Kuwait Times
Established 1961

Business

12 Nasdaq withdraws its offer to acquire Oslo stock exchange

13 India's economy major worry for Modi, needs stimulus: Trade body

14 Jazeera Airways celebrates one year of operations at Terminal 5

MILAN: Fiat Chrysler Automobiles (FCA) chairman John Elkann (right) speaks to journalists at the Bocconi University in southern Milan yesterday prior to a meeting called "Competition and Monopoly." —AFP

Fiat Chrysler, Renault pursue $35bn merger

Merger of equals to create global No 3 auto group

MILAN/PARIS: Fiat Chrysler pitched a finely balanced merger of equals to Renault yesterday to confront the costs of far-reaching technological and regulatory changes by creating the world's third-biggest automaker. If it goes ahead, the $35 billion-plus tie-up would alter the landscape for rivals including General Motors and Peugeot maker PSA Group, which recently held inconclusive talks with Fiat Chrysler (FCA), and could spur more deals.

French group Renault said it was studying the proposal from Italian-American FCA with interest, and considered it friendly. Shares in both companies jumped more than 10 percent as investors welcomed the potential creation of a company that would produce more than 8.7 million vehicles a year and aim for 5 billion euros ($5.6 billion) in annual savings.

It would rank third in the global auto industry behind Japan's Toyota and Germany's Volkswagen. But analysts also warned of big complications, including Renault's existing alliance with Nissan, the French state's role as Renault's largest shareholder and potential opposition from politicians and workers to any cutbacks.

"The market will be careful with these synergy numbers as much has been promised before and there isn't a single merger of equals that has ever succeeded in autos," Evercore ISI analyst Arndt Ellinghorst said. With these sensitivities in mind, FCA proposed an all-share merger of equals under a listed Dutch holding company. After a 2.5 billion euro dividend for existing FCA shareholders - giving a big upfront boost to the Agnelli family that controls 29 percent of FCA - investors in each firm would hold half of the new entity.

The merged group would be chaired by Agnelli family head John Elkann, sources familiar with the talks told Reuters, while Renault chairman Jean-Dominique Senard would likely become CEO.

Italian Deputy Prime Minister Matteo Salvini said the proposed merger could be good news for Italy if it helped FCA to grow, but it was crucial to preserve jobs. He did not comment on the French government's 15 percent stake in Renault, but an influential lawmaker from the ruling League party said Rome may seek a stake in the combined group to balance France's holding.

A deal could also have profound repercussions for Renault's 20-year-old alliance with Nissan, already weakened by the crisis surrounding the arrest and ouster of former chairman Carlos Ghosn late last year. The Japanese carmaker has yet to comment on FCA's proposal.

In a letter to employees seen by Reuters, FCA chief executive Mike Manley cautioned a merger with Renault could take more than a year to finalize.

'Bold decisions'

A deal could help both companies address some of the shortcomings that have led their market valuations to lag major rivals, as well as the challenges of switching to electric and self-driving technologies and tougher emissions regulations. FCA has a highly profitable businesses in North America with its RAM trucks and Jeep brand, but lost money last quarter in Europe, where most of its plants are running below 50 percent capacity and it faces a struggle with new emissions curbs.

Renault, by contrast, was an early mover in electric cars, has relatively fuel-efficient engine technologies and a strong presence in emerging markets, but no US business.

A deal would do little, however, to address both firms' limited presence in China, the world's biggest auto market. FCA said the case for a merger was "strengthened by the need to take bold decisions to capture at scale the opportunities created by the transformation of the auto industry."

The huge cost of these changes, including meeting the threats posed by new market entrants such as Tesla in electric cars as well as Uber and Google in self-driving vehicles, has pushed other automakers to work more closely together, including Volkswagen and Ford. FCA-Renault, like almost every possible automotive pairing, has been studied intermittently for years by dealmakers. But the fractious relations between Ghosn and FCA's Sergio Marchionne made constructive merger talks impossible before the former CEO's sudden death last July, banking sources said.

Paris and Rome

The French government, Renault's biggest shareholder, supports a merger with FCA in principle but will need to see more details, its main spokeswoman said. France will be "particularly vigilant regarding employment and industrial footprint," another Paris official said. Any deal must safeguard Renault's alliance with Nissan, which recently rebuffed a merger proposal from its partner, the official added. Seeking to soothe concerns, FCA stressed "new opportunities for employees of both companies".

"The benefits of the proposed transaction are not predicated on plant closures, but would be achieved through more capital-efficient investment in common global vehicle platforms, architectures, powertrains and technologies," it said. Industry bankers said most of the savings were likely to come from procurement, and FCA in particular would benefit from Renault's work on electric and self-driving vehicles where it had done little itself. However, they were skeptical the companies could avoid job losses in Europe.

One source familiar with the matter said FCA had proposed to guarantee industrial jobs and existing sites, leaving scope for white-collar and engineering layoffs as well as some plant downsizing. Appealing to Nissan, which is 43.4 percent-owned by Renault, FCA said the Japanese carmaker would be invited to nominate a director to the 11-member board of the new company.

As alliance partners, Nissan and its affiliate Mitsubishi would benefit from an estimated 1 billion euros in annual savings from the merger, FCA added. But analysts said Nissan brought another layer of complexity. "We now have the French, the Italians, the Japanese and the Americans needing to find consensus on the a board of a Dutch company, where the French state stands to lose its special status," Ellinghorst said. "This requires quite a bit of creativity." —Reuters

Cabinet approves Lebanon 2019 state budget

BEIRUT: The government of heavily indebted Lebanon formally approved a 2019 budget yesterday that includes deep spending cuts to narrow the projected deficit to 7.6 percent of gross domestic product (GDP) in a bid to stave off financial crisis. The budget reflected "a real government will to take a corrective path" in state finances and is based on a growth forecast of 1.2 percent this year, Finance Minister Ali Hassan Khalil said in a news conference broadcast live on television.

It is seen as an important test of Lebanon's will to enact reforms that could stabilize its debt trajectory in a state plagued by chronic corruption and waste. The cabinet had already agreed to the budget in principle on Friday, and it must still pass in parliament.

Lebanon's public debt burden, equivalent to about 150 percent of GDP, is one of the heaviest in the world. Last year's deficit was equal to about 11.5 percent of GDP, and economic growth rates have been weak for years. Khalil said the budget had been well received by foreign states. Last year, international donors at the Paris Cedre conference pledged $11 billion in spending on Lebanese infrastructure in return for its government implementing reforms.

"This is a national need, reducing the deficit, before being linked to Cedre ... For sure there is a positive view from all those concerned abroad to what has been achieved on this level: the reform steps and the level of deficit reduction," he said.

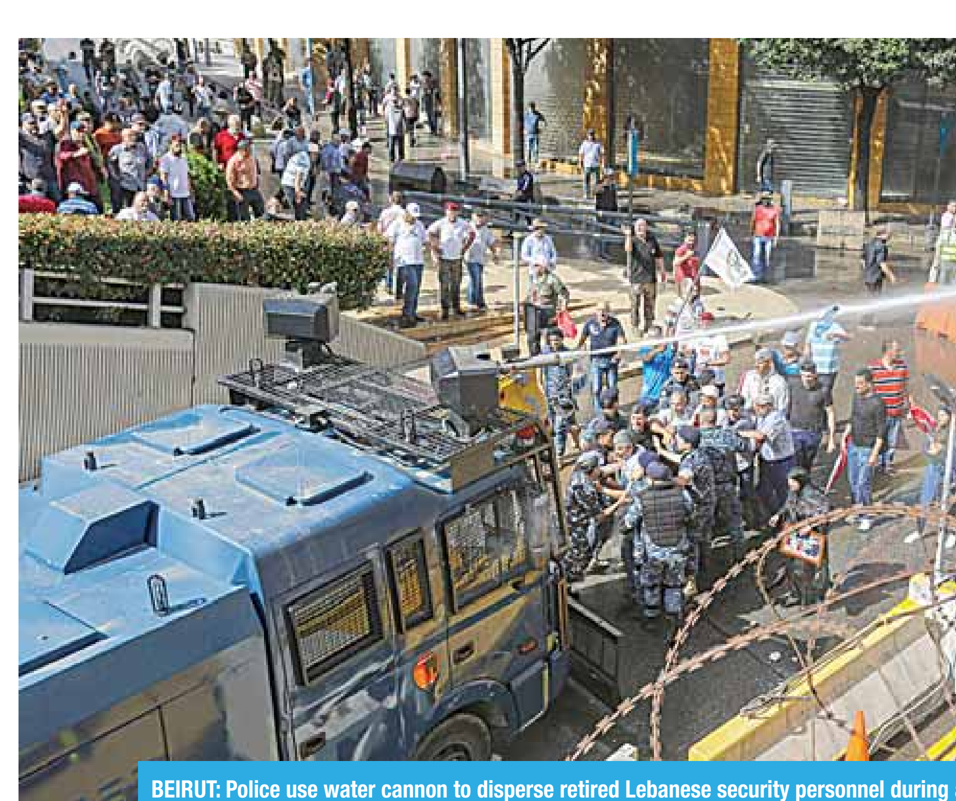
Khalil said that Lebanon now expected the new investment projects to start, and that the Finance Ministry's efforts to keep the deficit in line with budget projections would show its seriousness.

Cuts

This would result in the "injection and launching of new investment projects that will have a big impact on moving the economy," he said. Khalil said the government had taken steps, which he did not spell out, to bring down Lebanon's huge trade deficit which he said was "putting pressure on the matter of the foreign currency reserve". He said those steps had stirred some "reservations" in government. Cuts to benefits and pensions for state workers and the military led to protests and strikes as the coalition government spent weeks discussing the budget. Lebanon's public sector is its biggest expense, followed by the cost of servicing the public debt and subsidies to an inefficient electricity sector.

The budget includes a government plan to cut some $660 million from debt-servicing costs by issuing treasury bonds at a 1 percent interest rate to the Lebanese banking sector, Khalil has previously said.

Central Bank Governor Riad Salameh said yesterday the bank was "keen to follow up on current efforts with a focus on respect for Lebanese law and global financial rules that do not permit any obligatory measures on banks", without elaborating. Salameh said that measures to reform the budget and the power sector were "positive signs" and that financial markets and the Lebanese pound remained stable. Approving the budget in parliament could take another month, Parliament Speaker Nabih Berri was quoted saying in local newspapers. Lebanon's parliament is dominated by parties in the coalition. —Reuters



BEIRUT: Police use water cannon to disperse retired Lebanese security personnel during a demonstration over feared pension cuts near the government's headquarters in the capital Beirut. —AFP