

# Lessons from euro's first 25 years



Jan 31, 2024 MARCO BUTI and GIANCARLO CORSETTI

Prior to the introduction of the European single currency in January 1999, its architects foresaw a future of macroeconomic stability and accelerated growth. While the euro has delivered on some of these promises, it has failed to facilitate the continent's economic and political integration.

FLORENCE – The 25th anniversary of the euro's introduction, which has passed largely under the radar, offers an opportune moment to assess the current state of the greatest monetary experiment in modern history.

The euro's launch in January 1999 polarized economists. In the face of much skepticism – the late American economist Martin Feldstein even argued that the single currency could trigger a war in Europe – the euro's architects envisioned a future characterized by macroeconomic stability, anchored by an independent central bank and a fiscal framework geared toward stability. Structural reforms, which the European Union's member states were expected to implement, were meant to enhance the monetary union's capacity to adjust to shocks.

None of those scenarios materialized. Over the past quarter-century, the euro has shown extraordinary resilience, navigating through several critical challenges and defying early predictions of its collapse. But while the single currency has delivered on some of its promises – most notably, maintaining price stability for most of its existence – it has failed to boost Europe's potential growth or facilitate the continent's full economic and political integration.

This mixed record can be attributed largely to the fact that Europe's economic union was incomplete from the outset. Despite the significant progress that has been made since its inception, the eurozone's fiscal and economic frameworks remain woefully underdeveloped compared to its monetary infrastructure.

To understand the consequences of the eurozone's unfinished architecture, it is useful to divide the past 25 years into four distinct periods. The first phase, from 1999 to 2008, could be labeled the "2% decade": economic growth, inflation, and budget deficits (as a share of GDP) all hovered around this rate. This phase was characterized by the excessive optimism of the "Great Moderation."

But the internal imbalances that emerged during this period would haunt the eurozone for years to come. The convergence of interest rates, evidenced by minimal spreads, resulted in overly sanguine portrayals of member states' public finances. Simultaneously, loose fiscal and monetary conditions reduced European governments' incentives to undertake structural reforms and bolster their banking systems.

Nominal convergence also masked more profound structural disparities, as capital flowed from the eurozone's richest members to their poorer counterparts, where it was frequently channeled into less productive sectors, such as real estate and non-tradable services, often through instruments like short-term bank loans. Consequently, while the eurozone's

current accounts appeared balanced, significant imbalances emerged.

The fallout from the 2008 global financial crisis, particularly the discovery that Greece had lied about its budget deficits and debt, eroded trust among member states. The prevailing narrative shifted to one of moral hazard, emphasizing the need for each country to get its own house in order. By the time eurozone governments finally coordinated a response – establishing the European Stability Mechanism (ESM), launching the banking union project, introducing the European Central Bank's Outright Monetary Transactions program, and expanding the ECB's balance sheet – the euro appeared to be on the brink of collapse.

The key turning point was the pledge by then-ECB President Mario Draghi to do "whatever it takes" to preserve the euro in July 2012. But with monetary policy increasingly viewed as the "only game in town," the eurozone's economic and financial structures remained fragmented.

The COVID-19 crisis changed that. The exogenous nature of the pandemic shock, together with the lack of impending elections, enabled EU leaders – led by French President Emmanuel Macron, then-German Chancellor Angela Merkel, and European Commission President Ursula von der Leyen – to present a unified front, unencumbered by the pressure to avoid moral hazard. The EU suspended the Stability and Growth Pact, which had previously capped member states' budget deficits at 3% of GDP, and rolled out the Support to mitigate Unemployment Risks in an Emergency and the NextGenerationEU recovery programs, financing both through common borrowing. Meanwhile, the ECB introduced its €1.85 trillion (\$2 trillion) Pandemic Emergency Purchase Program.

Although this demonstration of collective leadership reassured markets, fueling an economic rebound, the optimism proved to be short-lived. A global inflationary surge, fueled by robust

macroeconomic stimulus and pandemic-related supply-chain disruptions, was exacerbated by the energy-price shock that followed Russia's full-scale invasion of Ukraine. Although European policymakers worked together to reduce the EU's dependence on Russian gas, they failed to mount a collective response akin to the NextGenerationEU initiative. Confronted with rising deficits and debt, not to mention the most aggressive monetary-tightening cycle since the 1980s, EU countries have once again put eurozone reforms on hold.

Two important lessons follow from the euro's first 25 years. First, the monetary union's incomplete institutional framework has proven to be both costly and dangerous. Finalizing the banking union, especially the creation of a common resolution fund with the backstop of the ESM and deposit insurance, is essential to ensure stability and bolster the international role of the euro. Thus, Italy's recent failure to ratify the ESM treaty is a serious setback. Pushing forward the capital market union is essential if Europe is to meet the financial challenges posed by the digital and green transitions. To achieve all of this, EU leaders must strike a balance between risk sharing and risk reduction.

Second, completing the euro is crucial for safeguarding and developing the EU's greatest achievement: the single market. European countries' current pursuit of national industrial policies, funded through state aid, undermines the core values of the single-market project. To address this challenge, the EU must formulate a cohesive European industrial policy. This should include an increase in cross-border investments, focusing on European public goods such as human-capital development, the availability of critical materials, and the green and digital transitions.

After the fall of the Berlin Wall, German Chancellor Helmut Kohl, French President François Mitterrand, and European Commission President Jacques Delors turned the dream of a single currency into a reality. During the COVID-19 crisis,

Macron, Merkel, and von der Leyen managed to overcome seemingly insurmountable obstacles and achieve a historic breakthrough. Now, a quarter-century after its introduction, the euro requires visionary leaders to shepherd European sovereignty to its next phase.

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## **Greenland’s ice loss surges: Satellite data shows alarming retreat**



Aggravating concerns about global warming and its consequences, a new, comprehensive analysis of satellite data has found Greenland has lost more ice than previously estimated and that the majority of glaciers on the landmass have retreated significantly. The Greenland Ice Sheet has shed about one-fifth more ice mass in the past four decades than previously estimated, researchers at Nasa's Jet Propulsion Laboratory in Southern California reported in a new paper. Icebergs are falling into the ocean at an accelerating rate. Though this additional ice loss has had only an indirect impact on sea levels, it could hold implications for ocean circulation in the future.

Published in Nature on January 17, the analysis offers a comprehensive look at retreat around the edges of the entire ice sheet from 1985 to 2022, drawing from nearly a quarter million pieces of satellite data on glacier positions. Of the 207 glaciers in the study, 179 retreated significantly since 1985, 27 held steady, and one advanced slightly. Most of the ice loss came from below sea level, in fjords on Greenland's periphery. Once occupied by ancient glacial ice, many of these deep coastal valleys have filled with seawater – meaning the ice that broke off made little net contribution to sea level. But the loss likely accelerated the movement of ice flowing down from higher elevations, which in turn added to sea level rise.

"When the ice at the end of a glacier calves and retreats, it's like pulling the plug out of the fjord, which lets ice drain into the ocean faster," said Chad Greene, a glacier scientist at JPL and the study's lead author. For decades researchers have studied the Greenland Ice Sheet's direct contributions to global sea level rise through ice flow and melting. Scientists participating in the international Ice sheet Mass Balance Inter-comparison Exercise (IMBIE) estimated that the ice sheet had lost 5,390 billion tonnes between 1992 and 2020, adding about 13.5 millimetres to global mean sea level, according to the Intergovernmental Panel on Climate Change. But the IMBIE measurements do not account for ice lost

due to the retreat of terminal glaciers along the edges of Greenland. (These glacier edges were already in the water, whether submerged or floating.) The new study quantifies this amount: For the 1985 to 2022 period in the new paper, the ice sheet was estimated to have lost about 1,140 billion tonnes – 21% more mass lost than in the IMBIE assessment.

Although it doesn't add to sea levels, the additional ice represents a significant influx of fresh water to the ocean. Recent studies have suggested that changes in the salinity of the North Atlantic Ocean from melting icebergs could weaken the Atlantic Meridional Overturning Circulation, part of the global "conveyor belt" of currents that transport heat and salt around the ocean. This could influence weather patterns worldwide, as well as affect ecosystems, the authors said.

Icebergs have tumbled from Greenland's glaciers for thousands of years as part of a natural cycle that typically balanced glacier growth in the winter with melting and retreat in the summer. The new study finds that ice retreat has far outpaced growth throughout the 21st century. The researchers also found that Greenland's ice extent remained relatively steady from 1985 to 2000, then started a marked recession that continues to this day.

The data showed a glacier in northeast Greenland called Zachariae Isstrom lost the most ice, dropping 176 billion tonnes of mass due to retreat. It was followed by Jakobshavn Isbrae on the western coast, which lost an estimated 97 billion tonnes and Humboldt Gletscher in the northwest, which lost 96 billion tonnes. Only one glacier, Qajuuttap Sermia in southern Greenland, experienced any growth over the study period, but its gains were too small to offset the losses from other glaciers.

The researchers also found that glaciers with the largest seasonal fluctuations in the position of their ice front experienced the greatest overall retreat. The correlation suggests the glaciers that are most sensitive to warming each summer will be most impacted by climate change in the coming decades.



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# Developing Countries Need Debt Relief to Act on Climate Change



While developed economies have pledged to increase climate financing sharply by 2030, developing-economy policymakers are struggling to cover the costs of action. With medium-term strategies being used to address a short-term threat, progress on the green transition will be undermined, with potentially catastrophic implications.

WASHINGTON, DC/PARIS – If developing economies found it hard to manage their debts in 2023, they are likely to face even more formidable challenges this year. Though most possess relatively small debt stocks and are not considered insolvent, many are in dire need of liquidity. As long as this remains true, they will struggle not only to manage their debts, but also to invest in the green transition.

Developing economies have faced a series of external shocks in



recent years, including the COVID-19 pandemic, war-related disruptions of food and energy supply chains, and an uptick in global inflation. Moreover, their access to capital markets has been curtailed, preventing them from rolling over maturing loans, as they would do in normal times. As a result, countries have been forced to channel a large share of their tax and export revenues to service their debt, avoiding default at the cost of priorities like infrastructure investment, social-welfare programs, and climate action.

The outlook for these countries is likely to worsen in the next few years. According to estimates by the Finance for Development Lab (FDL), large debt payments are coming due in 2024 and 2026 for at least 20 low- and lower-middle-income countries. As countries hit this “debt wall,” their already fragile fiscal positions will deteriorate further. This does not bode well for climate action.

Climate change is not some distant menace; its effects are already being felt worldwide, especially in climate-vulnerable developing economies. But international summits on the topic last year sent a disappointing message: while developed economies pledged to increase climate financing by 2030, developing-economy policymakers are struggling against severe fiscal constraints. With medium-term strategies being used to address a short-term threat, developing and emerging economies have been expressing frustration, including at the Summit for a New Global Financing Pact that was held in Paris last June.

Multilateral development banks can provide an essential lifeline, but their capacity would have to be strengthened – and quickly. According to World Bank data, the new concessional loans the world’s poorest countries received from MDBs in 2022 were smaller than these countries’ debt-service payments, a large share of which went to private and bilateral creditors. Increasing capital flight from the developing world – driven not least by monetary tightening in advanced economies – will intensify the needs of illiquid lower-income

countries.

But it is not only a matter of financial capacity. MDBs have so far been inconsistent, at best, when it comes to supporting countries struggling to repay their debts. For example, both Kenya and Ethiopia have been under pressure to repay their private and Chinese creditors, which are now collecting more in debt-service payments than they are providing in new loans. But only Kenya received enough support from the International Monetary Fund, the World Bank, and others to refinance its debt that is maturing this year.

By contrast, assistance to Ethiopia has declined in recent years. As a result, Ethiopia recently defaulted on its external debt, even though it amounts to just 25% of GDP. While the Kenya approach is not the solution – providing similar levels of support to all illiquid countries would require a tripling of MDB flows – this is clearly unacceptable.

A better approach would focus on closing the gap between short-term debt concerns and long-term investment needs, by unlocking net-positive inflows for countries facing liquidity constraints. As the FDL has proposed, an agreement among debtors, creditors, and MDBs to permit countries to reschedule debts coming due – delaying maturities by 5-10 years – would create fiscal space for climate-friendly investments, financed by MDBs.

For this liquidity bridge to work, MDBs would have to accelerate progress on implementing existing reform plans and increase funding substantially, while the IMF helps manage debt-rollover risks. Importantly, private and bilateral creditors would have to agree to the rescheduling. That is why, compared to the Debt Service Suspension Initiative that the G20 introduced in 2020, the proposal includes stronger incentives for private-sector creditors to participate, in addition to longer time horizons.

There are good reasons to believe that creditors can be convinced to join the program voluntarily. It is, after all, in their best interest to remain invested in solvent countries with strong growth prospects; no one benefits from debt crises like those that have ensnared Zambia and Sri Lanka. In any case, creditors would continue receiving interest payments, and as global interest rates fall and economic-growth prospects improve in the coming years, debtors may well be able to return to capital markets and resume repayment of the principal.

Shaping a workable blueprint along these lines is a task for upcoming international gatherings, such as the G20 summit in Brazil later this year. Logistical and financial coordination will be needed to ensure sufficient liquidity. Coordination among the IMF, the World Bank, and regional development banks will also be essential to ensure that participating debtor countries pursue investments that genuinely support green growth.

If nothing is done to help countries facing liquidity crises, the world will risk a wave of destabilizing debt defaults, and progress on the green transition will be severely undermined, with catastrophic implications for the entire world. Because promising solutions like the liquidity bridge can prevent such outcomes, they deserve broad global support.

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## **UN climate chief calls for \$2.4tn in climate finance**



The world needs to mobilise at least \$2.4tn to keep global climate change goals within reach, the United Nations climate chief said in a speech yesterday.

Simon Stiell, executive secretary of the UN Framework Convention on Climate Change (UNFCCC), addressed a group of students at the Azerbaijan Diplomatic Academy in Baku, host of the COP29 climate summit in November, laying out the steps that need to be taken this year to turn the commitments made at last year's summit in Dubai into reality.

This was Stiell's first major speech since the UN gathering in Dubai, where nearly 200 countries agreed to begin a transition away from fossil fuels to avert the worst impacts of climate change.

"It's clear that to achieve this transition, we need money, and lots of it – \$2.4tn, if not more", excluding China, Stiell said in prepared remarks, citing a report released in December from the High-Level Expert Group on Climate Finance.

"Whether on slashing emissions or building climate resilience, it's already blazingly obvious that finance is the make-or-break factor in the world's climate fight – in quantity, quality, and innovation," he said. "In fact, without far more finance, 2023's climate wins will quickly fizzle away into more empty promises."

Climate finance will be the main focus of the Azerbaijan-

hosted talks, where governments will be tasked with setting a new target post-2025 for raising money to support developing country efforts to cut emissions and adapt to the worsening impacts of climate change.

Setting a new financial goal will be challenging given that countries only met last year a goal set in 2009 to mobilise \$100bn a year in climate finance by 2020.

"It's already blazingly obvious that finance is the make-or-break factor in the world's climate fight," he said, adding that without more finance, the wins achieved at the COP28 Dubai summit will fizzle out.

Stiell said that the year should be spent ensuring that the global financial system and multilateral banks can meet the task of ramping up climate finance, and urged banks to triple the amount of climate grants and concessional finance by 2030 and triple the rate of private capital they mobilise.

More broadly, he cautioned against taking "victory laps" after the UAE agreement, saying that the political agreement reached in Dubai enables countries to hide behind "loopholes".

"The action we take in the next two years will shape how much climate-driven destruction we can avoid over the next two decades, and far beyond," he said.

The world is currently far off track in delivering on its cornerstone climate deal, agreed in Paris in 2015.

Under the Paris Agreement, world leaders pledged to keep the rise in Earth's average temperature to "well below" 2.0°C above the pre-industrial level and preferably the much safer threshold of 1.5°C.

The 2020s are critical for keeping that 1.5°C target in view, with UN climate experts estimating that planet-heating greenhouse gas emissions need to be slashed by some 43% by 2030.

There is progress, with a surge in clean energy technologies like solar, wind and batteries, as well as electric vehicles.

However, emissions continue to rise.

A key challenge that is likely to take centre stage at this

year's climate talks in Baku, as well as meetings of the World Bank and International Monetary Fund (IMF), is how to support emerging economies manage and pay for their transition to clean energy.

Many of these nations are currently mired in debt and facing a raft of challenges, from inflation to growing climate impacts. Meanwhile global warming continues, with 2023 confirmed as the hottest ever recorded and experts warning 2024 could be even hotter.

The Earth is now about 1.2°C warmer than it was in the 1800s. This is already having an accelerating impact on people and ecosystems across the planet, from heatwaves and droughts, to devastating floods and storms.

A damning appraisal of countries' decarbonisation efforts so far, released last year, showed the world heading for catastrophic planetary heating.

Stiell conceded it would take an "Olympian effort" to get the world on track.

One key task for countries will be to outline a new round of national climate targets for 2035 ahead of a pivotal COP30 meeting, due to be held in Brazil in 2025.

These pledges should be strengthened to align with the 1.5°C goal, cover the whole economy and all greenhouse gases, Stiell said.

"The action we take in the next two years will shape how much climate-driven destruction we can avoid over the next two decades, and far beyond," he added.

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## Freezing weather is knocking



# out millions of barrels of US oil output



The wintry weather that blanketed parts of Texas in snow and hammered North Dakota with extreme cold has knocked out millions of barrels of US oil production, and the industry is expected to need weeks to restore output to normal levels.

Production across the US was curtailed by about 10mn barrels this week, according to market participants who asked not to be named because the information is private. Losses in the Permian Basin of Texas and New Mexico are estimated at around 6mn barrels and shut-in output in North Dakota's Bakken is seen at close to 3.5mn barrels.

In Midland, in the heart of the Texas Permian, temperatures dipped below freezing in 11 out of the 19 days of this month. The cold has been especially bitter in past few days, with the lows below 20F (-7C) for most of the week, according to Accuweather.

Extremely low temperatures freeze water at the wellhead, shutting in production. Icy roads make it difficult for vacuum trucks – used to haul away waste water – to reach drill pads, causing drillers to either halt pumping or curtail rates, the people said.

The losses currently amount to less than 1% of total US crude production, which is around 13mn barrels a day, but they are expected to linger or even rise in North Dakota. In the city of Williston, at the centre of the Bakken formation, below-freezing temperatures are expected

throughout the end of the month, posing continued challenges. Oil producers there may need at least a month to restore output to normal

levels after more than half of the state's flows were cut off this week, state officials said.

Natural gas gathering systems that are connected to oil wells fill up with liquids during extreme cold, disrupting the operation of

compressors, said Lynn Helms, North Dakota's mineral resources director. Crude wells are then shut in to avoid flaring.

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## **Climate change march: From Paris to Glasgow**



The latest IPCC report shows that we are dangerously close to 1.5C already. Every fraction of a degree matters

The COP26 climate conference will be a clarifying moment, poised between global co-operation and competition. As one of the key French officials tasked with delivering a deal at COP21 in Paris in 2015, I can attest to the weight of expectations placed upon this year's hosts, Italy and the United Kingdom.

The summit in Glasgow this November is by far the most fraught meeting of governments since Paris. Paradoxically, greater global integration continues alongside emerging fault lines, including the injustices of the Covid-19 pandemic and a growing desire for inward, nationalistic policies.

While global trade is on track to increase by 8% this year, after falling by 5.3% in 2020, the rollout of medical supplies along global supply chains has exposed deep sources of antagonism and rivalry. The issue of vaccine solidarity – compounded by wealthy countries earmarking trillions for their own economic recoveries – has seriously strained multilateral ties. COP26 is approaching under a cloud of tension.

This year's conference will test the spirit of co-operation that emerged in Paris, where – after several abortive efforts – 196 governments adopted the historic Paris accord and made “net zero” a geopolitical reality. The agreement has since provided the organising principle for all climate action – one that nation states, regions, cities, businesses, investors, civil society, and individuals all had a voice in, and can all act upon. This was people-powered multilateralism at its best. Six years later, we ought to be seeing a positive domino effect of bold pledges from states. Instead, we are watching a nervous game of poker. As with vaccines, wealthier countries are not sharing their wealth and technology.

Tellingly, the international community still has not met the Paris agreement's target of \$100bn per year for supporting climate investments in developing countries. This figure is a threshold, not an end goal: it is essential that we clear this hurdle for all parties at COP26 to know that wealthy countries mean business and are sincere in their solidarity.

Equally concerning is the absence of specifics for how G20 countries intend to meet abstract net-zero targets. Many remain fully locked into fossil fuels. Since these economies account for almost 80% of worldwide emissions, they must start including more concrete, comprehensive decarbonisation planning as part of their Nationally Determined Contributions (NDCs) under the Paris agreement.

The European Commission's new Fit for 55 plan shows how this can be done in a detailed, sector-specific way. Unfortunately, the European Union is the exception. Everyone else is still playing poker, even as the room fills up with water.

Just this year, climate-driven disasters have struck Brazil, Canada, Madagascar, China, Germany, Russia, the United States, and many others. There is no need to recall every cataclysmic weather event, because it is already sufficient to say that the problem has broken beyond our readiness.

As climate modelling improves, the path to remaining within 1.5C of warming is narrowing before our eyes. In early August, the latest report from the Intergovernmental Panel on Climate

Change (IPCC) showed that we are dangerously close to 1.5C already. Every fraction of a degree matters. The differences between a 1.5C world and a 2C world would be dramatic.

When we were negotiating the Paris agreement, the preceding G20 gathering was similarly fraught – some might say disastrous. Many felt the COP21 was doomed to fail as a result. But after weeks of intense work and dialogue, the Paris summit managed to exceed most expectations, mine included.

How can the UK and Italy steer the talks toward another successful outcome? If the parallels with 2015 offer any indication, the key for this final “sprint” is to emphasise that no-one, and no single country, can tackle the climate crisis alone. Because every single party to the United Nations Framework Convention on Climate Change has an equal say, any single signatory can cause negotiations to stumble. Good faith dialogue, concrete plans, and serious means to finance them are the only way forward.

There are some recent positive developments to build on. Earlier this year, South Korea and Japan – respectively the world’s second- and third-largest coal financiers after China – both pledged to end their public coal investments abroad.

But there are also clear areas where governments have more work to do. According to the International Energy Agency, staying on track for net-zero emissions by 2050 requires that no new coal, oil, or gas projects be started after 2021. That means all of the world’s largest emitters must immediately end coal investments abroad and clarify how they will phase out their own use of coal.

Only a sincere spirit of multilateralism can solve the imbalance at the heart of the climate crisis, the impacts of which are profoundly unfair. Countries that are hardly responsible for the problem’s escalation are the ones facing the most severe, often existential risks. Why would small island states negotiate themselves into submersion?

The Paris agreement was only possible because of its commitment to multilateralism, and this remains the best guide

to ensuring its relevance. It is telling that soon after a G20 climate meeting delivered few tangible positives this year, the world's Least Developed Countries issued a statement calling on their wealthier counterparts to "take responsibility."

Sovereign, competitive impulses will always strain the space for cooperation. But within that space, there are ample opportunities to achieve positive-sum outcomes – in technological innovation and adoption, for example. These instincts are rooted in the national interest, and thus should be responsive to the fearsome, increasing prospect of overshooting 1.5C.

In this spirit, some concrete steps to defuse tensions at COP26 would include a dedicated item for meaningful discussions on "loss and damage," while this summer's ferocious weather events still loom large in everyone's memory. The conference also must press the issue of financing for climate adaptation efforts as part of the broader drive to meet the minimum \$100bn per year target. Finally, G20 countries that have not delivered their NDCs must do so as soon as possible, demonstrating that their policies are sufficient to keep the world on a 1.5C pathway.

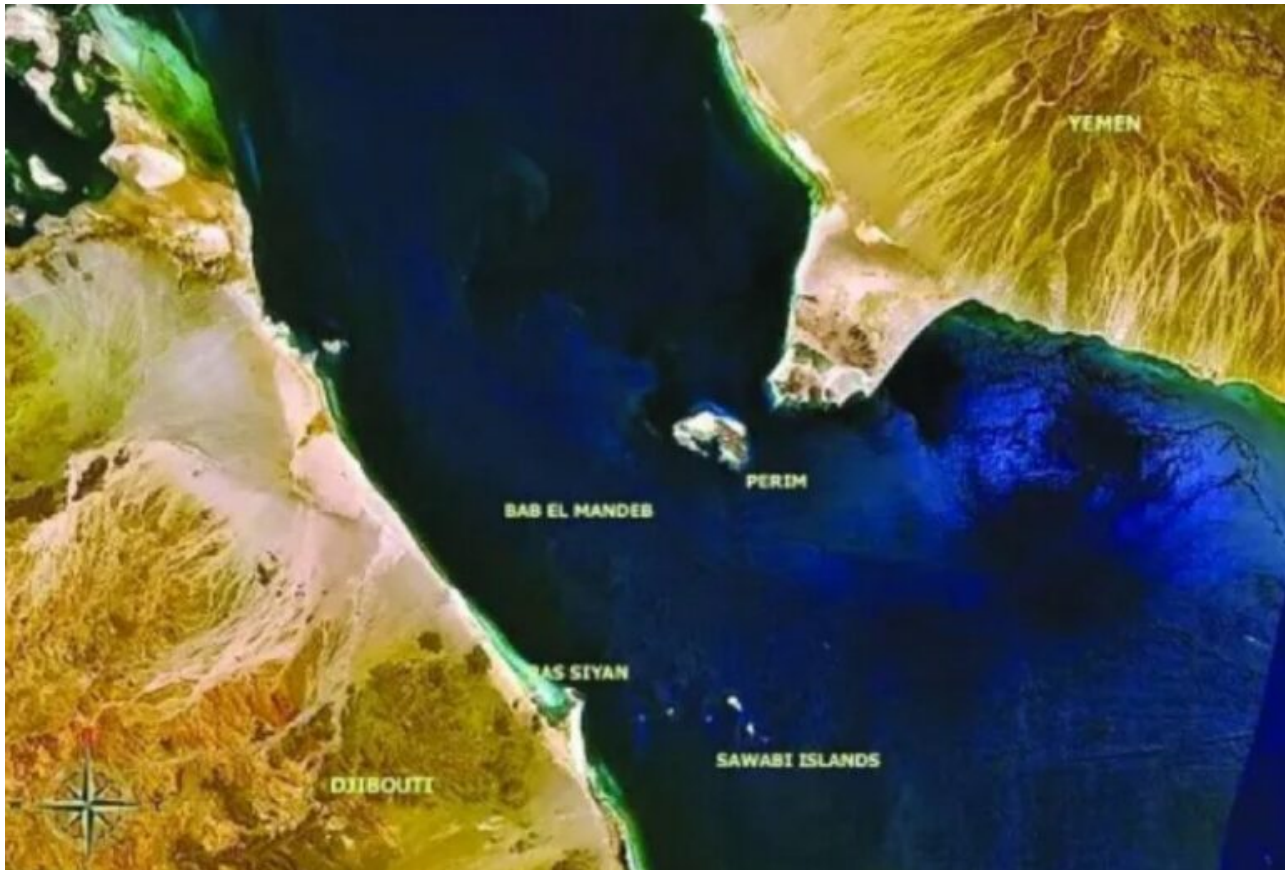
G20 countries anxious to promote their role as climate leaders must listen carefully to the warnings from others, particularly those on the front lines. If we see momentum on these fronts between now and November, the UK and Italy could herald COP26 as a success, keeping the 1.5C goal in our sights. – Project Syndicate

1 Laurence Tubiana, a former French ambassador to the United Nations Framework Convention on Climate Change, is CEO of the European Climate Foundation and a professor at Sciences Po, Paris.

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# The War of the Straits: Impact on the World Energy Market



By Roudi Baroudi, TLN Senior Fellow

The recent significant disruptions in shipping through the Strait of Bab el Mandeb, situated between Yemen and Djibouti, underscore the geopolitical fragility of the waterway akin to that of the more widely acknowledged Strait of Hormuz. Among the six globally sensitive passages, including the Bosphorus, the Panama Canal and Malacca, the Middle East region boasts three critical and strategic maritime routes: the Suez Canal, Bab el Mandeb in the south of the Red Sea, and the Strait of Hormuz.

These passages witness the transit of not only crude oil and petroleum products but also liquefied natural gas (LNG). Bab

el Mandeb, with its unique characteristic as a transit route for both northbound and southbound traffic, plays a pivotal role. Approximately 12 percent of total seaborne quantities traded to Europe, the U.S. and key Asian markets, including China, India and Singapore, pass through the Bab el Mandeb Strait. Protecting the unimpeded flow of energy trade on a global scale is a vital commitment, essential for maintaining it sustainable, affordable and securing supply to the world.

Reflecting on the 1960s, when the Suez Canal faced disruptions during and after the 1967 war, several nations, notably Saudi Arabia, Kuwait, Qatar, the United Arab Emirates and Bahrain, collectively financed the construction of the SUMED pipeline. This double pipeline, stretching 320 kilometers from the Red Sea to the Mediterranean – passing entirely through Egypt, was instrumental in ensuring a continuous flow of approximately 2.5 million barrels of crude oil to Europe.

Saudi Aramco subsequently erected a dual pipeline from the Abqaiq Oil Field (in the east of the Kingdom) to the Yanbu Industrial Port (in the west), capable of transporting 5 to 7 million barrels per day. This strategic deterrent pipeline was a precautionary measure in case of a complete Strait of Hormuz closure. These initiatives not only protect the free trade of oil and gas but also underscore the significance of securing the unimpeded shipping of hydrocarbon products for reliable and secure energy trade.

In a similar vein, the U.S. has previously faced similar challenges and responded strategically. During the Tankers War, then-President Ronald Reagan initially ordered Kuwaiti tankers to be escorted, eventually extending the protection to all commercial ships navigating in and out of the Strait of Hormuz. This broad security measure included a 24-hour air surveillance conducted by AWACS planes.

Applying lessons learned, similar measures could be implemented in Bab el Mandeb, considering its geographical similarity to the Strait of Hormuz, with both having narrow

coast-to-coast widths at specific points. The minimum width of the Strait of Hormuz is 21 nautical miles, while Bab el Mandeb measures around 19 miles.

The significance of energy transit choke points through narrow channels cannot be overstated. As one-half of the world's crude oil supply relies on maritime transportation, protecting the free flow of oil and gas through maritime shipping routes is crucial for global energy price stability and security.

Dr. Roudi Baroudi, currently serves as CEO of Energy and Environment Holding, an independent consultancy based on Doha, has written extensively on the region, including "Maritime Boundaries in the Mediterranean: The Way Forward", a 2021 book that called for the very sort of creative diplomacy used to reach the Lebanon-Israel agreement. His latest book – "Climate and Energy in the Mediterranean: What the Blue Economy Means for a Greener Future" (published by the TLN this year and distributed by Eurospan). Baroudi is also a Senior Fellow at the Transatlantic Leadership Network, a Washington, DC-based Think tank. He is a recipient of TLN's 2023 "Leadership Award" for his ongoing work to promote peace and mutual cooperation in the Eastern Mediterranean.

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**Qatar suggests three-point agenda for equitable, secure and sustainable energy transition**



Qatar has suggested three point-agenda, which includes greater investment in energy efficiency and low carbon innovation and coordinated policies and incentives, for equitable, secure and sustainable energy transition, which not only protects earth but also propels economic growth.

This suggestion was made by HE Saad bin Sherida al-Kaabi, Minister of State for Energy Affairs, at the ministerial session of the 17th Gulf Petrochemicals and Chemicals Association (GPCA) forum in the presence of Abdulaziz bin Salman al-Saud, Minister of Energy, Saudi Arabia; and Salim bin Nasser bin Said al-Aufi, Minister of Energy and Minerals, Oman.

Hamad Rashid al-Mohannadi, former general manager, Qatar Petrochemicals Company (QAPCO), was chosen for the fifth GPCA legacy award in recognition of extraordinary contributions to foster and strengthen the chemical industry.

The forum featured an exhibition that showcased new projects, industry journey, youth pavilion, sustainability district, cultural majlis and publications.

Highlighting that secure, equitable sustainable energy transition will not only help protect the planet but also provide economic growth; al-Kaabi said “to achieve this goal, we need to remain focused on three important areas that are essential in energy transitioning.”

The first and foremost, according to him, was the greater

investment in energy efficiency and low carbon innovation. This includes renewable energy integration, carbon capture and sequestration, low carbon solutions for reduced greenhouse gas emissions, and the carbon intensity in the chemical manufacturing, he said.

Other areas include optimising resources use, waste reduction, waste management and developing circular economies through improving recycling and the reuse of materials.

"We need coordinated policies and incentives to support the petrochemical industry's success," al-Kaabi said.

Terming the third enabler as awareness; he said it was not fair to put the onus on energy producers alone as there was a need for the real story to be told within workforce, across societies and among consumers about the critical role chemical industries plays in bettering lives worldwide.

In Qatar, the growth and evolution of petrochemical industry has been on a steady path of success, al-Kaabi said, adding the country is building the world's largest blue ammonia plant with annual 1.2mn tonnes capacity.

"This plant will be most sustainable facility of its kind. As part of this project, we are implementing CCS technologies to capture and sequester 1.2mn tonnes of carbon dioxide. Furthermore, the electricity for this project comes from a solar power plant currently under construction," he said.

He reminded that QatarEnergy in partnership with Chevron Phillips recently announced the start of the construction of two ethane crackers with a capacity of more than 2mn tonnes per annum each, one in Qatar and one in the US. The expected start is before the end of 2026, he added.

The Saudi oil minister said the demand for petrochemicals is expected to grow by more than 50% by 20240 with demand for basic chemicals such as ethylene and propylene slated to expand more than 60%, quoting market report and analysts.

The sector is also advancing through innovative technologies to maximise the yield of crude oil, he added.



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# **QatarEnergy integrates marketing activities of QatarEnergy LNG**



QatarEnergy has integrated all marketing and marketing-related activities formerly managed by QatarEnergy LNG (previously Qatargas).

This is a major move towards consolidating QatarEnergy's position as a global energy leader and an important milestone to enhance the effectiveness of LNG (liquefied natural gas) marketing and sales from Qatar.

"Today's announcement is another important milestone that firmly positions QatarEnergy on the road to becoming one of the best energy companies in the world. This strategic step will enable us to deliver an unparalleled value proposition that is the backbone of our global reputation as a reliable and trustworthy energy provider," said HE Saad bin Sherida al-Kaabi, the Minister of State for Energy Affairs, also the



President and CEO of QatarEnergy

With this integration, QatarEnergy leverages a combined set of technical, commercial, and financial capabilities to create an enhanced centre of excellence for the marketing and sale of all energy products exported from Qatar.

The move places QatarEnergy in a unique position to deliver unparalleled service and value to its customers and stakeholders, hence, reinforcing QatarEnergy's commitment to delivering excellence.

With this integration, QatarEnergy will offer an even more diversified and integrated portfolio of products and services, ensuring a seamless and enhanced customer experience. It will also be the sole point of contact for Qatar's existing and prospective energy customers globally.

"We all look forward to their continued commitment and dedication that will further strengthen Qatar's global LNG offering and generate value from a unified customer and stakeholder interface," al-Kaabi said.

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# Europe's energy crisis is over



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But 18-24 months later, the acute phase of the adjustment is complete, with energy inventories comfortable and prices

reverting towards long-term inflation-adjusted averages.

### Chartbook: Europe's energy supplies and prices

There will undoubtedly be more shocks in future, but the disruption associated with the end of the pandemic and Russia's invasion of Ukraine is over. Markets have adapted.

Europe's residual issue is that it has swapped relatively cheap Russian pipeline gas for relatively expensive LNG, putting its industrial competitiveness at risk, but that is a chronic problem rather than a crisis.

## OIL

In the oil market, U.S. domestic crude and condensates production has continued to increase and surpassed its pre-pandemic peak in August 2023. Other non-OPEC production sources are also growing steadily.

High-frequency data from the U.S. shows commercial crude inventories were 12 million barrels (+3% or +0.26 standard deviations) above the prior ten-year seasonal average in mid-November, an indication the market is comfortably supplied.

Front-month Brent crude futures have averaged \$82 per barrel so far this month, exactly in line with the median since the start of the century after adjusting for inflation.

Brent's six-month calendar spread has traded in an average backwardation of \$1.57, only modestly above the long-term average of \$1.04.

By late 2022 and early 2023, fears about over-production and the potential accumulation of oil inventories had replaced concerns about insufficient supplies and the rapid depletion of stocks.

In response, Saudi Arabia and its OPEC+ partners have cut output multiple times to avert an incipient inventory build, in stark contrast to pressure on them a year earlier to raise

output to relieve anticipated shortages.

## **GAS**

Rapid adjustment has also been evident in gas, where U.S. inventories have been consistently above the prior ten-year seasonal average since February 2023, and exports have increased to record rates.

Front-month U.S. gas futures prices have traded close to their lowest levels for 30 years, once adjusted for inflation, confirming the market is responding to an incipient surplus.

In Europe, gas storage has been at record seasonal levels continuously since the end of the first quarter of 2023 following an unusually warm winter in 2022/23 and sharp falls in industrial gas consumption.

Germany's energy-intensive manufacturing production is down by around 17% since the start of 2022 and shows no sign of recovering.

Total gas use in the European Union's top 7 consuming countries – Germany, Italy, France, Netherlands, Spain, Belgium and Poland – was down by 13% in the first nine months of 2023 compared with the pre-invasion ten-year seasonal average for 2012-2021.

Inflation-adjusted futures prices for the year ahead have averaged 48 euros per megawatt hour so far in November, down from 223 euros at the height of the crisis in August 2022.

In real terms, year-ahead prices have averaged 53 euros so far in 2023 compared with 23 euros in the five years between 2015 and 2019 and 32 euros between 2010 and 2014.

While prices are still high, they are no longer at crisis levels, and are likely to retreat further in the course of 2024.

# COAL

An even more profound adjustment has occurred in coal, with demand falling sharply as gas supplies have become more plentiful while mine production has ramped up.

Real year-ahead prices for coal delivered to Northwest Europe have averaged just \$112 per tonne in November 2023 (69th percentile since 2010) from a record of almost \$300 per tonne in September 2022.

On the production side, China, the world's largest coal miner, increased output by 425 million tonnes (10%) in 2022 and has boosted it by another 144 million tonnes (4%) so far in the first ten months of 2023.

## ADJUSTMENT

Each market has experienced a slightly different adjustment process, but all have been variations of faster production growth and slower consumption increases.

In oil, consumption has grown more slowly owing to a slowdown in the business cycle, while production outside OPEC+ has increased faster, pushing the market towards a surplus.

Russia's exports have remained high despite sanctions through avoidance (exploiting legal loopholes designed to keep exports flowing and increasing use of dark fleet tankers) and evasion (mis-declaring cargo prices).

In gas, Europe experienced an unusually warm winter in 2022/23 which cut consumption, and has also seen a large reduction in industrial demand from the most energy-intensive users as factories have suspended output.

Europe was able to replace piped gas from Russia with more LNG imports, outbidding other customers in South and East Asia in

winter 2022/23, forcing some of the adjustment burden onto poorer countries.

In coal, China's increasing mine output plus an exponential increase in renewable generation from wind and especially solar have eased shortages and enabled generators to boost fuel inventories.

Other factors that have contributed to the adjustment include high levels of hydro production in Brazil cutting the need for LNG imports, and an unusually mild autumn in Northwest Europe in 2023.

But the common factor is the enormous scale of the price rises in 2021 and 2022, which accelerated and telescoped the adjustment process into a relatively short period.

As a result, after a brutally painful adjustment in 2021 and 2022, production, consumption and inventories have become much more comfortable by the end of 2023 and into 2024, and the crisis phase is over.