

# Bears get out of the way as crude's rebound takes hold



Crude oil's rally is starting to sweep away the pessimists. After starting 2019 on a cautious tone, hedge funds last week slashed bets on falling Brent crude prices to the lowest level since mid-November, as they looked to get out of the way of a recovery that pushed oil back into a bull market. Wagers on increasing prices climbed the most in a month, reversing course from last week. The global benchmark surged last week, as the US and China made progress in trade talks and Opec members reaffirmed its commitment to head off a supply glut. Money managers have turned alternately bullish and bearish on the rally in recent weeks, but the evidence for a sustained move higher is getting harder to ignore, said Mark Waggoner, president of Oregon brokerage Excel Futures Inc. "Just having another positive week is going to be huge for a lot of people's psyches, after we got so beat up last year," Waggoner said by telephone. "I think you're going to see more

of them coming on board this week.” Brent has gained more than 20% since hitting an 18-month low in late December. Nonetheless, it’s still down by almost a third since October and faces continuing pressure from the boom in US shale drilling and an uncertain economy. Prices fell for the first time in two weeks on Friday, retreating 2% to \$60.48 a barrel. US crude prices finished the week up 7.6%, their best showing in six months. Data on hedge fund wagers for West Texas Intermediate crude weren’t available due to the US government shutdown. Brent net-long positions – the difference between bullish and bearish wagers – climbed 3.8% to 158,146 options and futures contracts in the week ending January 8, the ICE Futures Europe exchange said on Friday. Most of the shift came from a 3.6% decline on contracts predicting a Brent drop. Bets on rising prices edged up 0.8%. They’ve traded gains and losses for the past six weeks. Late December’s more bearish stance “was more about hedge funds squaring their books after they’d had a very bad year,” said Frances Hudson, a global thematic strategist at Aberdeen Standard Investments in Edinburgh. Sentiment has improved markedly, she said in a telephone interview. “Things seemed to have settled down a little bit in terms of production,” Hudson said.

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## **Opec withdrawal fits Qatar’s LNG strategy, says US finance attache**



Qatar's recent decision to withdraw its membership from the Organisation of the Petroleum Exporting Countries (Opec) is a business decision that supports the country's development strategy for its liquefied natural gas (LNG) sector, industry experts agreed during the Euromoney Conference held in Doha on Sunday.

Qatar is Opec's 11th-biggest oil producer. Lesley Chavkin, the US Department of the Treasury financial attaché to Qatar and Kuwait, pointed out that Qatar's total output accounts for "only 2%."

"Qatar is not a behemoth in Opec, and I think it (withdrawal from Opec) fits with the strategy to focus the resources on LNG. That seems to be the future of Qatar's energy industry," Chavkin said during the panel discussion titled 'Qatar's Economy – New Directions, New Opportunities'.

On the global market, Chavkin also said that Qatar is expanding its reach, veering towards the Asia Pacific region. She noted that Qatar may have to look into short-term contracts with its Asian buyers.

"Obviously, it's no surprise that the demand is coming from the Asia Pacific region. We have China aggressively moving from coal to gas...moving forward, it's going to be Asian-focused.

"What I think is a kind of interesting space to watch is LNG contracts. So, Asian buyers tend to prefer buying LNG on spot

or short-term basis. LNG contracts here tend to be longer term, and Qatar has flexibility in adjusting some of its longer term contracts to maintain market share but that's something interesting that we would be watching, going forward," Chavkin explained.

Mohamed Barakat, the managing director of US-Qatar Business Council, said he agrees with Qatar's decision to withdraw its membership from Opec, "because this is a business-focused decision."

"Qatar is in the gas business and its oil production doesn't affect the market that much as countries like Saudi Arabia," Barakat said.

He added: "Qatar's decision to increase its gas production will definitely increase the support and supplies that Qatar can provide globally, knowing that from a US perspective, Qatar has provided a lot of LNG to US allies, supporting them, and helping them to be more independent with a reliable partner in Qatar – that would help advance more the business interests globally in Qatar, as well."

Alexis Antoniades, the director of International Economics at Georgetown University – Qatar, emphasised that the decision to withdraw Qatar's Opec membership is a business decision and was not politically motivated.

"I don't see any political decision behind it... this is a business decision. We have no role in Opec... we are in the LNG industry and not the oil sector. It makes sense for us to withdraw there, and it makes sense for us to figure out what is it that we are going to do well, and focus our time and resources on that," Antoniades said.

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## **How Inequality Undermines Economic Performance**



France's Yellow Vest protests are rooted in frustration with the government's indifference to the plight of struggling households outside France's urban centers. With job and income polarization having increased across all developed economies in recent decades, developments in France should serve as a wake-up call to others.

MILAN – About a decade ago, the Commission on Growth and Development (which I chaired) published a report that attempted to distill 20 years of research and experience in a wide range of countries into lessons for developing economies. Perhaps the most important lesson was that growth patterns that lack inclusiveness and fuel inequality generally fail.

The reason for this failure is not strictly economic. Those who are adversely affected by the means of development, together with those who lack sufficient opportunities to reap its benefits, become increasingly frustrated. This fuels social polarization, which can lead to political instability, gridlock, or short-sighted decision-making, with serious long-term consequences for economic performance.

There is no reason to believe that inclusiveness affects the sustainability of growth patterns only in developing countries, though the specific dynamics depend on a number of



factors. For example, rising inequality is less likely to be politically and socially disruptive in a high-growth environment (think a 5-7% annual rate) than in a low- or no-growth environment, where the incomes and opportunities of a subset of the population are either stagnant or declining.

The latter dynamic is now playing out in France, with the "Yellow Vest" protests of the last month. The immediate cause of the protests was a new fuel tax. The added cost was not all that large (about \$0.30 per gallon), but fuel prices in France were already among the highest in Europe (roughly \$7 per gallon, including existing taxes).

Although such a tax might advance environmental objectives by bringing about a reduction in emissions, it raises international competitiveness issues. Moreover, as proposed, the tax (which has now been rescinded) was neither revenue-neutral nor intended to fund expenditures aimed at helping France's struggling households, especially in rural areas and smaller cities.

In reality, the eruption of the Yellow Vest protests was less about the fuel tax than what its introduction represented: the government's indifference to the plight of the middle class outside France's largest urban centers. With job and income polarization having increased across all developed economies in recent decades, the unrest in France should serve as a wake-up call to others.

By most accounts, the adverse distributional features of growth patterns in developed economies began about 40 years ago, when labor's share of national income began to decline. Later, developed economies' labor-intensive manufacturing sectors began to face increased pressure from an increasingly competitive China and, more recently, automation.

For a time, growth and employment held up, obscuring the underlying job and income polarization. But when the 2008

global financial crisis erupted, growth collapsed, unemployment spiked, and banks that had been allowed to become too large to fail had to be bailed out to prevent a broader economic meltdown. This exposed far-reaching economic insecurity, while undermining trust and confidence in establishment leaders and institutions.

To be sure, France, like a number of other European countries, has its share of impediments to growth and employment, such as those rooted in the structure and regulation of labor markets. But any effort to address these issues must be coupled with measures that mitigate and eventually reverse the job and income polarization that has been fueling popular discontent and political instability.

So far, however, Europe has failed abysmally on this front – and paid a high price. In many countries, nationalist and anti-establishment political forces have gained ground. In the United Kingdom, widespread frustration with the *status quo* fueled the vote in 2016 to leave the EU, and similar sentiment is now undermining the French and German governments. In Italy, it contributed to the victory of a populist coalition government. At this point, it is difficult to discern viable solutions for deepening European integration, let alone the political leadership needed to implement them.

The situation is not much better in the United States. As in Europe, the gap between those in the middle and at the top of the income and wealth distribution – and between those in major cities and the rest – is growing rapidly. This contributed to voters' rejection of establishment politicians, enabling the victory in 2016 of US President Donald Trump, who has since placed voter frustration in the service of enacting policies that may only exacerbate inequality.

In the longer term, persistent non-inclusive growth patterns can produce policy paralysis or swings from one relatively

extreme policy agenda to another. Latin America, for example, has considerable experience with populist governments that pursue fiscally unsustainable agendas that favor distributional components over growth-enhancing investments. It also has considerable experience with subsequent abrupt shifts to extreme market-driven models that ignore the complementary roles that government and the private sector must play to sustain strong growth.

Greater political polarization has also resulted in an increasingly confrontational approach in international relations. This will hurt global growth by undermining the world's ability to modify the rules governing trade, investment, and the movement of people and information. It will also hamper the world's ability to address longer-term challenges like climate change and labor-market reform.

But to go back to the beginning, the main lessons from experience in developing and now developed economies are that sustainability in the broad sense and inclusiveness are inextricably linked. Moreover, large-scale failures of inclusion derail reforms and investments that sustain longer-term growth. And economic and social progress should be pursued effectively – not with a simple list of policies and reforms, but with a strategy and an agenda that involves careful sequencing and pacing of reforms and devotes more than passing attention to the distributional consequences.

The hard part of constructing inclusive growth strategies is not knowing where you want to end up so much as figuring out how to get there. And it is hard, which is why leadership and policymaking skill play a crucial role.

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# The answer to plastic pollution



With China refusing foreign waste under its new policy, countries are forced to handle their own plastic pollution. As holiday shopping ramps up, so do the dizzying varieties of plastic packaging tossed in recycling bins. And while we wish a miracle would transform this old garbage into something new, the reality is the waste left over from the holiday shopping frenzy is more likely than ever to end up in a landfill or incinerator. Until January of this year, the United States and other Western countries were foisting their low-value plastic waste on to China, with little concern for the environmental degradation this caused. To protect its citizens from the burden of foreign pollution, in the beginning of this year, China refused to be the world's dumping ground and effectively closed its doors to plastic waste imports. China's new National Sword policy of refusing foreign waste has brought a long-overdue moment of reckoning for the recycling industry, and by proxy, for manufacturers. Its clear recycling alone cannot come close to addressing the ballooning amounts of

plastic waste piling up all over the country. Even before China's waste ban took effect, only 9% of plastic in the US was actually recycled. No matter how diligently Americans sort their plastic waste, there is just too much of it for the US, or any other country, to handle. On the bright side, the ban sparked a much-needed conversation about improving domestic recycling infrastructure and recycling markets and has forced both companies and the public to re-evaluate the products and packaging that were previously assumed to be recyclable. But the ban has also been used as a wrongful justification for burning trash in incinerators. Waste incinerators became popular in the US in the late 80s, until harmful emissions of mercury and dioxins, toxic ash, technical failures, and prohibitive costs soured the public on the industry. However, there are still more than 70 relics left over from that failed experiment which continue to pollute surrounding communities and drain city coffers. One of the most notorious cases is in Detroit. The city's incinerator, perversely named Detroit Renewable Power, exceeded emissions limits more than 750 times over the last five years, contributing to one of the highest rates of asthma in the country. Not only is the incinerator criminally polluting, it cost the city nearly \$1.2bn in debt. According to US Energy Information Administration data, incinerators are the most expensive way to produce energy – costing twice that of nuclear and solar and three times the cost of wind. In some cases, recent incineration schemes are even disguised as recycling programs. For example, the city of Boise, Idaho, which was rocked by China's waste ban, is directing residents to "recycle" their plastic by putting it in a special orange bag called the Hefty Energy Bag. The plastic is then melted to make fossil fuels to burn. This method, called pyrolysis, or "plastic-to-fuel", is being pushed by the American Chemistry Council, Dow Chemical, Unilever, and others who are invested in continuing the status quo of churning out massive amounts of single-use plastic. Not only is this form of incineration the opposite of recycling, it gives people a false sense of security that single-use

plastic is acceptable to continue making and using. Instead of coming up with increasingly complicated and expensive ways to deal with plastic waste, why not focus on preventing it from being made in such large quantities in the first place? We simply need less plastic in the world. Notably, many North American cities are cracking down on nonsense single-use plastic and resisting short-sighted, false solutions like plastic-to-fuel. Plastic bag bans or fees are underway in cities such as Seattle, Boston, San Francisco (leading to a statewide ban), and Washington, DC. Some cities are going even further: Vancouver is introducing a city-wide ban on single-use straws, foam cups, and containers starting June 2019. In addition to bans and fees on problematic products and packaging, several cities are also pursuing legislation that would force companies to pay for managing the waste created by their products instead of foisting disposal costs onto the consumer, thereby motivating them to change their manufacturing and delivery systems to eliminate or drastically minimize waste. This holiday season, the greatest gift manufacturers can give consumers is the option to buy their products without ending up with a recycling bin full of single-use plastic packaging destined for the burner or the dump. As the saying goes, "necessity is the mother of invention". China's National Sword policy gives us the opportunity to kick our society's plastic habit once and for all and to put pressure on those most responsible for it: not consumers, not cities, but producers. – Guardian News & Media

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**Fiat Chrysler said to pay**

# more than \$700mn over US diesel emissions claims



## FIAT CHRYSLER AUTOMOBILES

Reuters Washington

Fiat Chrysler Automobiles NV will pay more than \$700mn to resolve lawsuits from the US Justice Department and diesel owners over claims it used illegal software to allow 104,000 diesel vehicles to emit excess emissions, three people briefed on the matter said on Wednesday. Fiat Chrysler will pay \$311mn in civil penalties to US and California regulators, about \$75mn to states investigating the excess emissions and additional funds to offset excess emissions from the older cars. It will also pay \$280mn to settle a lawsuit by owners, the sources said. Fiat Chrysler has denied any wrongdoing and previously said there was never an attempt to create software to cheat emissions rules. In October, the company set aside €713mn (\$815mn) to cover potential costs related to the case. Separately, Robert Bosch GmbH, a German auto supplier that made some components for the Fiat Chrysler diesel engines, is expected to announce it will settle suits from US owners for \$30mn, one person said. The settlements are set to be announced on Thursday at the Justice Department. Fiat Chrysler, Bosch and the Justice Department declined to comment. The Environmental Protection Agency issued a media advisory on Wednesday that said it would make an "announce-

ment of a significant civil action to address cheating on federal auto-emissions tests.” The Justice Department sued Fiat Chrysler in May 2017, accusing it of illegally using software that led to excess emissions in 104,000 US diesel vehicles from the 2014-2016 model years. Fiat Chrysler won approval from US regulators in July 2017 to sell diesel vehicles with updated software. The company has repeatedly said it hoped to use that software to address agencies’ concerns over the 2014-2016 vehicles. The company is not expected to make any hardware changes to the vehicles and the fix will not impact the vehicle’s fuel economy, two people said. Owners of those vehicles are expected to get an average of \$2,800 each for completing the software updates, the sources said. Fiat Chrysler will formally issue an emissions recall for the vehicles, but will not offer to buy back the vehicles, the sources said. The Justice Department in 2017 said Fiat Chrysler used auxiliary emissions controls in diesel vehicles that led to “substantially” higher than allowable levels of nitrogen oxide, or NOx pollution, which is linked to smog formation and respiratory problems. US and California regulators stepped up scrutiny of diesel vehicles after Volkswagen AG admitted in 2015 to illegally installing software in US vehicles for years to evade emissions standards. VW has agreed to pay more than \$25bn in the United States for claims from owners, environmental regulators, states and dealers. Regulators have also been probing diesel emissions in Daimler AG’s US Mercedes Benz vehicles.

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## **Shell LNG plant blockade gets**

# no easy fix from Canadian province



Bloomberg Vancouver

British Columbia Premier John Horgan gave little sign his government was ready to intervene in a contentious blockade obstructing Royal Dutch Shell Plc's \$31bn gas export project, shying away from condemning the indigenous group that's defied a court order to remove barricades. "There is no quick fix to resolving issues that go back to 1876 and beyond," Horgan said, referring to the year of Canada's Indian Act and the thorny legacy created in British Columbia, where most First Nations have never formally ceded jurisdiction of their ancestral lands. "We recognise the right of individuals to protest." But he also acknowledged that the project, LNG Canada, had met every requirement to proceed and had the support of all 20 First Nation groups along its corridor, including the Wet'suwet'en on whose lands the blockade is taking place. "We believe that LNG Canada has met the obligations that we asked them to achieve." The blockade underscores how hard it's become for Canada to clear the way

for sanctioned energy projects – even those blessed by all levels of government and elected indigenous leaders. When Shell and its four Asian partners agreed to invest last October after a decade of negotiations, the project was feted as the blueprint for how industry should work with First Nations. Yet in the months since, a group of holdouts have erected barricades on a public road, preventing TransCanada Corp from working on the 420-mile (676km) Coastal GasLink pipeline that will supply the export facility. The protesters ignored a November court order to allow access. “It’s important to understand that construction time lines require us to gain access to the area and begin activities as soon as we safely can to keep the current construction schedule and time lines in place,” Jacquelynn Benson, a spokeswoman for Coast GasLink, said in an email. “Any delays to that would affect our ability to meet those dates.” LNG Canada didn’t immediately respond to a question about delays to the project. The project – also backed by Petroliam Nasional Bhd, Mitsubishi Corp, PetroChina Co and Korea Gas Corp – is Canada’s largest infrastructure project ever and the world’s biggest planned liquefied natural gas facility in years. Indigenous leaders, including a former Wet’suwet’en elected chief, have lamented the blockade for threatening a project that offers rural communities their best shot at economic development. Yet since Monday, when police arrested 14 to enforce the court order and restore access, protests have flared up across the nation in support of the blockade. In an October interview, Horgan credited LNG Canada’s success to its aboriginal support, contrasting it against Trans Mountain, the oil pipeline bought by the federal government from Kinder Morgan Inc. Shell was able to reach agreements with all aboriginal groups, whereas “Trans Mountain was not,” he’d said. “I think that speaks for itself.” Three months later, it’s not clear that made such a difference. “British Columbia is unique in Canada – we have unceded territory and in every corner of the province we have court ruling after court ruling,” Horgan told reporters on Wednesday, saying he’d



spoken to Prime Minister Justin Trudeau about the impasse late Tuesday. The project, he said, “highlights the challenges of reconciliation.”

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## **Two Big Producers Just Called a Bottom for Oil: \$60 a Barrel**



Italy's top oil producer and Oman's energy minister predict the latest oil rebound will stick.

Prices are up more than 20 percent since hitting an almost two-year low in December, enough to alter OPEC+ rhetoric from reassuring investors that it will cut output to taking credit for the rebound, and in the case of Oman, forecasting where oil will trade for the year

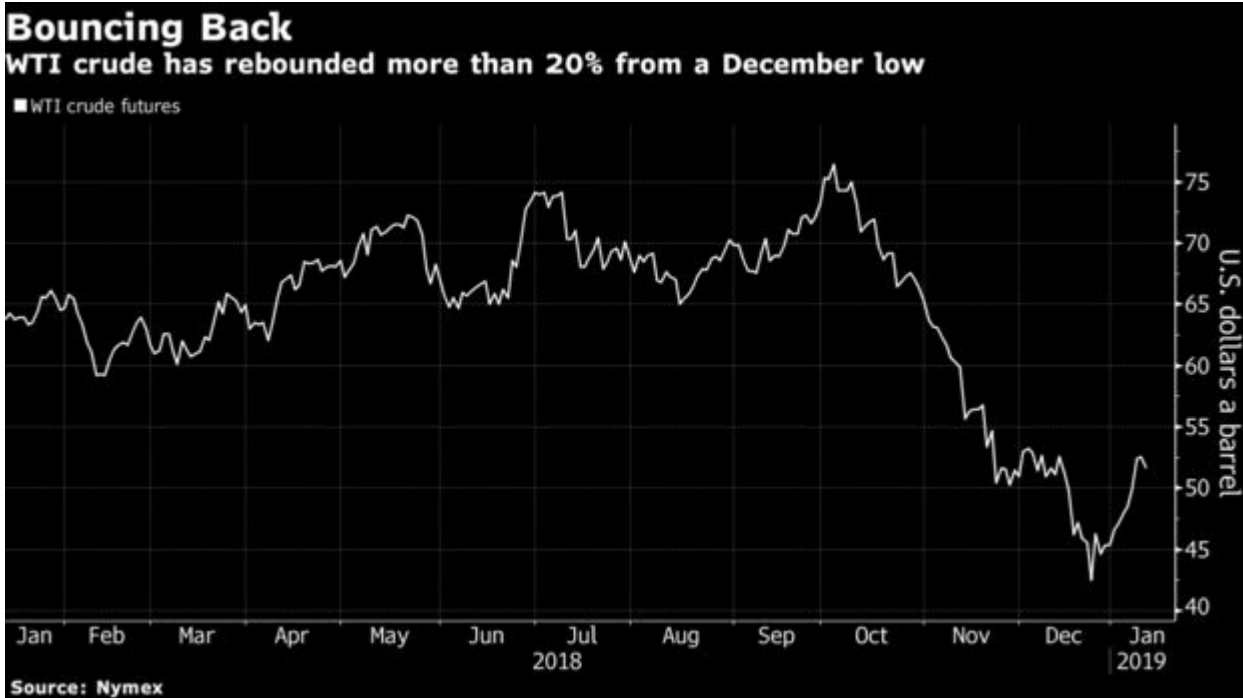


Mohammed Al-Rumhi

Photographer: Stefan Wermuth/Bloomberg

Oman Oil Minister Mohammed Al-Rumhi told Bloomberg TV that the agreement between the Organization of Petroleum Exporting Countries and partners including Russia and Oman can sustain prices at \$60 a barrel. He sees crude trading between that bottom and \$70 a barrel this year. Claudio Descalzi, the chief executive officer of Italy's Eni SpA, told Bloomberg TV the range will be between \$60 and \$62 a barrel.

"I see demand for hydrocarbons still growing," Descalzi said. "When we talk about 1.3 to 1.4 million barrels a day, that is still there," referring to potential demand increases.



A few weeks ago, as global benchmark Brent crude briefly dipped below \$50 a barrel, OPEC ministers were taking turns to remind investors that they would trim supply. That message, along with brightening prospects for U.S.-China trade talks seem to have worked, pushing the gauge above \$60 a barrel and ending talks about an extraordinary OPEC meeting.

## No Extra Meeting

“We only do that during emergencies, and there is no emergency,” U.A.E. Energy Minister Suhail Al Mazrouei said in an interview on Sunday, referring to a proposed meeting he floated in December. The oil glut will be cleared in the first quarter and OPEC+ remains committed to making “whatever is the right decision to balance the market.”



Suhail Al Mazrouei

Photographer: Chris J. Ratcliffe/Bloomberg

The volatility that became a feature in financial markets last year is expected to continue for oil in 2019. Prices could rise higher than \$60 a barrel if consumers perceive a gap between supply and demand, according to Descalzi. Ruhmi predicts even sharper swings between \$50 and \$80 a barrel during for the year.

OPEC, led by Saudi Arabia, agreed to cut oil output this year to support prices. The group and its allies, known as OPEC+, agreed to start cutting 1.2 million barrels of daily production this month to stem a surplus and stabilize the market. Producers already reduced output by 600,000 barrels a day in December, Saudi Arabia's energy minister Khalid Al-Falih said on Wednesday.

## **Iran Waivers**

The effort to balance the market will be judged when demand usually increases in the second quarter, Oman's Rumhi said.



The timing coincides with the expected expiration of U.S. sanctions waivers that allowed some buyers of Iranian crude to continue purchases.

U.S. sanctions have cut Iran's exports to about 1 million barrels a day from 2.7 million before sanctions were announced, Brian Hook, the U.S. State Department's special representative for Iran, said in an interview.



Claudio Descalzi

Photographer: Christopher Goodney/Bloomberg

"There's a lot more to come. We're going to continue our path to get to zero," Hook said. "We have to do it in the context of oil prices"

So once again, global oil supply will be subject to decisions on Iran waivers made by the Trump Administration, far from the traditional halls of power in Riyadh and Vienna that have policed a large portion of the world's crude production since the 1960s.

If U.S. sanctions curtailing Iran's exports begin to crimp markets, the group will respond, Rumhi said. "There is a commitment by all of us to make sure there is no dent in the supply side. And if there's oversupply, we cut that fat as well."

– *With assistance by Hussein Slim, and Giovanni Prati*

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## **Greece inches closer to sales of Hellenic Petroleum and Depa**



Greece has crossed a key hurdle to the sale of a controlling stake in ELPE (Hellenic Petroleum) as it rushes to meet its privatization pledge after emerging from its third and final bailout.

In a Bloomberg interview, energy minister Giorgos Stathakis

said Greece has reached an accord with potential buyers of the ELPE stake – valued at the current market price of 1.16 billion euros and seen as a flagship privatization – over the control of its wholly owned unit, ELPE Upstream. Under the accord, the state will own 50.1 percent of ELPE Upstream, which holds Hellenic Petroleum’s hydrocarbon exploration and concession rights.

“Talks with the potential buyers of the 50.1 percent stake in Hellenic Petroleum over Elpe Upstream have finished and all issues have been resolved,” Stathakis said in the interview in Athens.

The push to see the sale through comes after Greece, in August, ended its final international bailout following its decade-long financial crisis. Privatizations, a cornerstone of the bailout program’s rebound plan, haven’t been popular with the leftist government of Prime Minister Alexis Tsipras. Once famous for dragging its feet, the government is now interested in “stepping up the privatization drive,” Grigoris Stergioulis, chairman of Enterprise Greece, the nation’s trade and investment promotion agency, said in August.

Assets in addition to Hellenic Petroleum being prepared for sale include parts of DEPA, Greece’s natural gas supplier, and plants owned by PPC, the country’s state-controlled and largest electricity provider.

### **Binding offers**

Greece’s state-asset sale fund qualified in July two investors for the controlling stake in Hellenic Petroleum – Glencore Energy UK Ltd and Vitol Holding BV – allowing them to continue with the process. The stake is being sold by Paneuropean Oil & Industrial Holdings SA and the Hellenic Republic Asset Development Fund, the refiner’s first and second-largest shareholders.

“While some details remain for the shareholders’ agreement, we



expect binding offers on Jan. 28," Stathakis said. The two companies have concluded their separate ventures for making bids, he said.

On DEPA, Greece is preparing a draft law to split the natural gas supplier into two parts to pave the way for the sale of the company, Stathakis said. The law to create DEPA Infrastructure and DEPA Commercial will be presented to parliament by the end of January, he said.

## **US foray**

Greece will sell the majority of DEPA Commercial, retaining a 15 percent stake. DEPA Infrastructure will comprise the country's gas network and international projects, including major investments in pipelines, and this part will remain under state control. Greece will invite investors to show interest in the sale during the first half. The state currently controls a 65 percent stake in DEPA while Hellenic Petroleum owns the remaining 35 percent.

DEPA's purchase in December of the first cargo from Cheniere Energy Inc.'s Corpus Christi liquefied natural gas export terminal, the newest such outlet in the US, opens the way for the regular supply of US LNG to Greece, the minister said.

"Discussions have begun concerning amounts and price and the outcome is a matter of months," Stathakis said.

Meanwhile, PPC has approved an agreement for investors to buy its lignite coal-fired plants in Meliti and Megalopoli, Stathakis said. The sale is part of an effort to meet the demands of Greece's creditors for the company to reduce its dominance in the country's electricity market. Binding offers are due shortly, Stathakis said. (*Bloomberg*)

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# Germany wobbles on Russian gas pipeline as tensions mount



Bloomberg/Berlin

Support in German Chancellor Angela Merkel's coalition for a major new Russian gas pipeline is slipping as frustration with the Kremlin's brinkmanship grows and pressure from US President Donald Trump starts to bite.

Nord Stream 2, an \$11bn project that will double the natural gas supply under the Baltic Sea to Germany, faces growing scepticism among German officials who had previously defended it against criticism from Trump and some European Union allies, according to senior lawmakers. The shift could translate into pressure on Merkel's government to back down on the controversial pipeline and possibly delay its implementation.

Social Democratic lawmaker Nils Schmid, whose party has been a reliable supporter of the project, said too many decision-makers in Berlin had been slow to factor in Nord Stream's geopolitical significance. It will reduce the volume of gas pumped through Ukraine as Russia attempts to stifle its neighbour's economy by depriving it of lucrative transit fees. "The debate in Germany has become more critical," Schmid, the junior coalition party's point man on foreign policy, said in an interview, adding that the project shouldn't go forward until Russia and Ukraine reach a transit accord. "It would have been better to take this political dimension into account."

The 1,200-km (750-mile) undersea pipeline – being constructed by Russia's Gazprom PJSC to bolster German supplies as Norwegian, Dutch and domestic sources dry up – has been pilloried by some of the country's allies, who say it bolsters Europe's reliance on Russian energy and bypasses key partners such as Ukraine. Trump has blasted the project as holding Germany "captive" to Russia.

The ground is shifting, with an ever more fraught relationship with Russian President Vladimir Putin, particularly since the November seizure of two dozen Ukrainian sailors near the Sea of Azov. Merkel, who has sparred with Putin since the 2014 annexation of Crimea from Ukraine, is demanding the release of the naval personnel.

The Azov incident in the Kerch Strait has soured prospects that Merkel's diplomacy can scale back the conflict in eastern Ukraine, according to Juergen Hardt, a lawmaker in Merkel's Christian Democratic Union who speaks on foreign affairs.

"The events on the Kerch Strait at least showed me that these are unfulfilled hopes," Hardt said in an interview. "Russia, in my view, isn't moving a millimetre from its objectives."

Hardt said Germany's governing parties need to find consensus with the European Commission on energy diversification and reliance on Russian gas. He also questioned the economic viability of Nord Stream, poking holes in the government's previous defence of the project.

Merkel shifted her position on Nord Stream last April, acknowledging the political dimensions of the pipeline and departing from her previous insistence that it was solely a business venture by private investors. The project must not weaken Ukraine by disrupting its gas transmission system, she said at the time.

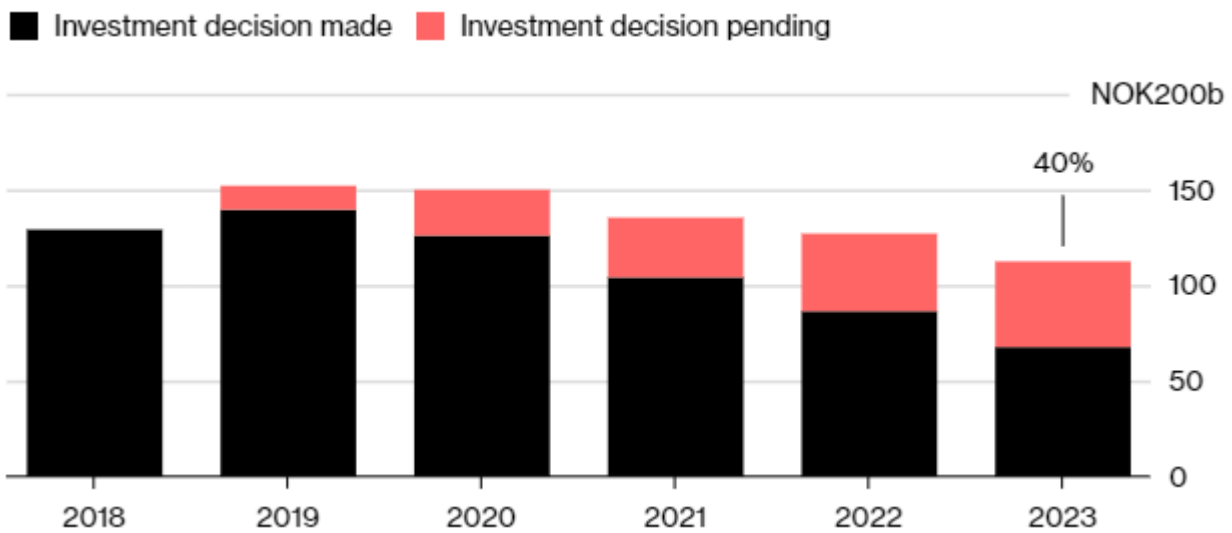
Richard Grenell, the US ambassador to Germany, welcomed the more sceptical view in Berlin, saying the pipeline project undermines the EU's energy and security objectives.

"There is not only Russian gas coming through the pipeline, but also Russian influence," Grenell said in a statement to Bloomberg News. "Now is not the time to reward Moscow."

The US administration has indicated that sanctions on the pipeline are imminent. Trump brought tensions over Nord Stream into full view at last July's NATO summit, raising the issue as he attacked Merkel over Germany's slack defence spending.

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## **Top Oil Lobbyist Warns of Rising Political Risk in Norway**



Norway's oil industry is in full recovery mode, but the country's top petroleum lobbyist is worried about growing opposition ahead.

At the same time as it gave a big boost to investment forecasts for the next five years, the Norwegian Oil and Gas Association sounded one of its starkest warnings yet on the political risk facing the nation's biggest industry. Explorers and producers are finding themselves in the midst of an increasingly heated debate in Norway on the future of fossil fuels, with calls for cuts to incentives, more drilling restrictions and higher taxes.

While Norway's oil industry is tightly regulated, one of its main selling points has always been a stable framework with support across the political spectrum. That means that investment forecasts could be hit "dramatically" if that is looking shaky, Karl Eirik Schjott-Pedersen, the association's chief executive, said on Monday.

"I'm raising a flag to say that these investments are vulnerable if such a situation arises," Schjott-Pedersen, who represents companies including Equinor ASA and Royal Dutch Shell Plc, said in an interview. "It's important for us to stress that this debate and these proposals for change aren't cost-free."

With the share of locked-in spending falling to 60 percent in 2023 from 92 percent in 2019, investment could drop sharply and make this year's recovery brief, Schjott-Pedersen said.

Political risk is even a bigger concern than the market, where crude prices have tumbled by about 30 percent over the past three months, he said. After the industry cut costs drastically during the downturn from 2014 to 2017, projects are less vulnerable to Brent crude in the \$50s than to tax hikes, Schjott-Pedersen said.

The warnings from the former Finance Minister comes as two centrist parties involved in negotiations to broaden Norway's Conservative-led government have signaled they will seek tougher restrictions on the oil industry. While Prime Minister Erna Solberg appears unwilling to offer concessions on oil policy, those efforts are only the latest in a long list of challenges for the oil industry, including:

- The prospect of smaller groups like the Green Party gaining more influence
  - Legal challenges seeking to restrict license awards or exploration incentives
  - Signs that Norway's biggest party, Labor, currently in opposition, is growing increasingly skeptical of opening the Lofoten area to exploration, raising the possibility it could compromise on other aspects of oil policy
- Compounding these challenges is another, worrying prospect for Norway's oil industry in the early 2020s: it sorely needs new, big discoveries to fill a dwindling project pipeline.

That challenge isn't new. While the oil association raised forecasts for all years through 2022 compared to its previous prognosis from December 2017, the new outlook still reflects a drop in investments after this year and 2020 due to a lack of large projects.

“If we don’t make new, large discoveries, the activity level on the Norwegian shelf will drop a few years down the line,” Schjott-Pedersen said. “Future earnings depends on oil companies being able to explore in interesting areas.”