

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



OPEC is consulting with lawyers to prepare a strategy to defend against proposed U.S. legislation that could open the cartel up to antitrust lawsuits, according to people familiar with the matter.

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

person said.

A spokesman for White & Case declined to comment.

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

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

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

OPEC pumps about a third of the world's crude, and the biggest of its 15 members is Saudi Arabia, one of America's closest friends in the Middle East. While the group doesn't target a specific oil price, it adds or removes supplies in the market and therefore can affect the cost of crude. Since January 2017, the group and allies including Russia have cut production by about 1.8 million barrels a day, helping to lift international prices to a three-year high of more than \$80 a barrel in May.

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

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

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

An industry source familiar with the matter said Saudi oil exports in June were about 7.2 million bpd, while the latest official figures show May exports at 6.984 million bpd. Al-Aama said Saudi Arabia’s policy is to work on satisfying customers’ needs, but to do so while adhering to OPEC and non-OPEC supply agreements.

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

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

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

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

basis”.

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

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

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

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



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*and the editor(s) of Natural Gas World.*

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

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

### **Summary**

The European Commission's (EC) current investigation into Qatar Petroleum is likely to have a major impact on Qatar Petroleum's LNG supply agreements with European Economic Area (EEA) importers. Based on previous EC investigations into LNG contracts and neighbouring gas markets, Qatar Petroleum appears likely to settle the investigation with the EC in exchange for a commitment (or a "common understanding" with the Qatar government, depending on the extent of its involvement) to remove any territorial restriction clauses from Qatar Petroleum's LNG contracts with EEA importers.

Qatar Petroleum is unlikely to receive a fine from the EC (which technically could be up to 10% of its worldwide

turnover), unless it is later found to have breached its settlement agreement with the EC. We do not expect an imminent outcome in this investigation, with a likely time frame being circa 18 months on the short end, extending to circa three years at the long end. However, the time frame could become very unpredictable if the Qatar government decides to become more involved in the investigation.

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

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

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

The investigation currently involves concerns in relation to both Article 101 (ban on anticompetitive agreements) and Article 102 (prohibition on the abuse of a dominant market position) of the Treaty on the Functioning of the European Union (EU). We are not aware of any other companies being investigated alongside Qatar Petroleum, which has, in turn, stated that it will cooperate with the investigation.

Qatar Petroleum is EU’s largest seaborne gas supplier, accounting for 40% of the EU’s overall LNG imports (and much more in some Member States). The EC press release states that Qatar Petroleum’s long-term agreements (typically 20 or 25 years) for the supply of LNG into the EEA contain direct

and/or indirect territorial restrictions on EEA importers' freedom to sell the LNG to alternative destinations within the EEA. Destination clauses have historically been a fixture of long-term LNG deals that tie buyers to receiving shipments at a specific port, thereby preventing cargo diversions that could undercut Qatar Petroleum in a third market.

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

Reports suggest that one focus of the investigation will be whether the complexities of the LNG market (compared with pipeline supply of gas in, e.g., Gazprom—discussed in further detail below) justify the use of destination clauses. Qatar Petroleum will be well aware of the EC's history in investigating destination clauses in LNG contracts. Between 2002 and 2007, the EC investigated Nigeria's NLNG and Algeria's Sonatrach (AT.37811), the second and third largest LNG suppliers to the EU after Qatar Petroleum. The EC settled both investigations, with NLNG and Sonatrach each committing to ending the use of territorial sales restriction clauses in contracts with EEA importers. While the EC's approach (i.e., targeting specific companies) is narrower than, e.g., Japan's (which took an industry-wide approach by banning the use of destination clauses in LNG contracts – discussed in further detail below), commentators have noted that, if the EC does not find a justification for destination clauses in LNG

contracts in the current investigation, then this would likely have implications for the wider European LNG market as well.

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

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

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

The EC's Follow-up Study on LNG and Storage Strategy (2017) noted that "There was, perhaps, in the early stages of the industry, a reason for putting destination clauses into LNG contracts. Because of the boil off nature of LNG, cargoes need to be in transit for as short a time as possible. Traditionally, buyers, sellers and financiers all needed to know that when a cargo left the liquefaction terminal, it would go directly to a regasification terminal without delay and with a guaranteed reception. In the early days of the LNG industry, when there was no spot market to send cargoes to, it perhaps made sense for both parties to agree to destination clauses so as to minimise risk and attract the project



financing. **It is not so clear now though why destination clauses have been maintained, except perhaps for a certain inertia in the industry.** According to EU competition rules, destination clauses are anti-competitive and for this reason they have already been removed from some contracts for LNG sales to Europe.”

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

### **Gas Market Investigations**

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

In response, the EC imposed binding obligations on Gazprom by way of a decision on 24 May 2018 (see the EC’s press release in relation to the decision here), requiring Gazprom to remove all territorial contractual barriers to the free flow of gas within the internal market, regardless of whether they make cross-border sales impossible or merely financially less attractive, and prevented Gazprom from reintroducing such clauses in the future. While no fines were imposed, the EC noted that, “If a company breaks any of these obligations, the Commission can impose a fine of up to 10% of the company’s worldwide turnover, without having to prove an infringement of

EU antitrust rules.”

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

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

## **Conclusion**

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

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

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

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

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## **Qatar benefits from Russian experience for 2022 World Cup**



QNA/Moscow

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

“We have sent about 70 officers who have been deployed to several cities. The focus has been on the major events that took place. The teams have worked in stadiums, in the streets and in the places where the masses are gathered,” said al-Ali. Four officers participated with the Spanish, Russian and English police in securing fans during matches, he added.

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

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

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

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

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

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

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

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

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

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



Reuters/Frankfurt

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



By Stefan Gerlach/Zurich

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

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

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

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

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

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



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

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

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

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

That is probably true.

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

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

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

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

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

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

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

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

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

industry.

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

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

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

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

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

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

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

As such, the ECB should consider two alterations.

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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



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

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

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

Demand increased after upbeat comments from Federal Reserve

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

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

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

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

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

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

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

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

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

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

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

dollar and falling oil prices.

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

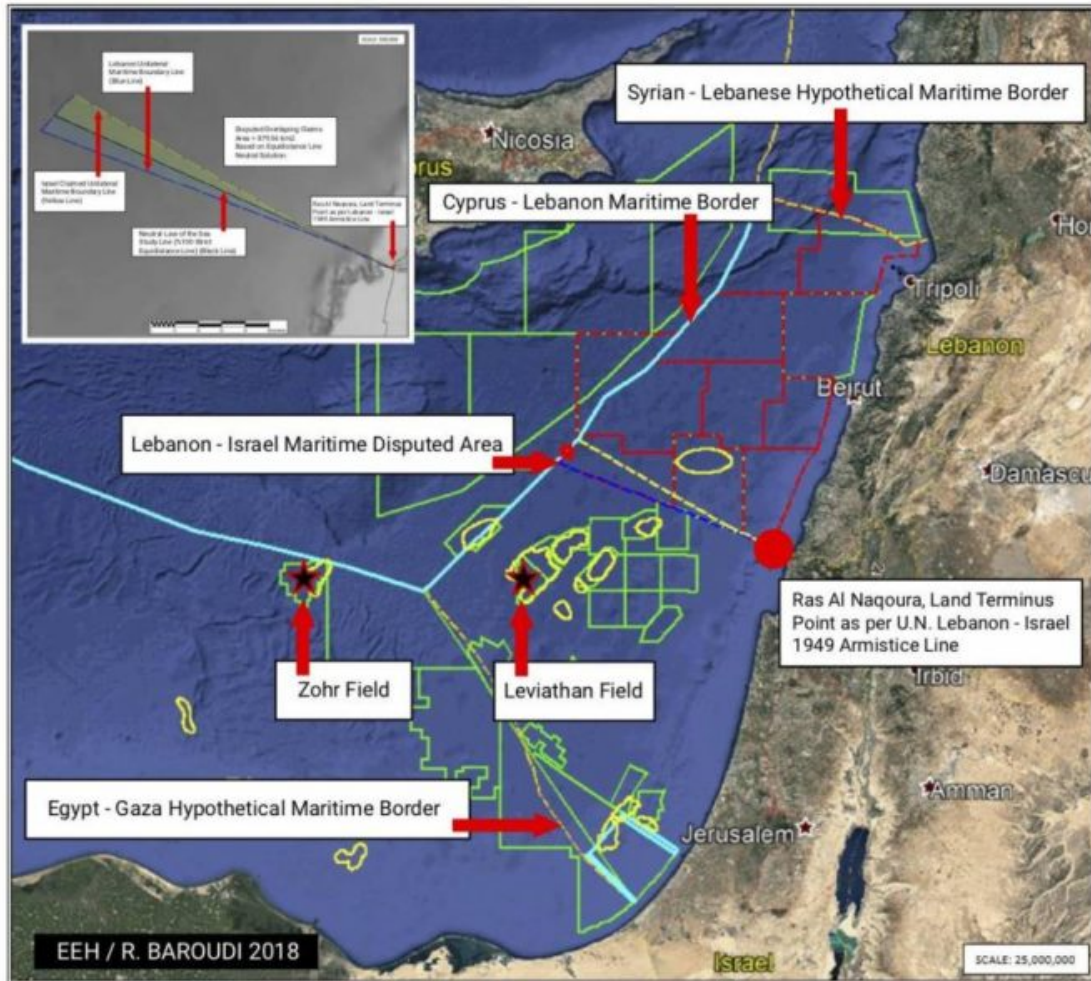
Spot gold was down 0.1 percent at \$1,226.23 an ounce.

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**Lebanon-Israel maritime  
dispute: Hundreds of billions  
of reasons to negotiate**



# Artistic/ Hypothetical Maritime Boundaries Lines (For Illustration Purposes Only)



DOHA: For months, Lebanon and Israel have been at a historic crossroads over how to settle their maritime boundary dispute.



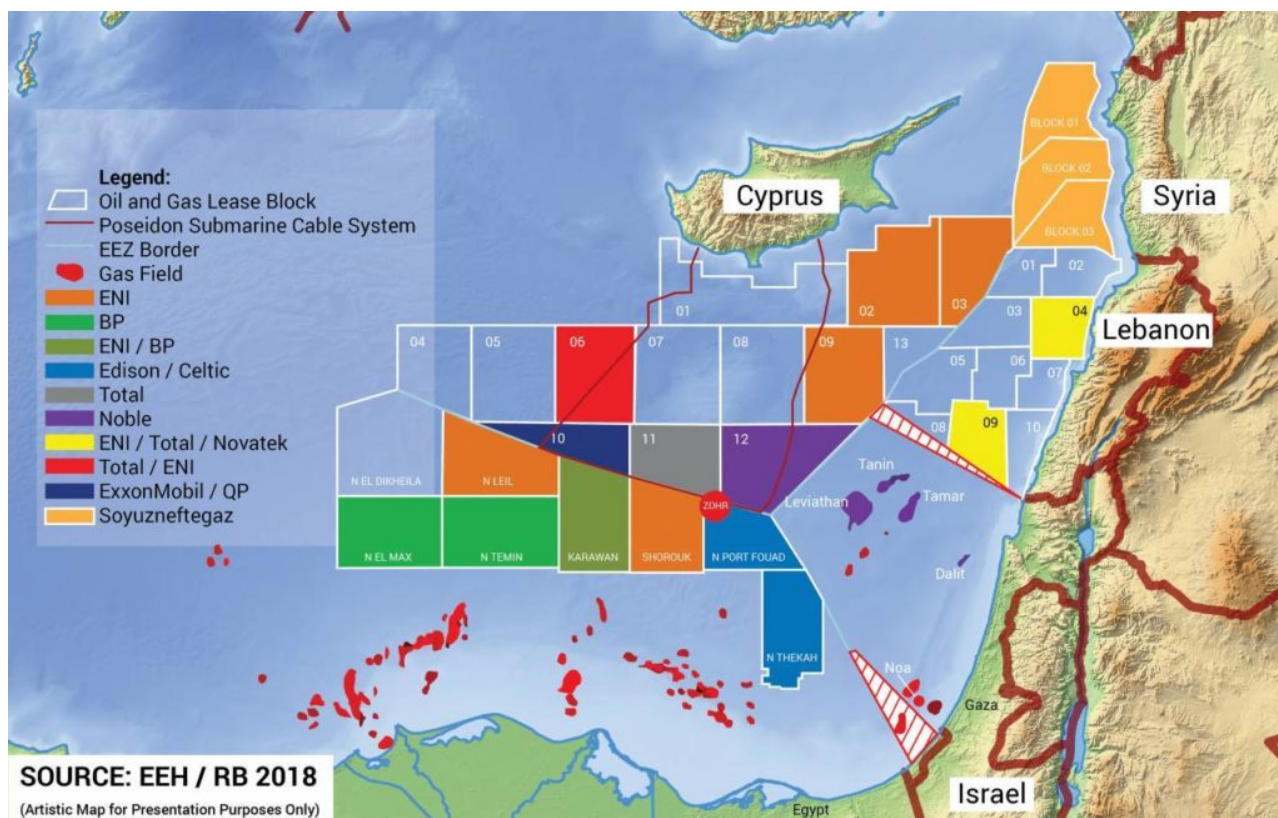
Although their competing claims concern a patch of water of less than 900 square kilometers, it is the potential reserves of oil and, especially, natural gas worth billions of dollars that are at the heart of the dispute.

Now both sides acknowledge that US-led efforts to settle the matter diplomatically are still underway. Given the fact that that the two sides do not have diplomatic relations and have been, legally speaking, at war since 1948, resolving this dispute was always going to be a challenge. But it is not impossible. Even if no direct talks can take place between the two countries, both international law, in general, and those associated with the United Nations, in particular, feature institutions, procedures, legal standards, and mechanisms that could help resolve the dispute.

In addition, if attempts to find a solution enjoy the active support and participation of the United States, the UN, and the international community in general, and if the parties are patient, there is a very real chance of success. Significantly, too, as members of the United Nations, both countries have shared obligations under the UN Charter to settle their disputes peacefully and to refrain from the threat or use of force.

Even more crucially, both countries share massive incentives to avoid any kind of action that threatens to upset the development of their respective energy sectors. It is true, as Israeli Energy Minister Yuval Steinitz said recently, that diplomatic negotiations could well delay exploration, delaying Israel's plans to expand its existing production of natural gas. The same applies for Lebanon's efforts to get its own energy sector off the ground. But this is insignificant, in the grand scheme of things, compared to the interruptions in gas exploration that could be expected to result from the outbreak of a shooting war, not to mention the direct and indirect costs – in blood and treasure alike – of such a conflict. All told, the drag on the economic prosperity of

both countries would outlast the fighting itself as foreign investors and qualified insurers would be spooked for years.



By contrast, if the parties successfully avoid conflict, both of them stand to reap enormous rewards. For Israel, the resolution of the dispute would free it to further expand an industry which is already supplying valuable fuel for power generation and other domestic needs, as well as exporting gas since commencing sales to Jordan earlier this year, and is now gearing up to implement the deal to provide Egypt with some USD 15 billion worth of gas over the next 10 years. This is because opening up the disputed area to exploration and production is likely to enlarge the size of Israel's gas reserves and revenues. And more importantly, the real prize of resolving the dispute would be an improved risk environment, which would boost the business and investment environments for all Israeli companies, not just energy ones.

For Lebanon, the potential significance of gas exploration and development starting sooner is even greater since none are yet underway. Almost as soon as production were to begin, the

national fuel bill would fall substantially, and the state-run Electricité du Liban (EDL) would be able to run some of its generating plants on gas, for which they were designed, rather than the more polluting, more expensive, and less efficient gas oil they currently use. Shortly thereafter, Lebanon's improved economic prospects – and the reduction in political risks – would lower the cost of credit and make it cheaper to repay its large debt. Eventually, some of the gas produced could even be exported, providing the Lebanese government with new revenues which, if properly managed and invested, could help fight poverty, improve education, infrastructure, and spark a historic socioeconomic rebirth.

For both sides, then, the best way forward is clearly the same: to get rid of the obstacles as quickly and as painlessly as possible, and then get down to business. Since this is a win-win situation, reaching an agreement would be relatively straightforward if we were talking about countries in other parts of the world. We are, however, talking about Lebanon and Israel and the region that surrounds them. And that makes reaching an agreement much more complicated.

This is because some of the obstacles to any sort of Libano-Israeli agreement are effectively insurmountable, at least for the foreseeable future. From this point of view, overcoming the inability to negotiate directly is the easy part as negotiations can be conducted through intermediaries. It will require considerably greater amounts of imagination and dexterity, though, to do so without disturbing the pillars upholding decades of Lebanese foreign policy.

One of these is Beirut's categorical refusal to recognize Israel because the latter was established at the expense of a brotherly people, namely the Palestinians. Even a Lebanese government inclined to bend on this issue, despite massive internal opposition, would never do so unilaterally for risk of being ostracized by the rest of the Arab world. Let's not forget that Egypt was shunned for a decade by its Arab League

partners for making a separate peace agreement with Israel. Tiny Lebanon would be even more vulnerable to such treatment. It is, in fact, Beirut's unambiguous stance on Israel which proves it is bona fide and guarantees it a seat in the club of Arab governments. It is proof that, despite having paid a high price compared to other front-line countries, Lebanon will not buckle in its commitment to support the Palestinians. It will not, cannot, and should not abandon that status for the sake of monetary gain.

In this regard, it is essential to keep in mind that Israel's foreign policy establishment views the extraction with some degree of acceptance, even if partial and/or informal, as an ever-present objective of any Israeli diplomatic interaction, even if indirect, with any Arab government. In fact, however, there also is a long history of Israeli officials leaking discrete contacts with Arab government officials without mutual consent, thereby embarrassing their interlocutors, erasing any progress achieved and poisoning the well for future dialogue.

Another obstacle to resolving the maritime dispute is that any solution will almost certainly require Cypriot agreement as its Exclusive Economic Zone (EEZ) abuts that of both countries. Cyprus has signed bilateral EEZ agreements with both countries, although Lebanon has never ratified its agreement with Cyprus. Here arises further complication, given that when Beirut and Nicosia signed their EEZ agreement in 2007, the Lebanese side sought to avoid having the document be viewed as de facto recognition of Israel. Accordingly, and in line with international law on maritime delimitation, the agreement did not define the tri-partite maritime border. Instead, it left the final point in the demarcation of the Cyprus/Lebanese border undefined, with the boundary demarcation coordinates starting at the now almost infamous "Point 1".

Unfortunately, the approach taken produced the opposite effect

because, in the Cyprus-Israel EEZ agreement of 2010, Point 1 was used as the starting point in the demarcation of the Cyprus/Israeli EEZ, even though it clearly should not have been. In this way, the buffer zone which the Lebanese/Cyprus EEZ agreement was meant to establish in order to prevent friction with Israel disappeared. An additional discrepancy on land – with Israel pushing its claim slightly north of the actual border – added to the overlap, but the vast majority is caused by Point 1, which lies some 11 nautical miles (18.5 kilometers) north of where the equidistant point (now known as “Point 23”) among the three countries would be drawn under the terms of Customary International Law (CIL) as set out in the United Nations Convention on the Law of the Sea (UNCLOS).

By agreeing to Point 1 being the starting point of its maritime boundary delimitation, Cyprus breached the express term in its agreement with Lebanon which required it “to notify and consult” Lebanon in case negotiations aimed at the delimitation of its EEZ with a “third country” concerned the demarcation points agreed with Lebanon. Moreover, by doing so, both Cyprus and Israel breached their obligations under UNCLOS and CIL, respectively, to refrain from actions that might prejudice Lebanon’s interests.

Lebanon protested against the terms of the Cyprus-Israel EEZ agreement, officially presenting its claims to the UN and seeking intervention from the Secretary-General and other UN bodies. However, since the Lebanese/Cypriot EEZ agreement never entered into force, arbitration under UNCLOS against Cyprus might be seen as undermining relations with a friendly government, and Israel is not a party to UNCLOS and no third party mechanism has been invoked by Lebanon in respect of this breach.

Commencing conciliation proceedings against Cyprus under UNCLOS seems a more promising route: in this scenario, a conciliation commission would be given twelve months to reach conclusions about the laws and facts of the case, and issue

recommendations to help Cyprus and Lebanon agree on a settlement. However, even assuming that the two countries were to accept such findings, the commission would not have the power to determine the tri-partite border and therefore the validity of Israel's claim to Point 1 being the starting point of the demarcation of the boundary of its EEZ with Cyprus and Lebanon. Given the express wording of the EEZ agreement it signed with Lebanon and its obligations under UNCLOS, it is not clear why Cyprus agreed to Point 1 as the starting point of its boundary demarcation with Israel.

However, the existence of these obstacles does not mean that dialogue is impossible, not when both sides stand to gain so much from a peaceful solution and to lose so much if an armed conflict were to break out, or even if the threat thereof were to persist.

In this respect, despite the contentious nature of its scope, the following provisions of the Israel-Cyprus EEZ agreement point to a way for dialogue to commence. First, Article 1 confirms that the Israel-Cyprus agreement is based on the same British Admiralty map referred to in both the unratified Lebanon-Cyprus EEZ agreement and the Cyprus/Egypt EEZ agreement. Second, Article 1(e) expressly acknowledges that the agreement is to be reviewed and modified if necessary to reach a tripartite agreement on EEZ delimitation among Israel, Lebanon, and Cyprus ( even though the agreement does not refer to Lebanon by name). Finally, most supportive of Lebanon's claims is the fact that the preamble expressly refers to the provisions of UNCLOS concerning EEZ and the rules and principles of international law of the sea applicable to the EEZ as bases for drawing up the agreement, Article 1(e) refers to CIL principles concerning maritime delimitation and Article 1(b) and Article 1(c) refers to the median line being the basis on which the EEZ was delimited between Israel and Cyprus. These references by Israel to the provisions of UNCLOS regarding EEZ delimitation make it very hard for it to deny

that these provisions are principles of customary international law to which it is bound despite not being party to UNCLOS.

As such, from an international law perspective, the basis for the claims made by the two countries are not so far apart and there are mechanisms which have been adopted around the world in similar circumstances which could be invoked to resolve the dispute.

Since neither Lebanon nor Israel has accepted the compulsory jurisdiction of the International Court of Justice (ICJ) in The Hague, they would need to reach a special agreement to refer the maritime boundary dispute to it. And since Israel is not a party to UNCLOS, Lebanon cannot force Israel to resolve the maritime boundary dispute via third-party resolution pursuant to its provisions. At the same time, it is important to keep in mind that since the Mediterranean Sea is regarded as a semi-enclosed sea, pursuant to Part IX of UNCLOS (which is also considered part of CIL and as such binding on Israel), both countries are under an express obligation to cooperate in case of a disagreement.

A negotiated solution is within reach if both parties act in good faith, especially since both the Paulet-Newcombe Agreement of 1923 and the Armistice Agreement of 1949 provide clear border demarcation – and both the Lebanon-Cyprus and the Israel-Cyprus EEZ agreements allow for modification. If an EEZ boundary can be agreed, straddling reserves could be shared under the terms of a unitization agreement. If no agreement on delimitation is possible, the two countries could agree to declare the entire disputed area a joint development zone and enter into a joint development agreement along the lines of those adopted by Nigeria and Sao Tome and Principe, or Australia and East Timor, to develop such a zone. There are many models of such agreements which can be explored to find the best solution for this case.

Finally, it is important to note that Israel's objections to Lebanon having been awarded exploration rights in the "disputed area" are on very thin legal ice. In fact, under UNCLOS and the rules of CIL, Lebanon's only obligations are to cooperate to reach an agreement through a third party with Israel on the exploration and exploitation of straddling gas reserves; and to, in the absence of such an agreement, exercise restraint with respect to the unilateral exploitation of straddling reserves. Importantly, it has these obligations to the extent that a gas field can be exploited from both sides of the disputed border. Moreover, the obligation to exercise restraint does not apply to granting licenses to explore since no irreparable prejudice would be suffered by Israel by such exploration. Since it would seem that only 8 percent of Block 9 falls in the disputed area and that the actual gas field which Eni, NOVATEK, and TOTAL plan to explore falls outside the disputed area, by allowing such exploration to go ahead Lebanon is not breaching international law.

Despite being in a strong legal position, Lebanon has very little to lose – and everything to gain – by being tireless in seeking a negotiated solution, and the same applies to Israel. Going down the route of a joint development agreement would allow them both to agree to proceed with energy development without sacrificing their long-term interests.

The value of the energy in question has been estimated at more than USD 700 billion; that's almost three-quarters of a trillion reasons why a solution needs to be found. All Lebanese should want this because it promises, at the very least, to help alleviate so much of the economic/financial pressure that has been holding the whole country back for more than two decades. No opportunity should be lost to state Lebanon's claim loudly but reasonably, and no effort should be spared to reach an agreement.





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## **OPEC to Lose Effectiveness if Member-States Don't Respect Quotas – Tehran**



MOSCOW (Sputnik) – Iranian Petroleum Minister Bijan Zangeneh sent on Monday a letter to President of the Organization of the Petroleum Exporting Countries (OPEC) Suhail Al Mazrouei to warn the cartel that it would lose its effectiveness if member states did not respect the established quotas on oil production.

“In my view, in case the OPEC Member Countries do not fully adhere to their commitments, the effectiveness of this Organization as the only developing countries’ intergovernmental organization with almost sixty years of history, will be gradually eroded, and the responsibility of this would lay with those Member Countries violating their commitments,” Zangeneh said in his letter, as quoted by the Shana news agency.

According to the minister, failure to meet the agreed quotas may turn into a routine practice. In view of this, Zangeneh called for reporting the extent of each country’s conformity to the agreement to the OPEC Conference.

In June, the OPEC states and other major oil producers fulfilled production cuts stipulated by the Vienna agreement by 124 percent, which was 36 percent lower than in May.

However, Saudi Arabia increased its oil output to 10.42 million barrels per day in June, while the quotas allow it to produce no more than 10.06 million barrels per day.

In November 2016, in Vienna, the world’s major oil producers agreed to reduce oil output by 1.8 million barrels per day from to October of the same year. The deal, aimed at boosting oil prices, was prolonged twice, with the last extension set to last until the end of 2018.