GCP results were published in three different journals: an atlas of international emissions in Environmental Research Letters, an analysis of emissions by fuel type in Nature Climate Change and a planetary overview in Earth System Science Data.

Coal use accounted for 42% of global emissions from fossil fuels, but its importance in power generation is on the wane. In the US, an abundant supply of cheap natural gas is helping accelerate the transition away from the dirtiest fuel.

At the same time, increased gas use was an important driver of emissions growth in 2019, Canadell said.

China’s emissions growth is projected at 2.6% this year, similar to the pace in 2017 and 2018 and the nation is catching up with European emissions on an individual basis at about 6.7 tonnes per person per year. India’s increase is expected to ease to around 1.8% from 8% last year, due to an economic slowdown and a particularly wet monsoon season, which saw strong hydropower generation displace some coal-fired generation.

“The failure to mitigate global emissions, despite positive progress on so many aspects of climate policy, suggests that the full bag of policy options is not being effectively deployed,” the report said.