Nicosia to reject Turkish natural gas proposal

A proposal by Turkish Cypriot leader Mustafa Akinci for a committee that would jointly administer natural gas affairs is expected to be rejected by the government and party leaders when they meet on Tuesday. President Anastasiades received the proposal through the UN and shortly after Turkish Foreign Minister Mevlut Cavusoglu expressed the view that until Greek Cypriots adopt the proposals set out by Akinci, Turkey would continue its drilling “with determination and without change”. According to an official statement President Anastasiades received over the weekend in Limassol the head of the office of the Special Representative of the UN in Cyprus Sergiy Illarionov who presented to the President Akinci’s proposal. The President called a meeting of the National Council for July 16th to inform political leaders on the details of the proposal. Sources say the plan involves the establishment of a committee under the coordination of the UN with an equal number of representatives from both sides and an independent observer. The proposal also includes details on the

composition, establishment and operation of the hydrocarbons fund. News reports citing diplomatic sources said that the plan is similar to an earlier proposal submitted by former Turkish Cypriot leader Eroglu. The move comes as the EU is set to adopt a number of punitive measures against Turkey for its illegal activities off Cyprus. Cyprus had hoped for targeted EU sanctions against the Turkish Petroleum Company in order to dissuade Turkey from drilling in its EEZ. Analysts argue that the geography of the Eastern Mediterranean leaves Turkey with limited marine area while the status quo of divided Cyprus is seen as a leverage to gain a foothold in the potentially resource rich East Med basin. https://knews.kathimerini.com.cy/en/news/nicosia-to-reject-turkish-natural-gas-proposal#.XSw4gLzv9HE.twitter

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Wind farms threaten to speed up North Sea decommissioning

Oil and gas operators planning to prolong fields’ lifespan may find themselves increasingly in conflict with wind farm developers

The projected timeline for oil and gas decommissioning in the North Sea could be forced forward by spatial constraints created by offshore wind farm construction, according to the developers of a planned wind hub in the region.

A consortium of Dutch, German and Danish companies wrote in a concept paper on 9 July that the North Sea Wind Power Hub (NSWPH) they are developing would have an estimated capacity of 180GW by 2045, providing clean power to “hundreds of millions of Europeans” in those countries and the UK. “To meet the ambitious targets as set in the Paris Agreement, a large-scale roll-out of offshore wind is required. Increased spatial use by offshore wind energy and transmission infrastructure is then expected accordingly.” Because the turbine foundations deemed the most cost effective need a water depth of less than 55 metres—and as the targeted area is already used extensively for shipping, military exercises and fisheries—there is not currently enough available space for the required number of offshore wind farms (OWFs). “If we take an exclusionary approach, and only install farms in areas that are not currently being used, there simply is not enough room for a cost effective, large-scale build out of offshore wind power in the North Sea” says Peter Larsen, a development consultant at Danish grid firm Energinet. The firm is developing the project with the Dutch power grid operator Tennet, its gas equivalent Gasunie and the Port of Rotterdam.

Competing timeframes

The NSWPH’s first phase would be connected to shore as early the 2030s. But the British authorities expect decommissioning work to continue in the area until 2060. Larsen says the

eventual decision on whether projects such as the NSWPH should take precedence over the oil and gas sector in the North Sea is one that must be taken by governments. “Which will be the most cost-effective source of power from a social-economic perspective, as part of the green energy transition?” he asks. It is fair to say that it is a leading question. Currently only 3pc of the area the NSWPH would need is available, or only 14,000 km2, according to the NSWPH researchers’ February feasibility study. The largest spatial risk created by the oil and gas sectors is not platforms themselves, but the helicopter landing safe zone of 2.5 nautical miles around these. In some cases, it may be possible to site an OWF’s turbines to accommodate these zones—but not all. “After drawing OWFs in the GIS mapping tool, it was discovered that there are attractive farm locations that have so much overlap between helicopter zones, that one can actually not adapt the wind farm, so the oil and gas function needs to adapt,” the study says. The authors also say confidentiality on which specific platforms will be gone by the year 2030 makes it harder to make spatial plans. While that information is commercially sensitive, oil producer lobby goup OGUK found last November in a report on decommissioning that higher oil prices and a “relentless focus” on efficiency were pushing field retirements further into the future. Its report forecasts that decommissioning activity will remain relatively stable over the next decade.

Peaceful co-existence

OGUK’s view is that there is no need for conflict between the wind power and oil and gas in the North Sea—and that sharing the spatial resources could be beneficial. “Strong cooperation between different sectors is crucial as the UK invests in all forms of energy production to meet its future energy needs”, OGUK says. “The overlap phase when decommissioning takes place alongside the installation of new offshore wind structures could provide the opportunity for the different sectors to

align interests and collaborate on things like logistics costs and stakeholder engagement." For its part, the NSWPH developers also accept that "co-utilisation" will be necessary in the future, adding that "the extent to which co-utilization will be needed highly depends on future developments such as the decommissioning of oil and gas platforms". https://www.petroleum-economist.com/articles/politics-economics/europe-eurasia/2019/wind-farms-threaten-to-speed-up-north-sea-decommissioning?hootPostID=271f29a013ef2922e07192d9cb92b6b3

Lukoil makes inroads offshore

Russian-Kazakh waters in the Caspian Sea are central to the company's plans

Russian oil major Lukoil is pushing ahead with a raft of new projects in the Caspian Sea, as it looks to grow its offshore business and counter decline at its older fields in Western

Siberia. The private operator revealed in early June that it had struck a preliminary deal to explore an area off the shore of Kazakhstan. The I-P-2 block lies in waters 300-400 metres deep and 130km from the port of Aktau. Lukoil will now engage in talks with KazMunayGas (KMG), Kazakhstan's national oil company, to draw up an E&P contract and form a joint venture to develop the site. The Caspian Sea is integral to Lukoil's growth plans. The company aims to ramp up production in the area by more than a quarter next year to 180,000boe/d—equivalent to almost 10pc of its overall oil and gas output. Lukoil has come a long way since entering the region in the mid-1990s, when it embarked on a drilling campaign that led to the discovery of six major oil and gas deposits in Russia's offshore zone. The first of the fields, Korchagin, entered production in 2010 and was joined by the larger Filanovsky project six years later. Additional development is underway at both sites, and Lukoil plans to commission a third field known as Rakushechnoye in 2023. Lukoil's current Caspian production is confined to Russian waters, although the company is looking to build up its Kazakh operations as well. In addition to I-P-2, it has committed to spending $270mn on exploring Kazakhstan's Zhenis block under an E&P contract it finalised with KMG earlier this year. Zhenis, situated 80km from the shore in water 75-100 metres deep, has been assessed by Kazakh authorities to contain 4.5bn boe in potential resources. Lukoil also operates the Tsentralnoye and Khvalynskoye fields that straddle the Russian-Kazakh maritime border, although development is in limbo because of their remoteness from land and an outstanding legal dispute. The Kazakh government has handed out dozens of contracts for offshore development over the past two decades, although many of these projects have disappointed. Lukoil's previous exploration venture at the Atash and Tyub-Karagan blocks ended in failure in 2011, when the company withdrew after drilling several dry wells.

Kazakh incentives

Lukoil's CEO Vagit Alekperov explained the company's renewed interest in offshore Kazakhstan early last year, citing a recent overhaul in the country's taxation system. Offshore operators can now opt to pay an income-based tax in lieu of mineral extraction tax (MET), oil export duty and other levies. Critically, this tax does not apply when oil prices dip below $50/bl, offering operators some protection from market volatility. The Caspian's operational challenges, such as logistical issues, difficult climate conditions and reservoir complexity, can make tax relief essential for a project's success. Lukoil notably pays no export duty and a reduced rate of MET on its Russian fields in the area. Moscow-based ratings agency ACRA estimates the current breakeven cost of these projects, taking the tax incentives into account, at $35/bl. "Tax breaks are necessary due to the high initial capital costs and the relatively high cost of production," an ACRA analyst told Petroleum Economist. "The IRR [internal rate of return] of Caspian projects is significantly higher than that of the mainland [Russian] projects, but this can be considered compensation for the higher risk." According to Ashley Sherman, a Caspian research analyst at Wood Mackenzie, changes to Kazakhstan's tax and subsoil legislation have "certainly revitalised international interest" in its offshore zone. Earlier this year Italy's Eni—a shareholder in Kazakhstan's flagship Karachaganak and Kashagan projects— also signed up to explore the offshore Abay block. While established players like Eni and Lukoil are keen to search new areas, Kazakhstan has struggled to bring new investors into the region. "These companies can look to other offshore exploration hot spots, elsewhere in the world, that offer lower costs, greater rig availability and a clearer path to quick development of any discovery," says Sherman. https://www.petroleum-economist.com/articles/politics-economics/europe-eurasia/2019/lukoil-makes-inroads-offshore

EU adopts measures against Turkey’s illegal drilling in Cyprus’ EEZ

The European Union decided on Monday to symbolically punish Turkey over illegal drilling for oil and gas off Cyprus and threatened harsher sanctions in the future unless Ankara changes tack. Foreign affairs ministers of the 28-nation bloc met in Brussels to endorse a decision to curb diplomatic contacts and funding for Ankara, retaliation for what it sees as interference with Cyprus’ exclusive economic zone. Cyprus has pressed for a tough line threatening harsher sanctions in the future but others warned against antagonising a key ally on security and migration affairs. “The provocations of Turkey are unacceptable to all of us,” German

Minister of State for Europe Michel Roth said on arriving at the talks. “We have now found a balanced language that keeps all our options open, including of course sanctions.” “I can only hope that we do not now add another crisis to the many conflicts and crises. Turkey knows what’s at stake and the European Union is united on the side of Cyprus.” An EU diplomat told Reuters Ankara could lose some €150m of €400m the bloc had earmarked for 2020 for everything from political reforms to agriculture projects to help Turkey prepare for eventual EU membership. A decision endorsed by the EU ministers invited the bloc’s executive and foreign policy arm to “continue work on options for targeted measures in the light of Turkey’s continued drilling activities”, according to the text seen by Reuters. That means any future sanctions would most likely focus narrowly on freezing assets and banning from the EU firms or people involved in the drilling, diplomats in Brussels said. “It is very clear that we stand behind Cyprus, this makes sense since we never recognised the Turkish occupation of northern Cyprus. It is normal for Cyprus to want to define their own natural resources,” Austrian Foreign Minister Alexander Schallenberg said on Monday. According to the final text seen by CNA the 28 recall “the Council conclusions of 18 June 2019 and previous European Council conclusions, notably those of 20 June 2019”, and “deplores that, despite the European Union`s repeated calls to cease its illegal activities in the Eastern Mediterranean, Turkey continued its drilling operations west of Cyprus and launched a second drilling operation northeast of Cyprus within Cypriot territorial waters”. The Council reiterates “the serious immediate negative impact that such illegal actions have across the range of EU-Turkey relations. The Council calls again on Turkey to refrain from such actions, act in a spirit of good neighbourliness and respect the sovereignty and sovereign rights of Cyprus in accordance with international law”. Furthermore, “the Council, welcoming the invitation by the Government of Cyprus to negotiate with Turkey, notes that delimitation of exclusive economic zones

and continental shelf should be addressed through dialogue and negotiation in good faith, in full respect of international law and in accordance with the principle of good neighbourly relations”. “The EU remains fully committed to supporting the UN-led efforts to work with the parties with a view to creating the conditions conducive to resuming negotiations on a comprehensive settlement of the Cyprus problem”, the text reads. “In this regard, the Council recalls that it remains crucial that Turkey commits and contributes to such a settlement, including its external aspects, within the UN framework in accordance with relevant UNSC Resolutions and in line with the principles on which the EU is founded and the acquis”, the EU 28 state in the same text. According to EU sources, the Council will publish the text around 11pm Cyprus time. High Representative Federica Mogherini, refrained from commenting on the decisions during the Council’s press conference. (Reports from Reuters and CNA in Brussels) https://cyprus-mail.com/2019/07/15/eu-adopts-measures-against-turkeys-illegal-drilling-in-cyprus-eez/amp/?__twitter_impression=true

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Qatar Steps over the Blockade

PETROLEUM ECONOMIST

Gerald Butt, Petroleum Economist

Two years after the economic and political boycott on Qatar, the Gulf state is pressing on with LNG expansion plans. Qatar Petroleum (QP) in April asked three joint ventures to bid for the main engineering, procurement and construction (EPC) contract for four mega-LNG trains, each with 8.8mn t/yr capacity, and related facilities. A month later it asked firms to bid to carry out EPC work for LNG storage and loading facilities. QP announced in 2017, after the boycott was imposed, that it planned to increase LNG output capacity from 77mn t/yr to 100mn t/yr, by producing more gas from the vast offshore North field. The following year it unveiled an even more ambitious plan – to target capacity of 110mn t/yr. And despite the fact that there is no end to the political dispute that has destroyed the credibility of the Gulf Cooperation Council, Qatar is not looking back. The consortiums competing for the contracts to build the mega-trains are: Chiyoda and Technip; JGC Corporation and Hyundai Engineering and Construction; and Saipem, McDermott and CTCI Corporation. The announcement of the EPC contract is expected in January 2020, with work to be completed by 2024. Qatar believes that the new

development will come on stream just as demand for LNG will start to exceed supply. McDermott International has been given the EPC role for eight new offshore jackets in the North field. Onshore site preparation for the four LNG trains at Ras Laffan is being carried out by Consolidated Contractors Company and Teyseer Trading and Contracting Company. Chiyoda is completing the FEED work for the onshore facilities, and further contract awards related to the expansion project are expected in the coming months. *Saad al-Kaabi Minister of Energy and Chairman of QP* **New LNG carriers** To cater for the North Field expansion and Qatar’s offtake from the Golden Pass LNG export project in the US, QP in April issued an invitation to tender for the construction of LNG carriers. QP CEO Saad al-Kaabi says the initial order would be to “deliver 60 LNG carriers in support of the planned production expansion, with a potential to exceed 100 new carriers over the next decade”. 110mn t/yr – Qatar’s planned

LNG capacity *Roudi Baroudi Energy Economist* During 2018, Qatar maintained its position as the largest exporter of LNG, with 28pc of global market share, according to the International Gas Union. However, with other countries increasing capacity, Qatar's share has been falling. Australia has now overtaken Qatar as the biggest producer – but will be nudged out of that spot when the Ras Laffan expansion is complete. **Call for talks** In the meantime, Qatar continues to call for talks to end the political dispute with its neighbours, but they appear to have no interest in ending the boycott. "The countries besieging Qatar know it is ready to sit down at the negotiating table, whether under the aegis of the GCC or any other set-up," says Roudi Baroudi, a Doha-based energy consultant. "Qatari officials remain hopeful that their counterparts will soon change course and join the search for sovereign, fair and workable solutions." For now at least, Qatar is prepared to carry on regardless – without undue concern. The IMF said in late 2018 that "significant fiscal and external buffers have enabled Qatar to successfully absorb the adverse shocks from the 2014-16 decline in oil prices and the diplomatic rift. We anticipate overall real GDP growth of 3.1pc in 2019, with still robust non-hydrocarbon growth and recovery in oil and gas production."

In Baroudi's view, "while Qataris continue to face illegal and discriminatory measures attached to the commercial blockade, their country has the wherewithal to sustain the current situation for as long as it takes".

Original article by Gerald Butt, Petroleum Economist

https://www.petroleum-economist.com/articles/politics-economics/middle-east/2019/qatar-steps-over-the-blockade

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Exclusive: Russian output falls to three-year low as oil rivals clash

MOSCOW (Reuters) – Russian oil production fell close to a three-year low in early July, as output was undermined by a row between Russian oil pipeline monopoly Transneft (TRNF_p.MM) and the country's biggest producer Rosneft (ROSN.MM). Transneft curbed oil intake from Yuganskneftegaz, Rosneft's main upstream unit, the oil producer said, hurting production that has already been depressed by an oil contamination crisis. Rosneft confirmed intake limits first reported by Reuters. Transneft also confirmed to local media it had capped the amount of oil received from Yuganskneftegaz. Transneft said it put the restrictions in place after Rosneft sent oil to the pipeline network without clearly stating the destination for 3.5 million tonnes of crude as of July 1, local news agencies reported. It said it had limited intake from Yuganskneftegaz by 0.5 percent of its annual production, TASS reported. The unit produces more than 70 million tonnes of oil annually, or 1.4 million barrels per day. Industry sources said Russian oil output fell to 10.79 million barrels per day (bpd) in early July, lower than the level agreed under a deal on curbing supply reached with OPEC and other producers. Transneft and Rosneft have been at loggerheads over

efforts to resolve the problem of contaminated oil found in April in the Druzhba export pipeline to Europe. Supplies have only partially resumed since then, after weeks of disruption. Transneft criticized Rosneft on Monday over its handling of the tainted oil issue, saying the oil producer had dragged its feet over setting up quality controls for its oil and had made unsubstantiated claims from the pipeline firm. Rosneft said it had read Transneft’s remarks with “regret”. The heads of the two firms, Rosneft’s Igor Sechin and Nikolai Tokarev at Transneft, have often rowed in the past. Despite formally denying any strife between their CEOs, the two companies have often clashed over issues such as oil transportation fees and Rosneft’s rising oil exports to China. Sechin, 58, has been close to President Vladimir Putin for two decades, while Tokarev, 68, is also a long-time ally. Putin, Tokarev and Sechin all worked in the city administration for St Petersburg in the 1990s after the collapse of the Soviet Union. When asked to comment on the row, Kremlin spokesman Dmitry Peskov told reporters on a daily conference call that it was a “corporate matter”. Transneft transports 83% of Russian oil via its network, while Rosneft accounts for over 40% of Russian output. An industry source said oil output at Yuganskneftegaz in West Siberia fell 30% during July 1-8 compared with the June average. Rosneft said its oil production had declined due to a decision by Transneft to reduce intake of oil due to the contaminated oil issue, adding Transneft had imposed a “significant” cap on oil intake from Yuganskneftegaz. “The enforced output reduction is related to Transneft’s cuts of intake of oil into the system of trunk pipelines,” a Rosneft spokesman said, adding that the pipelines were blocked by contaminated crude.

Reporting by Alla Afanasyeva, Olga Yagova and Dmitry Zhdannikov; additional reporting by Tom Balmforth; Editing by Edmund Blair, Louise Heavens and Kirsten Donovan

Emissions rules and electric shift to spur car engines M&A

Mergers and acquisitions have been stuck in a rut since Volkswagen (VOWG_p.DE) was caught cheating pollution tests in 2015, triggering a global tightening of emissions regulations that depressed the value of petrol and diesel technologies. But the market is beginning to separate companies capable of meeting new emissions standards from those struggling to do so, which could close the gap in price expectations between buyers and sellers over the next 12-24 months, industry experts say. The auto industry has all but stopped developing next-generation combustion engines as limited resources are directed towards building electric and self-driving cars. However, electric vehicles are still a niche product,

accounting for only 1.26 million – or 1.5 percent – of the 86 million cars sold worldwide last year, and analysts forecast it will be the middle of the next decade before a tipping point comes when electric cars overtake combustion-engined variants. That means there will still be demand for emissions-compliant combustion engines and so manufacturers and suppliers able to offer that are likely to see valuations recover, said Reinhard Kuehn, co-head of European Automotive at Deutsche Bank. "At the same time, suppliers that struggle with this will remain a hard sell," Kuehn said. Meanwhile, as production capacity of petrol and diesel engines is cut back, the impetus for mergers among suppliers should increase, bankers believe. Germany's Volkswagen, one of the largest manufacturers of petrol and diesel engines, has said it will develop its final generation of combustion engines by 2026, while U.S. rival Ford (F.N) last month said it would close two engine factories in Europe. "The profit pool of companies with combustion engine-related technology – once the envy of the industry – is shrinking with the rise of electric vehicles and the digitization of the industry," Goldman Sachs managing director Axel Hoefer said. "You would expect someone to come in and consolidate to benefit from economies of scale." Volkswagen is now warning its suppliers to prepare industry-wide solutions for winding down combustion-engine manufacturing as it ramps up mass production of electric vehicles. The company is retooling 16 factories to build electric vehicles and plans to start producing 33 different electric cars under the Skoda, Audi, VW and Seat brands by mid-2023, transforming the industry's supply chain. "It makes no sense to have factories running at only 40% capacity," Stefan Sommer, Volkswagen's procurement head, told Reuters. "The auto industry is obliged to develop structures to consolidate combustion engine assets, to decide where to bundle certain activities." "If we end up with uncontrolled insolvencies, it will be a problem for the industry," he said.

MISMATCH

There are more than 120 plants making combustion engine components in Europe, according to consulting firm AlixPartners. German auto industry association VDA says 436,000 jobs are tied to building petrol and diesel engines in Germany alone. Demand for compliant combustion engine assets has already triggered consolidation among carmakers themselves – PSA Group’s (PEUP.PA) takeover of General Motors’ (GM.N) Opel business in 2017 was driven by that issue. “With emissions regulation getting more stringent, particularly in Europe, some manufacturers are getting left behind in terms of their ability to develop compliant engines,” Franciscus van Meel, BMW’s (BMWG.DE) head of vehicle development, told Reuters. Until recently, deals have still proved difficult to do because of lingering disagreements over valuations. U.S. group Dana (DAN.N) late in 2018 launched the sale of its European head gasket business, a key component for combustion engines, people close to the matter said. With the help of Bank of America it invited suitors to bid, but pulled the auction several weeks later due to muted interest. The sale of Germany’s closely-held Ifa Group, a maker of shafts mainly used in combustion engine-powered cars, was announced a year ago, but never got over the finishing line. Among the few suitors was China’s Wanxiang, but differences on pricing proved insurmountable, people close to the talks said. “The main problem is that buyers’ and sellers’ price expectations don’t match,” KPMG partner Juergen Schlangenotto said. “A seller typically says: I have a robust order book and good margins so I want a valuation of 6 times EBITDA (annual core earnings), while a buyer says there’s no long-term growth so I am paying 4 times.” A fresh test of interest in combustion engine assets will be the sale of engine parts and gear box parts maker Tekfor. Private equity owner KKR is in talks with a Chinese buyer, according to people close to the matter. James Kamsickas, CEO of U.S. drivetrain supplier Dana, believes internal combustion engine (ICE) demand could persist

for many years. “People are overbaking a little bit on how much the internal combustion engine is just going to go away,” he told Reuters. “If anything, I’m a very strong advocate that it’s going to be a world of hybridization for the next 15 years. Last time I checked, that still requires an ICE.”

Editing by Georgina Prodhan and Mark Potter

China refiners curb fuel output after massive new plants stoke glut

Reuters/Singapore/Beijing
China’s fuel producers are making extended curbs to their output in the third quarter after supply from mammoth new refineries stoked an already-sizeable glut, potentially dragging on crude oil demand from the world’s biggest importer of the commodity. Private refiner Hengli Petrochemical ramped

up its 400,000-barrels per day (bpd) plant in northeast China to full capacity in May, while Zhejiang Petrochemical began trial runs around the same time at a similar-sized refinery on the east coast. In the wake of that wave of fresh supply and amid slowing local demand for fuels such as gasoline and diesel, refiners are cutting their crude processing, or throughput, industry sources and analysts said. That drop should sap their appetite for crude imports, pulling down on international oil prices that have already been hit by fears over a slowing global economy. The swollen surplus of fuel products could also send China's fuel exports surging to new highs and further pinch Asian refining profits. "For markets that are already consumed with fears about a global recession…headline numbers of oil demand growth slowing alongside talk of run cuts seem to reinforce a bearish narrative," said Michal Meidan, a London-based analyst at Energy Aspects. Small-scale refiners known as 'teapots', mainly located in Shandong province, are coming under most pressure to make fresh output cuts, analysts said, extending curbs many of them made in May and June. Teapots have been seen as a bellwether for China's oil demand since 2015 when they became first-time crude oil importers. They now make up a fifth of the nation's total crude imports. Dongming Petrochemical Group, the province's largest independent refinery, is closing its 240,000-bpd plant this week for two months of maintenance in the wake of "poor margins", according to a company source. That comes after plants were losing 300-350 yuan ($44-$51) on each tonne of crude oil they processed in June, their largest such loss in nearly four years, said Shi Linlin, an analyst at consultancy JLC, and analyst Wang Zhao at Sublime China Information, another consultancy in the province. Seven plants in Shandong – including Dongming – with total crude processing capacity of 470,000 bpd will be offline in July for overhauls, JLC estimates. That's equivalent to a throughput cut of 14mn barrels of crude in July alone, or nearly 4% of the country's processing levels in May. Meanwhile, two major coastal plants

run by Sinopec Corp, Asia’s largest refiner, are planning to trim throughput by nearly 2%, or roughly 10,400 barrels per day, in July-September from the second quarter, plant sources said. That comes after these two plants were hit by refining losses in June for the first time this year. Sinopec did not respond to a request for comment. All refinery sources declined to be named as they were not authorised to speak to the media. The losses at small refiners come a month after behemoth Hengli cranked up operations at its plant in the northeastern port of Dalian. Hengli, traditionally a polyester maker, shipped its first gasoline cargo in early June. That was 80,000 tonnes sold to Sinopec at 5,300 yuan ($769.48) a tonne at an ex-plant rate, which is 700 yuan, or 12%, below prices offered by Shandong teapots, said two sources with direct knowledge of the transaction. The refiner in June placed a total of over 500,000 tonnes of gasoline at 300 to 500 yuan a tonne below market rates on average and sold a similar amount of off-specification diesel fuel with smaller discounts as its fuel quality has yet to stabilise, the sources said. “We were indeed marketing at promotional rates to build our customer base. But this is a temporary marketing strategy as we are new to the market,” said a Hengli spokesman, without elaborating. The Hengli and Zhejiang plants are together expected to account for about 6.4% of total Chinese crude oil throughput.

The ECB Needs to Explain Itself

Ambiguity is hampering effective policymaking by the European Central Bank and leaving market participants wondering what to expect. A review of the ECB’s policy framework would help to eliminate such ambiguity – and place the Bank on much sounder footing for a new era of leadership.

ZURICH – Finland’s central bank governor, Olli Rehn, has reiterated his call for the European Central Bank to conduct a long-overdue review of its policy framework. The upcoming change of leadership at the institution – with Christine Lagarde, the International Monetary Fund’s managing director since 2011, likely to succeed Mario Draghi as president – offers an important opportunity to heed that call.

When the ECB was established 20 years ago, central banks were generally not too clear about the details of their policy frameworks. At that time, some ambiguity may have been helpful, because of the flexibility it offered when the ECB started operating. Furthermore, it allowed central bankers with different experiences and perspectives to agree on a framework, even though they may not have agreed on its precise details.

But the world has changed considerably since then, and the public is now demanding far more clarity. How can the ECB offer that, 16 years after the last review of its monetary-policy framework?

Since that review, conducted in 2003, the global financial crisis, and the ensuing European debt crisis, prompted the ECB to adopt a plethora of new policy instruments. These crisis measures – which have been deeply unpopular, particularly in Germany – can be justified only to the extent that they have been effective, and this must be evaluated. Moreover, as Rehn, who sits on the ECB's governing council, has noted, long-run structural trends – such as population aging, lower long-term interest rates, and climate change – must be considered.

The effectiveness of ECB policy requires the members of the governing council to be singing from the same song sheet. They need a shared understanding of Europe's long-term goals and the strengths and weaknesses of various policy instruments. And, in order to strengthen accountability and support smart decision-making, they need to be able to spell out the details of their monetary-policy strategies in ways that the public can understand.

As it stands, such clarity is at times hard to find, even when it comes to some of the most fundamental elements of the ECB's policy strategy. Price stability – the ECB's primary objective – is currently expressed as "inflation below, but close to, 2%." Does 1% inflation meet that condition, or is it too low, demanding more monetary-policy accommodation? Different members of the ECB's governing council may well have different answers to this question, and thus support different policies.

The same goes for the questions of whether the ECB's inflation target is symmetric – with the authorities intervening as vigorously when inflation is too low as they do when inflation is too high – and whether inflation should be measured over time or at a given moment. If, over some period, the inflation rate ranges from 0% to 4%, but averages to "below, but close to, 2%," has the objective been achieved?

The answer has major policy implications. If inflation is measured over time, the ECB could accept, or perhaps even aim

for, a somewhat higher inflation rate in the medium term, to compensate for the excessively low inflation of recent years. If the public came to believe that a period of above-target inflation was likely, the expected real interest rate would fall, giving a jolt to the economy.

Of course, Draghi has established in speeches and press conferences that, in his view, the inflation target is symmetric; 1% inflation is too low; and the inflation rate should be measured over the "medium term." But it is not clear whether this view is broadly shared within the ECB's governing council.

Inflation targeting is hardly the only area where ambiguity is hampering effective policymaking and leaving market participants wondering what to expect. The ECB's outright monetary transactions (OMT) scheme – whereby the ECB promises to purchase bonds issued by eurozone member states on secondary sovereign-bond markets – is also generating significant uncertainty.

OMT, Draghi's chosen tool for fulfilling his 2012 vow to do "whatever it takes to preserve the euro," was controversial from the moment it was announced, with Bundesbank President Jens Weidmann – one of Lagarde's main rivals for the ECB presidency – arguing fiercely against it in public. But that was seven years ago, and OMT has never actually been used. Is the governing council still committed to it? Or have the events – and council membership changes – of the last few years rendered that commitment obsolete?

With public debt in Greece and Italy still far too high, the eurozone still at risk of slipping into a recession that would significantly worsen both countries' fiscal positions, and Italian politics as volatile as ever, it would pay to know. A review of the kind Rehn demands would provide the needed answers – and put the ECB on much sounder footing for a new era of leadership.

STEFAN GERLACH

Writing for PS since **2016** Stefan Gerlach is Chief Economist at EFG Bank in Zurich and a former deputy governor of the Central Bank of Ireland. He is also a former Executive Director and Chief Economist of the Hong Kong Monetary Authority and Secretary to the Committee on the Global Financial System at the BIS.

EU ministers collide over timid eurozone reforms

Agence France Presse

LUXEMBOURG: EU finance ministers wrangled over watered-down economic reforms Thursday with France hoping the eurozone

budget it has long been pushing for was finally within reach. Almost a decade after the debt crisis, French President Emmanuel Macron wants his partners to implement the changes in order to make the single currency area more resilient to shocks and to tackle the global dominance of the United States and China.But resistance to overhauling the eurozone has deepened, amid a budget row with populist-led Italy, and as richer northern countries grow reluctant to indulge the budget-busters to the south. This distrust and hesitance has plagued the eurozone since it was launched in 2002, a disunity that economists say limits growth and invites crisis.

Ministers are discussing France’s flagship reform of a eurozone budget that has been scaled back by opponents led by the Netherlands that fear a transfer of wealth to Italy, Greece or Spain.

“We are not far from a consensus,” French Finance Minister Bruno Le Maire said on Thursday as he arrived for talks that were expected to last late into the night.

Such a step would be “a major breakthrough in strengthening the eurozone,” he said.

“We are close,” said German Finance Minister Olaf Scholz who added that approval was widespread for a Franco-German compromise on the delicate matter.

Not a budgetThe EU ministers are officially not negotiating a budget – which would be too politically sensitive – but something called the Budgetary Instrument for Competitiveness and Convergence, a fund with limited firepower to be used to back reforms.

The cumbersome renaming comes at the demand of the Dutch, who have only accepted the instrument on condition that it remains an extremely modest affair.

The skeleton of Macron’s plan on the table comes after months

of negotiating the broad elements, including spending priorities, source of revenues, and who should ultimately wield control over its decisions

A European source said it was the last element that would keep ministers up late with the Netherlands and others insisting the budget remains under the auspices of the EU budget. As such, the budget's firepower would remain at a modest 17 billion euros over seven years with no chance of expansion and under the authority of the EU's 27 member states (after the exit of Britain).

Macron had originally demanded an amount of several hundred billion euros to be used to stabilize economically weak countries, but this was swiftly slapped down.

The young French leader also wanted the creation of a eurozone finance minister, an idea that was fast cast aside under pressure from Germany, which prefers that power over the economy remains national.

'Impasse'Ignored for now is a Europe-wide deposit insurance scheme, which is supposed to be the last pillar of an EU banking union set up after a series of bank failures during the worst of the crisis.

"Regrettably, the impasse on this project is still there. No tangible progress has been made," said EU commission vice president Valdis Dombrovskis on Wednesday.

The deposit scheme is resisted by Germany, Finland and other northern European countries that fear being put on the hook for deposits in fragile countries such as Italy or Greece. Ministers also discussed Italy with Rome in infraction of EU budget rules and in danger of major fines inflicted by its currency zone partners.