

# Amid climate worries, Mexico doubles down on fossil fuels



On the same September day that activist Greta Thurnberg gave a fiery speech in New York demanding world leaders tackle climate change, Mexico's president was touting achievements of a wholly different kind: increasing funding for oil production.

"We're investing in refineries. It hasn't been done for a long time," President Andres Manuel Lopez Obrador told reporters at a news conference in Mexico City.

"What was invested this year is going to be repeated next year," promised Lopez Obrador, noting that the government had already funnelled more than 12bn pesos (\$600mn) towards revamping oil production.

The leftist leader, who was elected in a landslide last July, has framed the investment as a way to wean Mexico off its dependency on foreign energy supplies, as well as fuelling economic development through increased oil production.

But at a time when countries are facing mounting pressure to curb emissions and stave off threats from a warming climate, environmental experts say the Mexican government is moving in the wrong direction.

"While Mexico should be abandoning (oil) production, they're rehabilitating refineries ... under a logic of national sovereignty," said Leon Avila, a professor of sustainable development at the Intercultural University of Chiapas.

"It's an archaic perspective, based on production in the 70s during the oil boom, and they think they can do the same thing

– when really we’re in another context,” he told the Thomson Reuters Foundation.

Last Monday, Mexico’s government announced it would expand the rules of its “clean energy certificates” (CEL) programme to make them available to older hydroelectric plants operated by state utility company CFE.

The programme previously applied only to new projects, creating an incentive for local and foreign firms to invest in green energy.

The CEL-certified energy can be sold to big companies that are required to obtain a percentage of their electricity from clean sources.

But in a statement on Tuesday, CFE director general Manuel Bartlett Diaz said that, in line with the president’s vision for energy sovereignty, there was “no reason to subsidise private (electricity) generating companies”. Industry leaders and environmental experts said the move weakens incentives for renewable energy investment, and risks Mexico’s compliance with the 2015 Paris Agreement to fight climate change.

The Mexican CCE business council said on Tuesday that the change could jeopardise up to \$9bn in foreign and local clean energy investments tied to the original CEL rules.

“The decision detracts from the only mechanism considered by law to drive Mexico’s energy transition and meet the mandatory national clean energy adoption goals,” the CCE said in a statement.

The Lopez Obrador administration has emphasised its commitment to tackle climate change and adhere to the Paris accord.

At a UN climate conference last December, Sergio Sanchez, then undersecretary for environmental protection, said the government would implement “concrete policies and actions focused both on reducing emissions and adapting to climate change”.

The Mexican senate last week also called on the federal government to declare a “climate emergency” and take necessary steps to address climate threats.

Those can range from wilder weather and rising seas to more

crop-killing droughts that can drive worsening poverty and migration.

But at a press conference the following day, the president shied away from recognising climate change as a crisis.

“We have already considered a series of measures to face the climate change phenomenon in the Development Plan,” Lopez Obrador said.

But the president’s description of the plan – listing conservation efforts but omitting any policies to reduce emissions – irked environmentalists.

“There is a lack of understanding for the climate crisis we are confronting,” said Claudia Campero from the Mexican Alliance Against Fracking, an advocacy group.

According to Avila, the university professor, the president has prioritised ending Mexico’s entrenched poverty but is using oil as the primary engine to drive prosperity.

“He should care about climate change, but between climate change and going down in history for ending poverty...

well obviously he prefers that,” Avila said.

Among Lopez Obrador’s most important projects is the construction of a new oil refinery in his home state of Tabasco.

The project is set to cost \$8bn, and the government says it would generate up to 23,000 jobs.

But besides boosting Mexico’s carbon footprint, the refinery, at a coastal site, is vulnerable to climate threats, environmental experts said.

Local media reported this week that the property had flooded due to heavy rains.

Environmentalists also point with concern to the government’s proposed 2020 budget, which would see fossil fuel funding continue to increase.

Under the proposal, the energy ministry’s budget would jump more than 70% compared to last year, to 48.5bn pesos (\$2.4bn), following a budget increase this year of over 900% compared to 2018.

According to an analysis of the budget published in September

by a coalition of environmental groups, 96% of the money is intended to support oil and natural gas related projects.

“There is no room for more development of fossil fuel extraction,” said Campero, the fracking opponent.” (But) that’s far from being the vision of this government.”

The budget does include about 56bn pesos (\$2.8bn) for “adaptation and mitigation of the effects of climate change,” but of this, 70% is being set aside for transporting natural gas, a somewhat cleaner fossil fuel, Campero said.

A spokeswoman for the Mexican environment ministry did not respond to numerous requests for comment.

Conspicuously absent from the budget, advocates say, is funding for expanding renewables, despite the country’s potential to adopt clean energy.

According to a 2017 study from the Friedrich Ebert Foundation, which focuses on promoting democracy and social programmes, 80% of Mexico’s energy currently comes from fossil fuels.

But the country’s landscape and weather conditions mean it could supply its electricity needs entirely from renewable sources, the study noted.

The Lopez Obrador administration has appeared reticent to capitalise on this potential, however.

In January, the government cancelled a public auction for companies to bid on clean energy contracts.

“Mexico is a very rich country in terms of its potential in renewables,” said Pablo Ramirez, a campaigner at Greenpeace Mexico.

“But since the arrival of the new administration, that’s been completely scrubbed off the map.”

Mexico’s 2020 budget is awaiting final approval by congress this month. – Thomson Reuters Foundation.

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# Qatar Airways, MoTC join hands for staff digital drive



Qatar Airways has announced a new partnership with the Ministry of Transport and Communications (MoTC) in order to widen access to information technology to its junior members of staff in Qatar.

To formalise the partnership, a memorandum of understanding (MoU) was signed at Qatar Information Technology Conference & Exhibition (Qitcom 2019) by Qatar Airways Group chief executive, HE Akbar al-Baker, and the MoTC's assistant undersecretary of Digital Society Development, Reem al-Mansoori, in the presence of HE the Minister of Transport and Communications Jassim Seif Ahmed al-Sulaiti.

The partnership, which falls under MoTC's Better Connections Program, will see hundreds of computers installed at Qatar Airways company accommodation, the delivery of IT training for Qatar Airways staff through workshops and e-learning courses, and the development of digital resources for the airline's employees to help them understand their employment rights and manage key administrative processes.

HE al-Sulaiti said: "We are delighted to co-operate with Qatar

Airways by signing this memorandum of understanding, which will enable us to play a great role in achieving a digital inclusion, enabling communication tools and widening the access to electronic information for junior members of staff in their accommodations. This would result in enhancing their way of living and paving the way for their inclusion in the digital world.

“The Ministry of Transport and Communications will continue to work closely and build partnerships with different entities and concerned organisations in Qatar to increase the number of junior members of staff benefiting from the programme, with the aim of achieving more progression in implementing a digital inclusion for all segments of society.”

HE al-Baker said: “It is an honour to partner with the Ministry of Transport and Communications for such a worthy initiative. By widening access to and training in information technology, we can make a real difference to the lives of thousands of our hard-working employees by making it easier for them to find key information. I look forward to working closely with the Ministry to implement this programme in the coming weeks and months.”

Qitcom 2019, the largest information and communication technology showcase event in Qatar and organised by the MoTC, concluded on Friday. The Ministry took advantage of the event to showcase its Better Connections programme, which is a joint initiative with the Ministry of Administrative Development, Labour and Social Affairs to provide free access to computers, online services, and training for workers at their accommodation. The aim of the Better Connections programme is to enable workers to gain an understanding of the benefits of online technology and teach them basic IT skills.

As the national carrier, Qatar Airways is the country’s largest employer. It currently operates a modern fleet of more than 250 aircraft via its hub, Hamad International Airport, to more than 160 destinations worldwide. The world’s fastest-growing airline has added a number of new destinations to its growing network this year, including Rabat, Morocco; Izmir,

Turkey; Malta; Davao, Philippines; Lisbon, Portugal; Mogadishu, Somalia; and Langkawi, Malaysia. The airline will add Gaborone, Botswana, in 2019 to its extensive route network along with Luanda, Angola; and Osaka, Japan, in 2020.

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## اعتماد الاقتصاد "الازرق" للدول الاورومتوسطية





رأى الرئيس التنفيذي لشركة Energy and Environment Holding رودي بارودي والذي وصفته وسائل الاعلام اليونانية بأحد كبار خبراء النفط، ان حكم القانون هو الذي يجب ان يطبع التعاون العابر للحدود.

بارودي تحدث في الجلسة الافتتاحية لل قمة الاورو - عربية المنعقدة في اثينا الى جانب رئيس الوزراء اليوناني كيرياكوس ميتسوتاكيس والرئيس القبرصي نيكوس اناستاسياديس ورئيسي الوزراء السابقين الفرنسي فرنسوا فيون والاطالي ماسيمو داليمو.

جلسة الافتتاح لل قمة ركزت على موضوعي ازمة اللجوء ومصالح الدول المتوسطة في فورة استخراج النفط والغاز، وتعمقت الجلسات في اليوم التالي في شرح العنوان الابرز الا وهو اقتصاد الغاز والنفط، اذ شدد نائب وزير الطاقة والبيئة في اليونان، جيراسيموس توماس على العلاقات (الجيوسياسية) بين موارد الغاز تحت البحر، وأنشطة غاز الماء الطبيعي ، وتصدير النفط والغاز من شرق إلى أوروبا، وما يرتبط بها من مخاوف بشأن الآثار المتوسطة البيئية.

ولفت بارودي على هامش القمة الى انه من أجل انجاز التنقيب بشكل آمن عن الثروات البحرية واستغلالها، لا يمكن أن يكون هناك بديل عن القواعد والمعايير المشتركة. "هذا الاقتصاد الأزرق يمكن أن يكون عامل تغيير بالنسبة للبلدان في جميع أنحاء البحر الأبيض المتوسط وحتى أبعد من ذلك، معتبرا ان أفضل وأرخص وأسهل طريقة لضمان التنمية المستدامة في الوقت المناسب لجميع اللاعبين هو الالتزام بموجبيات القانون الدولي و ميثاق الأمم المتحدة ، لذا فإن السعي الى حل النزاعات بالطرق السلمية، هو بمثابة اجتياز نصف الطريق. واذا ما تم الارتكاز الى مبادئ الشراكة الأورو- متوسطة في



”تقرير السياسات فسيربح الجميع

واشار الى مصلحة الاتحاد الاوروبي في تعزيز الترسيم البحري الكامل ، وهذا من شأنه تبديد الشكوك لدى الدول الأعضاء في الجنوب، وايجاد فرص جديدة للشراكة الأورو-متوسطية من خلال مواصلة الحوار وتقليل التوترات وتعزيز العلاقات التجارية

تستحق الازدهار الاقتصادي الذي ورأى ان شعوب البحر المتوسط ستوفره عائدات النفط والغاز الجديدة. إنهم يستحقون المدارس الحديثة والمستشفيات والطرق وغيرها من البنى التحتية الأساسية التي من شأنها تنشيط اقتصاداتها والقضاء على الفقر والحد من عدم المساواة “، وخلص بارودي إلى أنه من الأهمية بمكان زيادة الوعي العام لدى دول البحر المتوسط حول الاقتصاد الأزرق

## Blue Economy is Essential for All of the Euro-Mediterranean Nations



ATHENS: (Agencies) No single factor is more important to cross-border cooperation than the rule of law, a leading energy policy expert told this week’s EU-Arab World Summit in Athens.



*Greek Prime Minister H.E. Mr. Kyriakos Mitsotakis greeting Energy expert Mr. Roudi Baroudi at the 4th EU Arab-World Summit in Athens, October 2019*

Several high-profile speakers addressed opening-day sessions on Tuesday, including Greek Prime Minister Kyriakos Mitsotakis, Cypriot President Nicos Anastasiades, former French Prime Minister Francois Fillon, and former Italian Prime Minister Massimo D'Alema. Most of these dealt in broad strokes with topics of mutual EU/Arab interest such as economic challenges, the immigration crisis, and shared interests in the Mediterranean's rapidly expanding oil and gas industry.

On Wednesday, speakers delved more deeply into specific issues, among them Greece's Deputy Minister for Energy and the Environment, Gerassimos Thomas, who focused on the geopolitical relationship(s) among undersea gas resources, liquified natural gas (LNG) activities, the delivery of East Med resources to Europe, and associated concerns about

environmental impacts.

This and other in-depth talks prompted Roudi Baroudi, CEO of Doha-based independent consultancy Energy and Environment Holding, to remark that with such a complex web of factors at play among so many countries, the only logical approach was to ensure that any and all stakeholders willingly submit to the same rules.



*Mr. Roudi Baroudi with H.E. Mr. Massimo D'Alema, former Prime Minister of Italy*

“In order to fully appreciate and safely exploit all of the advantages offered by well-managed maritime resource, there can be no substitute for common rules and standards,” Baroudi told attendees and journalists on the sidelines of the summit. “This blue economy could be a game-changer for countries all around the Mediterranean and even further afield.”

Baroudi, a 40-year veteran of the energy business who has helped shape both public and private policies on several continents, said that “the best, the cheapest, and the easiest way” to ensure timely and sustainable development for all

players to honor their obligations under international law.

“If these countries just do their basic duty under the United Nations Charter, which is to seek the peaceful resolution of disputes, we’ll already be halfway there,” Baroudi said. “If they also make policy decisions based on the principles of Euro-Med partnership, then everyone wins.”

Baroudi also mentioned that the EU, for instance, has a clear interest in promoting full Maritime demarcation, not just because it would remove uncertainties affecting its southern members, but also because it would open up new opportunities for the Euro-Mediterranean Partnership by continuing dialogue, reducing frictions and strengthening business ties.



*Former Prime Minister of France, Francois Fillon and Energy expert Roudi Baroudi in discussions during the 4th EU-Arab World Summit in Athens, October 2019*

“The peoples of the Mediterranean deserve the chance at affluence that new oil and gas revenues would provide. They

deserve the modern schools, hospitals, roads, and other infrastructure that would reinvigorate their economies, eliminate poverty, and reduce inequality .”

Baroudi concluded that it is very important to increase public awareness of the Maritime domain for the blue economy to really take hold all of the Euro Mediterranean Nations enjoy and to integrate fair, diplomatic, political, legal and scientific dimensions/approaches.

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## Shippers looking in every corner as pressure to cut CO2 grows



LONDON (Reuters) – From higher-quality paint to state-of-the-

art propellers: shipping companies are looking in every corner to reduce their carbon footprint as investor and activist pressure increases.

The move comes as aviation and shipping firms face demands to slash emissions due to their reliance on oil. The two sectors are expected to account for 40% of global CO2 output by 2050 unless action is taken, the European Environment Agency says.

International shipping accounts for 2.2% of global carbon dioxide emissions, according to the International Maritime Organization (IMO), more than aviation's 2% share.

The IMO, a United Nations agency, has said it aims to halve greenhouse gas emissions from 2008 levels by 2050.

"Ships are long-life assets, typically up to 25 years, and if the industry is to meet the IMO target ... then we need to accelerate the pace of change to greener vessels," Stephen Fewster, Dutch bank ING's global head of shipping, told Reuters.

A private initiative launched this year also means leading banks will change how they look at financing modern, more fuel-efficient ships at a time when the sector faces a capital shortfall estimated to be at least \$20 billion.

While questions loom over whether shipping can meet its 2050 target without an overhaul of the types of cleaner fuel available and infrastructure, shipping firms are making individual efforts to change in a shake-up seen costing billions.

U.S. agricultural group Cargill [CARG.UL], one of the world's biggest charterers of dry-bulk ships, has a target of reducing its CO2 output per cargo-tonne-mile by 15% by 2020 from 2016 levels and has already cut it by more than 12%.

One measure taken is the use of higher-quality paints that

give a smoother hull, meaning less energy is used on a voyage.

“If the industry would move from the standard paints to more sophisticated ones, and used in combination with other initiatives, this could have a real impact on decreasing emissions,” Jan Dieleman, president of Cargill’s ocean transportation business, told Reuters.

Emanuele Grimaldi, president and managing director of Italian shipping company Grimaldi Group, said apart from changing the paint that the firm uses, it has modified propellers for 30 of its ships.

To save fuel, Grimaldi has also introduced slower speeds when coming into port areas at night and increased the capacity of some of its fleet so each ship can take more cargo.

“These are lots of small things but if put all together they can make a difference,” he said, adding that the whole group had achieved an annual CO2 reduction of 300,000 tonnes.

## **PRESSURE**

The IMO has adopted mandatory rules for new vessels to boost fuel efficiency as a way of cutting CO2 from ship engines, but a final plan on these is not expected until 2023.

In September, an initiative was launched to get zero-carbon ships and fuels on the water by 2030.

In a report this June, CDP (formerly known as the Carbon Disclosure Project) ranked NYK Line, Maersk and Mitsui OSK Lines as the three shipping companies most prepared for a low-carbon transition, out of 18 of the largest publicly listed shipping firms.

Maersk, the world’s biggest container line, aims to be carbon neutral by 2050, and has spent \$1 billion over the last four years retrofitting around 150 vessels.

“Such measures will represent a small fraction of the overall capex expenditure required to meet the IMO’s target,” a spokesman for CDP, a not-for-profit organization, said.

A report by the Energy Transition Commission, a panel of global experts, last year estimated that a fully decarbonised shipping industry could cost less than 0.2% of gross domestic product in 2050, or below \$600 billion a year.

This compares with less than 0.13% of GDP or under \$500 billion per year for a fully decarbonised aviation sector.

“Maersk’s target is a big deal. There isn’t an aviation company in the world close to making that sort of commitment,”

said Ned Harvey, a managing director at the Rocky Mountain Institute think tank.

“We have the financial industry taking climate alignment seriously and that is going to make it real, as well as customers asking for lower-carbon supply chains,” he added.

The second-largest container line, Switzerland’s MSC, achieved a 13% reduction in CO<sub>2</sub> emissions per tonne-mile carried during 2015-18.

It has retrofitted more than 250 ships in its fleet with the latest design features including propellers and bulbous bows, as well as better-performing engines.

It is also deploying 11 new mega-ships including the MSC Gulsun – the world’s largest container ship – with the lowest carbon footprint by design.

“When you go beyond 2030 and look across the industry’s container fleet and the broader maritime sector, the future goals around CO<sub>2</sub> and other greenhouse gases will not be achievable without some major breakthroughs in fuel and propulsion technologies,” said Bud Darr, executive vice president at MSC Group.



While there have been signs of growing interest in using liquefied natural gas (LNG) as a cleaner fuel, take-up is slow. Other options including hydrogen and ammonia are years away and costly, some experts and shippers say.

“It’s going to get tougher and tougher and we are running out of time. We need to build zero-emission fuel vessels in the next 10 years. We don’t need to mess about with LNG,” Lasse Kristoffersen, president and CEO of Norwegian shipping company Torvald Klaveness, said at a shipping conference last month.

## **POSEIDON PRINCIPLES**

Pressure on the sector is also coming from lenders. Banks are gradually becoming more selective about which ships they include in their lending portfolios due to an initiative launched in June called the “Poseidon Principles”.

Eleven banks representing \$100 billion of the global shipping portfolio joined the initiative, which will for the first time integrate efforts to cut CO2 emissions into banks’ decision-making when providing loans to shipping companies.

There is around \$450 billion of senior debt that the world’s shipping banks and Chinese lenders grant to the sector and about 70,000 commercial vessels, according to Paul Taylor, global head of shipping & offshore with Societe Generale CIB.

ING, which according to market sources has a shipping finance portfolio estimated at \$10 billion, is among the banks that joined the initiative, and finances the most modern and latest-design ships.

“ING and other leading ship-finance banks have a strong preference to finance more environmentally friendly vessels which in turn should encourage shipyards to continue to improve vessel design and efficiency,” ING’s Fewster said.

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# Norway new crude a threat to rivals in prized Asia market



Norway's new oil grade is making inroads in Asia, threatening to undermine sales of similar crudes from Africa and South America.

China's Unipet, at least one of the nation's independent refiners and South Korea's Hyundai Oilbank Co have bought Johan Sverdrup for December delivery, said traders and refinery officials in Asia. The North Sea oil produced by Equinor ASA has been likened to Brazil's Lula and Angola's Saturno crudes.

Oil with low-sulphur content is in demand ahead of stricter ship-fuel rules that take effect January 1, while supply of medium-density crude has been tight due to the attacks on Saudi Arabia and US sanctions on Iran and Venezuela. Johan Sverdrup has both of those qualities, and it's also attractively priced, which may have lured refiners that are typically cautious about new grades.

If Johan Sverdrup continues to gain traction it may jeopardize exports of its rival grades to the world's top crude-consuming region. Angolan and Brazilian oil accounted for 10% and 8%, respectively, of Chinese imports in the first eight months of the year, according to government data. By comparison, Norwegian crude had a minuscule 0.04% share.

"I have no doubt we'll see a trend of more Norwegian flows to Asia, especially China, in the coming months," said Sengyick Tee, an oil analyst at SIA Energy in Beijing. "Given the soaring freight rates and high Chinese stockpiles, Equinor will need to price it attractively," he said, adding that the company has a strong presence among Shandong's teapots.

Shandong Qingyuan Group, a Chinese teapot, bought about 1mn barrels of Johan Sverdrup at a premium of \$6 to \$6.50 a barrel to Brent crude on a delivered basis, said traders who asked not to be identified as the information isn't public. That's around \$1 a barrel cheaper than Lula and 20 to 30 cents less than Saturno, the traders said.

Unipet – the trading arm of Chinese giant Sinopec – has bought two shipments of Johan Sverdrup for October loading, while Hyundai Oilbank took an undisclosed volume of the grade, the traders said. The prices for these deals aren't available.

Whether or not Equinor can keep offering the grade at lower prices over the longer term remains to be seen.

The Norwegian company may have hedged shipping costs in advance, said one of the traders. Equinor is also giving buyers the option to co-load with other varieties, which may help reduce the cost of shipping to Asia.

Johan Sverdrup has an API gravity reading of 27 degrees with sulphur content of 0.8%. While that's a slightly higher sulphur reading than most sweet crudes – loosely defined as having 0.5% or less of sulphur – processors looking to produce more IMO 2020-compliant fuel may seek out the grade as part of a lower-sulphur oil feedstock blend.

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# Europe loan market in limbo as access woes on Brexit haunt banks



Lenders in the UK loan market are gripped by uncertainty as the failure to move ahead on Brexit this week leaves them with little visibility on how long they'll be able to keep their preferential access to the European market. Banks and loan managers say the lack of clarity on "passporting rights" that allow them to seamlessly market products and services across the European Union is making planning difficult, compelling some of them to insert clauses in their documents to minimise disruption. The passage of the Withdrawal Agreement Bill would have set the end of 2020 as the deadline for a transition but now the focus is on the length of any EU extension beyond

October 31. Nicholas Voisey, managing director of the Loan Market Association, said the market is trying to make their deals as “Brexit-proof” as possible, including by adding terms that would permit the transfer of loan commitments to other booking offices. If Brexit were to happen in the immediate future “Much of the decision-making and discussions will still need to be ironed out – particularly relating to financial services,” he said. A prolonged ambivalence on the Brexit front could force more participants in the €400bn (\$445bn) per year loan market to build safeguards, which could increase their cost of doing business. Some UK lenders, including global banks’ London offices, have already shifted assets to other EU nations to help prepare for the loss of passporting rights. Nicola Wherity, London-based partner at law firm Clifford Chance LLP, said steps taken by lenders to overcome Brexit-related hurdles include setting up new EU hubs, seeking local licences and on-going process of shifting loans to these new branches. The financial markets rely on nine different passports for carrying out core banking activity and non-EU firms face significant regulatory barriers to providing cross-border services to EU clients without these rights, lobby group UK Finance says in its website.

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**US, China ‘close to finalising’ parts of trade pact Phase 1**



US and Chinese trade officials are “close to finalising” some parts of an agreement after high-level telephone discussions yesterday, the US Trade Representative’s office said, adding that deputy-level talks would proceed “continuously.”

In a statement issued after the call, the USTR provided no details on the areas of progress.

“They made headway on specific issues and the two sides are close to finalising some sections of the agreement.

Discussions will go on continuously at the deputy level, and the principals will have another call in the near future,” it said.

The call came as Washington and Beijing are working to agree on the text for a “Phase 1” trade agreement announced by US President Donald Trump on October 11.

Trump has said he hopes to sign the deal with China’s President Xi Jinping next month at a summit in Chile. Beijing was expected to request cancellation of some planned and existing US tariffs on Chinese imports during the phone call, people briefed on the negotiations told Reuters.

In return, China was expected to pledge to step up its purchases of US agricultural products.

The world’s two largest economies are trying to calm a nearly 16-month trade war that is roiling financial markets,

disrupting supply chains and slowing global economic growth. "They want to make a deal very badly," Trump told reporters at the White House. "They're going to be buying much more farm products than anybody thought possible."

So far, Trump has agreed only to cancel an October 15 increase in tariffs on \$250bn in Chinese goods as part of understandings reached on agricultural purchases, increased access to China's financial services markets, improved protections for intellectual property rights and a currency pact.

But to seal the deal, Beijing is expected to ask Washington to drop its plan to impose tariffs on \$156bn worth of Chinese goods, including cell phones, laptop computers and toys, on December 15, two US-based sources told Reuters.

Beijing also is likely to seek removal of 15% tariffs imposed on September 1 on about \$125bn of Chinese goods, one of the sources said.

Trump imposed the tariffs in August after a failed round of talks, effectively setting up punitive duties on nearly all of the \$550bn in US imports from China.

"The Chinese want to get back to tariffs on just the original \$250bn in goods," the source said.

Derek Scissors, a resident scholar and China expert at the American Enterprise Institute in Washington, said the original goal of the early October talks was to finalise a text on intellectual property, agriculture and market access to pave the way for a postponement of the December 15 tariffs.

"It's odd that (the president) was so upbeat with (Chinese Vice-Premier) Liu He and yet we still don't have the December 15 tariffs taken off the table," Scissors said.

US Treasury Secretary Steven Mnuchin last week said no decisions were made about the December 15 tariffs, but added: "We'll address that as we continue to have conversations."

If a text can be sealed, Beijing in return would exempt some US agricultural products from tariffs, including soybeans, wheat and corn, a China-based source told Reuters.

Buyers would be exempt from extra tariffs for future buying

and get returns for tariffs they already paid in previous purchases of the products on the list.

But the ultimate amounts of China's purchases are uncertain. Trump has touted purchases of \$40bn to \$50bn annually – far above China's 2017 purchases of \$19.5bn as measured by the American Farm Bureau.

One of the sources briefed on the talks said China's offer would start at around \$20bn in annual purchases, largely restoring the pre-trade-war status quo, but this could rise over time.

Purchases also would depend on market conditions and pricing. US Trade Representative Robert Lighthizer has emphasised China's agreement to remove some restrictions on US genetically modified crops and other food safety barriers, which the sources said is significant because it could pave the way for much higher US farm exports to China.

The high-level call came a day after US Vice President Mike Pence railed against China's trade practices and what he termed construction of a "surveillance state" in a major policy speech.

But Pence left the door open to a trade deal with China, saying Trump wanted a "constructive" relationship with Beijing.

While the US tariffs on Chinese goods has brought China to the negotiating table to address US grievances over its trade practices and intellectual property practices, they have so far failed to lead to significant change in China's state-led economic model.

The "Phase 1" deal will ease tensions and provide some market stability, but is expected to do little to deal with core US complaints about Chinese theft and forced transfer of American intellectual property and technology.

The intellectual property rights chapter in the agreement largely deals with copyright and trademark issues and pledges to curb technology transfers that Beijing has already put into a new investment law, people familiar with the discussions said.



More difficult issues, including data restrictions, China's cybersecurity regulations and industrial subsidies will be left for later phases of talks.

But some China trade experts said that a completion of a Phase 1 deal could leave little incentive for China to negotiate further, especially with a US election in 2020.

"US-China talks change very quickly from hot to cold but, the longer it takes to nail down the easy phase 1, the harder it is to imagine a phase 2 breakthrough," said Scissors. Pages 2, 3 & 12

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## **Rosneft switches contracts to euros from dollars due to U.S. sanctions**



VERONA/MOSCOW (Reuters) – Russia's largest oil company Rosneft

(ROSN.MM) has fully switched the currency of its contracts to euros from U.S. dollars in a move to shield its transactions from U.S. sanctions, its Chief Executive Igor Sechin said on Thursday.

Rosneft's switch to the euro is seen as part of Russia's wider-scale drive to reduce dependence on the dollar, but it is unlikely to quickly boost the euro's role for Russia given the negative interest rates it carries.

"All our export contracts are already being implemented in euros and the potential for working with the European currency is very high," Sechin told an economic forum in Italy's Verona.

"For now, this is a forced measure in order to limit the company from the impact of the U.S. sanctions."

Reuters reported earlier this month that state-controlled Rosneft set the euro as the default currency for all its new export contracts.

Washington has threatened to impose sanctions on Rosneft over its operations in Venezuela, a move which Rosneft says would be illegal.

Moscow has been hit by a raft of other financial and economic sanctions from Washington over its role in the Ukrainian crisis and alleged meddling in the U.S. elections. Russia denies any wrongdoing.

Last year, Rosneft exported oil and oil products worth 5.7 trillion roubles (\$89 billion), according to its reports.

Russia's largest producer of liquefied natural gas Novatek (NVTK.MM) also said on Thursday it had switched to euros in most of its contracts in order to avoid the impact of U.S. sanctions.

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Rosneft's switch to the euro comes amid attempts by Russian companies to work out ways to carry out international transactions without the U.S. dollar.

Russian President Vladimir Putin has called for de-dollarisation that should help limit exposure to the lasting risk of more U.S. sanctions, while the Russian central bank has lowered the amount of U.S. Treasuries in its reserves in 2018.

The switch to the euro has its downside as, under the current policy of the European Central Bank, financial institutions are required to pay interest for parking excess reserves with the bank, known as negative interest rates.

"There is no sense in storing money under negative interest rates," said Alexander Losev, head of Sputnik Asset Management.

Given the negative rates, Rosneft's switch to operations in euros is capable of increasing the amount of euro conversion as Rosneft will seek to ditch the currency for those that are of more use for its operations, market experts say.

The euro's share in Russia's exports has been on the rise since 2015 but Rosneft's adoption of it is unlikely to have an impact on the Russian currency market, said a manager at one of Russia's state-controlled banks.

Other experts agree, saying that Rosneft will still need to convert its euros for tax payments and other needs in Russia.

A senior forex dealer at a state-controlled bank also said the impact of Rosneft's move on the rouble will be negligible.

The Moscow Exchange (MOEX.MM) said Rosneft's move will increase the euro share in its overall trade turnover.

Previously, the share of euro trade on the Moscow Exchange has been increasing only marginally. Over the past year, the euro/rouble share in overall FX turnover on Russia's main bourse stood at 12%, up from 11% in 2017 and 9% in 2016.

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## **Qatar stresses role of natural gas in meeting economic and environmental challenges**



Qatar has stressed the importance of natural gas in meeting the economic and environmental challenges facing energy consumers around the world.

Many countries around the world are searching for the right balance of reliable and secure sources of energy, which can drive their growth, while addressing environmental concerns at the same time, HE the Minister of State for Energy Affairs Saad bin Sherida al-Kaabi told the 21st ministerial meeting of the Gas Exporting Countries Forum (GECF).

“In this effort, many are discovering the versatile, flexible, economic, and environmental qualities of natural gas as a key enabler in the journey to achieve a lower-carbon economy,” he

said.

He stressed on Qatar's commitment to ensuring the continued availability of reliable LNG (liquefied natural gas) supplies to world markets, and to promoting greater growth in the LNG industry, as well as to serving the growing needs of its clients.

"We all have the same objective: To place natural gas at the heart of the energy industry as a fuel of the future to affirm our true belief that natural gas is a cornerstone in the energy transition and a destination fuel, not merely a transition fuel," he said.

Drawing attention to unprecedented recurrent climatic conditions, including mean temperatures, turbulent seasonal cycles and extreme events, al-Kaabi had recently said it is time to take another look at natural gas and the number of advantages it has to make it a pivotal element in any strategy to tackle environmental challenges.

Qatar has highlighted the efforts to reinforce its position as the world's leading LNG producer, which include the North Field expansion to increase the LNG production capacity to 110mn tonnes per annum by 2024, and a major ship-building campaign to build up to 100 LNG carriers over the next decade.