

# Philippines edges nearer to China energy deal



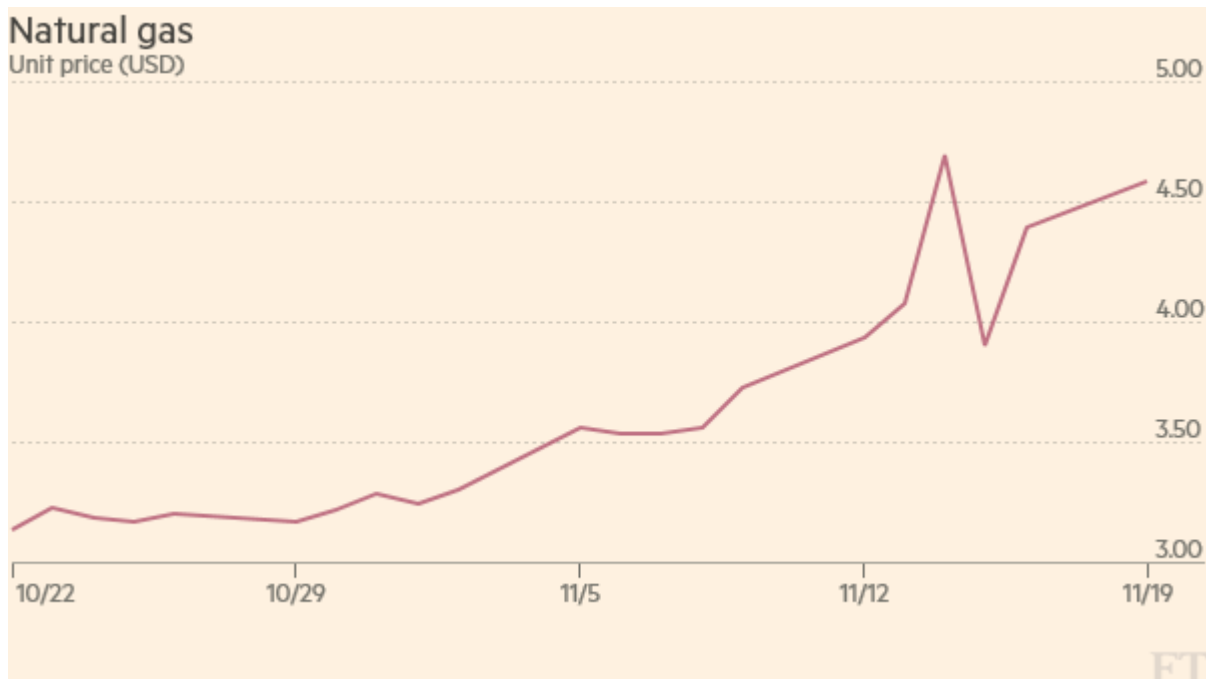
Philippines edges nearer to China energy deal China and the Philippines moved closer to a controversial deal on oil and gas development in the South China Sea yesterday in the latest sign of a deepening rapprochement between the two. As President Xi Jinping arrived in the Philippines for the first state visit by a Chinese leader in 13 years, a long discussed bilateral understanding to unlock rich offshore deposits was signed between the two countries. Relations between Beijing and Manila had frayed because of a longstanding territorial dispute in the South China sea, but since becoming president in 2016 Rodrigo Duterte has tilted the Philippines away from the US, its additional ally, and towards China.

Yesterday Mr Duterte described Mr Xi's visit as "a landmark moment", adding: "We have turned a new page and we l I are

ready to write a new chapter of openness and co-operation."But the framework oil and gas agreement was roundly condemned by Mr Duterte's political opponents. Opposition senators Antonio Trillanes IV and Francis Pangilinan urged Mr Duterte not to sign an agreement with China or any other country that "diminishes the Philippines' exclusive '[The draft deal] reverses our historic victory at The Hague and signs away Philippine sovereignty' rights". Doing so, they said, would violate the country's constitution. In 2016 an international tribunal in The Hague ruled in the Philippines' favour in its maritime dispute with China over what Manila calls the West Philippine Sea. Mr Trillanes yesterday circulated what he said was a Chinese draft of the deal, seen by the Financial Times, which proposed equal sharing of the proceeds from joint exploration and "friendly consultations" to resolve disputes. The FT could not independently verify the document's authenticity. "It is preposterous and treacherous;" said Risa Hontiveros, another opposition senator. "It reverses our historic victory at The Hague and signs away Philippine sovereignty in the West Philippine Sea." Both Mr Xi and Mr Duterte were keen to play down the issue. "China and the Philippines have a lot of common interest in the South China Sea," Mr Xi said, adding that the two sides would "continue to manage contentious issues and promote maritime co-operation". Mr Duterte spoke of "deepening trust" and said he was "pleased with the current positive momentum of the Philippines-China relations". The area of the South China Sea off the Philippines' Palawan island is thought to contain some of the region's richest energy deposits, but the country has until now been unable to explore it because of pressure from China.

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# Options trading firm blows up amid natural gas volatility



Accounts managed by Optionsellers.com “had to be liquidated as a result of these moves,” said INTL FCStone, the company’s futures broker. As its name made plain, Optionsellers.com specialised in selling options contracts to earn income for its investors.

The Tampa, Florida-based company, headed by James Cordier, has been registered as a commodity trading adviser since 2010, according to records at the National Futures Association, a regulatory body. NFA declined further comment.

On Monday, the Optionsellers.com website contained only its name and contact information. Calls to the company were not returned.

Options give holders the right to buy or sell financial products at an agreed price by a given date. Selling options can be a reliable source of revenue when markets do not fluctuate.

However, it can also be an extremely risky strategy. If prices

suddenly dive or jump – as they did in oil and gas – the seller can lose almost everything.

Natural gas was long one of the most volatile commodity markets, but surging production from shale formations reduced shortages and damped price moves. In August realised volatility in Nymex gas futures dropped to the lowest level since 1991.

Last week's move "was out of the ordinary given we had such low volatility for the past four, five, six years. You get kind of lulled," said Joe Raia, managing director at RJ O'Brien, a futures broker.

An archived version of Optionsellers.com website said the company specialised in dealing options on commodities. "There is only a small segment of the investment community that knows how to deploy it in a portfolio. The tough part is finding somebody that knows how to do it – right," the website said.

Opening a "starter account" required an initial investment of \$500,000, with "founder's club" and "platinum club" tiers set at \$1m and \$10m, respectively.

"Once you're in, you're one of our family. One of us. One of the elite. You're an Option Seller," the website said.

FCStone, a clearing firm at the futures exchange, is required to collect collateral from traders and post it at the exchange clearing house. An FCStone spokesman declined to comment on whether Optionsellers.com customers faced calls to repay any debit balances, but said their accounts were well collateralised.

"Liquidation of these accounts was in accordance with our customer agreements and our obligations under market regulation and standards," the New York-based broker said.

Last week's turmoil in energy markets began when crude oil

futures dropped about 7 per cent on Tuesday. This was followed in natural gas by a rise of 18 per cent on Wednesday, then a 16.5 per cent fall on Thursday.

The volatility continues: on Monday, Nymex December gas closed 10 per cent higher at \$4.70 per million British thermal units.

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## **IEA: Too early to tell if Opec+ oil supply reductions will succeed**



**International  
Energy Agency**

The International Energy Agency said it's too early to tell whether oil-supply cuts announced by OPEC and its allies last

week will succeed in balancing global markets.

Even if the Organization of Petroleum Exporting Countries and its partners reduce production as promised, there could be some surplus in 2019, according to a monthly report from the agency. The IEA slashed its forecast for new supplies outside OPEC next year because of a lower outlook for Russia – which is cooperating with OPEC – and Canada, which is separately suppressing output to deplete brimming inventories.

“Time will tell how effective the new production agreement will be in rebalancing the oil market,” said the Paris-based IEA, which advises most of the world’s major economies on energy policy. “Stocks have been building with the potential for significant oversupply next year.”

#### Too Early to Tell

OPEC’s cuts may not eliminate the surplus, but further losses from Iran and Venezuela could further shift the market’s balance, the IEA says

Note: Both sets of figures still include production from Qatar, which will leave OPEC next month

Oil prices remain stuck in a bear market, trading near \$60 a barrel in London, despite the agreement by the 24-nation coalition known as OPEC+ to curb production by 1.2 million barrels a day. Traders are speculating that the cutbacks aren’t deep enough, and that booming U.S. shale production will unleash a new surplus.

At just over 33 million barrels a day in November, OPEC is pumping well in excess of the 31.6 million a day the IEA estimates is required on average next year. Even if the coalition delivers its pledged cutback in full, it might not be enough to check a glut, though the IEA noted the potential for continued declines in supply from Iran and Venezuela.

#### OPEC Report

OPEC's own monthly report, published Wednesday, presented similar findings. While the cuts might be sufficient to keep supply and demand in balance in the first half of next year, the coalition may need to almost double the reduction in the fourth quarter, data from the report indicated.

The IEA assumes that Russia will participate in the cutbacks as agreed, and lowered projections for non-OPEC supply accordingly. The non-OPEC outlook was also reduced as the Canadian province of Alberta dials back output to clear a backlog that's clogging up local infrastructure.

Non-OPEC oil production is now forecast to increase by 1.5 million barrels a day in 2019, down 22 percent from the 1.9 million a day estimated in last month's report. Forecasts for global oil demand were kept unchanged.

Supply growth outside OPEC, which is driven by the U.S. shale-oil industry, is also being constrained as the construction of pipelines and other infrastructure fails to keep up with surging output at the Permian Basin and Bakken formation.

Despite the reduced supply outlook, the IEA report showed how OPEC's task of keeping markets balanced remains formidable.

#### Stockpiles Grow

Oil inventories in developed nations are above average levels again, after increasing for a fourth month in October. They stood at 2.87 billion barrels, the highest since January.

Although the IEA had warned OPEC that efforts to boost prices could hurt the global economy, the report didn't criticize the group's strategy.

Just last month IEA Executive Director Fatih Birol said that output curbs risked tightening markets excessively, having previously cautioned that prices had approached the "red zone" that inflicts damage on economic growth.

“Recently, prices have been volatile,” the agency said in its latest report. OPEC is due to meet again in April, “and we hope that the intervening period is less volatile.”

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## **IEA Says OPEC's Unplanned Supply Losses Could Double Its Cut**



OPEC may be about to succeed by accident, again.

Unplanned supply losses from members Iran and Venezuela could effectively double the intended cutback of 800,000 barrels a day the cartel pledged last week, according to the International Energy Agency.



There's a precedent for this: It was the Latin American country's collapsing oil industry that accelerated OPEC's effort to clear a supply glut in 2017. This time, U.S. sanctions on the Persian Gulf nation could amplify that effect.

### Going Deeper

The IEA assumes Iran and Venezuela's losses will double the size of OPEC's cuts

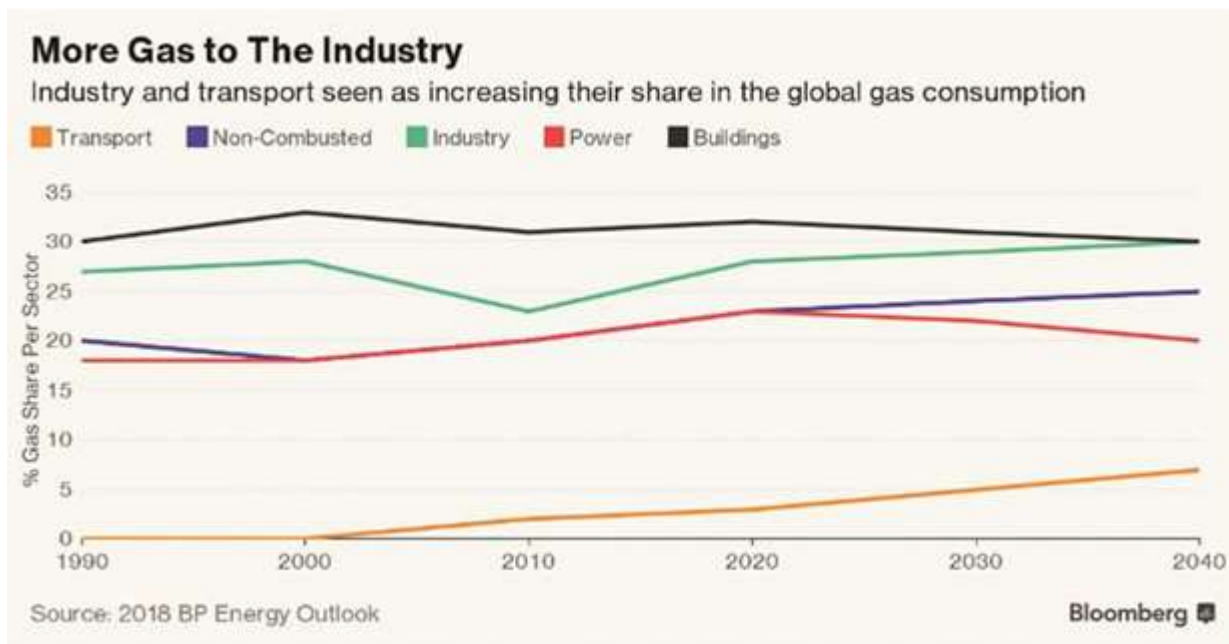
OPEC production may decline by 1.4 million barrels a day from October levels to 31.5 million a day during the first quarter and then slip further to 31.2 million in the second, according to the IEA's monthly oil market report.

The reduction, which the agency says is an assumption rather than a forecast, includes both the planned OPEC cutback of 800,000 barrels a day, plus involuntary losses of 600,000 barrels a day in the first quarter from Iran and Venezuela – both of whom are exempt from making voluntary cuts. In the second quarter, the pair's reduction will rise to 900,000 barrels a day, the IEA said.

If the agency's assumptions are correct, global oil inventories could shrink substantially in the second quarter, a phenomenon that's often accompanied by rising prices.

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## Natural gas tries to eke out a future in greener world



Bloomberg/Frankfurt

The natural gas industry is trying to up its green credentials as it bids to join electric cars and renewable power plants in a lower-emission future.

European energy companies spent years touting the role gas can play as a transition fuel to replace dirtier sources of round-the-clock power. Now they are increasingly promoting gas as a cleaner alternative to oil products in transportation and investing in technology to produce less-polluting fuel.

“Natural gas will play a bigger role in a greener world,” Guy Smith, head of gas trading at Swedish utility Vattenfall AB, said on Tuesday. “It will be the fuel of choice for an intermediary situation towards a greener economy, and after that, new technologies will come and drive the markets.”

With governments and investors increasingly concerned about climate change, and meeting in Poland for UN climate talks, the natural gas industry has questioned its own survival. The fuel’s share in primary energy supply is expected to rise to a quarter by 2040, though annual consumption growth is expected to slow to 1.6% from 2.3% over the 25 years to 2016, according to the International Energy Agency.

The fact that natural gas is less polluting than other fossil

fuels, with emissions as much as 55% below those of coal, have made it an energy company darling. Companies from Scania AB to Royal Dutch Shell Plc are investing to increase the role of natural gas in the transportation sector.

"The view that gas is just a transition fuel is changing," said Eva Hennig, chairwoman of the distribution system operators committee at Brussels-based industry lobby group Eurogas.

Austria's OMV AG is assessing a liquefied natural gas corridor for trucks from Germany to Bulgaria, one of the main traffic routes for international heavy traffic in Europe, it said in an emailed statement. The company, which operates more than 2,000 filling stations in 10 countries, declined to provide more details on the investment.

"If you want to stay in the game, you have to play it and decarbonise," said Kaloyan Tsilev, EU affairs manager at Brussels-based lobby group Natural & Bio Gas Vehicle Association Europe. "Change the portfolio to accommodate the demand."

Shell expects the global market for LNG as a transport fuel to quadruple by 2030 as implementation of government policies that tax carbon emissions prompts demand for cleaner sources.

"Transport is an area where gas hasn't played a role historically, but it can," Steve Hill, executive vice-president at Shell Energy, said at a conference in Lisbon last month. "Cars will be electrified eventually, but heavy-duty transport, where you have to move heavy loads long distances is not very suitable for batteries and electricity, which can be a segment for LNG."

The challenge for natural gas to expand into transportation is the lack of political will and a better regulation framework, according to Manfred Leitner, an executive board member at OMV. Current European legislation focuses on vehicles emissions, which put electric cars in a better position than other technologies.

"There are incentives only for electric cars. They are defined as low emitters, but when you look at the whole chain you ask

yourself where the electricity comes from?," Leitner said in a telephone interview. "The gas for mobility market would fly if there was political will. We see a better future with a mix of technologies."

Natural gas companies are also investing in technology to clean the fuel. Green gas should help Engie SA, Snam SpA, Gas Natural SDG SA and other electricity generators as well as operators of gas pipelines and storage facilities to ensure long-term demand for existing infrastructure, Elchin Mammadov, a Bloomberg Intelligence industry analyst, said in a recent report.

"The decarbonisation of gas is possible and is a very important part of the narrative of the climate talks" taking place this week in Poland, said Dr Ludwig Mohring, head of German oil, gas and geothermal energy lobby BVEG said at a conference in Berlin last month. "Natural gas will be the second element next to renewables."

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## **U.S. Oil Surge Makes Bank of Russia Skeptical on OPEC+ Success**



Russia's central bank is not convinced that OPEC and its allies' supply cuts can revive the oil market as it's being countered by surging U.S. production.

The Bank of Russia cut its crude price outlook for next year to \$55 a barrel from \$63 on higher supply risks, mainly related to "fast output increase" in America, according to Governor Elvira Nabiullina. Just a week ago the country's Energy Minister Alexander Novak brokered a deal that led to the so-called OPEC+ group agreeing to cut production by 1.2 million barrels a day in an effort to boost prices.

Crude remains stuck in a bear market, trading around \$60 a barrel in London, despite the larger-than-expected output reduction. While most, including the International Energy Agency, expect the curbs to reduce global stockpiles in the first half of 2019, resultant higher prices could help American drillers boost production. Legendary oil trader Andy Hall said the U.S. shale boom has made it far harder to predict global supplies.

OPEC kept 2019 forecasts for global oil supply and demand

mostly unchanged in its most recent monthly report this week. However, it said production from outside the group, powered by U.S. shale drillers, is poised to expand 2.16 million barrels a day next year, faster than the 1.29 million a day increase in demand, the report showed.

U.S. oil production is expected to top 12 million barrels a day next year, up from 10.88 million in 2018, according to the Energy Information Administration.

Though the Bank of Russia is traditionally cautious in its outlook, it cited crude market risks as a key factor in raising the benchmark interest rate for the second time this year on Friday. Besides shale output exceeding “expectations of many,” softening global demand is also a concern, Nabiullina said.

“We see risks of oil-price reduction related to demand and supply factors,” she said. “We see how outlooks for global economic growth are gradually being revised down.”

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## **Saudi Oil Premium Drops to 15-Year Low as Fuel Profits Crash**

## Getting Cheaper

Saudi Extra Light's premium to Heavy grade shrinks to least since 2003

■ Saudi Extra Light crude's premium to Heavy oil



Saudi Arabia's crude pricing in the world's biggest oil market is reflecting tumbling profits from making cleaner fuels in Asia.

State-run Saudi Aramco slashed the premium of its Extra Light grade to its Heavy crude to the lowest since 2003, data compiled by Bloomberg show. When lighter varieties of oil are refined, they typically yield more of relatively clean products such as gasoline and petrochemical ingredient naphtha. The market for such fuels has been mired in a glut over the past two months.

While the world's biggest oil exporter cut pricing on all its grades for January sales to Asia in a bid to take back market share lost to the likes of Russia and the U.S., the significant reduction in the premium for its lighter varieties shows the kingdom is probably taking into account the shrinking margins in the region for cleaner fuels as well as focusing on tackling competition from other sellers.

Fereidun Fesharaki Photographer: Charles Pertwee/Bloomberg

"Gasoline and naphtha are dying and margins still haven't

reached their worst," Fereidun Fesharaki, chairman of industry consultant FGE, said in an interview in Singapore. "In Asia, Saudi prices are based on purely product yields and the competition they see from the outside."

Oil refiners in Asia are fetching better returns by producing dirty fuel oil than from cleaner naphtha for the first time in more than a year, data compiled by Bloomberg show. Concern over falling petrochemical consumption is said to be dragging down prices of the so-called light distillate, while stockpiles swell in the regional trading hub in Singapore.

The gasoline refining margin in Asia was at a discount of 14 cents a barrel to Brent crude on Tuesday, according to PVM Oil Associates data. It had dropped to 66 cents on Nov. 28, the biggest discount since 2011.

In China – one of the key markets where Saudi Arabia is seeking to reassert its crude dominance – refineries are doubling down on processing to boost diesel output aimed at heating millions of homes this winter, and therefore contributing to an increase in supplies of other products such as gasoline and naphtha. The nation has also raised its total fuel-export quotas by 12 percent for 2018 in a move that would allow more seaborne sales.

The premium of Saudi Arab Light crude, which yields more light as well as middle-distillate fuels such as diesel, over Arab Heavy for January sales to Asia also shrank to the smallest since November 2009, data compiled by Bloomberg show.

Meanwhile, with global crude prices stuck in a bear market, OPEC – in which Saudi Arabia is the largest producer – and its allies including Russia will decide this week on output curbs that may reduce export flows starting as early as January. Still, Saudi and Russian officials are said to differ on how to share the burden of any cuts. At the same time, the U.S. is pumping record amounts and shipping more to Asia.



“Saudi is facing more competition now and the U.S. competition becomes much bigger next year,” FGE’s Fesharaki said.

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## Kristian Ulrichsen: Leaving OPEC Reinforces Qatar’s Autonomy



Kristian Ulrichsen, a Baker Institute fellow and author of “The Gulf States in International Political Economy,” published an op-ed in The New York Times this week on the logic behind Qatar’s decision to leave the Organization of Petroleum Exporting Countries, commonly known as OPEC.

According to Ulrichsen, OPEC has become mired in geopolitical disputes like the Saudi-Iranian rivalry, to the detriment of its member states and its central mission to stabilize international petrochemical markets.

Qatar has persisted in its mission to serve as a secure

natural gas exporter. Qatar provides more than half of India's natural gas imports, as well as 14-15% of China's, Japan's, and the UK's, according to the MIT Observatory of Economic Complexity. Following the illegal blockade, Qatar signed long-term natural gas agreements with China, Japan, and the UK. Qatar even still provides natural gas to the United Arab Emirates through the Dolphin Pipeline, despite the blockade.

Qatar remains committed to the central mission of mission of OPEC – maintaining a stable international market for petrochemical products. Its decision to increase natural gas exports was in response to a projected increase in international demand, according to then-CEO of Qatar Petroleum, Saad Sherida Al Kaabi. Qatar Petroleum is investing \$20 billion in U.S. oil and gas fields, most notably the Golden Pass LNG terminal in Texas, even though the U.S.'s LNG exports will inevitably compete against Qatar's primary source of revenue in the global market.

Qatar's departure from OPEC is a business decision, allowing Qatar the autonomy to develop its natural gas resources – its foremost economic strength – independent of other members' geopolitical agendas.

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## **U.S. energy secretary pledges American support to wean Iraq off Iranian gas**



BAGHDAD –Iraq’s stability rests on revitalizing its energy sector and weaning itself off natural gas imports, Energy Secretary Rick Perry said Tuesday during a rare visit by a member of President Trump’s Cabinet as Washington seeks to weaken Iraq’s ties to Iran.

Iraq faces a difficult challenge in balancing its allegiances to both the United States and Iran. Iranian natural gas plants account for nearly 50 percent of Iraq’s electricity, an arrangement that is threatened by new U.S. sanctions on Iran’s energy, banking and transportation sectors.

In addition to the two countries’ cultural, military and political ties, Iraq has been a critical trading partner for Tehran at a time when sanctions have contributed to a deepening economic crisis in Iran.

Perry said he discussed sanctions on Iranian oil exports with Iraqi officials but did not address whether the United States will extend a 45-day waiver granted to Iraq last month as it seeks other energy sources.

“Sanctions were mentioned. They are a reality; they are

there," he said.

Perry said U.S. companies are ready to partner with Iraq to rebuild an energy infrastructure destroyed by a nearly four-year war against the Islamic State militant group and to help develop the country's natural gas resources to serve energy-starved Iraqis.

But Perry stopped short of pledging U.S. taxpayer money toward the effort, urging Iraq's leaders instead to rush new policies that would significantly reduce the red tape for foreign investment and rein in rampant corruption.

"I think it's important for you to increase your energy diversity, your energy security, your national security while at the same time reducing your dependence on less-reliable countries seeking domination, control, using that energy resource," Perry said in an apparent reference to Iran during an event organized by the U.S. Chamber of Commerce. The conference was attended by representatives of 52 companies and Iraq's ministers of oil and electricity.

"The U.S. is well prepared to be a transparent, competitive and reliable source of [liquefied natural gas] to Iraq," he added.

Iraq has struggled to keep the lights on since the U.S.-led invasion in 2003, with major cities such as Baghdad still without round-the-clock electricity.

Over the summer, widespread protests roiled Iraq's southern Shiite heartland over the lack of basic services such as electricity and clean water, again highlighting the government's inability to improve living conditions for the majority of Iraqis amid a security and economic crisis.

The protests dealt a fatal blow to pro-U.S. prime minister Haider al-Abadi's bid for a second term in May elections.

His successor, Adel Abdul Mahdi, has struggled to complete his cabinet amid political infighting, but his choices for ministers of oil and electricity were approved with near-unanimous support from parliament – sending positive signals that Iraq sees its energy crisis as an urgent priority.

“This is a different administration that will move with speed to develop an energy sector that best serves the citizens of Iraq,” Perry said after meeting with Oil Minister Thamer Ghadban and Electricity Minister Luay al-Khatteeb.

Perry’s visit was the first by a member of Trump’s Cabinet this year and only the second since the president took office. Defense Secretary Jim Mattis visited Iraq in 2017 as major combat against the Islamic State wound down.

In his remarks, the former governor of Texas hewed to a U.S. policy shaped by Trump’s worldview: The United States will not directly fund the rebuilding of Iraqi cities destroyed by the U.S.-backed campaign to defeat the Islamic State and will instead focus on encouraging U.S. companies and nations elsewhere in the Middle East to do so – while pressuring Iraq’s government to ease the arduous processes of doing business in Iraq.

“Capital will come where it is welcome,” Perry said. “America and its business community stand ready to help you.”

“American innovation” can help restore Iraq’s electric grid, increase its crude oil exports, develop its natural gas reserves and rebuild its sagging infrastructure, Perry said, adding that his visit is proof that Iraq’s security environment has improved dramatically.

Douglas Ollivant, a managing partner of Mantid International, which works with U.S. companies in Iraq, said Perry’s visit was “an important symbolic appearance by the administration, reminding that Washington has not forgotten Baghdad.”

“It’s also very important that he was carrying a message of making Iraq more business-friendly,” Ollivant added.

Perry arrived the day after Iraqis observed the first anniversary of the nation’s declaration of victory over the Islamic State.

The occasion was marked by spontaneous street celebrations and military marches – and the limited opening of Baghdad’s Green Zone, a heavily fortified slice of the city that houses the sprawling U.S. Embassy, international diplomatic missions, government ministries and villas belonging to Iraq’s business and political elites.

The Green Zone has been closed to the public since 2003, when the U.S. invasion turned it into the cloistered administrative center of the occupation. It later became a symbol of the Iraqi government’s perceived detachment from the needs and concerns of the general public.

Abdul Mahdi ordered one of the wide boulevards of the Green Zone opened for a two-week trial starting Monday, from 5 p.m. to 10 p.m. – a move that he said could become permanent, despite objections from the United States. Other arteries and the leafy side streets of the area remain closed.

The U.S. Embassy responded to the limited opening of the area by restricting all American staffers from taking walks beyond the embassy gates, said a person familiar with the order who spoke on the condition of anonymity because the person was not authorized to speak with the media.

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# Why Is Qatar Leaving OPEC?



The decision to leave the oil cartel is aimed at reinforcing the country's autonomy from its Persian Gulf neighbors.

The surprising declaration by Qatar about leaving OPEC on Jan. 1 is a strategic response by the country to a changing energy landscape and the 18-month old ongoing boycott of Qatar by Saudi Arabia, United Arab Emirates, Bahrain and Egypt.

Qatar's decision to move away from a regionwide consensus among the Gulf's OPEC members is a reminder of the regional tensions arising from the assertiveness of Saudi Arabia, led by Crown Prince Mohammed bin Salman.

This display of autonomy spilled over into the six-nation Gulf Cooperation Council to which Qatar and three of its detractors belong and which held its annual summit on Sunday. Tamim bin Hamad al-Thani, the emir of Qatar, did not attend the council and sent a lower ranking delegation instead. Kuwait and Oman also hold reservations about the hawkish axis between Saudi

Arabia and the United Arab Emirates and will follow Qatar's decision closely.

The Gulf Cooperation summit did not discuss the blockade of Qatar and the rift in the gulf remains unresolved and, perhaps, unresolvable, as positions have hardened and neither Qatar nor the Saudi Arabia-led quartet wants to be seen to blink first.

By becoming the first of the energy-rich Gulf States to withdraw from OPEC, Qatar has signaled its disapproval with an organization perceived to be subject to increasing Saudi interference.

Saudi interference was starkly illustrated during an April 2016 meeting in Doha, the capital of Qatar, when Prince Mohammed, then the deputy crown prince, intervened to thwart an output agreement between OPEC and non-OPEC states. Emir Tamim had worked hard to secure the agreement both within OPEC and with Russia, only to see the Saudis pressure Qatar to disinvite Iran, a fellow OPEC member, and sink the deal midway through the meeting.

Although designed to address the sustained post-2014 slump in oil prices, the Cold War between Saudi Arabia and Iran trumped, in Prince Mohammed's view, the need to secure an agreement that could stabilize oil prices and assist producers' economies hit by shortfalls in revenue.

Qatar's decision to withdraw from OPEC builds on two decisions taken before and after Saudi Arabia and its allies cut ties with Qatar and imposed a blockade last June. In April 2017, it decided to significantly expand its production of natural gas to increase its natural gas capacity by 43 percent to 110 million tons annually. The Qatari leadership also responded to the attempt to isolate Qatar by forging a slew of new longer-term natural gas agreements with partners worldwide, including China, Japan and Britain, to demonstrate that Qatar remained



open for business.

Qatar made a strategic decision to direct national resources toward gas rather than oil as the backbone of its energy policy. While the country discovered oil in 1939, a year after Saudi Arabia and Kuwait, and joined OPEC in 1961, it never became a major player in global oil markets because its oil exports remained small by Persian Gulf standards.

In the 1970s, Qatar discovered vast quantities of natural gas in the offshore North Field, which straddles the maritime border between Qatar and Iran, with the largest part of the field in Qatari waters. The North Field remains the largest non-associated gas field ever found, with more than 130 years of reserves at current production rates of 77 million tons a year.

Since the early 1990s, Qatar has invested heavily in creating the infrastructure to export gas both through pipelines and as liquefied natural gas. By 2007, Qatar was the largest exporter of LNG in the world, with production plateauing in 2010 at 77 million tons a year. In contrast, its average oil production of 607,000 barrels per day in 2017 is less than 2 percent of OPEC's total output.

In April 2017, Qatar Petroleum lifted a 12-year moratorium on the further development of its natural gas resources that it had imposed in 2005 to allow time to study the impact of such a rapid rise in production on the condition and sustainable management of the North Field.

The decision to increase LNG production capacity to 110 million from 77 tons a year came two months before the Saudi-led attempt to isolate Qatar last June. Throughout the ongoing, 18-month-long blockade, Qatar has continued to supply natural gas to the Emirates through a pipeline that accounts for about a quarter of the Emirates' daily gas demand.

In November – a month before announcement of Qatar's OPEC exit – a government reshuffle in Qatar saw Saad Sherida al-Kaabi, the former chief executive of Qatar Petroleum, appointed as Minister of State for Energy Affairs, a new portfolio that replaced the Minister of Energy and Industry.

During his term at Qatar Petroleum, Mr. Kaabi had lifted the moratorium on increasing gas production in the North Field. In his new ministerial position, Mr. Kaabi has been entrusted by Emir Tamim to oversee the next phase in Qatar's gas development. Plans include a range of new upstream developments and international partnerships intended to cement the country's position as the world's leading supplier of LNG.

Having displayed their resilience in the face of the Saudi-led blockade, Qataris seem to signal their determination to move on from OPEC and carve their own approach to global gas markets.

A new deal to supply LNG to Britain, which receives nearly a third of its gas supply from Qatar, was announced just as the blockade came into effect last June. In September Qatargas signed a 22-year agreement to supply PetroChina with 3.4 million tons of LNG a year through 2040.

Those deals, along with Qatar honoring its natural gas commitment to the Emirates despite the rift, have reinforced the post-blockade effort to portray Qatar as a reliable energy partner and a responsible member of the international community.

Thus, Qatar's decision to withdraw from OPEC is consistent with the strategic evolution of its energy interests that plays to their strength as a gas superpower and fits into existing plans to upscale significantly LNG infrastructure and production capacity.

It makes strategic sense to focus on a sector in which Qatar holds more than 30 percent of the global market share than on

its far smaller and declining oil output. By also reinforcing Qatar's autonomy from its Persian Gulf neighbors, the move exemplifies the failure of the 2017 blockade to force Qatar to clip its wings and return to a Saudi-led regional fold.

With neither Saudi Arabia nor the Emirates willing to back down or concede defeat, the Gulf rift is reshaping regional and institutional partnerships and increasing the degrees of separation among the parties to the dispute.