Business

Friday, May 25, 2018

Merkel woos China as Trump poses new trade challenge

Merkel welcomes China moves to open its economy

BEIJING: China said yesterday it would “open its door wider” to German businesses, helping visiting Chancellor Angela Merkel defend free commerce and counterbalance trade threats from US President Donald Trump that are testing transatlantic ties. Germany and China, two exporting nations that run large trade surpluses with the United States, have found themselves in Trump’s firing line and are scrambling to preserve the rules-based multilateral order on which their prosperity rests.

Merkel faces a delicate balancing act on the China trip, her 11th since becoming chancellor in 2005, as she seeks to show Chinese-German solidarity over free trade and the Iran nuclear deal without harming German ties with long-term ally Washington. In the latest US trade move that has alarmed Beijing and Berlin alike, the Trump administration announced on Wednesday a national security investigation on into car and truck imports that could potentially lead to tariffs.

The announcement hurt share prices of both European and Asian carmakers. China vowed to protect its interests. European countries are also concerned that their exporters could be hurt if China instructs importers to buy more US goods to ease trade disputes with the Trump administration. China has already signaled to state companies to buy more US oil and soybeans, trade sources told Reuters.

Premier Li Keqiang, in a joint media appearance with Merkel at Beijing’s Great Hall of the People, said China and Germany both upheld global free trade, and stressed the huge potential for cooperation between them. Though the two countries had problems, they could be overcome, Li said. “China’s door is open. You can say it will open even wider,” Li said, standing next to Merkel and stressing “friendly relations” with Germany.

Trump’s “America First” trade policy, his administration’s professed disdain for the World Trade Organization, as well as his withdrawal from the Iran nuclear deal, have pushed China and Germany into closer alignment, German officials say. However, Merkel’s government also shares many of the Trump administration’s concerns about Chinese business practices, including what many Western countries have complained are state-backed efforts to pressure foreign companies into giving up trade secrets.

China opens wider door to German businesses

Striding forward

Li said China would protect the interests of German firms investing in China and adjust its rules if needed. “If they come across any problems during their investment, especially when it comes to legal protections, I can clearly tell you that China is striding forward to being a country with rule of law,” Li said. German companies have complained for years about barriers to the Chinese market and the theft of intellectual property.

Merkel welcomed China’s recent announcements that it would further open its financial sector to foreign participation and reduce Chinese joint venture requirements in sectors such as automobiles, a mainstay of German investment in the world’s second-largest economy. But German industry said it was now up to China to deliver on its promises of greater openness. “China must rigorously reduce the asymmetries in market access,” said Hubert Lienhard, head of the Asia Pacific Committee of German Industry (APA).

BEIJING: China’s President Xi Jinping (right) meets German Chancellor Angela Merkel at the Great Hall of the People in Beijing.—AFP

Germany and China should work on a “multilateral global system”, Merkel said, stressing her attachment to the rules-based global framework that Trump is challenging. Trump has also pushed Europe to work more closely with China by pulling out of a 2015 deal between world powers and Iran under which international sanctions against Tehran were lifted in return for Iran accepting curbs on its nuclear program. European countries, Russia and China, which were parties to the deal, are searching for a way to salvage it by continuing to offer economic benefits to Iran in return for its compliance.

Merkel, who personally lobbied Trump not to pull out of the pact but was rebuffed, said Germany and China were “united in the view that we do not want to put this agreement in doubt”. European companies could reduce their business with Iran if they risk US sanctions for trading there, Merkel said, adding with a nod to China: “Of course, this creates the possibility for others to then get more into Iran.”—Reuters

General Electric’s power unit fights for growth as wind, solar gain

NEW YORK: Vistra Energy Corp and Dominion Energy Inc - which serve about 5.5 million electricity customers in more than a dozen US states - both say they are done building combined-cycle natural gas-fired power plants. Instead, they are building large solar plants, which offer plentiful and inexpensive electricity. This bearish view of fossil-fuel energy, reflective of a growing acceptance by utilities of renewable power sources, poses a hurdle to John Flannery’s plan to turn around General Electric Co’s $35 billion-a-year power unit.

GE’s chief executive spelled out the difficulty on Wednesday. Power profits will be flat this year after falling 53 percent in 2017, he said, and GE is planning that demand for heavy-duty natural gas power plants will be less than half what it forecast just over a year ago, and will stay at that level through 2020. New plant sales are “going to be tough,” Flannery said at an investor conference on Wednesday. “This is not going to be a quick fix, but there is, at the end of the day, long-life assets here with intrinsic economic value. We’re going to make the most of what we have there.”

In the long run, Flannery and Russell Stokes, the head of GE Power, have said demand for electricity and natural gas power generators will grow about 2 percent a year - in line with global forecasts - as utilities make a gradual transition to renewable power. Following a strategy he laid out in November, Flannery is cutting 12,000 jobs and $2.5 billion in costs at the unit. On Wednesday, he said GE has tripled some sales incentives in the power division and is competing aggressively for new contracts to maintain plants and to get the call when utilities need parts or repairs during an unexpected outage, something of which GE had lost sight.

But some analysts and investors are skeptical about the long-term prospects of a business devoted to natural gas and coal power plants that are falling out of favor with utilities. The competition from solar and wind, along with abundant low-priced gas produced by fracking, is curbing orders for new plants and forcing the closure of old ones. Some utilities are even filing for bankruptcy. “That means companies are going to have trouble selling new fossil-fuel plants,” said Mark Dyson, a principal at the Rocky Mountain Institute, an organization that researches the power industry.

Over 126 years, GE has weathered ups and downs in power market before, and has legions of sales and service people around the world. Last year it booked 26 orders for its newest gas turbines in Mexico, Bangladesh and elsewhere. It is investing in its separate, $10 billion-a-year renewables unit focused on wind and hydro, which saw revenue fall 6 percent last year. GE also sells battery storage, software and smart-grid technology to work with wind and solar systems. GE power equipment orders - an indicator of future sales - fell 41 percent in the first quarter, accelerating from a 17 percent drop last year, according to GE’s earnings reports.

GE’s performance reflects the broader trend of utilities shifting to renewables from fossil fuels. Global sales of large natural gas power plants have fallen by half since 2013, according to McCoy Power Reports. Coal and gas-fired plants accounted for just 38 percent of new electricity capacity financed globally last year, down from 71 percent a decade ago. Solar and wind now draw 53 percent of such investment, up from 22 percent, a Reuters analysis shows.

“We see a structural change,” Lisa Davis, the chief executive officer of Siemens Corp, the U.S. unit, said in an interview. “There are fewer large units being sold globally than there were five years ago. I don’t see that changing dramatically going forward.” Siemens is cutting 6,100 power and gas jobs to adjust. —Reuters