GE Exits Health, Oil as CEO Shrinks Onetime Titan to Save It

By Rick Clough
June 26, 2018, 12:57 PM GMT+3 Updated on June 26, 2018, 9:28 PM GMT+3

- Flannery narrows focus again in revamp of U.S. business icon
- Company says it will maintain dividend through health spinoff

This is John Flannery's General Electric Co. — and so far, Wall Street likes it.

A year after being named chief executive officer, Flannery took the boldest steps yet to revamp the sinking corporate titan, unveiling plans to pull GE out of the health-care and oil markets. By slimming it down and reorienting around power, renewable energy and aviation, he hopes to breathe new life into the 126-year-old company.

“We’re refashioning the company at every level,” Flannery said Tuesday in an interview. “It’s fundamentally positioning the company for the future.”

The overhaul will profoundly reshape an icon of American business —- albeit one that has fallen sharply from its Jack Welch-era heyday at the turn of the century. When Flannery’s done, GE will bear little resemblance to the conglomerate that once counted NBC, home-appliances, plastic, locomotives and a sprawling finance unit among its operations.

This is John Flannery’s General Electric Co. — and so far, Wall Street likes it.

A year after being named chief executive officer, Flannery took the boldest steps yet to revamp the sinking corporate titan, unveiling plans to pull GE out of the health-care and oil markets. By slimming it down and reorienting around power, renewable energy and aviation, he hopes to breathe new life into the 126-year-old company.

“We’re refashioning the company at every level,” Flannery said Tuesday in an interview. “It’s fundamentally positioning the company for the future.”

The overhaul will profoundly reshape an icon of American business —- albeit one that has fallen sharply from its Jack Welch-era heyday at the turn of the century. When Flannery’s done, GE will bear little resemblance to the conglomerate that once counted NBC, home-appliances, plastic, locomotives and a sprawling finance unit among its operations.

The new GE won an early embrace from investors. The shares surged 8.5 percent to $13.84 at 2:12 p.m. after advancing as much as 8.9 percent for the biggest intraday gain in three years.

The announcement clears away lingering concerns over GE’s debt while laying out a plan to monetize several major assets, said

Nicholas Heymann, an analyst with William Blair & Co. The moves will also help GE weather the storm in the gas-power market until it begins to improve in a few years, he said.

“It’s the escape from the Alamo,” he said. “You’re basically reconfiguring the company to bring forward the value-creation opportunities.”

Still, as the Boston-based manufacturer struggles with cash flow issues and weak demand for equipment such as gas turbines, it’s far from recovered. GE fell 27 percent this year through Monday, following a 45 percent decline last year – a slump that led to GE’s removal this week from the Dow Jones Industrial Average after more than 100 years.

Trian Applause

Trian Fund Management, which holds a stake in GE and has a seat on the board, said it welcomed the moves. “Trian supports the strategic initiatives announced today by GE and believes that these initiatives will create substantial value for shareholders,” the fund led by investor Nelson Peltz said in an emailed statement.

GE will narrow its focus to power, renewable energy and jet engines, according to a company statement. It will spin off its medical-equipment business and sell its majority stake in oilfield supplier Baker Hughes.

GE Gives Investors a Breakup. That’s a Start: Brooke Sutherland

“We have argued for the full breakup of GE and we pretty much have that – at least a realistic version of that,” Scott Davis, an analyst at Melius Research, said in a report. The health-care division is “a solid asset” and “what will remain at GE will largely be an aerospace business and a power business.”

GE plans to reduce net debt by about $25 billion by 2020. The company said it would maintain its dividend through the health spinoff. After that, GE "expects to adjust the GE dividend with a target dividend policy in line with industrial peers."

Dividend Risk

Payouts in health care are typically lower, so the combined dividend between GE and the spinoff will probably be less than current levels, Flannery said. Investors have been bracing for a possible cut as GE's condition has deteriorated. The CEO already reduced the payout in November, a painful blow to the many investors who have come to rely on the steady income.

"The dividend will likely be cut materially," Steve Tusa, an analyst at JPMorgan Chase & Co., said in a note to clients. "This is also ultimately a de facto equity raise and dividend cut when all is said and done."

But the dividend announcement may be a relief to some investors. The payout won't disappear completely, and a potential cut will only happen in line with the move to spin off the health unit, Heymann said.

S&P Global Ratings put GE's A rating on a negative credit watch, saying it expects to downgrade it one notch to four levels above junk when the health spinoff is completed. Moody's Investors Service reaffirmed its comparable A2 rating and said the moves were a positive step for GE's credit.

Board Switch

GE said Larry Culp would take over as lead director. Culp, a former Danaher Corp. CEO, joined the board earlier this year.

Flannery's latest moves cap a strategic review he has been pursuing since taking the helm last year from Jeffrey Immelt, while effectively marking his second attempt to present a turnaround to investors. In November, Flannery unveiled changes including asset sales and a board overhaul, while saying the GE of the future would revolve around the energy, aviation and health-care markets.

More Power, Less Capital
GE Capital’s contribution to total revenue has disappeared in the last decade

That generated criticism from investors who called the steps insufficient, and the shares continued to fall. Early this year, after GE detailed worse-than-expected problems with insurance liabilities, Flannery promised to explore bigger changes, including a possible breakup.

Following Siemens

Since then, Flannery has agreed to unload GE’s century-old locomotive operations. On Monday, he announced the sale of an industrial-engine business to buyout firm Advent International. Immelt sold most of GE’s banking and consumer operations.

Under the plan unveiled Tuesday, GE will sell 20 percent of the health business and spin off the rest to its shareholders tax-free. The health business makes imaging machines and other hospital equipment.

The exit from health care mirrors a similar move by Siemens AG, the German industrial giant that’s dramatically simplified its conglomerate structure in recent years.

The Munich-based manufacturer, which competes with GE in areas such as power-generation and medical scanners, sold shares in its Healthineers subsidiary in March, marking the country’s second-biggest initial public offering in almost two decades.

Shrinking Finance

The U.S. and European manufacturing titans have historically tracked each other’s business closely, with close competition in power turbines, household appliances, medical devices and light bulbs. Siemens today is a far leaner business than it was a decade ago, having cut ties with some historic assets such as its communications business and the Osram light-bulb business.

GE plans to “materially shrink” the balance sheet of its finance arm, GE Capital, targeting the sale of $25 billion in energy and industrial finance assets by 2020. The company also is exploring options to reduce its insurance exposure. GE shocked investors this year with a $15 billion shortfall in insurance reserves. It also disclosed an accounting investigation by the U.S. Securities and Exchange Commission.

The exit from the Baker Hughes stake — to occur over the next two to three years — will end GE’s brief, rocky tenure in the oil and gas market.

GE began an aggressive expansion of its crude operations in 2007 with the $1.9 billion acquisition of equipment-maker Vetco Gray, building on a small set of assets. Over the next seven years, GE shelled out more than $10 billion on additional deals, buying companies such as Wellstream and Dresser.

Just as GE Oil & Gas was becoming one of the company’s most prominent businesses, the market collapsed. The price of crude plummeted more than 60 percent over 2014 and 2015. With demand down sharply, the division has weighed on GE’s financial results.

What’s more, GE’s oilfield offerings were still limited compared to its rivals, constraining growth in the event of a recovery. Under Immelt, GE agreed in 2016 to join forces with Baker Hughes, creating a more-formidable player with a robust product lineup that would be better able to compete with industry leader Schlumberger Ltd.

That didn’t last long. Flannery said shortly after taking over last year that GE would explore options to get out of its 62.5 percent stake, without committing to a formal exit plan.

‘GECF committed to help India emerge as key player for future natural gas imports’

India has announced plans to increase share of natural gas to 15% by 2020 from around 7% today.

The Gas Exporting Countries Forum, through its member countries, remains committed to supply additional LNG to the Indian market to help the country achieve its goal of natural gas repre- senting 15% of the primary energy mix by 2020, says GECF secretary- general Yury Sentyurin.
India is emerging as key country for future natural gas imports as the government has announced plans to increase the share of natural gas to 15% by 2020 from around 7% today.
Asked what the Indian push towards LNG meant for GECF, Sentyurin said, “First of all, India as one of the fastest growing emerging markets, with economic growth about 7%, represents a huge promising future for gas demand in coming years.
“In addition, the fertiliser industry leads gas consumption in the country accounting for around 34% of total gas consumption. The fer- tiliser sector is of critical importance for the agricultural sector in India, which contributed to 17% of India’s GDP in the fi nancial year 2016-17.”
On whether GECF would play a leading role in helping India reach its natural gas target, the secretary-general said, “The

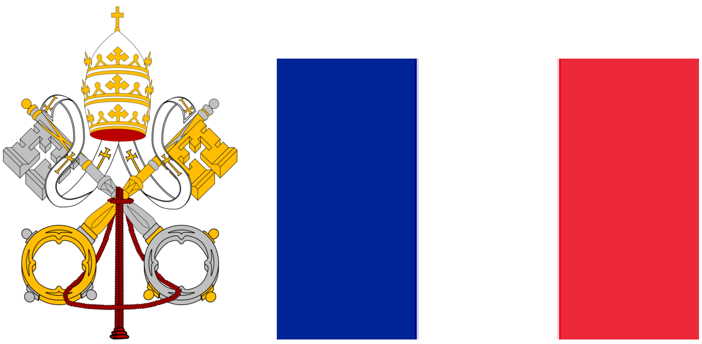
target of the gov- ernment to reach a 15% share in the energy mix means a lot not only for GECF, but for India as an important country engaging in securing energy for its industry, as well as for natural gas. “This denotes a golden future for this golden source of energy, widely available with GECF member countries sitting on more than 70% of its proven reserves.”

Sentyurin provided Gulf Times with some key facts and fi gures on natural gas market in India. India, he said, imports natural gas in the form of LNG amidst grow- ing domestic gas demand and declining domestic gas production. GECF member countries have been a reliable supplier of LNG to India for more than a decade, since imports started in 2004. In 2017, GECF countries supplied more than 80% of India’s LNG im- ports, which includes supplies based on long-term contracts and spot LNG sales, he said.

As of the beginning of 2018, India has more than 20mn tonnes per year (mtpy) of LNG supply under long-term contracts with more than 40% from GECF countries. He said GECF members have also strengthened the partnership with India, where India opted to purchase additional volumes of LNG from GECF members, in addition to the renegotiation of two long-term LNG contracts with some GECF countries based on ‘win-win’ situation.

At the same time, Sentyurin noted renegotiations with other non- GECF suppliers did not reach the same results. “This solid historical partnership with India is an asset in both sides that continues to be strengthened, especially with more calls for natural gas by Indian consumers,” he said. “There are plenty of opportunities of co-operation with this impor- tant partner that could go above selling and buying gas and LNG, where we have seen the interest of India to invest in upstream and gas export projects in some GECF countries,” Sentyurin added.

Macron and Pope talk poverty, migration and Europe in long meeting



The two talked together for nearly an hour in the official papal library in the Vatican’s Apostolic Palace, about twice as long as Francis usually spends with heads of state or government.

They discussed “protection of the environment, migration, and multilateral commitment to conflict prevention and resolution, especially in relation to disarmament," a Vatican statement said.

They also spoke about prospects for resolving conflicts in the Middle East and Africa and the future of Europe, it said.

At the end of the private part of the audience, Macron gave Francis a rare copy of Georges Bernanos 1936 book "Diary of a Country Priest".

"I've read this book many times and it has done me good. It is a book that I have always loved very much," the pope told Macron, 40, who was accompanied in the public parts of the meeting by his wife Brigitte.
Francis gave Macron a medallion depicting Martin of Tours, a 4th century saint who is depicted cutting his cloak in half to give it to a beggar in winter.

"This means the vocation of those who govern is to help the poor. We are all poor," Francis told Macron as he was giving him the medallion.

Macron earned himself the nickname "president of the rich" in France after scrapping a wealth tax and cutting a popular housing allowance in the first year of his mandate, hurting his popularity with the working class.

As Macron left the library, he and Francis exchanged a two-cheek kiss, another very unusual gesture between a pope and a visiting head of state.

The Vatican was expected to issue a statement later on the themes discussed during the private talks.

Two months ago, Macron called for stronger ties between the state and the Catholic Church, a move critics said blurred a line that has kept French government free of religious intervention for generations.

The issue is particularly sensitive in historically Catholic France, where matters of faith and state were separated by law in 1905 and which is now home to Europe’s largest Muslim and Jewish communities.

France’s guiding principles also hold that religious observance is a private matter, for all faiths.

Macron was raised in a non-religious family and was baptized a Roman Catholic at his own request when he was 12.

After leaving the Vatican he was installed as the “First and Only Honorary Canon” of the Rome Basilica of St John’s in Lateran, which is the pope’s cathedral in his capacity as bishop of Rome.

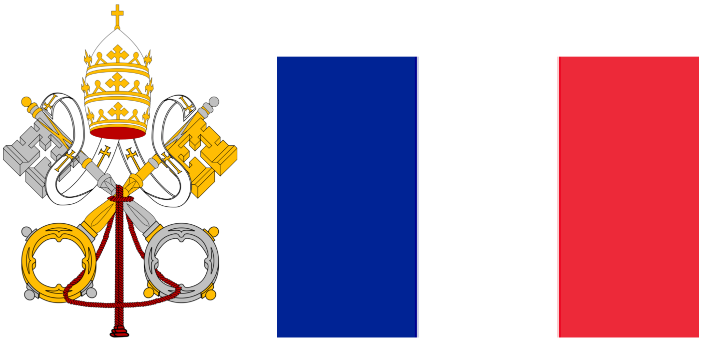
Under a tradition that began in the 15th century when France was a monarchy, French leaders are automatically given the title.

Macron took his seat of honor in basilica’s elaborately carved wooden choir stall to the applause of those in attendance, including members of the local French ex patriot community.

Additional reporting by Michel Rose in Paris, Editing by Richard Balmforth

---

Première rencontre entre Macron et le pape au Vatican



Le chef de l'Etat français, qui sera accompagné par son épouse Brigitte, des ministres Gérard Collomb (Intérieur et Cultes) et Jean-Yves Le Drian (Affaires étrangères) est attendu à 10h au Saint-Siège pour un tête-à-tête qui devrait durer une trentaine de minutes.

Il s'entretiendra ensuite avec le cardinal, secrétaire d'Etat Monseigneur Pietro Parolin, qui sera également présent à un déjeuner à la villa Bonaparte, le siège de l'ambassade de France au Vatican, avant une rencontre avec la communauté française et une conférence de presse.

Un an après leur premier entretien téléphonique, Emmanuel Macron "aura à coeur de présenter au pape son approche transversale" sur la question migratoire, souligne l'Elysée, et insistera sur l'importance d'améliorer la réponse européenne, à quelques jours d'un Conseil européen qui s'annonce houleux.

Le pape, qui avait réservé l'un de ses premiers déplacements en 2013 à l'île italienne de Lampedusa, où il avait fustigé "l'indifférence" du monde à l'égard de migrants, n'a pas mâché ses mots ses cinq dernières années sur la gestion européenne des flux de migrants traversant la Méditerranée.

Dans une interview à Reuters la semaine dernière, François a notamment mis en garde l'Europe contre un "hiver démographique" si le continent se fermait aux migrants et dénoncé les "psychoses" alimentées selon lui par les populistes.

"PAS DE DIMENSION SPIRITUELLE"

La question des Chrétiens d'Orient, qui sera au coeur d'une mission qu'Emmanuel Macron entend lancer dans les prochains jours et qui devrait déboucher sur un rapport dans trois mois, sera également abordée. Celles du climat et de l'aide au développement pourraient également être évoqués.

Emmanuel Macron prendra symboliquement possession au cours d'une cérémonie de la stalle qui marque son titre de premier et unique chanoine d'honneur de la basilique Saint-Jean du Latran. Ce titre est remis de façon automatique aux dirigeants français en vertu d'une tradition qui remonte à Henri VI.

A l'exception de Georges Pompidou, de François Mitterrand et de François Hollande, tous les chefs d'Etat français de la Ve République depuis le Général de Gaulle en 1967 ont fait le déplacement à Rome pour prendre possession de ce titre.

Anticipant les potentielles critiques sur une atteinte à la laïcité, l'Elysée a insisté sur le fait que cette cérémonie n'avait "aucune dimension spirituelle mais une signification honorifique et historique".

“Chanoine n’est pas un titre religieux mais laïc (…) il n’y a pas d’enjeu de laïcité”, a-t-on souligné, deux mois après le discours des Bernardins qui avait été bien perçu par les catholiques mais décrié par l’opposition comme une “atteinte sans précédent à la laïcité”.

Interpréter cette visite au pape “comme un nouveau pas en avant vers les catholiques paraît complètement abusif puisque chacun de ses prédécesseurs l’a fait”, a-t-on ajouté. Emmanuel Macron “a dit à maintes reprises qu’il était agnostique, il revendique sa formation jésuite, il revendique d’avoir été baptisé à 12 ans mais il revendique aussi aujourd’hui d’être en marge de l’Eglise”.

Etihad pilots offered two-year secondment to Emirates

Etihad Airways, Abu Dhabi’s state airline, has offered its pilots a two-year secondment to Emirates, as the airlines pivot towards stronger collaboration, cut costs, streamline operations and address reports of pilot shortages in the industry.

“Such programmes enable airlines to effectively manage their pilot resources,” an Etihad spokesman said in an emailed statement to *The National* on Sunday.

“We are working with Etihad on a secondment programme for some of their pilots,” said a spokeswoman for Emirates. “This is a common practice in our industry which gives airlines more flexibility in managing their pilot resources.”

An internal letter dated June 21 circulating on the internet, which Etihad confirmed to *The National* as authentic, showed the airline had invited staff to submit non-binding expressions of interest for the secondment opportunity, ahead of a roadshow with Emirates’ recruitment team to be held at Etihad’s Abu Dhabi headquarters.

The proposed secondment would see selected Etihad pilots transferred to Emirates for two years, during which time they would be placed on a leave of absence from the Abu Dhabi airline, receive their salary and benefits as per an Emirates package, and retain their Etihad job ranking until their return.

Etihad employs about 2,220 pilots and a relatively small proportion of the total are expected to take up the opportunity. Emirates employs 4,157 pilots as of its 2017-2018 financial year. The changes come as Etihad continues a company-wide review that successfully narrowed losses by 22 per cent to $1.52 billion (Dh5.58bn) in 2017.

Last year, the airline withdrew its investments in troubled Air Berlin and Alitalia as well as halved the number of its equity holdings, and appointed a new chief executive. The airline has also scrapped unprofitable routes and slashed other costs.

Emirates and Etihad have said they are open to greater collaboration to improve efficiencies, for example in the fields of catering, ground handling and supply chain logistics.

“It’s fair to say that, as two partners from the UAE, we will continue to consider, where appropriate, what are the things that we can do together,” Etihad’s new group chief executive Tony Douglas told the Global Aerospace Summit in Abu Dhabi in April.

Pilot secondments “are something Etihad has done for several years with partner airlines around the world”, said the Etihad spokesmanon Sunday.

The airline began a pilot secondment programme in 2013 as part of international expansion plans, and in 2015 offered participants the option of transferring to permanent contracts. The programme was run with partners which at the time included Air Berlin, Alitalia, Darwin Airline, Jet Airways and others.

However, this is the first time Etihad has worked with Emirates in this way, and follows reports that the Dubai airline is looking to plug a shortfall of at least 150 pilots.

Emirates has played down such reports, with its president, Tim Clark, saying in May the airline is “a tad short of pilots but should be alright in September or October”.

Analysts said secondments are a clever way for airlines to reduce costs without losing staff in the long term, as they can recall staff when finances improve.

“In offering opportunities at Emirates, not only does Etihad temporarily offload some of its costs and pilots, but Emirates gains extra fully qualified flight deck staff a lot quicker than planned,” said Saj Ahmad, chief analyst at Strategic Aero Research.

Siddhartha Sharma, president and chief executive of analyst company Interglobe Air Transport, said the two airlines’ standard operating procedures are different: “It’s like the same cars operated by different humans under different umbrellas.” He said pilots would have to evaluate the potential benefits of a move.

Greek carrier Aegean signs $5 billion order for Airbus A320 neo planes

ATHENS (Reuters) – Greece’s largest carrier Aegean Airlines (AGNr.AT) signed a $5 billion deal with Airbus (AIR.PA) for up to 42 aircraft to renew its fleet of single-aisle planes, stay competitive and add capacity for future expansion.

It is the largest order by a Greek carrier and third time Aegean has invested in new aircraft since launching operations 19 years ago.

Seeking to reduce maintenance and fuel costs, Aegean, a member of the Star Alliance airline group, had been considering the Airbus A320neo or Boeing’s (BA.N) 737 MAX. It picked Airbus in late March.

“I believe it is a good day for Greece with the news coming out of Brussels, but certainly a very good day for Aegean and Airbus,” Airbus CEO Tom Enders said at a signing ceremony at Aegean’s technical base at Athens airport.

Earlier on Friday Greece reached an agreement with euro zone finance ministers, securing debt relief to smooth out its return to market financing after eight years of living mainly on loans from euro zone states.

“We begin a new cycle of growth while reducing our operating cost, necessary in a globalised and competitive market,” said Dimitris Gerogiannis, Aegean’s CEO, adding the order was for up to 42 planes, including 10 A321s.

Aegean, which flies domestic and international routes, also owns former flag carrier Olympic Airlines, which was privatized in 2013. Most of its current leases need to be replaced between 2019 and 2023.

Last year, Aegean grew full-year net earnings by 87 percent on an improved load factor and higher sales, riding a strong tourism year. In 2017 it flew a total of 13.2 million passengers.

While the new aircraft will offer 15 percent fuel savings, they are just the hardware, CEO Gerogiannis said. “It is the quality, culture and efficiency of our people that gives us our competitive advantage," he said.

Aegean executives said the carrier will also invest 30 million euros ($35 million) to build a new 12,000 square meter facility in Athens for flight and cabin crew training.

Reporting by George Georgiopoulos; Editing by Keith Weir

Greece 'turning a page' as eurozone declares crisis over

Agence France Presse
ATHENS: Greek Prime Minister Alexis Tsipras said Friday his country was "turning a page" after eurozone ministers declared its crisis over as they granted Athens debt relief under a bailout exit strategy.
The eurozone ministers' agreement comes nearly a decade after

Athens finances spun out of control, sparking three bailouts and threatening the country’s euro membership.

“Yesterday we reached a historic agreement on Greece’s debt with the Eurogroup,” Tsipras told the country’s president, Prokopis Pavlopoulos.

“We are turning a page,” he said, adding that Greece had to remain on the path of reform.

Tsipras, who hates ties and hasn’t worn one since becoming prime minister in 2015, had pledged at the time he would wear one “only when (Greece’s) debt is cut.”

He honoured his pledge late Friday, arriving at a celebratory meeting of his coalition lawmakers sporting a maroon-coloured tie with a white shirt and blue jacket.

He removed it however at the end of a speech to the gathering, observing that “the Greek people had won a battle but not the war” and promising to continue to lead the fight” to victory.

Following the eurozone ministers’ hard-fought agreement declared earlier Friday, Greece is slated to leave its third financial rescue since 2010 on Aug. 20.

“The Greek crisis ends here tonight,” said EU Economic Affairs Commissioner Pierre Moscovici, after the marathon talks in Luxembourg.

The deal was expected to be an easy one, but last-minute resistance by Germany — Greece’s long bailout nemesis and biggest creditor — dragged the talks on for six hours.

The ministers agreed to extend maturities by 10 years on major parts of its total debt obligations, a mountain that has reached close to double the country’s annual economic output.

They also agreed to disburse 15 billion euros ($17.5 billion) to ease Greece’s exit from the rescue programme.

This would leave Greece with a hefty 24 billion euro safety cushion, officials said.

“The agreed debt relief is bigger than we had expected,” Citi European Economics said in a note.

“In particular, the 10-year extension of the EFSF loans’ maturity and most importantly the grace period on interest payments is a significant development,” they added.

“The Greek government is happy with the agreement,” Greek Finance Minister Euclid Tsakalotos said after the talks.

But “to make this worthwhile we have to make sure that the Greek people must quickly see concrete results… they need to feel the change in their own pockets,” he added.

Tsakalotos’ predecessor in the government, maverick economist Yanis Varoufakis, was more scathing in his assessment.

“Congratulations, comrades. [Eurozone creditors] extend the Greek state’s bankruptcy into 2060 and they call it debt … relief,” he tweeted.

The eight-year crisis toppled four governments and shrank the economy by 25 percent. Unemployment soared and still hovers over 20 percent, sending thousands of young educated Greeks abroad.

Optimism is tempered by Greece’s remaining fiscal obligations, which will demand serious discipline, observers say.

“This is a very tight programme. A surplus of 3.5 percent to 2022 and 2.2 percent (on average) to 2060 is not easy at all,” Kostas Boukas, asset management director at Beta Securities, told Athens 9,84 radio.

“We’ll have to see if the pledges will be kept, especially as they depend on international developments as well," he said.

Under pressure from its creditors, Greece has already agreed to slash pensions again in 2019, and reduce the tax-free income threshold for millions of people in 2020.

Further cuts will be made to maintain the 3.5-percent surplus, if necessary.

"It would be a terrible mistake to cultivate illusions that the end of the bailout means a return to normality," said pro-opposition daily Ta Nea.

"What follows is tough oversight which no other country has experienced in a post-bailout period," the daily said.

The European Commission has already specified that Greece will remain under fiscal supervision until it repays 75 percent of its loans.

Athens has received 273.7 billion euros in assistance since 2010, enabling it to avoid punishing borrowing rates on debt markets.

The International Monetary Fund, led by the tough-talking Christine Lagarde, welcomed the debt relief, but cited reservations about Greece's obligations over the long term.

"In the medium term analysis there is no doubt in our minds that Greece will be able to reaccess the markets," Lagarde said after the talks.

"As far as the longer term is concerned we have concerns," she added.

The reform-pushing IMF played an active role in the two first Greek bailouts, but took only an observer role in the third in the belief that Greece's debt pile was unsustainable in the long term.

French President Emmanuel Macron also hailed the “very positive” agreement, saying it showed that “Europe is moving forward” despite recent difficulties.

Oil output to rise by 1m barrels a day in Opec deal Saudi minister

Major oil producers have agreed to pump more crude to help reduce prices and prevent a supply shortage, in a significant reversal of Opec’s strategy of curbing output over the past 18 months.

After a fraught meeting in Vienna in which Iran was initially at odds with a Saudi-led drive to boost production, ministers settled on a target they said would increase output by around 1m barrels per day (bpd).

Donald Trump, who has blamed the cartel for recent oil price highs, appeared to welcome the deal. “Hope Opec will increase output substantially. Need to keep prices down!” the US president tweeted after the agreement.

However, analysts and ministers said the actual amount of extra oil is likely to be around a third lower than the headline 1m figure.

Joe McMonigle, an energy analyst at HedgeEye, said: “I suspect we will eventually get some calculations from Opec but [the] lack of details is bullish not bearish for oil prices.”

Brent crude, the international benchmark, was up nearly 2% to $74.47 (£56.12) a barrel, shortly after the agreement was announced. It hit $80 a barrel last month before falling back.

The oil cartel also failed to spell out how the extra production would be allocated among members, a key question as several have no capacity to pump more crude.

Friday’s deal centres on how closely countries have stuck to production cuts that have been in effect since the start of 2017, driving a recovery in oil prices.

Opec said the cuts of 1.2m bpd had been far exceeded – at 158% in May – so in Vienna the group agreed to target 100% compliance instead. That would equate to an effective increase of around 1m bpd.

Roger Diwan, a veteran Opec observer and analyst at IHS Markit, said: “That’s a fudge for sure.”

He said the agreement paved the way for the Saudis to pump more, while the Iranians could sell the deal domestically by saying they had blocked a bigger increase.

Khalid al-Falih, the Saudi energy minister, said the kingdom was ready to increase production.

“Saudi Arabia is unique. All of our spare capacity is available at short notice,” he said. However, he said the impact of the increase would not be felt until the end of summer, because crude would take weeks to reach markets.

The minister acknowledged that not all of the cartel’s members were in a position to increase output.

Crisis-hit Venezuela has suffered a nosedive in production, while Iran’s exports are due to be hit by US sanctions, so neither are in a position to increase supplies.

Iran failed in its effort to shoehorn a coded criticism of the US into the Opec communique.

Suhail al-Mazroui, the UAE energy minister and meeting’s president, suggested the agreement represented a good compromise.

“I think for the group to agree that we target that collective 1.2[m bpd] level is something that is good for us. That takes into account the differences between the different countries,” he said.

After nearly two years of relative unity at Opec as the group cut production to rebalance supply and demand, the talks in Vienna this week found the cartel divided.

After arriving on Tuesday, Iranian oil minister Bijan Zanganeh threatened to veto any agreement to raise output, though he eventually reached agreement with his Saudi counterpart on Friday. Observers had said earlier in the week that, “the body language has been awful”.

The Ecuadorean oil minister, Carlos Pérez, when asked if the talks had been fractious, said: “It’s been a difficult situation.” But he added the cartel hoped to continue its unity despite the disagreements.

Russia Wants to Sell Its Missiles to U.S. Allies

The S-400 has never been used in combat, but it’s already causing geopolitical turmoil.

By Henry Meyer and Ilya Arkhipov

Russia’s S-400 missile system has never been used in combat. Yet it’s already provoking fights around the world, as Russia searches for buyers in markets long dominated by American weapons makers. China's neighbors are fretting as the country bolsters its military reach with Russian hardware, encouraging India to follow suit. Tensions between rivals Saudi Arabia and Qatar have ratcheted up as both countries negotiate with Moscow on possible deals, while the recent decision by NATO member Turkey to buy the S-400 has drawn threats of U.S. sanctions.

With Algeria, Belarus, Iran, and Vietnam also likely customers, Russia could generate $30 billion in sales over the next 12 to 15 years, according to the *Moscow Defense Brief*, a leading publisher of Russian military information. That's all part of President Vladimir Putin's plan to use the Russian weapons industry not only to earn billions of dollars but also to drive a wedge between the U.S. and some of its key allies. "The S-400 has both commercial and geopolitical dimensions," says Vladimir Frolov, a former Russian diplomat who's now a foreign policy analyst in Moscow. "It creates an opening for Russian influence for years to come."

The Russian weapon has a few advantages over the only other comparable missile system on the market, the MIM-104 Patriot, made by U.S. company Raytheon Co., according to defense research group Jane's by IHS Markit Ltd. Both are surface-to-air systems designed to shoot down aircraft and ballistic missiles. But the S-400 has a longer range than the Patriot, 250 kilometers (155 miles) vs. 160 kilometers. An upgrade coming later this year is expected to stretch the S-400's range to 400 kilometers. It also has a more powerful radar, can destroy targets moving twice as fast, and is quicker to set up. While both systems are mounted on trucks, the S-400 can be ready for action in five minutes, compared with an hour for a Patriot battery. The S-400 is also slightly cheaper than the Patriot, on a per-battery basis.

The S-500, an advanced version comparable to the U.S. Thaad anti-ballistic-missile system that's capable of downing hypersonic cruise missiles, is expected to enter production by

2022. The S-400 is manufactured by the state-run company Almaz-Antey, which has been sanctioned by the U.S. over Russia’s military support for separatists in eastern Ukraine. Despite that, Almaz-Antey is opening two sites elsewhere in Russia to supplement its Moscow plant. The Russians don’t shy away from talking up the S-400 to potential buyers. It “has no equal,” says state arms trader Rosoboronexport’s spokesman Vyacheslav Davidenko. “Russian air-defense systems don’t allow anyone to attack without paying a price.”

The Patriot has superior anti-ballistic-missile capability, says Omar Lamrani, senior military analyst at Stratfor Enterprises LLC, a Texas consultant. It can also be integrated into other U.S.-made missile-defense systems, increasing its effectiveness. The Patriot has a long and successful track record on the battlefield, having come to fame during the 1991 Gulf War. But its performance recently has come under scrutiny. In March video footage appeared to show a failed Patriot launch as Saudi Arabia intercepted a barrage of rockets fired by Yemen’s Houthi rebels. One missile did an abrupt U-turn and crashed into the ground in the Saudi capital, and another one exploded midair. It’s unclear whether the Patriots malfunctioned or the Saudi crew failed to operate them properly. Whatever the cause, it hasn’t stopped Romania, Poland, and Sweden from pursuing plans to buy them. Raytheon declined to comment on the misfire footage, and says that the Patriot’s “performance in testing scenarios and in combat speaks for itself.”

Russia has a history of producing strong air-defense systems, dating to the Cold War, when it needed to counter NATO’s air forces. In the early 1990s the U.S. paid Boris Yeltsin’s cash-strapped government $120 million for an air-defense launch complex to study the technology. Now the U.S. faces a growing threat from the sale of Russian advanced weaponry to its strategic rivals and erstwhile allies.

In 2014, China signed a $1.9 billion deal to buy 32 S-400 launchers, each equipped with four missiles, half of which were delivered last year, the *Moscow Defense Brief* says. New contracts with China may be in the pipeline, it adds; these acquisitions will allow the country to threaten aircraft in Taiwan, which Beijing regards as a rebel province, as well as challenge Japan and neighbors in Southeast Asia for control of the skies in disputed areas. “It poses big challenges for the U.S., Taiwan—which it is obliged to protect—also for American allies and anybody who challenges Chinese territorial claims in the South China Seas,” says Alexander Gabuev, chairman of the Carnegie Moscow Center’s Russia in the Asia-Pacific Program.

India, which has had sporadic skirmishes with China since the countries fought a bloody border war in 1962, is in the final stages of negotiating a $6 billion S-400 deal. According to Indian media, the contract may be signed before an October summit between Putin and Prime Minister Narendra Modi.

Turkey risks U.S. sanctions over its $2.5 billion deal, financed with Russian loans, to buy the S-400. Under a 2017 law, the White House has to penalize countries that conduct a “significant transaction” with Russia’s defense sector. A defense spending bill passed by the U.S. Senate on June 18 calls for a freeze in arms sales to Turkey in response to its S-400 purchases. The bill also calls for the removal of Turkey from the F-35 joint strike fighter program, a multicountry, $400 billion plan to build and sell tactical jets to allies. Turkey was a key member of the program; it had ordered 100 F-35s and was slated to co-produce the jet. Some of its companies are the sole producers of essential parts in the supply chain. “The Turks have got to decide whether they’re going to be in NATO or aligned with Russia,” says Senator James Lankford, an Oklahoma Republican.

Despite the threats, Turkey’s foreign minister, Mevlut Cavusoglu, says the deal to buy the S-400 is done. On June 13, Turkish President Recep Tayyip Erdogan said Turkey and Russia may also co-produce the next-generation S-500. “Russia seems to have communicated to Turkey that it’s in their interest in one way or another to align with them,” says Thomas Karako, director of the Missile Defense Project at the Center for Strategic & International Studies. “This is one of several ways in which they seem to be hugging their friends to the northeast.” The deal is a major milestone toward improving ties between the two countries after Turkey shot down a Russian fighter jet near its border with Syria in 2015.

On June 21, the U.S. Senate Committee on Appropriations passed an amendment attached to the annual Department of State funding bill that prohibits spending money to transfer the F-35 to Turkey until the secretary of state certifies that Turkey isn’t buying the S-400. “This provision makes it clear that if Turkey ignores the concerns of its NATO allies and moves forward with this partnership with Putin, it will no longer receive F-35s,” Senator Chris Van Hollen, a Democrat from Maryland, said in a statement.

Although losing Turkey as a customer would be a hit to F-35 manufacturer Lockheed Martin Corp., there are concerns that Russia will gain valuable intelligence—insights into U.S. air defense and aerial capabilities—if the country remains in the program. Senior U.S. defense officials have said that if Turkey operates both the F-35 and the S-400, it could compromise the F-35’s security, including its stealth capabilities. “It is in the American national interest to see Turkey remain strategically and politically aligned with the West, and we believe it is also in Turkey’s interests,” Assistant Secretary A. Wess Mitchell said at a congressional hearing in April.

As for Saudi Arabia, the increasingly warm ties it’s enjoyed with Russia, particularly over coordination in the oil markets, have also provoked alarm in the U.S. President Trump’s nominee for assistant secretary of state for near eastern affairs, David Schenker, said during his Senate confirmation hearing on June 14 that he would “tell Saudi Arabia not to do it” when asked about the kingdom’s talks to buy the S-400. During an historic visit by King Salman to Russia in October, Saudi Arabia agreed on other arms purchases, including antitank weapons and multiple-rocket launchers, and licensed Saudi production of Kalashnikov assault rifles.

Neighboring U.S.-allied states Kuwait, Bahrain, and the United Arab Emirates are also acquiring Russian weapons. The advanced Russian missile system has turned into a major bargaining chip in the region as rival powers seek to cement new relations with Russia to balance U.S. influence. In a letter to the French president, Saudi Arabia warned of “military actions” against Qatar if it buys the S-400, as *Le Monde* reported in early June.

The S-400 still has an element of “hype,” says Stratfor’s Lamrani. Still, “it has a very promising future—there are places where opportunities are opening up for Russia.” *—With Stepan Kravchenko, Daniel Flatley, and Erik Wasson.*

Saudi pledges ‘measurable’ oil supply boost as OPEC, Russia agree deal

OPEC

VIENNA (Reuters) – OPEC agreed with Russia and other oil-producing allies on Saturday to raise output from July, with Saudi Arabia pledging a “measurable” supply boost but giving no specific numbers.

The Organization of the Petroleum Exporting Countries had announced an OPEC-only production agreement on Friday, also without clear output targets. Benchmark Brent oil rose by $2.5 or 3.4 percent on the day to $75.55 a barrel.

On Saturday, non-OPEC oil producers agreed to participate in the pact but a communique issued after their talks with the Vienna-based group provided no concrete numbers amid deep disagreements between OPEC arch-rivals Saudi Arabia and Iran.

U.S. President Donald Trump was among those wondering how much more oil OPEC would deliver. “Hope OPEC will increase output substantially. Need to keep prices down!” Trump wrote on Twitter after OPEC announced its Friday decision.

The United States, China and India had urged oil producers to release more supply to prevent an oil deficit that could undermine global economic growth.

OPEC and non-OPEC said in their statement that they would raise supply by returning to 100 percent compliance with previously agreed output cuts, after months of underproduction.

Saudi Energy Minister Khalid al-Falih said OPEC and non-OPEC combined would pump roughly an extra 1 million barrels per day (bpd) in coming months, equal to 1 percent of global supply.

Top global exporter Saudi Arabia will increase output by hundreds of thousands of barrels, he said, with exact figures to be decided later.

“We already mobilized the Aramco machinery, before coming to Vienna, pre-empting this meeting,” Falih said, referring to the Saudi state oil company.

Russian Energy Minister Alexander Novak said his country would add 200,000 bpd in the second half of this year.

Asked to what extent the decision to increase supply had been driven by pressure from Trump, Novak said: “It is obvious that we are not being driven by tweets but base our actions on deep market analysis.”

IRAN, SAUDI DISAGREEMENT
Iran, OPEC’s third-largest producer, had demanded OPEC reject calls from Trump for an increase in oil supply, arguing that he had contributed to a recent rise in prices by imposing sanctions on Iran and fellow member Venezuela.

Trump slapped fresh sanctions on Tehran in May and market watchers expect Iran’s output to drop by a third by the end of 2018. That means the country has little to gain from a deal to raise output, unlike Saudi Arabia.

Iranian Oil Minister Bijan Zanganeh said the real increase could amount to as little as 500,000 bpd because Saudi Arabia would not be allowed to pump more on behalf of Venezuela, where output has collapsed in recent months.

“Each country which has produced less (than its allocation) can produce more. Those which cannot, will not… This means that Saudi Arabia can increase its production by less than

100,000 bpd," Zanganeh told Argus Media.

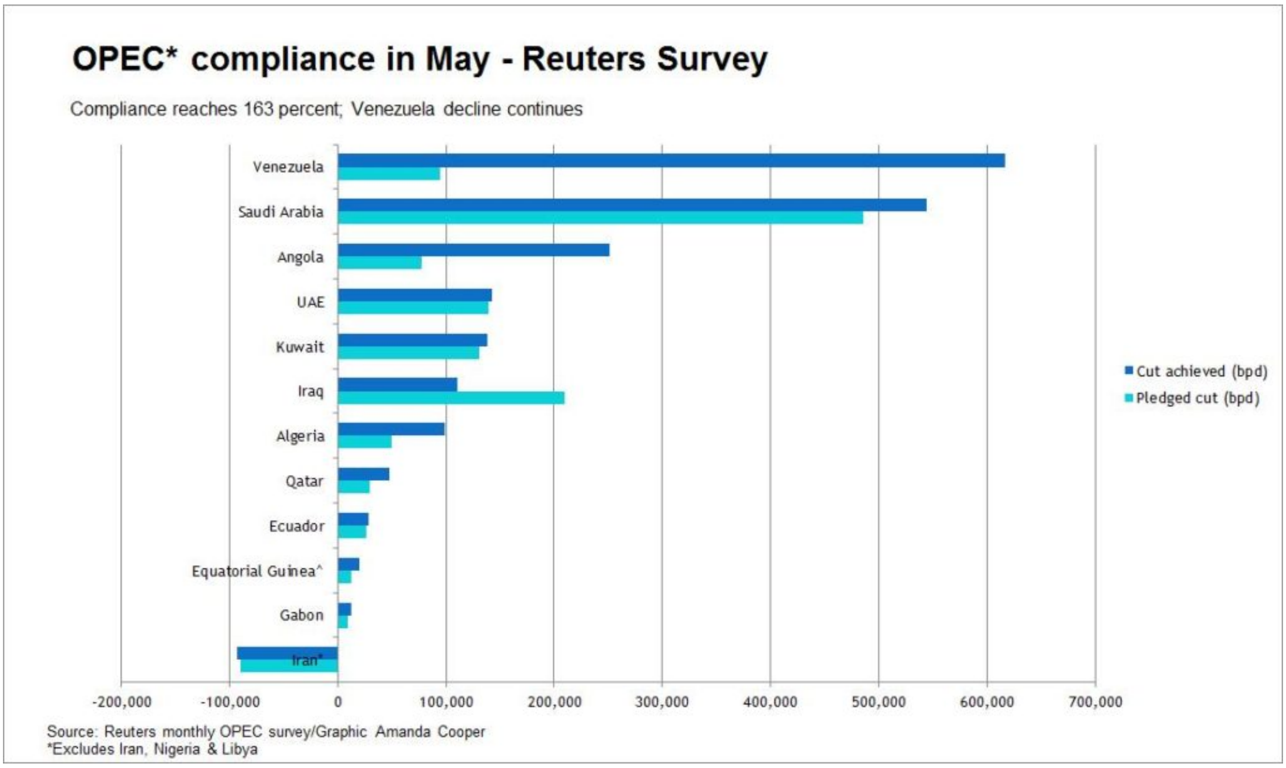
But Falih said pro-rata quota reallocations did not have to be strict, meaning Saudi wanted to fill the gaps left by others.

"Some of the countries … are not going to be able to produce, so the others will. And that implies there will be indirectly a reallocation," Falih said.

He also said OPEC could hold an extraordinary meeting before its next formal talks due on Dec. 3 or adjust deliveries in September, when its monitoring committee meets, if global oil supply fell further because of sanctions on Iran.

OPEC and its allies have since last year been participating in a pact to cut output by 1.8 million bpd. The measure had helped rebalance the market in the past 18 months and lifted oil to around $75 per barrel from as low as $27 in 2016.
But unexpected outages in Venezuela, Libya and Angola have effectively brought supply cuts to around 2.8 million bpd in recent months.

Falih has warned the world could face a supply deficit of up to 1.8 million bpd in the second half of 2018.



"Both Saudi and Iran can show that they won," an OPEC delegate said.

"Zanganeh can go back to his country and say 'I won', because we are keeping the original agreement unchanged. Falih can go back and say 'we will be able to raise production to meet market needs'."

The United States, which rivals Russia and Saudi Arabia for the position of world No.1 oil producer, is not participating in the supply pact.