

# Turkey admits to 3 more years of missing inflation target



Bloomberg/Ankara

Turkey's central bank yesterday acknowledged it won't meet its 5% inflation target for three more years, disappointing investors seeking signs that monetary policy would tighten. Although governor Murat Cetinkaya pledged to raise borrowing costs when needed, his prediction of 6.7% inflation by the end of 2020 was seen as a dovish signal by investors who gathered in Ankara for the bank's quarterly inflation report. He expects prices to rise 13.4% through this year and 9.3% through 2019.

This was the first time the governor provided an above-target forecast for three years into the future since taking office in 2016, and it comes with the inflation rate at its highest in 15 years. For investors surprised that the bank didn't raise borrowing costs at its last rate meeting on July 24, it's another indication monetary policy makers will put a premium on stimulating economic activity, according to Erkin Isik, a strategist at Turk Ekonomi Bankasi AS in Istanbul.

That's an agenda demanded by President Recep Tayyip Erdogan. "The upward revision to medium-term forecasts suggests that the bank will prioritize growth over inflation and let inflation remain high for much longer," Isik said by e-mail as Cetinkaya spoke.

The lira fell during the governor's speech and was trading 0.4% lower at 4.90 per dollar at 12:31pm in Istanbul.

Unlike in his previous inflation reports, Cetinkaya went out of his way to explain last week's rate decision. This year's 500-basis-point increase in lending costs will take time to have an impact on demand conditions, which are set to soften with a re-balancing in the economy, he said.

His base-case scenario of a "moderate" slowdown in growth after last year's 7.4% expansion is partly based on expectations the government will lower spending. Continued expansionary fiscal policies would result in higher inflation, according to the inflation report.

Taking into account the high inflation rate and current account deficit "at a time of tightening global financial conditions, such a situation would result in a higher country risk premium and increase the pressure on foreign-exchange levels, necessitating a tighter monetary policy stance to rein in price gains," the report read.

Erdogan has repeatedly stressed he wants interest rates to come down, taking the anomalous approach that cheaper money would help to tame inflation by stimulating growth.

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## **Higher Oil Price Boosts BP's Recovery; Profit Up Fourfold**



Higher oil prices and increased output helped BP Plc (NYSE: BP) quadruple its second-quarter profit from a year earlier as the oil major finally shakes off the after-effects of 2010's Deepwater Horizon spill and the last oil market slump.

Second-quarter results have been a mixed bag for the world's top oil companies. Total SA (NYSE: TOT) beat forecasts and boosted production targets while Royal Dutch Shell Plc (NYSE: RDS.A) launched a \$25 billion share buyback program despite profits falling short of expectations.

U.S. majors Exxon Mobil Corp. (NYSE: XOM) and Chevron Corp. (NYSE: CVX) disappointed Wall Street.

BP confirmed it would increase its quarterly dividend for the first time in nearly four years, offering 10.25 cents a share, an increase of 2.5%. The company bought back shares to the tune of \$200 million in the first half.

In a further sign of recovery, BP last week agreed to buy U.S. shale oil and gas assets from global miner BHP Billiton for \$10.5 billion.

The deal, BP's first major acquisition in 20 years, marked a watershed for the company in the United States as it looks to leave behind the \$65 billion fallout from the deadly explosion of its Deepwater Horizon rig in the U.S. Gulf of Mexico.

Benchmark Brent crude futures, currently over \$74 per barrel, rose about 16% in the first half of 2018 and are up about 60% since June last year.

BP's output in the first six months of the year was 3.662 million barrels of oil equivalent per day (MMboe/d), including production at Russia's Rosneft, of which it owns just under a fifth, from 3.544 MMboe/d a year earlier. That helped underlying replacement cost profit, BP's definition of net income, rise to \$2.8 billion, exceeding forecasts of \$2.7 billion, according to a company-provided survey of analysts.

The company earned \$0.7 billion a year earlier and \$2.6 billion in the first quarter. BP's shares were up about 1.2%, hitting a two-week high in early trading.

BP has paid around \$2.4 billion of expected 2018 costs of just over \$3 billion related to Deepwater Horizon, and plans to split the outstanding payments equally between the third and fourth quarters, CFO Brian Gilvary said.

Meanwhile, the company has tightened its investment budget for this year to about \$15 billion from previously up to \$16 billion and increased its divestment guidance to over \$3 billion from \$2 billion to \$3 billion.

Gearing, the ratio between debt and BP's market value, declined to 27.8% at the end of the quarter from 28.1% at the end of March. Net debt was \$39.3 billion at the end of June compared with \$40 billion at the end of March.

"With gearing nudging down sequentially, dividends raised, and execution on track, 1Q and 2Q are the start of a new positive trend for BP," Bernstein analyst Oswald Clint said.

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# Time for Europe to redefine its interests



By Mark Leonard/Berlin

Donald Trump is the first US president to think that the US-led world order is undermining US interests.

Though the current order obviously benefits the United States, Trump is convinced that it benefits China even more.

Fearing China's ascendance as another pole of global power, Trump has launched a project of creative destruction to destroy the old order and establish a new one that is more

favourable for the US.

Trump wants to pursue this objective by engaging with countries bilaterally, thereby always negotiating from a position of strength.

He has shown particular disdain for traditional US allies, whom he accuses of free riding, while also standing in the way of his demolition derby.

Likewise, Trump cannot stand multilateral organisations that strengthen smaller and weaker countries vis-à-vis the US.

Given his “America First” strategy, Trump has spent his presidency undermining institutions such as the World Trade Organisation, and abandoning multilateral agreements such as the Trans-Pacific Partnership (TPP), the Iran nuclear deal, and the Paris climate accord.

And because Trump has been able to pick new fights so fast, other countries have struggled to keep up, let alone form effective alliances against him.

In recent weeks, Trump has set his sights squarely on the European Union.

As Ivan Krastev of the Institute for Human Sciences recently observed, the EU now faces the possibility of becoming “the guardian of a status quo that has ceased to exist.” As a committed Atlanticist and multilateralist, it pains me to admit that he is right.

The time has come for Europe to redefine its interests, and to develop a new strategy for defending them.

First and foremost, Europeans will have to start thinking for themselves, rather than deferring to the US foreign-policy establishment.

The EU clearly has an interest in preserving the rules-based order that Trump hopes to tear down, and its interests with respect to the Middle East – particularly Turkey – and even Russia have increasingly diverged from those of the US.

Europeans should of course try to work with the US whenever possible; but not if it means subordinating their own interests.

Europeans must also start investing in military and economic

autonomy – not to break away from the US, but to hedge against America's abandonment of its commitments.

Fortunately, there is already a healthy debate in European capitals about increasing national defence spending to 2% of GDP; and both the EU Permanent Structured Co-operation framework (PESCO) and French President Emmanuel Macron's new European Intervention Initiative (EI2) represent steps in the right direction.

The question now is whether France's Force de Frappe (military and nuclear strike force) can be extended to provide a credible deterrent for the rest of the EU.

On the economic front, Europe is facing a dilemma as it weighs its values against its business interests.

Former Belgian foreign minister Mark Eyskens once described Europe as "an economic giant, a political dwarf, and a military worm." But Europe is now in danger of becoming an economic dwarf, too.

The fact that the US can threaten secondary sanctions on European companies for doing business with Iran is deeply worrying.

Though the EU is standing up for international law, it remains captive to the tyranny of the dollar system.

Looking ahead, the EU needs to gain more leverage for dealing with other great powers such as China and the US.

If Trump wants to make the transatlantic relationship more transactional, then the EU needs to be ready to trade across different policy areas to make deals.

Consider the US Department of Defence's recent request that the United Kingdom send more troops in Afghanistan.

If the EU were taking a muscular approach, it would deny any reinforcements until the US drops its threats of secondary sanctions on European companies.

Moreover, Europe needs to develop a strategy for political outreach to others.

The G7 is supposed to be the cockpit of the West, but at its recent summit in Quebec, it seemed to be short-circuiting.

So shocking was Trump's behaviour that some senior European

officials now wonder if US allies should form an independent middle-power alliance, lest they be crushed between the rocks of a rising China and a declining America.

In an increasingly deal-based world, a new G6 might offer a defence of the rules-based system.

Still, one wonders if the EU is capable of putting up a united front.

With the bloc splintering into distinct political tribes, it is becoming easier for other powers to pursue a divide-and-conquer strategy.

This has long been Russia's strategy, and it is now being adopted by China and the US, too.

For example, in 2016, southern and eastern EU member-states that rely on Chinese investment managed to water down a joint EU statement on China's territorial encroachments in the South China Sea.

Similarly, Trump routinely reaches out to eastern and southern EU member-states in order to sow divisions within the bloc.

For example, US Department of State officials reportedly made it clear to Romania that the US would not press it on rule-of-law violations if it breaks ranks with the EU and moves its embassy in Israel to Jerusalem.

With US-EU relations already fraught, the Trump administration will be all the more tempted to engage in such tactics.

It is unclear how the EU should respond.

It could impose heavier costs on countries that break ranks on foreign policy, or it could invest more in security so that even countries on the periphery feel as though they have something to lose by undermining EU cohesion.

Alternatively, the EU itself could strike a deal with member states, whereby it would go easy on internal political matters in exchange for foreign-policy co-operation.

Whatever is decided, the EU urgently needs to chart a new course.

Rather than being perpetually surprised and outraged by Trump's affronts, Europeans must develop their own foreign policy with which to confront his behaviour. – Project

Syndicate

\* Mark Leonard is Director of the European Council on Foreign Relations.

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# 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 Ekinci, 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'illegittimità 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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