

# UK firm PwC criticised over bid for major Saudi Arabia contract



One of Britain's biggest consulting and accountancy firms has been negotiating to land a major contract to help streamline and modernise Saudi Arabia's military, the Guardian can reveal.

PricewaterhouseCoopers (PwC) confirmed it had tendered for the project, which will be part of a wholesale transformation of the kingdom's defence ministry designed to better equip and support its frontline forces.

PwC declined to comment further about the talks. It said there was an "ongoing tender process with a number of participants pitching for work".

The negotiations, for a deal that could be worth millions to

the company, have drawn criticism from campaign groups. Campaigners have condemned the country's involvement in the conflict in Yemen, claiming its airstrikes have killed civilians and amount to war crimes.

Peter Frankental, Amnesty International UK's economic affairs programme director, urged PwC to explain what due diligence it had undertaken before pitching for the work.

"Like any company, international accountancy firms should ensure that they avoid contributing to human rights violations in their operations, or being directly linked to them by their business relationships.

"We'd like to know what due diligence the company has done. The United

Nations guiding principles on business and human rights make it clear that a

company may be viewed as complicit if they are seen to benefit from abuses

committed by another party."

The Saudi ministry of defence is run by Prince Mohammed bin Salman bin

Abdulaziz Al Saud. The 32-year-old, known as MbS, is said to be the world's

youngest defence minister and is also the kingdom's deputy prime minister.

Described by critics as an inexperienced firebrand, he has been the architect of

the kingdom's intervention in Yemen, in which it has backed the exiled

government over Iranian-supported Houthi rebels.

This year the UN said the conflict had led to more than 22

million Yemenis –

up to 80% of the population – requiring humanitarian aid.

Jamie McGoldrick, the UN's humanitarian coordinator in Yemen, has

described it as “an absurd and futile war” and condemned the “mounting

civilian casualties caused by escalated and indiscriminate attacks throughout

Yemen”.

PwC already has a presence in Saudi Arabia, but it is the company's UK

operation that is behind the defence project.

PwC has launched a “call for resources” – asking specialists and consultants in

London whether they would be interested in moving to Riyadh to start the

work – because, it has said, it is “currently finalising the deal”.

The company told staff that the Saudi ministry of defence was undergoing an

“ambitious transformation to modernise its armed forces at a size and scale

rarely seen before ... [this] is at its most critical phase and they need support to

undertake this level of change.”

If it wins the contract, PwC is likely to be tasked with transforming several

support areas within the defence ministry. The first phase of the work is likely

to focus on how to reshape recruitment, resourcing, performance management

and strategic workforce planning, and how to manage and communicate

change.

The Guardian asked PwC what due diligence it had undertaken and how it

would answer concerns about working with the Saudi military. The company declined to respond.

The Saudi embassy in London was asked about the scale and scope of the project but also declined to comment.

Frankental urged PwC to think again. "As any accountancy firm involved in work for the Saudi ministry of defence must know, the Royal Saudi air force has an appalling record in Yemen, with the Saudi-led military coalition having indiscriminately bombed Yemeni homes, hospitals, funeral halls, schools and factories. Thousands of Yemeni civilians have been killed and injured."

Anna Macdonald, director of the Control Arms Secretariat, a global coalition working for international arms control, said the UK "should be focusing on trying to stop this terrible conflict, not assisting the Saudi government."

She added: "British companies should be very cautious indeed in what they are supporting. Yemen is the world's worst humanitarian crisis and getting worse by the day."

"The UK government and UK companies are fuelling this in continuing to supply bombs and military equipment to Saudi Arabia and its coalition partners. Ordinary Yemenis need access to water, to humanitarian aid and, most pressingly of all, for the incessant bombing of their schools, hospitals, markets and funerals to stop."

Saudi Arabia has defended its military operations in Yemen. This year the foreign minister, Adel al-Jubeir, said the critics were wrong. "They criticise us for a war in Yemen that we did not want, that was imposed on us," he told the BBC. "They criticise us for a war in Yemen that is a just war, that is supported by international law." Judeir blamed the Houthi rebels for blocking aid and contributing to the humanitarian crisis. A spokesman for the Department for Business, Energy and Industrial Strategy said firms had to operate by UK and international law, and there was no restriction on accountancy services in Saudi Arabia.

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**LNG becomes more volatile on heat wave, Trump's trade war: Russell**



LAUNCESTON, Australia, July 30 (Reuters) – Prices for spot cargoes of liquefied natural gas (LNG) in top-consuming region Asia have become more volatile amid a northern hemisphere heat wave, China's switch to cleaner fuels and a side-helping of Donald Trump-inspired trade disruptions.

The spot LNG price LNG-AS for September delivery in North Asia rose to \$9.75 per million British thermal units (mmBtu) in the week to July 27, the first increase in six weeks.

Soaring temperatures in Japan and South Korea were behind the move higher, as utilities ramped up electricity output to meet demand for air-conditioning. Japan even resorted to restarting old and dirty oil-fired power plants, in addition to boosting natural gas generation.

The boost to prices last week was the latest turn in a spot LNG market that has become more volatile and sensitive to even relatively modest moves in supply and demand.

The spot price reached \$11.60 per mmBtu in mid-June, an unusual occurrence as it meant the peak summer price exceeded that for the previous winter for the first time since 2012.

LNG has a seasonal pattern, with the peak price usually occurring in the northern winter, followed by a lower high in summer and troughs in autumn and spring.

The mid-June price peak was built on strong demand from China, the world's No. 2 importer, whose rapid growth took it past South Korea last year, although it still has some way to go to dislodge Japan from the top spot.

Some supply outages at the same time in major producer Australia, as well as Malaysia and the United States, also drove prices higher in June.

While the spot price has shifted up a gear, the extra demand has yet to show up in trade flows.

Northeast Asia, which includes the three top LNG buyers of Japan, China and South Korea, is on track to import around 14.2 million tonnes of LNG in July, according to vessel-tracking and port data compiled by Thomson Reuters.

This would be largely steady to June's 14.8 million tonnes and 14.5 million tonnes in July last year.

## **JAPAN DRIVING DEMAND**

Looking at the breakdown by country shows Japan on track to import about 6.4 million tonnes in July, up from June's 6.03 million, but below last July's 7.1 million.

China will import around 3.85 million tonnes in July, down a tad from June's 3.95 million, but up from 2.91 million in July of 2017.

South Korea's July imports are headed for 2.5 million tonnes, a 26 percent slump from June's 3.4 million and also well below the 3 million from July a year ago.

While China is still posting large year-on-year gains, it seems current demand for LNG is largely being driven by Japan.

The dynamics of LNG flows are also shifting, partly as a result of U.S. President Donald Trump's escalating trade dispute with China.

While trade in LNG isn't restricted in any way as yet, it seems China is quietly discouraging its major oil and gas companies from buying from the United States.

Only two cargoes arrived China in July from the United States, carrying just 0.13 million tonnes of the super-chilled fuel.

This was an unchanged number of cargoes from June, but down on five vessels that arrived in May, and well below seven that unloaded in January this year.

The winner in China is Australia, with imports totalling to 12.4 million tonnes in the first seven months of the year, up from 9.1 million tonnes in the same period last year.

Australia has also upped its shipments to Japan, with 15.9 million tonnes arriving in the first seven months, up from 14.6 million in the same period in 2017.

U.S. LNG suppliers have had some success in shipping to Asian countries other than China, with Japan taking three cargoes in July, down from four in June and level with May.

South Korea brought in four U.S. cargoes in July, the same number as June and down from five in May.

But with Chinese demand for U.S. LNG under a cloud, it's likely that U.S. producers will have to offer more competitive prices to other buyers in Asia, or perhaps in Europe.

This may prompt changes in the way LNG producers such as Qatar and Australia market spot cargoes, increasing volatility in a market that has shifted from being fairly predictable to one characterised by quicker and larger price swings.



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# Turkish steel makers eye exports to West Africa amid U.S. tariff setbacks



By Ceyda Caglayan

ISTANBUL, July 30 (Reuters) – Turkish steel makers are looking to expand in West Africa and other emerging markets in response to tariffs and planned quotas which threaten their sales to the United States and the European Union, a senior sector official said.

Namik Ekinici, board chairman for the Turkish Steel Foreign Trade Association, told Reuters that Turkey was looking to boost its trade with West Africa and sub-Saharan countries, where there is demand for the less capital-intensive steel products that Turkey mainly exports.

“Looking at the product types these countries consume, it’s products that we have the capability to produce like rebar and pipes. Therefore, these countries are markets where we have a

chance,” Ekinçi said.

“This is why the market we are working with in the first stage is West Africa,” he said, adding that the Caribbean, South America and Southeast Asia were the next targets.

According to data from the Turkish Steel Exporters Association, more capital-intensive products, used in the automotive and white goods sectors, account for a quarter of Turkey’s steel production, while products like rebar and pipes account for 53 percent.

The world’s eighth biggest steel producer, Turkey ranks second in global exports of rebar, figures from the World Steel Association show.

In a move that ignited fears of a global trade war, U.S. President Donald Trump in March imposed a 25 percent tariff on steel imports and a 10 percent tariff on aluminium imports, leading to a 56 percent slump in Turkey’s exports to the United States between January and May.

In early July European Union countries also voted in favour of a combination of quota and tariffs to prevent a surge of steel imports into the bloc that could follow the U.S. levies.

In order to tackle the U.S. tariffs and protectionist measures, Ekinçi said Turkey wanted to increase its effectiveness in other emerging markets “as the United States and the European Union adopt measures to make trade harder.”

He said a union of Turkish exporters would jointly start a new firm to penetrate the target markets through time charter shipments, aiming to increase Turkey’s market share in West Africa from below 5 percent to 15 percent by cutting shipping costs.

The project is expected to cut transport costs of steel exported to West Africa to around \$30 per tonne, from nearly \$100, making it significantly more competitive, Ekinçi said.

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# L'aggressiva politica dell'Arabia Saudita ha fallito: il Qatar è piccolo, ma forte



La corte dell'Aja ha stabilito che il blocco imposto al Qatar dagli Emirati Arabi (insieme ad altre nazioni tra cui l'Arabia Saudita) è discriminatorio. Un precedente importante, che mostra l'illeggittimità e il fallimento delle politiche saudite che volevano isolare il piccolo (ma ricco) Paese

Certo, esaltare l'apertura dei cinema in Arabia Saudita è più facile e forse più conveniente. Ma la notizia cui dovremmo prestare attenzione è quella che arriva dall'Aja, dove la

Corte Internazionale di Giustizia (il principale organo giudiziario delle Nazioni Unite) si è espressa a proposito della “causa” intentata dal Qatar contro gli Emirati Arabi Uniti, uno dei Paesi (gli altri sono Arabia Saudita, Bahrein ed Egitto, ai quali in seguito si sono aggiunti anche Maldive, Libia e Yemen), che il 5 giugno decisero di imporre un blocco “via terra, mare e aria” contro l’emirato guidato da Tamim bin-Hamad al-Thani. **Il Qatar aveva richiesto l’intervento della Corte accusando gli Emirati di violazione dei diritti umani dei cittadini qatarioti** che, in seguito all’embargo, erano stati espulsi dagli Emirati oppure erano rimasti separati dalle famiglie, in molti casi miste.

**La Corte, che per la prima volta era chiamata a esprimersi su questa controversia tra i Paesi del Golfo Persico**, si è basata sulla Convenzione Internazionale per l’Eliminazione di tutte le forme di Discriminazione Razziale, varata nel 1965, e ha stabilito che quei provvedimenti in effetti erano discriminatori e violavano i diritti dei cittadini qatarioti. **Così ha decretato che gli Emirati dispongano immediate misure per arrivare a tre risultati:** consentire la riunificazione delle famiglie, permettere agli studenti provenienti dal Qatar di concludere i cicli di studi già iniziati negli Emirati al momento del varo dell’embargo, garantire il libero ricorso dei cittadini del Qatar ai tribunali e agli organismi giudiziari degli Emirati.

*Quella della Corte, insomma, potrebbe essere solo il primo di una serie di interventi a livello internazionale che mostrerebbero l’illegittimità e il sostanziale fallimento dell’aggressione ispirata soprattutto dall’Arabia Saudita. Il Qatar ha affrontato e superato le difficoltà economiche che l’embargo avrebbe potuto causare. Ma soprattutto non è stato isolato dal resto del mondo, mandando così a monte il progetto politico che stava alla base dell’embargo stesso*

**Come si diceva, la Corte Internazionale di Giustizia non si**

**era mai pronunciata su tale disputa internazionale. Ma le sue decisioni costituiscono, ora, un importante precedente. Il Qatar, infatti, ha intrapreso analoghe azioni anche in altre sedi. Per esempio, ha depositato un reclamo ufficiale presso l'Organizzazione Mondiale del Commercio (Wto) contro Emirati, Arabia Saudita e Bahrein, una mossa che obbliga tali Paesi ad aprire un tavolo di consultazione e trattativa per provare a risolvere le reciproche divergenze, che in questo caso sono riassunte nel termine "embargo". Se il tentativo di composizione pacifica dovesse fallire, sarebbe il Wto stesso a formare una commissione interna per giudicare la questione e prendere eventuali provvedimenti.** E difficilmente potrebbe mostrarsi indifferente a una situazione di palese persecuzione economica e discriminazione razziale come quella che è stata costruita contro il Qatar (una nazione con soli 400 mila abitanti che dà lavoro a più di 2 milioni di immigrati economici) dai Paesi a esso più vicini.

**Quella della Corte, insomma, potrebbe essere solo il primo di una serie di interventi a livello internazionale che mostrerebbero l'illegittimità e il sostanziale fallimento dell'aggressione ispirata soprattutto dall'Arabia Saudita. Il Qatar ha affrontato e superato le difficoltà economiche che l'embargo avrebbe potuto causare. Ma soprattutto non è stato isolato dal resto del mondo, mandando così a monte il progetto politico che stava alla base dell'embargo stesso. Il rapporto con la Turchia di Recep Erdogan è più saldo che mai, sia dal punto di vista commerciale sia per la collaborazione militare che ha portato all'apertura di una base turca in territorio qatariota. Nello stesso tempo sono migliorate le relazioni con gli Usa di Donald Trump, un anno fa schierati con i Paesi dell'embargo ma oggi molto più scettici, tanto che il Pentagono ha trovato un accordo con il Governo dell'emirato per ampliare a sua volta la propria base militare.**

**Resta cordiale anche il rapporto con l'Iran, una delle vere ragioni dell'embargo. Ed è più che solido il cordone**

ombelicale di buoni affari che lega l'emirato alla vecchia Europa. Nel recente passato l'emiro Al-Thani ha saggiamente investito in una miriade di grandi aziende europee (da British Airways a Volkswagen, da Deutsche Bank a Royal Dutch Shell), per non parlare dell'industria del lusso e della moda, dalla maison Valentino a Harrod's, e ora raccoglie i frutti politici dell'albero dell'economia. **Brutte notizie, quindi, per i sauditi e i loro alleati. Il Qatar è piccolo ma non debole. I loro conti erano sbagliati.**

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## **Big Oil Leaves Analysts Fuming About Being in the Dark on Refinery Outages**



Darren Woods, Ben van Beurden and Mike Wirth, three of the

world's most powerful oil executives, forged their reputations by efficiently managing razor-thin margins at their companies' refineries.

You wouldn't know it, though, given their latest earnings results.

Exxon Mobil Corp., Royal Dutch Shell Plc and Chevron Corp., the companies they lead, all missed earnings estimates due to issues with their downstream units. At a time when dedicated refiners such as Phillips 66 and Valero Energy Corp. have become the rock stars of the earnings season, the integrated oil majors are struggling to meet optimistic estimates largely based on rising crude prices.

"The market, looking at the numbers, clearly didn't know or expect the downtime" at Exxon's refineries, said Doug Leggate, an analyst at Bank of America Merrill Lynch, during a call with company management. "You guys obviously did."

The misses took the shine off share-buyback announcements for Shell and Chevron, while for Exxon, which posted earnings per share 27 percent lower than estimates, it was yet another results-day bloodbath, with \$11 billion wiped off the stock within an hour of the first trade.

## **Big Oil's Big Miss**

The three oil giants missed earnings estimates by a wide margin

Meanwhile, refining outages are a source of frustration for analysts and investors because many of them are scheduled, meaning they can be communicated to the market ahead of time and baked into their estimates. That clearly didn't occur this earnings season, said Mark Stoeckle said of Exxon, whose shares he manages among \$2.5 billion at Adams Funds in Boston.

"They knew that was going to happen, why didn't they share



this with the sell side?," he asked. "Woods has said 'we're working toward more transparency.' Well, they spit it out this quarter because they could have been more transparent about this but they weren't."

Refining, a key stabilizing element of Big Oil's business model, is usually a world away from the deal-making, high-stakes exploration and big-spending world of upstream production. Downtime for maintenance is a necessity but usually scheduled. When it's not, it can throw the whole system out of whack.

Bank of America's Leggate called on Exxon to "find some way of signaling" analysts and investors on their refining plans "to avoid the kind of volatility that we have quarter to quarter in your share price."

Exxon's Senior Vice President Neil Chapman response: It's "a valid point" and "of course we're taking that into account." Exxon's refinery outages, some of which were unplanned, are not a "systemic" problem, Chapman said. "We're all over it."

Also See: Exxon drops on disappointing returns; Chevron sweetens pot

Chevron's refining operations were also wildly outside of analysts' estimates. Its U.S. refineries earned 19 percent more than expected while international earned 56 percent less than estimated, Giacomo Romeo, a London-based analyst at Macquarie Capital (Europe) Ltd., wrote in a note.

Shell also came under fire as its downstream division, along with trading and foreign exchange, was blamed for its adjusted net income for the second quarter of \$4.69 billion falling short of even the lowest analyst estimate.

"What happened to the magic of capturing the margin?," asked Thomas Adolff, a London-based analyst at Credit Suisse AG, on a call with management.



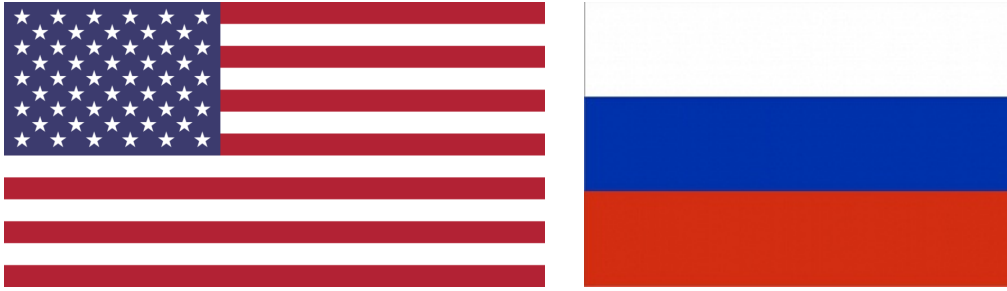
Van Beurden responded by admitting margins were “weak” but that was outside of the company’s control.

Big Oil’s poor downstream performance lies in stark contrast to strong performances by U.S.-pure play refiners. Phillips 66 was one of three refiners to blow away investor expectations for the second quarter, more than doubling its earnings from a year earlier with 100 percent utilization at the company’s fuel processing plants. Valero Energy Corp. and Marathon Petroleum Corp. also beat analyst’s expectations.

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## Summing Up the Trump Summits





NEW YORK – US President Donald Trump’s summits with North Korean leader Kim Jong-un in Singapore and Russian President Vladimir Putin in Helsinki are history, as is the G7 summit in Quebec and the NATO summit in Brussels. But already there is talk of another Trump-Putin summit in Washington, DC, sometime later this year. Some 30 years after the end of the Cold War, a four-decade era often punctuated by high-stakes, high-level encounters between American presidents and their Soviet counterparts, summits are back in fashion.

It should be noted that the word “summit” is imprecise. It can be used for high-level meetings of friends as well as foes. Summits can be bilateral or multilateral. And there is no widely accepted rule about when a meeting becomes a summit. More than anything, the term conveys a sense of significance that exceeds that of a run-of-the-mill meeting.

The principal reason summits are back is that they constitute Trump’s favored approach to diplomacy. It is not hard to explain why. Trump views diplomacy in personal terms. He is a great believer in the idea (however debatable) that relationships between individuals can meaningfully shape the relationship between the countries they lead, even transcending sharp policy differences. He is of the world of stagecraft more than statecraft, of pageantry more than policy.

Trump embraces summitry for a number of related reasons. He is confident that he can control, or at least succeed in, such a format. Much of his professional career before entering the White House was in real estate, where he apparently got what

he wanted in small meetings with partners or rivals.

Trump has also introduced several innovations into the summit formula. Traditionally, summits are scheduled only after months, or even years, of careful preparation by lower-ranking officials have narrowed or eliminated disagreements. The summit itself tends to be a tightly scripted affair. Agreements and communiqués have been mostly or entirely negotiated, and are ready to be signed. There is room for some give and take, but the potential for surprise is kept to a minimum. Summits have mostly been occasions to formalize what has already been largely agreed.

But Trump has turned this sequence around. Summits for him are more engine than caboose. The summits with both Kim and Putin took place with minimal preparation. Trump prefers free-flowing sessions in which the written outcome can be vague, as it was in Singapore, or non-existent, as it was in Helsinki.

This approach holds many risks. The summit could blow up and end in recrimination and no agreement. This has been a consistent characteristic of Trump's meetings with America's European allies, gatherings that have been dominated by US criticism of what Europe is doing on trade or not doing in the way of defense spending.

Moreover, a summit that ends without a detailed written accord may initially seem successful, but with the passage of time proves to be anything but. Singapore falls under this category: claims that the summit achieved North Korea's commitment to denuclearize are increasingly at odds with a reality that suggests Kim has no intention of giving up his country's nuclear weapons or ballistic missiles. Helsinki has the potential to be even worse, as there is no written record of what, if anything, was discussed, much less agreed, during Putin and Trump's two-hour, one-on-one discussion.

A third risk of summits that produce vague or no agreements is

that they breed mistrust with allies and at home. South Korea and Japan saw their interests compromised in Singapore, and NATO allies fear theirs were set aside in Helsinki. With members of Congress and even the executive branch in the dark about what was discussed, effective follow-up is all but impossible. Future administrations will feel less bound by agreements they knew nothing about, making the United States less consistent and reliable over time.

This last set of risks is exacerbated by Trump's penchant for one-on-one sessions without note takers. This was the case in both Singapore and Helsinki. Interpreters in such meetings are no substitute. Interpreters must translate not only words, but also nuances of tone, to communicate what is said. But they are not diplomats who know when an error requires correction or an exchange calls for clarification. The absence of any authoritative, mutually agreed record of what was said and agreed to is a recipe for future friction between the parties and mistrust among those not present.

To be clear, the problem is not with summits per se. History shows they can defuse crises and produce agreements that increase cooperation and reduce the risk of confrontation. There is a danger, though, in expecting too much from summits, especially in the absence of sufficient preparation or follow-up. In such cases, summits merely increase the odds that diplomacy will fail, in the process contributing to geopolitical instability and uncertainty rather than mitigating it. At a time when the risks to global peace and prosperity are numerous enough, such outcomes are the last thing we need.

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# Taxing the intangible economy



By Roger E A Farmer/London

Some very clever people, including the president of the European Central Bank, Mario Draghi, and Andy Haldane, chief economist at the Bank of England, are expressing concerns over the slowdown in productivity growth.

And, given that productivity (measured as GDP per hour worked) is the ultimate driver of increases in living standards, they are right to be worried.

For most people in the West, wages and living standards have stagnated for decades.

If you were a factory worker in the north of England in 1970, for example, odds are good that your children will earn less in real terms than you did 50 years ago.

The same is true for workers elsewhere in Europe and in the United States, an economic reality that is partly responsible for the rise of populist politics.

The trajectory has been trending down for years.

Average annual productivity growth in five OECD countries – France, Germany, Japan, the US, and the United Kingdom – was 2.4% in the 1970s.

During the decade after 2005, it was 0.6% in those countries. And, although the “Great Recession” that started in 2007 contributed to the decline, the average had been falling well before the financial crisis began.

Lower productivity growth has meant reduced living standards for many, but not all.

For a financial analyst on Wall Street or in the City of London, life isn’t so bad.

And for the independently wealthy – especially those with a majority of income derived from a stock portfolio – standards of living have actually increased in recent decades.

But it’s worth asking how much of this increased prosperity was paid in the form of taxes, because the answer – not as much as if income had been in wages and salaries – is one reason why so many economists are so worried.

Consider that capital gains for top earners in the UK are taxed at 28%, and the ceiling in the US is 20%. By comparison, the top rates for income tax are 45% and 39%, respectively.

In other words, when high-tech companies pay their workers with stock options, as many are increasingly doing, the gap in taxable revenue is significant – 17% in the UK, and 19% in the US, to be precise.

With an ever-greater proportion of national wealth being channelled into stock appreciation, the lost revenue will need to be found in other places.

The disparity is even more striking in other parts of Europe. In Italy and Belgium, residents pay no capital gains tax; a rich Belgian who receives all of his or her income in the form of stock options can avoid paying income tax entirely.

Among Europe’s biggest economies, Germany is the only exception; there, capital gains are treated as ordinary income, so there is no loss to the government when income is received as stock appreciation as opposed to dividends.

Digital music, mobile apps, Google, and Twitter – these and other “intangible” technological miracles have changed our lives.

But the many benefits of modern innovation have not been

reflected in standard measures of GDP.

As Jonathan Haskel and Stian Westlake point out in their new book, *Capitalism without Capital*, one explanation is that the measurements themselves are inadequate.

For example, in the past, making an investment meant purchasing a new factory or a new machine; it was the acquisition of a physical asset that appeared immediately in GDP statistics.

Today, though, investments often refer to something impossible to touch – like computer software, branding, or an archive of data.

These “intangible investments” are booked in GDP accounts as intermediate goods, not as output.

But intangible investments influence company profitability.

If technology companies’ profits are continually reinvested as intangibles, earnings may never appear as output in GDP statistics, but they will affect the company’s market value.

For government leaders concerned with providing goods and services during a period of slow growth, getting a handle on this unmeasured GDP is essential.

Fortunately, there is a solution.

As I have argued on my blog, we must rethink how tax revenue is raised.

If all income were taxed at the same rate, intangible investments made by companies would still generate revenue in the form of taxes paid by the companies’ wealthy owners.

The alternative – to maintain the status quo – will only ensure that as growth in the intangible economy intensifies, current revenue gaps will eventually become gaping holes. –

Project Syndicate

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# Is Europe America's friend or foe?



By Jean Pisani-Ferry/Paris

Since Donald Trump became US president in January 2017, his conduct has been astonishingly erratic, but his policies have been more consistent than foreseen by most observers. Trump's volatility has been disconcerting, but on the whole he has acted in accordance with promises made on the campaign trail and with views held long before anyone considered his election possible. Accordingly, a new cottage industry in rational theories of Trump's seemingly irrational behaviour has developed.

The latest challenge is to make sense of his stance towards Europe. At a rally on June 28, he said: "We love the countries of the European Union. But the European Union, of course, was set up to take advantage of the United States. And you know what, we can't let that happen." During his recent trip to the



continent, he called the EU “a foe” and said it was “possibly as bad as China.” Regarding Brexit, he declared that British Prime Minister Theresa May should have “sued” the EU. Then came the truce, on July 25: Trump and Jean-Claude Juncker, the president of the European Commission, agreed to work jointly on an agenda of free trade and World Trade Organisation reform.

So it seems we are friends again – or perhaps just resting before the dispute resumes. But the deeper question remains: Why has Trump repeatedly attacked America’s oldest and most reliable ally? Why does he seem to despise the EU so deeply? Why should the US try to undermine Europe, rather than seeking closer co-operation to protect its economic and geopolitical interests?

Trump’s approach is particularly striking given that China’s rapid emergence as a strategic rival is America’s main national security issue. Contrary to earlier hopes, China is converging with the West neither politically nor economically, because the role of the state and the ruling party in co-ordinating activities remains far greater. Geopolitically, China has been actively building clienteles, most visibly through its Belt and Road Initiative, and it intends to “foster a new type of international relations” that departs from the model promoted by the US in the twentieth century. Militarily, it has embarked on a significant build-up. Obviously, China, not Europe, is the number one challenge to US world supremacy.

Former president Barack Obama’s China strategy combined dialogue and pressure. He started building two mega-economic alliances that excluded China and Russia: the Trans-Pacific Partnership with 11 other Pacific Rim countries, and the Transatlantic Trade and Investment Partnership with the European Union. But Trump withdrew the US from the TPP and killed the TTIP before it was born. Then he opened a trade rift with the EU. And he has attacked both the EU and its member states, especially Germany.

There are three possible explanations. One is Trump’s peculiar

obsession with bilateral trade balances. According to this view, Trump regards Germany, the rest of Europe, and China as equally threatening competitors. Nobody else thinks this makes economic sense. And the only result he can expect from this strategy is to hurt and weaken the long-standing Atlantic partnership. But he has been complaining about Mercedes cars in the streets of New York City at least since the 1990s.

A second explanation is that Trump wants to prevent the EU from positioning itself as the third player in a trilateral game. If the US intends to turn the relationship with China into a bilateral power struggle, there are good reasons for it to regard the EU as an obstacle. Because it is itself governed by law, the EU is bound to oppose a purely transactional approach to international relations. And a united Europe that commands access to the world's largest market is not a trivial player. But after the EU has been undermined, if not disbanded, weak and divided European countries would have no choice but to rally behind the US.

Finally, a more political reading of Trump's behaviour is that he is seeking regime change in Europe. In fact, he has not disguised his belief that Europe is "losing its culture" because it has let immigration "change its fabric." And Stephen Bannon, his former chief strategist, has announced that he will spend half of his time in Europe to help build an alliance of nationalist parties and win a majority in next May's European Parliament elections.

A few weeks ago, only the first reading looked plausible. The other two could be dismissed as fantasies inspired by conspiracy theories. No US president had ever presented the EU as a plot to weaken the US. Indeed, all of Trump's postwar predecessors would have recoiled in horror at the idea of the EU's dissolution. But the US president has gone too far for Europe to dismiss the more dismal scenarios.

For the EU, this is a pivotal moment. In the 1950s, it was launched beneath the US security umbrella and with America's blessing. Since then, it has been built as a geopolitical experiment conducted under US protection and in the context of

a US-led international system. For this reason, its external dimensions – economically, diplomatically, or regarding security – have always come second to its internal development.

What the recent crisis signifies is that this is no longer true. Europe must now define its strategic stance vis-à-vis a more distant and possibly hostile US, and vis-à-vis rising powers that have no reason to be kind to it. It must stand for its values. And it must urgently decide what it intends to do regarding its security and defence, its neighbourhood policy, and its border protection. This is an acid test.

Economically, the EU still has the potential to be a global player. The size of its market, the strength of its major companies, a unified trade policy, a common regulatory policy, a single competition authority, and a currency that is second only to the dollar are major assets. It could – and should – use them to push for a revamping of international relations that addresses legitimate US grievances vis-à-vis China and legitimate Chinese concerns over its international role. Europe has played a leading role in fighting climate change; it could do the same for trade, investment, or finance.

Europe's main problem is political, not economic. The challenge it is facing comes at a moment when it is divided between island and continent, North and South, and East and West. And the questions posed are fundamental: What defines a nation? Who is in charge of borders? Who guarantees security? Is the EU based on shared values or on the pure calculus of national interests?

If the EU fails to define itself for a world that is fundamentally different from that of ten years ago, it probably will not survive as a meaningful institution. If it does, however, it may regain the sense of purpose and legitimacy in the eyes of citizens that years of economic and political setbacks have eroded. – Project Syndicate

\* Jean Pisani-Ferry, a professor at the Hertie School of Governance (Berlin) and Sciences Po (Paris), holds the Tommaso

Padoa-Schioppa chair at the European University Institute and is a senior fellow at Bruegel, a Brussels-based think tank.

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## **Total's Q2 profit jumps 44% to \$3.6bn**

French oil and gas major Total raised its 2018 savings and oil production targets after a new record quarterly output, cost savings, and high oil prices lifted its net profit in the second quarter. The group said adjusted net profit for the second quarter soared 44% to \$3.6bn, beating analysts' estimates of \$3.4bn. Oil production rose by 8.7% to 2.717mn barrels of oil equivalent per day, driven by the early completion of the Maersk Oil deal, and the ramp-up of several projects including Yamal LNG in Russia and Moho Nord in Congo. Total raised its production growth target to 7% in 2018 from 6% previously, expecting a boost from the start-up of its Kaombo North project in Angola, Egina in Nigeria, Australia's Ichthys LNG and Tempa Rossa in Italy. It said cost savings measures were on track to surpass the \$4bn target for the year and reach \$4.2bn over the 2014-2018 period.

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## **BP pays \$10.5bn for BHP shale assets to beef up US business**



Reuters/Melbourne/London

BP has agreed to buy US shale oil and gas assets from global miner BHP Billiton for \$10.5bn, expanding the British oil major's footprint in some of the nation's most productive oil basins in its biggest deal in nearly 20 years.

The acquisition of about 500,000 producing acres marks a turning point for BP since the Deepwater Horizon rig disaster in the Gulf of Mexico in 2010, for which the company is still paying off more than \$65bn in penalties and clean-up costs.

"This is a transformational acquisition for our (onshore US) business, a major step in delivering our upstream strategy and a world-class addition to BP's distinctive portfolio," BP chief executive Bob Dudley said in a statement.

In a further sign of the upturn in its fortunes, BP said it would increase its quarterly dividend for the first time in nearly four years and announced a \$6bn share buyback, to be partly funded by selling some upstream assets.

The sale ends a disastrous seven-year foray by BHP into shale on which the company effectively blew up \$19bn of shareholders' funds.

Investors led by US hedge fund Elliott Management have been pressing the mining company to jettison the onshore assets for

the past 18 months.

BHP put the business up for sale last August. The sale price was better than the \$8bn to \$10bn that analysts had expected, and investors were pleased that BHP planned to return the proceeds to shareholders. "It was the wrong environment to have bought the assets when they did but this is the right market to have sold them in," said Craig Evans, co-portfolio manager of the Tribeca Global Natural Resources Fund.

BHP first acquired shale assets in 2011 for more than \$20bn with the takeover of Petrohawk Energy and shale gas interests from Chesapeake Energy Corp at the peak of the oil boom.

It spent a further \$20bn developing the assets, but suffered as gas and oil prices collapsed, triggering massive writedowns.

The world's biggest miner said it would record a further one-off shale charge of about \$2.8bn post-tax in its 2018 financial year results. BP The deal, BP's biggest since it bought oil company Atlantic Richfield Co in 1999, will increase its US onshore oil and gas resources by 57%. BP will acquire BHP's unit holding Eagle Ford, Haynesville and Permian Basin shale assets for \$10.5bn, giving it "some of the best acreage in some of the best basins in the onshore US," the company said.

Its bid beat rivals including Royal Dutch Shell and Chevron Corp for the assets, which have combined production of 190,000 barrels of oil equivalent per day (boe/d) and 4.6bn barrels of oil equivalent resources.

The acquisition could push BP's total US production to 1mn barrels of oil equivalent per day (boe/d) in two years and close to 1.4mn boe/d by 2025, said Maxim Petrov, a Wood Mackenzie analyst.

"The Permian acreage offers the biggest longer-term upside, with some of the best breakevens in the play, well below \$50 per barrel," said Petrov. The deal would turn the onshore United States into "a heartland business in the company," Bernard Looney, BP's head of upstream, said in a call with analysts. It will bring BP into the oil-rich Permian basin in

West Texas, where production has surged in recent years. With it, BP's onshore oil production will jump from 10,000 barrels per day to 200,000bpd by the mid-2020s, Looney said. BP said the transaction would boost its earnings and cash flow per share and it would still be able to maintain its gearing within a 20-30% range.

The company also said it would increase its quarterly dividend by 2.5% to 10.25 cents a share, the first rise in 15 quarters. Meanwhile, a unit of Merit Energy Company will buy BHP Billiton Petroleum (Arkansas) and the Fayetteville assets, for \$0.3bn.

Tribeca's Evans welcomed the clean exit for cash, rather than asset swaps which BHP had flagged as a possibility.

"It leaves the company good scope to focus on their far better offshore oil business," he said.

BHP chief executive Andrew Mackenzie said the company had delivered on its promise to get value for its shale assets, while the sale was consistent with a long-term plan to simplify and strengthen its portfolio. BHP shares rose 2.3% after the announcement, outperforming the broader market and rival Rio Tinto.