

# Taxing the intangible economy



By Roger E A Farmer/London

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

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

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

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

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

The trajectory has been trending down for years.

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

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

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

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

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

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

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

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

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

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

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

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

But the many benefits of modern innovation have not been

reflected in standard measures of GDP.

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

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

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

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

But intangible investments influence company profitability.

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

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

Fortunately, there is a solution.

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

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

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

Project Syndicate

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# Is Europe America's friend or foe?



By Jean Pisani-Ferry/Paris

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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





Reuters/Melbourne/London

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

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

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

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

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

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

the past 18 months.

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

## Chevron

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

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

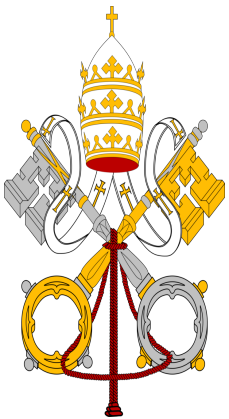
The company posted second-quarter net income of \$3.41bn, or \$1.78 per share, compared to \$1.45bn, or 77 cents per share, in the year-ago quarter.

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

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

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## **Vatican launches live translation app for papal events**



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

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

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

Vatican Audio will also work on Tuesday, when Francis will

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

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



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

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

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

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

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

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

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

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

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

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

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



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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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## **Mueller Examining Trump's Tweets in Wide-Ranging Obstruction Inquiry**



WASHINGTON – For years, President Trump has used Twitter as his go-to public relations weapon, mounting a barrage of attacks on celebrities and then political rivals even after advisers warned he could be creating legal problems for himself.

Those concerns now turn out to be well founded. The special counsel, Robert S. Mueller III, is scrutinizing tweets and negative statements from the president about Attorney General Jeff Sessions and the former F.B.I. director James B. Comey, according to three people briefed on the matter.

Several of the remarks came as Mr. Trump was also privately pressuring the men – both key witnesses in the inquiry – about the investigation, and Mr. Mueller is examining whether the actions add up to attempts to obstruct the investigation by both intimidating witnesses and pressuring senior law enforcement officials to tamp down the inquiry.

Mr. Mueller wants to question the president about the tweets. His interest in them is the latest addition to a range of

presidential actions he is investigating as a possible obstruction case: private interactions with Mr. Comey, Mr. Sessions and other senior administration officials about the Russia inquiry; misleading White House statements; public attacks; and possible pardon offers to potential witnesses.

None of what Mr. Mueller has homed in on constitutes obstruction, Mr. Trump's lawyers said. They argued that most of the presidential acts under scrutiny, including the firing of Mr. Comey, fall under Mr. Trump's authority as the head of the executive branch and insisted that he should not even have to answer Mr. Mueller's questions about obstruction.

But privately, some of the lawyers have expressed concern that Mr. Mueller will stitch together several episodes, encounters and pieces of evidence, like the tweets, to build a case that the president embarked on a broad effort to interfere with the investigation. Prosecutors who lack one slam-dunk piece of evidence in obstruction cases often search for a larger pattern of behavior, legal experts said.

The special counsel's investigators have told Mr. Trump's lawyers they are examining the tweets under a wide-ranging obstruction-of-justice law beefed up after the Enron accounting scandal, according to the three people. The investigators did not explicitly say they were examining possible witness tampering, but the nature of the questions they want to ask the president, and the fact that they are scrutinizing his actions under a section of the United States Code titled "Tampering With a Witness, Victim, or an Informant," raised concerns for his lawyers about Mr. Trump's exposure in the investigation.

A spokesman for Mr. Mueller's office declined to comment.

Mr. Trump's lead lawyer in the case, Rudolph W. Giuliani, dismissed Mr. Mueller's interest in the tweets as part of a desperate quest to sink the president.

“If you’re going to obstruct justice, you do it quietly and secretly, not in public,” Mr. Giuliani said.

Mr. Giuliani was referring to more typical obstruction cases, where prosecutors focus on measures taken in private, like bribing witnesses, destroying evidence or lying under oath. While some of Mr. Trump’s private acts are under scrutiny, like asking Mr. Comey for loyalty, his public conduct is as well. That sets this investigation apart, even from those of other presidents; Richard M. Nixon and Bill Clinton were accused of privately trying to influence witness testimony.

But as in those cases, federal investigators are seeking to determine whether Mr. Trump was trying to use his power to punish anyone who did not go along with his attempts to curtail the investigation.

If Mr. Mueller opts to tailor a narrative that the president tried to obstruct the Russia investigation, he would have to clear several hurdles to make a strong case. He would need credible witnesses (Mr. Comey and Mr. Sessions have been the target of concerted attacks by Mr. Trump and allies, undercutting their standing) and evidence that Mr. Trump had criminal intent (the special counsel has told the president’s lawyers he needs to question him to determine this).

“There’s rarely evidence that someone sits down and says, ‘I intend to commit a crime,’ so any type of investigation hangs on using additional evidence to build a narrative arc that hangs together,” said Samuel W. Buell, a professor of law at Duke University and former senior federal prosecutor. “That’s why a prosecutor wants more pieces of evidence. You need to lock down the argument.”

It is not clear what Mr. Mueller will do if he concludes he has enough evidence to prove that Mr. Trump committed a crime. He has told the president’s lawyers that he will follow Nixon- and Clinton-era Justice Department memos that concluded that a

sitting president cannot be indicted, Mr. Giuliani has said. If Mr. Mueller does not plan to make a case in court, a report of his findings could be sent to Congress, leaving it to lawmakers to decide whether to begin impeachment proceedings.

Investigators want to ask Mr. Trump about the tweets he wrote about Mr. Sessions and Mr. Comey and why he has continued to publicly criticize Mr. Comey and the former deputy F.B.I. director Andrew G. McCabe, another witness against the president. They also want to know about a January episode in the Oval Office in which Mr. Trump asked the White House counsel, Donald F. McGahn II, about reports that Mr. McGahn told investigators about the president's efforts to fire Mr. Mueller himself last year.

Mr. Trump has navigated the investigation with a mix of public and private cajoling of witnesses.

Around the time he said publicly last summer that he would have chosen another attorney general had he known Mr. Sessions was going to recuse himself from the Russia investigation, Mr. Trump tried behind closed doors to persuade Mr. Sessions to reverse that decision. The special counsel's investigators have also learned that Mr. Trump wanted Mr. Sessions to resign at varying points in May and July 2017 so he could replace him with a loyalist to oversee the Russia investigation.

After Mr. Trump tried last July to get Mr. Sessions to resign, the president began a three-day public attack on a variety of fronts – tweets, a Rose Garden news conference and a Wall Street Journal interview – criticizing Mr. Sessions, raising the specter that he would fire him.

Similarly, Mr. Trump's relationship with Mr. Comey was strained from the start by the president's encroachment on the typically independent Justice Department. In late March of 2017, the president asked Mr. Comey to put out word that he was not under investigation. Mr. Comey demurred, and when the



president called about two weeks later to ask again, Mr. Comey responded that he had passed along the proposal to the Justice Department, he later testified.

That request having gone nowhere, Mr. Trump issued an indirect threat the next day about Mr. Comey's job. "It's not too late" to ask him to step down as F.B.I. director, he said in an interview with Maria Bartiromo on Fox Business Network. The special counsel wants to ask the president what he meant by that remark.

A few weeks later, in early May, an aide to Mr. Sessions sought derogatory information about the F.B.I. director. Mr. Sessions, his aide told a Capitol Hill staff member, wanted one negative article a day in the news media about Mr. Comey, a person familiar with the meeting has said.

Four days later, Mr. Trump fired Mr. Comey, citing at first his management of the investigation of Hillary Clinton's use of a private email server to handle classified information.

By the fall, Mr. Comey had become a chief witness against the president in the special counsel investigation, and Mr. Trump's ire toward him was well established. His personal attacks evolved into attacks on Mr. Comey's work, publicly calling on the Justice Department to examine his handling of the Clinton inquiry – and drawing the special counsel's interest.

Mr. Mueller's deputies told Mr. Trump's lawyers they also wanted to question the president about similar statements at the time by the White House press secretary, Sarah Huckabee Sanders.

"The Department of Justice has to look into any allegations of whether or not something is illegal or not," Ms. Sanders said at a press briefing last September. "That's not up to me to decide. What I've said and what I'm talking about are facts. James Comey – leaking of information, questionable statements

under oath, politicizing an investigation – those are real reasons for why he was fired.”

Mr. Trump’s lawyers have pushed back against the special counsel about the tweets, saying the president is a politician under 24-hour attack and is within his rights to defend himself using social media or any other means.

The president continues to wield his Twitter account to pummel witnesses and the investigation itself, ignoring any legal concerns or accusations of witness intimidation. This week, he moved to strip the security clearances of six former senior national security officials, including Mr. Comey, Mr. McCabe and some of his most outspoken critics. And he tweeted false claims about the Russia investigation.

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## **How a diplomatic crisis among Gulf nations led to a fake news campaign in the United States**



By now, the story of how Russia used fake news to push its own agenda in the United States is well known.

But it's not just Kremlin-produced disinformation that Americans may have stumbled upon recently. Browsing Facebook and Twitter – and even just perusing the magazine rack at their local Walmart – they may have also been exposed to propaganda supporting the ambitious goals of two oil-rich Arab Gulf countries.

Saudi Arabia and the United Arab Emirates have long spent huge sums of money on Washington lobbyists and public relations firms to win favor with those in power in the United States and those who influence them. But when Saudi Arabia and the UAE launched a boycott and blockade of the tiny peninsula state of Qatar last year, organizations with ties to Riyadh and Abu Dhabi tried something new: They worked to sway American public opinion through online and social media campaigns, bringing a complicated, distant conflict among

three Washington allies to US shores.

The Gulf crisis began in June 2017 when Saudi Arabia and the UAE led other Arab countries in cutting diplomatic relations with Qatar. They accused Qatar of supporting terrorism and destabilizing the region, a charge Doha rejects. After initiating an economic blockade, the boycotting countries issued a list of 13 demands for Qatar to meet, including aligning foreign policy with theirs, ending support for the Muslim Brotherhood, shuttering the satellite news channel Al Jazeera and cutting ties with Iran.

As they took steps against Doha, Saudi Arabia and the UAE also initiated propaganda efforts in the US aimed at weakening Washington's alliance with Qatar – which hosts the largest American military base in the Middle East – while also enhancing their own images.

Take, for example, The Qatar Insider.

The anti-Qatar website went live last year, advertising itself as “your comprehensive source for information on #QatarCrisis.” It pushed a steady stream of clickbait-style disinformation, often relying on catchy, misleading infographics to try to draw in an audience.

It wasn't an ordinary news outlet. The Saudi American Public Relation Affairs Committee (SAPRAC), a pro-Saudi lobby group not officially tied to the Saudi government, paid \$2.6 million last year to the now-defunct, Washington-based lobbying firm the Podesta Group for public affairs services that included running the anti-Qatar website and its associated social media properties.

Among The Qatar Insider's claims were that Qatar had spent a whopping \$64.2 billion on supporting terrorism between 2010 and 2015 (citing the “US Treasury” as a source); that Qatar not only supports ISIS, but trained its fighters; that al-Qaeda's 9/11 mastermind Khalid Sheikh Mohammed (who is

imprisoned at Guantanamo Bay) is being “sheltered” by Qatar; that the Qatari state has openly threatened to carry out genocide on its people to quiet dissent; and that in preparing for the 2022 World Cup, Qatar has bankrolled Pyongyang’s dictatorship and nuclear program by allowing North Korean workers to work on World Cup infrastructure projects.

TV ads aired in the US by the Podesta Group that advertised The Qatar Insider were identified to viewers as “distributed by SAPRAC” and “sponsored by the embassy of Bahrain,” a close Saudi ally that was involved in funding SAPRAC. But The Qatar Insider’s website made no mention of the Podesta Group, SAPRAC or the Saudi or Bahraini governments. It was laid out like a news site, with its “about us” section describing it as “the comprehensive source for information on the truth about Qatar’s funding, activities and support for terrorist and extreme Islamist groups.”

In its contract with the SAPRAC, the Podesta Group wrote that their online campaign would target “low-hanging fruit,” which they described as users who were actively seeking information about Saudi Arabia and Qatar. The goal was to ensure “that they see the content we want them to see at the top of their search results.”

Along with painting Qatar as a terror-friendly nation, The Qatar Insider encouraged the US to remove its Al Udeid Air Base, which is home to the forward headquarters of the US Central Command, from Qatar and lobbied against Qatar hosting the 2022 World Cup.

SCL Social Limited, which is owned by the same parent company as Cambridge Analytica, took an approach similar to the Podesta Group when it was awarded a \$333,000 contract for social media outreach on behalf of the UAE’s government.

Last September, the company spent more than \$60,000 on ads on Facebook, YouTube, Twitter and other online platforms to

promote the #BoycottQatar hashtag and link to a mix of articles critical of Qatar alongside disinformation.

Their ads were blunt and focused on Americans: "Trump: Qatar engaged in terrorism-related activity," read one.

Most of the posts on their Boycott Qatar Facebook and Twitter pages have disappeared, but documents supplied to the Department of Justice show that they frequently linked to The Qatar Insider while also pointing users to articles critical of Doha in more credible publications.

Efforts have not been limited to simple meme-formatted clickbait and ads on social media.

Last fall, a film billed as an "educational documentary" called "Qatar: A Dangerous Alliance" appeared online and was distributed to guests at an event hosted by the conservative Hudson Institute that featured Steve Bannon, a former senior adviser to President Donald Trump and the ex-chairman of Breitbart News.

The film had a clear anti-Qatar bent, but it was presented as an American production. But documents filed to the Department of Justice in recent months show that the film was made by two US companies paid by Lapis Middle East and North Africa, a Dubai-based communications firm that has worked for the UAE's government. One of those companies, Andreae & Associates, is headed by Charles Andreae, a former CEO of Bell Pottinger, which produced fake Iraqi insurgent videos as part of US government propaganda push during his time with the company. Andreae & Associates was paid \$565,000 for their role in the anti-Qatar documentary. Videos uploaded to the film's YouTube channel has counted nearly one million views.

And when Saudi Arabia's de facto ruler, Crown Prince Mohammed bin Salman, visited the US in March, a magazine bearing his face and celebrating his reign appeared at 200,000 outlets across the country. The Saudi Embassy denied knowledge of the

magazine, and the company that published it, National Enquirer publisher American Media Inc., denied receiving guidance from the Saudis.

Citing employees of American Media Inc, The New York Times later reported that the magazine was an attempt by the publisher's CEO to win business in Saudi Arabia. Still, there was evidence that the Saudi Embassy and advisers to the Saudi royal family had received advanced copies of the publication, hinting that they were involved in its creation and fawning tone.

These attempts to woo the American public came even as the Saudis and Emiratis had access to the highest levels of power in the US – as well as the ability to influence Washington's Gulf policy.

Seeing Trump's hostility toward Iran mirroring their own, Saudi Arabia and the UAE were eager to strengthen their relationship with the former reality TV host when he took office, despite his harsh campaign-trail criticisms of Islam and Saudis (who, he once said, "want women as slaves and to kill gays"). In May, The New York Times reported that an emissary of Saudi Arabia's Crown Prince Mohammed and the crown prince of Abu Dhabi, Mohammed bin Zayed, held a meeting with Donald Trump Jr. ahead of the 2016 elections offering their support to Trump as well as social media help in winning the election.

The early outreach attempts seemed to work: Trump's first international trip as president, in May 2017, was to Saudi Arabia, where he signed a \$110 billion arms deal. And when the Qatar crisis broke out the next month, Trump quickly expressed support for Riyadh and Abu Dhabi and accused Qatar of supporting terror.

"I think the Saudis and Emiratis very quickly grasped that they had pretty much a clean slate to try to paint – and I

think that's exactly what they tried to do," said Kristian Ulrichsen, a Gulf expert at the Baker Institute for Public Policy at Rice University.

But Ulrichsen questions how effective the broader propaganda efforts have been.

"Very few of these moves – to target Facebook, Twitter, to make videos that very few people watch – would have any impact on shaping public opinion," he said. "In terms of the Gulf crisis ... very few people [in the US] actually think about it at all."

Sigurd Neubauer, a Washington-based Middle East analyst, agreed.

"If you asked the average American about the Gulf and they see these commercials, they will not be able to tell the difference," he said. "And for those who do know the difference, they will remember that Saudi Arabia, not Qatar, had its citizens participating in the 9/11 attacks."

While Qatar has not apparently engaged in the kind of propaganda war that groups linked to Saudi Arabia and the UAE have in the US, it has not sat idle. Qatar – or, at best, its friends – has been involved in the hacking and leaking of emails designed to embarrass the UAE and reveal its role in trying to influence the Trump campaign. Qatar has increased its spending on lobbyists while also trying to soften its image by wooing American Jewish groups, including the Zionist Organization of America, which previously called for Qatar to be listed as a state sponsor of terrorism. And in May, Qatar flexed its soft power muscles when it offered to pay to keep the Washington, DC, metro open after a Capitals playoff game.

Over time, Trump softened his tone on Qatar, and now again hails them as an ally against terrorism. The situation remains delicate, but the US is once again on a friendly footing with all three allies, even as their own feud continues and Saudi



Arabia threatens to turn Qatar into an island.

But to Neubauer, the Gulf crisis has left all parties involved looking bad.

“Instead of saying one country is better than the other, everyone looks really, really horrible,” he said. “It really raises questions about what kind of partners these countries are for the United States.”