

# Cheniere signs 25-year LNG sales deal with Taiwan's CPC



Aug 11 (Reuters) – Cheniere Energy Inc said on Friday it had signed a 25-year deal to supply liquefied natural gas to Taiwan's CPC Corp, which CPC valued at roughly \$25 billion.

Cheniere said it will sell 2 million tonnes of LNG per annum on a delivered basis to the state-owned oil and gas company, starting in 2021. It said the purchase price will be pegged to the Henry Hub monthly average, plus a fee.

A CPC spokesman valued the deal at \$25 billion, based on current prices.

Cheniere operates the Sabine Pass LNG terminal in Louisiana and is building the Corpus Christi LNG plant in Texas. The deal, which is through Cheniere Marketing, is not tied to a particular liquefaction train. (Reporting By Jess Macy Yu in Taipei and Julie Gordon in Vancouver; Additional reporting by Henning Gloystein; Editing by Neil Fullick)

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# PetroChina planning temporary halt of US LNG buying



PetroChina Co may temporarily halt purchases of spot US liquefied natural gas spot cargoes through the winter to avoid potential tariffs amid a trade conflict between the US and China, according to sources with knowledge of the strategy. Under the plan, PetroChina would boost buying of spot cargoes from other countries or swap US shipments with other nations in East Asia to avoid paying additional tariffs, said the people, who asked not to be identified because the information isn't public. PetroChina, a unit of the state-owned China National Petroleum Corp, couldn't immediately comment when contacted by Bloomberg. China said last week that it was considering a 25% tariff on US LNG, which had been missing from previously targeted goods, in a direct hit to American gas exporters. The move comes ahead of the winter heating season when demand and prices typically peak and shows that Chinese President Xi Jinping may be willing to suf-

fer some pain to avoid backing down from US President Donald Trump's trade dispute. PetroChina in February signed a 25-year deal to buy US LNG from Cheniere Energy Inc, with a portion of that supply expected to start this year. While China is currently the third-largest buyer of US LNG, American cargoes only made up about 5.7% of its imports over the last year, according to Sanford C Bernstein & Co. China's proposed tariff may temporarily benefit other suppliers, US Department of Energy Deputy Secretary Dan Brouillette said in an interview in Tokyo on Wednesday, noting that he doesn't expect any detrimental impact to the US energy industry.

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## Globalisation with Chinese characteristics



By Barry Eichengreen/Berkeley

US President Donald Trump's erratic unilateralism represents nothing less than abdication of global economic and political

leadership.

Trump's withdrawal from the Paris climate agreement, his rejection of the Iran nuclear deal, his tariff war, and his frequent attacks on allies and embrace of adversaries have rapidly turned the United States into an unreliable partner in upholding the international order.

But the administration's "America First" policies have done more than disqualify the US from global leadership.

They have also created space for other countries to re-shape the international system to their liking.

The influence of China, in particular, is likely to be enhanced.

Consider, for example, that if the European Union perceives the US as an unreliable trade partner, it will have a correspondingly stronger incentive to negotiate a trade deal with China on terms acceptable to President Xi Jinping's government.

More generally, if the US turns its back on the global order, China will be well positioned to take the lead on reforming the rules of international trade and investment.

So the key question facing the world is this: what does China want? What kind of international economic order do its leaders have in mind?

To start, China is likely to remain a proponent of export-led growth.

As Xi put it at Davos in 2017, China is committed "to growing an open global economy." Xi and his circle obviously will not want to dismantle the global trading system.

But in other respects, globalisation with Chinese characteristics will differ from globalisation as we know it.

Compared to standard post-World War II practice, China relies more on bilateral and regional trade agreements and less on multilateral negotiating rounds.

In 2002, China signed the Framework Agreement on Comprehensive Economic Co-operation with the Association of Southeast Asian Nations.

It has subsequently negotiated bilateral free-trade agreements

with 12 additional countries.

Insofar as China continues to emphasise bilateral agreements over multilateral negotiations, its approach implies a diminished role for the World Trade Organisation (WTO). The Chinese State Council has called for a trade strategy that is “based in China’s periphery, radiates along the Belt and Road, and faces the world.” This suggests that Chinese leaders have in mind a hub-and-spoke system, with China the hub and countries on its periphery the spokes.

Others foresee the emergence of hub-and-spoke trading systems centred on China and also possibly on Europe and the United States – a scenario that becomes more likely as China begins to re-shape the global trading system.

The government may then elaborate other China-centred institutional arrangements to complement its trade strategy. That process has already begun.

The authorities have established the Asian Infrastructure Investment Bank, headed by Jin Liqun, as a regional alternative to the World Bank.

The People’s Bank of China has made \$500bn of swap lines available to more than 30 central banks, challenging the role of the International Monetary Fund.

Illustrating China’s leverage, in 2016 the state-run China Development Bank and Industrial and Commercial Bank of China provided \$900mn of emergency assistance to Pakistan, helping its government avoid, or at least delay, recourse to the IMF.

A China-shaped international system will also attach less weight to intellectual property rights.

While one can imagine the Chinese government’s attitude changing as the country becomes a developer of new technology, the sanctity of private property has always been limited in China’s state socialist system.

Hence intellectual property protections are likely to be weaker than in a US-led international regime.

China’s government seeks to shape its economy through subsidies and directives to state-owned enterprises and others.

Its Made in China 2025 plan to promote the country's high-tech capabilities is only the latest incarnation of this approach. The WTO has rules intended to limit subsidies.

A China-shaped trading system would, at a minimum, loosen such constraints.

A China-led international regime would also be less open to inflows of foreign direct investment.

In 2017, China ranked behind only the Philippines, Saudi Arabia, and Indonesia among the 60-plus countries rated by the OECD according to the restrictiveness of their inward FDI regimes.

These restrictions are yet another device designed to give Chinese companies space to develop their technological capabilities.

The government would presumably favour a system that authorises other countries to use such policies.

In this world, US multinationals seeking to operate abroad would face new hurdles.

Finally, China continues to exercise tight control over its financial system, as well as maintaining restrictions on capital inflows and outflows.

While the IMF has recently evinced more sympathy for such controls, a China-led international regime would be even more accommodating of their use.

The result would be additional barriers to US financial institutions seeking to do business internationally.

In sum, while a China-led global economy will remain open to trade, it will be less respectful of US intellectual property, less receptive to US foreign investment, and less accommodating of US exporters and multinationals seeking a level playing field.

This is the opposite of what the Trump administration says it wants.

But it is the system that the administration's own policies are likely to beget. – Project Syndicate

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University of California, Berkeley, and a former senior policy adviser at the International Monetary Fund. His latest book is *The Populist Temptation: Economic Grievance and Political Reaction in the Modern Era*.

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## **Ambassador of Ukraine, President of Qatar Petroleum discuss cooperation in energy sector**



Ambassador of Ukraine to the State of Qatar Yevhen Mykytenko in the city of Doha on August 7 held a meeting with Mr. Saad Sherida Al-Kaabi, President and CEO of Qatar Petroleum, the press service of the Ukrainian Embassy reports.

“The parties reviewed bilateral cooperation in the energy sphere, particularly possibilities of supplying of hydrocarbons to Ukraine,” reads the report.

The Ambassador invited representatives of Qatar Petroleum to take part in the XVI International Forum “Fuel and Energy Complex of Ukraine: Present and Future”, which will be held in Kyiv from November 6 to 8.

Hydrocarbon raw materials are oil, natural gas (including oil, associated gas), gas condensate, which are marketable.

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## **Poland buys more LNG, reduces reliance on Russian gas**

WARSAW, Aug 3 (Reuters) – Poland’s dominant gas firm PGNiG said on Friday that its LNG purchases from Qatar and elsewhere jumped by 60 percent in January-July from a year earlier, as the country diversifies its sources to reduce reliance on Russian gas.

PGNiG has to buy certain amounts of gas annually from Russia under a long-term deal with Russia’s Gazprom, which expires in 2022 and which Warsaw has said will not be renewed.

In the first seven months of this year, PGNiG’s imports from Gazprom rose by 6 percent, it said, but the Russian share of PGNiG’s total gas imports fell by 2 percentage points from a year earlier to 75 percent.

LNG, purchased from Qatar, Norway and the United States, accounted for 19 percent of PGNiG’s total gas imports during the period, an increase of 6 percentage points from a year earlier.

PGNiG has been buying more LNG via a terminal at the Baltic Sea in Poland also plans to build a gas link to Norway by



2022, which would give it access to gas from the North Sea.

“PGNiG is getting prepared to start supplying the Polish market with gas produced on the Norwegian continental shelf,” PGNiG said.

The company also said that gas consumption in Poland rose to 17 billion cubic metres (bcm) last year, from 15 bcm two years previously.

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## PetroChina and Qatar holding advanced talks on LNG supply deals



Reuters are reporting that PetroChina Ltd is in advanced discussions with Qatar to purchase LNG under short- and long-term agreements.

China needs to secure LNG to supply its push to replace coal with cleaner burning natural gas to reduce air pollution. After Beijing started the program last year, China has overtaken South Korea as the world's second-biggest buyer of LNG.

Tying up with Qatar, the world's biggest LNG producer, makes sense as the Middle Eastern country seeks buyers for a planned output expansion.

One of the deals under discussion as late as last week covers several million tonnes of annual supply starting this year though 2022, said two of the sources briefed on the discussions. The price and volume is yet to be finalised.

A third source, who was also briefed on the matter, said PetroChina is also discussing a longer-term agreement with Qatar, without giving further details.

China's LNG imports may surge by 70% over the next three years to 65 million t in 2020, according to consultancy SIA Energy. Last year, China imported a record 38.1 million t, 46% more than the previous year.

"The short-term deal is to supplement an existing long-term agreement," said a Beijing-based industry executive.

PetroChina started supply talks with Qatar, the world's largest LNG exporter, several months ago to cover a growing long-term supply gap as demand is set to rise faster than domestic fields could produce.

Despite growing competition from rival exporters such as Australia, Russia and the US, Qatar stands among the most competitive suppliers to China due to the size of its output, geographic proximity and low cost, said Chen Zhu, managing director at consultancy SIA Energy.

The talks with Qatar follow China's decision to add LNG from

the US to the latest list of US goods under tariffs amid the trade war between the world's two-largest economies.

China's imports are bound to grow as the country has only secured 43 million tpy of imports and is expected to need 65 million tpy of imports by 2020, rising to 87 million tpy by 2020, according to SIA Energy forecasts.

"Given the growing appetite for imported LNG, China has to look for new LNG sources and investments. This will benefit new projects in Qatar, Canada West Coast, Russia, Mozambique, Australia and Papua New Guinea," said Chen.

Qatar is looking to expand its LNG capacity to 100 million tpy from 77 million tpy currently.

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## Complementary LNG forces to the fore in Qatar



Ras Laffan in Qatar is home to the world's most productive LNG liquefaction complex, the world's largest LNG carrier fleet

## **and the world's newest LNGC repair yard**

Located within the Erhama Bin Jaber Al Jalahma Shipyard complex at Ras Laffan in northern Qatar, the joint venture Nakilat-Keppel Offshore & Marine Ltd (N-KOM) facility has successfully delivered in excess of 800 marine and offshore projects to date.

N-KOM has leveraged the extensive experience and technical know-how of its parent companies to become recognised as an expert in handling gas carriers and a variety of other vessels. The company offers a comprehensive range of repair, conversion, maintenance and fabrication services to the marine, offshore and onshore sectors, while its track record of safe, quality and timely deliveries has helped the facility win new and repeat business.

## **Cavalcade of LNGC repairs**

The N-KOM shipyard has attracted numerous LNG carriers for routine docking and membrane tank repair and maintenance work so far in 2018. Among the LNG carriers repaired are vessels from Shipping Corporation of India (SCI), Maran Gas Maritime, Nakilat Shipping Qatar Ltd (NSQL), Teekay Shipping, Shell, MOL LNG Transport, K-Line Shipmanagement and NYK LNG Shipmanagement.

Most of these vessels underwent routine drydocking and repairs such as cargo tank inspections, overhauling of main engine cylinders, LNG cargo and spray pump servicing, general steel repairs, and hull treatment and painting. In addition, load tests for lifeboats and other related inspections have been carried out.

Evidence of the N-KOM yard's popularity with LNG shipowners and managers can be seen in the fact that the facility has been fully booked for repairs in the months of July and August 2018.

*“The growth of the LNG spot market has resulted in a significant increase in inquiries for repairs from LNG vessels that have not traditionally traded in the Middle East Gulf area”*

N-KOM has two graving docks and one floating dock able to accommodate LNG carriers of up to the 266,000 m<sup>3</sup> Q-max size, as well as an alongside berthing capacity of 3,150 m. Handling the complexities of repair work on sophisticated ships such as LNG carriers is facilitated by the yard's well-equipped cryogenic cleanrooms.

N-KOM points out that the presence of prominent maritime service providers such as Gaztransport & Technigaz (GTT), Goltens, Wärtsilä, Wilhelmsen Ships Service, Turbo Technik and Cargotec operating within the shipyard helps smooth the overall repair process, offering convenience to shipowners and managers patronising the facility. In addition to its team of GTT-qualified membrane welders, N-KOM works with various specialist membrane repair contractors.

The growth of the LNG spot market has resulted in a significant increase in inquiries for repairs from LNG vessels that have not traditionally traded in the Middle East Gulf area. Given the reputation of the yard, in terms of experience, quality standards and the range of equipment and services available, vessel owners have been keen to book their ships at N-KOM as they align repositioning manoeuvres with routine ship maintenance requirements.

Earlier this year N-KOM received an award for the 'Best Behavioural Safety Initiative' during a safety workshop organised by Shell International Trading and Shipping Company Ltd (STASCO) for its contractors. The yard was lauded for deploying effective strategies and achieving successful measurable results, with a specific focus on safety and quality. N-KOM reports that the Shell award bears further

testament to its commitment to high operating standards.

## **Ballast treatment**

N-KOM continues to see interest in ballast water treatment system (BWTS) installations, and the yard has experience in handling such installation work for several vessels.

Understandably for large LNG carriers, the choice of BWTS is relatively limited. The focus is on those systems that can meet not only the ballast volume and flow requirements of the ship, but also the need to complete the necessary ballast treatment operations in line with their cargo-handling timescales.

On the plus side, LNG carriers have sufficient space and power available to enable the installation of a BWTS able to meet its needs. N-KOM cautions that the engineering of the retrofit process should be carefully planned and rehearsed before drydocking.

One of the challenges in this process involves optimising installation processes and the costs of manhours and materials. From interactions with ship operators, N-KOM observes that there have been delays on the part of owners in selecting the BWT systems, albeit with reasonable justifications.

The maturity of the technology, equipment approvals and regulations are the main three parameters that pose serious challenges to the operators. As such, adequate planning and preparation are highly recommended to facilitate the correct choice of BWTS in a timely manner.

N-KOM is able to observe the choices of shipowners to ensure compliance with the more stringent air emissions requirements coming into force, most notably the 0.5% global sulphur cap that becomes mandatory on 1 January 2020. The yard has noted that a number of owners with modern ships that still consume

relatively large amounts of fuel, such as large tankers, are exploring exhaust gas scrubbers as one of the solutions.

N-KOM has already been booked for scrubber retrofits for a series of very large crude carriers belonging to a major Greek tanker operator. The yard expects that the remainder of 2018 and the whole of 2019 will be a busy time in terms of scrubber retrofits.

### **Nakilat's expanding outreach**

It has also been a year of significant developments at Qatar Gas Transport Co Ltd (Nakilat), the Qatari shipowning and marine services partner in the N-KOM operation. Established in 2004, Nakilat remains the essential transportation link in the supply chains developed to ensure the delivery of LNG exports from Ras Laffan to markets worldwide. The company's outreach extends to more than 90 receiving terminals across 26 countries.



*The 210,000 m3, 2009-built Al Sadd, one of the 31 Q-flex size LNG carriers in the Nakilat fleet*

In March 2018 Nakilat expanded its joint venture partnership with the Greek shipping company Maran Ventures Inc to include two additional LNG carriers, boosting the number of vessels jointly owned by Nakilat and Maran Gas from 13 to 15 vessels.

Nakilat reports that strategic alliances with renowned partners have been fundamental to the company's success. Furthermore, opportunities to grow its international presence in this manner, to capitalise on growing global energy demands, are under continuous review.

In this respect, Nakilat's pursuance of a presence in the floating storage and regasification unit (FSRU) niche market achieved success in June 2018, when a landmark agreement was

signed with Excelerate Energy of the US. The establishment of a joint venture company between the two parties gave Nakilat a 55% stake in one of Excelerate's FSRUs – the first such vessel to join the Qatari shipowner's fleet. Nakilat states that this deal marks the beginning of its growing involvement with the FSRU sector, with the promise of further outreach to developing LNG markets.

Nakilat now either fully or partly owns 65 LNG carriers, four large LPG carriers and one FSRU. NSQL, the company's in-house ship management affiliate, now manages and operates 18 vessels, comprising the four LPG carriers, six Q-max size LNG carriers and eight Q-flex LNG carriers.

Nakilat's 70-ship fleet includes 14 Q-max and 31 Q-flex LNG carriers, the world's largest such vessels. The cargo-carrying capacity of the Nakilat LNGC fleet totals over 9M m<sup>3</sup>, making it the world's largest such fleet, with about 12% of the overall capacity. The fleet transports more than 60% of Qatar's LNG exports.

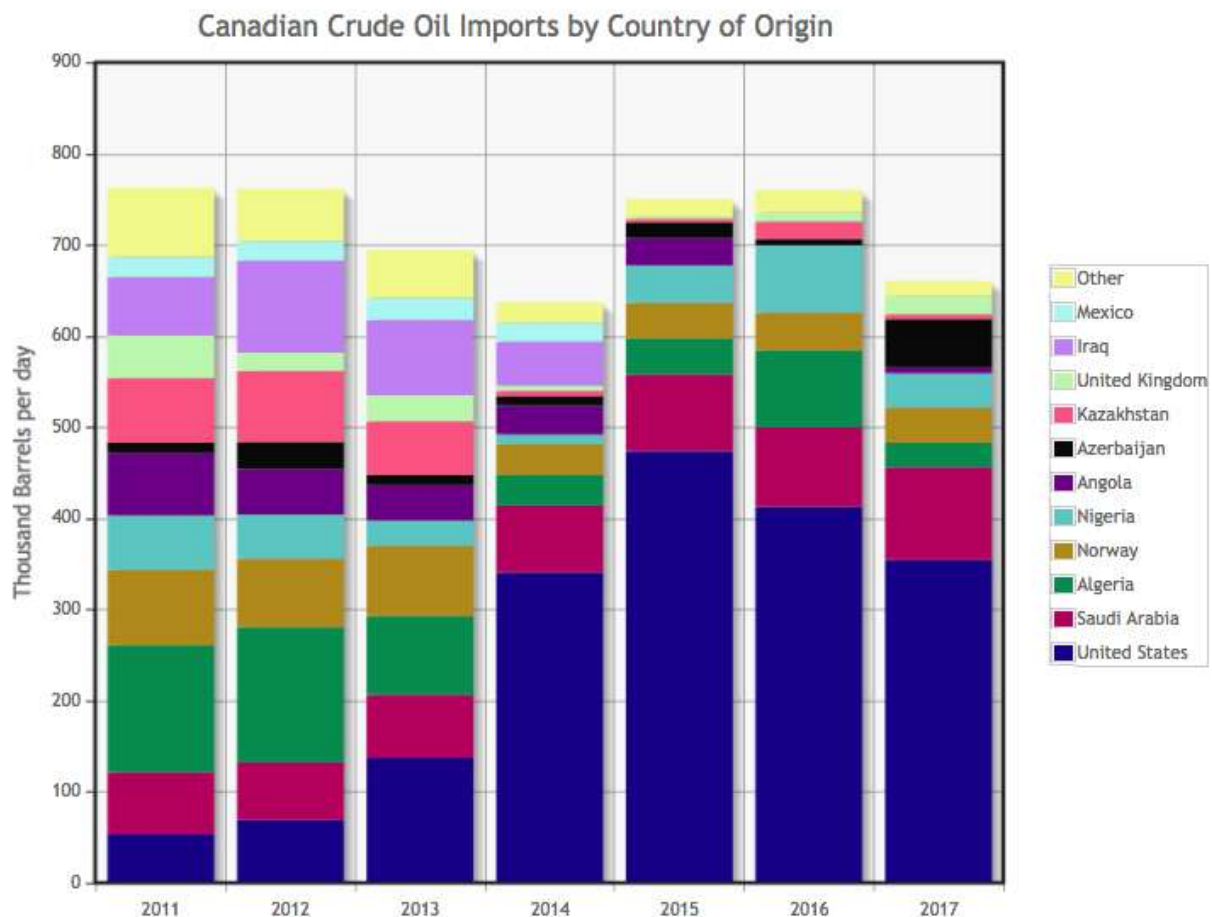
Qatar is reviewing a possible expansion of the LNG liquefaction capacity at Ras Laffan, from the current level of 77M tonnes per annum (mta) to 100 mta by the early 2020s.

Irrespective of that decision, Nakilat will continue to extend its outreach and LNG regasification, power generation and small-scale LNG are among the areas the company will continue to explore for possible opportunities to expand its business portfolio. However, should the project to expand Ras Laffan output to 100 mta get the green light, both N-KOM and Nakilat can look forward to a significant incremental jump in business activity.

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# Why has Canada spent billions of dollars buying Saudi Arabian oil?



**Despite sitting on an ocean of oil, Canada still buys \$300 million per month of Saudi crude**

As Saudi Arabia aggressively severs ties with Canada, the two countries' trade relationship hangs in the balance. On one hand, Canada will lose out on Saudi foreign students, military contracts and sales of wheat and grain. On the other, Saudi Arabia will lose the billions of dollars it earns every year by selling oil to Canada.

For years, it has been an oft-repeated Alberta grievance that these imports exist at all. Despite sitting atop an ocean of proven oil reserves, Canada continues to spend a small fortune every year buying oil from a country that executes homosexuals, flogs dissidents and has a nasty habit of funding Islamic extremism.

Below, a quick guide to why Canadians are still gassing up their cars with Saudi crude.

### **Over the last 10 years, Canada has spent \$20.9 billion on Saudi crude**

Between 2007 and 2017, Statistics Canada figures show that Canada imported a total of \$20.9 billion of Saudi Arabian petroleum oils. For context, this is almost precisely what Canada spends on its military per year. It's also way more than the expected \$15.7 billion cost of the Energy East pipeline. On average, in recent years, Saudi Arabia supplies about 10 per cent of Canada's oil imports. Canada, in turn, is responsible for buying roughly 1.5 per cent of total Saudi oil exports. What's more, Saudi Arabia is climbing the leader board of countries that Canada's relies upon for its foreign oil. As recently as 2010, Saudi Arabia ranked as Canada's fifth largest supplier of foreign oil (behind Algeria, Norway, the U.K. and Kazakhstan). Now, Saudi Arabia is second only to the United States.

### **Right now, all the Saudi oil is coming through a single New Brunswick refinery**

All of the Saudi oil imported into Canada in 2017 and 2018 came through New Brunswick, which only has one oil import facility: The massive Irving Oil-owned Saint John refinery. Between January and June of this year that refinery has imported \$1.8 billion of Saudi oil – roughly \$10 million per day. The amount of U.S. oil entering the refinery, for comparison, is equivalent only to about \$3.8 million per day. Unlike most Canadian refineries, Saint John has no access to a pipeline; every barrel of oil it processes either comes by

tanker or train. (The oil train that caused the Lac-Mégantic rail disaster, in fact, was headed to the Saint John refinery). “We source crude oil from all over the world for our refinery in Saint John, N.B.,” a spokesman for Irving Oil told the National Post in 2016. And whenever someone is seeking out the cheapest product from the world market, it’s not unusual that a lot of it is going to come from oil-rich Saudi Arabia. It’s like turning to the world market to buy the cheapest possible t-shirts: Chances are that they’re going to come from Bangladesh.

### **Alberta and Saudi oil aren’t necessarily the same thing**

On paper, Canada could become energy self-sufficient tomorrow. Every day we produce about 3.9 million barrels of oil per day, and use less than 2 million barrels. A study this year from the Canadian Energy Research Institute even calculated that energy self-sufficiency might reduce emissions. But think of oil like whiskey: There are many different types and qualities. A bourbon connoisseur probably isn’t going to be happy with a bottle of Old Crow and a Manhattan isn’t going to taste the same if it’s made out of Scotch. Similarly, Alberta oil is not interchangeable with the stuff coming out of Saudi Arabia. Andrew Leach, an energy economist at the University of Alberta, even said that comparing the two is like comparing apples and oranges. “Saudi crude and WCS (Western Canadian Select) doesn’t overlap much in terms of their markets,” he told the National Post. For one thing, most eastern Canadian refineries cannot process bitumen, the thick tar-like hydrocarbon that comes out of the Athabasca Oil Sands. Almost anybody can process Saudi Arabian crude, but only an elite fraternity of the world’s most complex refineries can turn Alberta bitumen into gasoline. To get to the east coast, Canadian bitumen also has to be shipped overland from more than 4,000 kilometres away, significantly adding to its total costs (Saudi Arabia is 10,000 kilometres away from the Canadian east coast, but tanker shipment is cheap). It’s also why Western Canadian Select, the industry name for most oil

sands bitumen, sells at such a steep discount to more conventional oil types coming out of Saudi Arabia. In June, for instance, WCS sold at an average of USD\$52.10 a barrel, compared to USD\$67.87 for West Texas Intermediate (WTI), an oil category priced similarly to most Middle Eastern oils. "The oil Alberta produces is simply of a lower quality than ... WTI, and is located farther away from customers," writes the Alberta government in an online briefing note describing the WCS "discount."

### **Even with a pipeline, it's not a guarantee that refineries would buy Canadian**

The cancelled Energy East pipeline, of course, would have pumped Saskatchewan and Alberta petroleum into New Brunswick. Politicians touted the pipeline as a way to supplant foreign suppliers such as Saudi Arabia. "We believe this nation-building project would have benefited all of Canada through new jobs, investment, energy security and the ability to displace oil being imported into Canada from overseas," Alberta premier Rachel Notley said upon the project's cancellation. However, refineries are no different than a driver cruising gas stations looking for a fill-up: They seek out whoever has the best price and buy accordingly. If Alberta can't sell its oil on the Atlantic Coast for a lower price than Saudi Arabia, refineries aren't going to buy it – particularly if they can't process it. "Getting product from Western Canada, while conceptually sounding like a good way to push out Saudi oil, doesn't fix everything," said Jason Parent with the Canadian oil industry analyst Kent Group. As of press time, WCS is currently selling at an incredible \$30 discount over more conventional oil types. While this would likely be enough to entice Atlantic buyers, the discount isn't always so competitive – particularly if Saudi Arabia is actively trying to overproduce and drop oil prices in order to kneecap the Canadian and U.S. oil industry. This is part of the reason why Canada never built a pipeline to the east coast in the first place. A west-to-east pipeline was indeed considered soon

after the discovery of oil in Alberta in the 1940s, but it was soon scrapped. "Eastern provinces did the math and found it cheaper to import foreign oil by tanker, rather than bother with the extra cost of domestic supply," said Peter Tertzakian, director of the Calgary-based Arc Energy Research Institute. However, even if the business case is a little complicated, Tertzakian still advocates a pipeline as something Canada should do for strategic reasons. "We could be completely self sufficient if we wanted," he said. "It's just a question of how much we are willing to pay for it."

### **Canada can't really hurt Saudi Arabia's bottom line**

The easiest way for Canada to cut off Saudi Arabia imports would be simply to buy more American oil. It's about the same price, it doesn't require specialized facilities and considering that they already buy so much of ours, there's a certain justice to it. The U.S. also has an excellent human rights record compared to the Saudis. But while such a move might assuage Canada's moral compass, the practical effect would be almost nil. It's a seller's market for oil right now. Production of U.S. shale oil is slowing down, Iran is being hammered by sanctions and petroleum demand continues to tick upwards all over the world. All this means that if Canada could successfully prevent a drop of Saudi oil from ever entering our borders again, it's unlikely that Riyadh would ever notice. Any oil tanker turned away at Saint John could simply set course for New Jersey. Unlike Canada, Saudi Arabia sells a product that is easy to transport and that can be processed by almost anyone. Said Andrew Leach, "Saudi oil will still sell at the world price."

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# Mohammed bin Salman Is Weak, Weak, Weak



When I pulled my Hyundai out of the driveway two weeks ago and headed 450 miles north, it was only for a short vacation, but I was still excited to be leaving the Beltway after a confusing year for foreign-policy wonks. Freed from the obligation to make sense of the growing dysfunction of the United States and its rippling effects on the world, I took long runs on country roads, ate too much ice cream, lazed on the beach with my wife and young daughters, read a novel, and celebrated a birthday.

I returned to the office a few days ago and almost wish I hadn't. The weirdness of 2018 continues. Upon reconnecting, I discovered that the odious former president of Iran, Mahmoud Ahmadinejad, tweeted in support of LeBron James (he also likes Michael Jordan), Toto covered Weezer, and the government of Saudi Arabia freaked out at Canada. Not Iran or Qatar, but Canada... the Great White North. The place that has bestowed such gifts to the world as John Candy, poutine, Wayne Gretzky, the Montreal bagel, and the 55-yard line.

Like most countries, Canada does have darker aspects. The way Canadians treated what they now refer to as the First Nations was horrific, for example—although they recently apologized and accepted responsibility for the near-destruction of those cultures. And even when Canadians are angry at you, they tend to be unfailingly polite about it.

So, what is the Saudi beef? Why have they thrown the Canadian ambassador out of the country, halted Saudi flights to Toronto (a lovely airport), and told anywhere between 7,000 and 16,000 Saudis enrolled in Canadian universities that they can't go back to school in a few weeks? A tweet. More specifically, last Friday the Canadian foreign ministry tweeted: "Canada is gravely concerned about additional arrests of civil society and women's rights activists in #SaudiArabia, including Samar Badawi. We urge the Saudi authorities to immediately release them and all other peaceful #humanrights activists."

That's it. The Canadian government did not impose sanctions, offend Islam, or make common cause with the Houthis in Yemen. As anyone with a passing interest in international affairs knows, Ottawa has publicly positioned itself—often in contrast to the United States—as a strong voice in defense of human rights. This is particularly the case under Liberal Party-led governments such as the one under Prime Minister Justin Trudeau, and Canadian Foreign Minister Chrystia Freeland has been (politely) forceful in her defense of a rules-based and liberal international order.

According to their Saudi counterparts, by expressing concern for the plight of peaceful activists in the kingdom, Canada's diplomats were in egregious violation of Saudi Arabia's sovereignty. This is the kind of response that one might expect from say, Egypt—though even the Egyptian leadership, which loathes civil society, activists, and their international supporters with great passion, would not throw an ambassador out of the country and cancel the scholarships of thousands of university students.

There are various theories to explain the Saudi reaction to Canada's tweet. Some analysts have suggested that the episode is another example of Saudi Arabia's reckless foreign policy under Crown Prince Mohammed bin Salman. Others see it as another warning to Saudis that the only reforms in the kingdom are those that the crown prince has articulated, and they are at their peril should Saudis demand more. Both explanations are plausible—and either way, Mohammed bin Salman comes out looking every bit the impetuous, petty, immature, tyrant that his critics say he is.

Arab leaders have some good reasons for responding poorly to activists and nongovernmental organizations that international supporters of these individuals and groups tend to overlook. But rounding up people who peacefully express a different vision of society from the Saudi leadership is weak. Not just weak in a vague moral sense, but as a basic description of the government's political standing. General rule: If a leader is arresting people who disagree with them, it is a sign that this leader is well aware of a significant gap between the stories the government is telling its citizens about how good life is under its benevolent leaders and how people are actually experiencing it. The Saudi women in jail right now had to be arrested, because if they weren't silenced, there would be an ever-increasing risk that they would expose the emptiness of the government's sunny narrative about the future. Coercion of this sort is a demonstration of brute force *and* political weakness.

For all the Saudi government's declarations about the "new Saudi Arabia" and how the country is moving forward thanks to the crown prince's reform program, it rings hollow against the background of jailed peaceful dissenters. The Saudis will argue that all the Western reporting and analysis is wrong—the people arrested were in communication with foreign countries and thus trying to undermine the Saudi state. It is a claim that is both tiresome—because it comes from the script every



foreign ministry reads anytime their governments want to repress activists—and revealing. There is no foreign conspiracy, of course. It is the dodge of a nervous Saudi leadership, fearful that its people will discover its inability to deliver on its promises.

The Saudis and their supporters often complain that they get a bad rap in Washington. I am sympathetic to this claim. Sure, Crown Prince Mohammed bin Salman got some terrific personal press on his barnstorm through New York, Washington, Los Angeles, and Silicon Valley last spring—but news coverage of Saudi Arabia at around the same time was demonstrably negative. With good reason, of course. In November 2017, the Saudis orchestrated the brief resignation of the Lebanese prime minister—surely one of the stranger diplomatic episodes in the Middle East ever—and then there was the terrible (and ongoing) humanitarian toll of Saudi Arabia's military intervention in Yemen. The Saudi-led blockade of Qatar, meanwhile, seems to have been a pointless exercise in showing Doha who is the big dog in the Gulf.

Yet the negative coverage ignored the middle ground; complications and shades of gray are typically saved for stories other than Saudi Arabia. The war in Yemen has been a foolish blunder, but hardly anyone mentions the brutality of the Houthis. The Qataris may be victims of Saudi, Emirati, Egyptian, and Bahraini scheming, but they are not innocent victims. The crown prince is hardly the reformer that he has proclaimed himself to be, but he does seem to enjoy genuine support at home.

Still, whatever beating the Saudis are taking over the war of words with Canada, it is entirely of Riyadh's own making and well deserved. One is hard-pressed to truly understand what officials at the Royal Court are thinking, beyond taking a cue from the Trump administration and declaring, "We are Saudi Arabia, bitches." The Saudis really can't have it every which way: posturing as "reformers," tossing activists in jail, and

then taking umbrage when people dare criticize them for not actually reforming.

The crown prince decided to pick a fight with the wrong country. Not because Canada is powerful and the Saudis are dependent upon them, but rather because Ottawa has taken a stand on the straightforward principle that peaceful dissent is not a crime. In their overreaction, the Saudis have decided to flaunt their own foolishness and feebleness. Instead of railing against Ottawa, Riyadh should apologize for its rash behavior. That's what the Canadians would do.

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## Turkey admits to 3 more years of missing inflation target



Bloomberg/Ankara

Turkey's central bank yesterday acknowledged it won't meet its 5% inflation target for three more years, disappointing

investors seeking signs that monetary policy would tighten. Although governor Murat Cetinkaya pledged to raise borrowing costs when needed, his prediction of 6.7% inflation by the end of 2020 was seen as a dovish signal by investors who gathered in Ankara for the bank's quarterly inflation report. He expects prices to rise 13.4% through this year and 9.3% through 2019.

This was the first time the governor provided an above-target forecast for three years into the future since taking office in 2016, and it comes with the inflation rate at its highest in 15 years. For investors surprised that the bank didn't raise borrowing costs at its last rate meeting on July 24, it's another indication monetary policy makers will put a premium on stimulating economic activity, according to Erkin Isik, a strategist at Turk Ekonomi Bankasi AS in Istanbul. That's an agenda demanded by President Recep Tayyip Erdogan.

"The upward revision to medium-term forecasts suggests that the bank will prioritize growth over inflation and let inflation remain high for much longer," Isik said by e-mail as Cetinkaya spoke.

The lira fell during the governor's speech and was trading 0.4% lower at 4.90 per dollar at 12:31pm in Istanbul.

Unlike in his previous inflation reports, Cetinkaya went out of his way to explain last week's rate decision. This year's 500-basis-point increase in lending costs will take time to have an impact on demand conditions, which are set to soften with a re-balancing in the economy, he said.

His base-case scenario of a "moderate" slowdown in growth after last year's 7.4% expansion is partly based on expectations the government will lower spending. Continued expansionary fiscal policies would result in higher inflation, according to the inflation report.

Taking into account the high inflation rate and current account deficit "at a time of tightening global financial conditions, such a situation would result in a higher country risk premium and increase the pressure on foreign-exchange levels, necessitating a tighter monetary policy stance to rein

in price gains," the report read.

Erdogan has repeatedly stressed he wants interest rates to come down, taking the anomalous approach that cheaper money would help to tame inflation by stimulating growth.