

# Border tax ideas roil oil markets, favour Gulf Coast refiners

REUTERS, Houston/New York

AS with many industries now fretting over the uncertain future of US trade policy, the oil business is sizing up the potential impact of the various protectionist measures being bandied about Washington - which have sent crude markets into a tizzy.

The trade proposal with the most momentum may be the controversial tax reform, pushed by Republicans in Congress, that could slap a tax of up to 20 percent on all imports, including crude oil. That would spark a rise in fuel costs across the country that would hurt East and West Coast refiners more than those near the Gulf of Mexico.

It would also hit the pocketbooks of drivers and airline passengers, as refiners pass on the nearly \$30 billion that the tax could cost them each year on crude imports.

"The consumer is really the one that suffers," Cynthia Warner, executive vice president for operations at refiner Tesoro Corp, said earlier this month at a conference in Houston. Tesoro operates seven refineries: two in California, two in North Dakota and one each in Utah, Alaska and Washington.

The "border adjustment" tax could also redraw trade maps for global flows of crude and refined products. US crude producers would be the obvious beneficiaries as their overseas rivals bear heavy taxes on imports, which are used often by coastal refiners, especially those without direct access to US pipelines.

Higher prices for domestic crude would make pumping from more US fields economically viable - encouraging higher output from the shale patch and giving more momentum to a nascent recovery in the US shale industry after a brutal international price war.

While that likely would not put a big dent in the 7.9 million barrels per day (bpd) that the US imports, Goldman Sachs estimates that US oil exploration and production firms would benefit to the tune of \$20 billion from higher domestic crude price and increased production.

Crude markets have been buffeted by the public back-and-forth between President Donald Trump and the Republican party over various tax proposals.

Contradictory signals from Trump sent the oil markets up and down in recent days. US crude fell to its biggest discount to Brent crude in five months last week after Trump appeared to



REUTERS/FILE

Dark clouds stretch across a refinery as Hurricane Ike approaches the Gulf of Mexico near Houston, Texas.

poured cold water on the idea as "too complex".

The next day, he said the tax would be discussed - and US crude rose relative to Brent.

Traders had speculated on the tax with an options bet that the value of US crude would rise above the global Brent crude benchmark. Trump's comments caused volatility in trade of those options, which in turn impacted benchmark oil prices.

Investment bank Goldman Sachs estimated in a report this week the border tax proposal had a 20 percent chance of passing. But White House chief of staff Reince Priebus seemed to move the President closer to supporting the border adjustment tax on Thursday, in the context of discussing how to make Mexico pay for a security wall on US border with Mexico, his signature campaign promise.

Asked if Trump favoured a border adjustment tax, Priebus said such a tax would be "one way" of paying for the border wall.

Border taxes are part of a broader tax reform plan that is being pushed by Republican House Speaker Paul Ryan as an alternative to a variety of protectionist trade policies discussed in a more ad hoc way by Trump.

While Trump has threatened to impose

tariffs on specific industries or countries in an effort to boost US manufacturing, Ryan's border adjustment tax would tax all imports at 20 percent. Exports would be tax-free.

That could add more than \$30 billion to the annual import bill for US refiners, assuming an oil price of \$53 per barrel on the 7.9 million bpd of imports that fuel the world's largest economy.

A steep rise in import costs would squeeze the margins of refiners dependent on foreign crude shipments such as Chevron and PBF Energy.

But all refiners would see feedstock prices rise if the tax pushed up domestic crude prices - and it would, because there is not enough US crude to meet demand.

To cover the costs to refiners, retail gasoline prices would need to increase by 13 percent, or 30 cents a gallon, energy consultant Philip Verleger estimated in a report last month. Diesel would rise by 11 percent, or 27 cents a gallon.

That would be the equivalent of adding \$300 to \$400 per year to the average consumers' gasoline tab, Barclays Capital said earlier this month.

# Ford braced for \$600m Brexit currency hit

REUTERS, Paris

FORD'S 2017 earnings will be hit by a delayed currency impact of at least \$600 million from Britain's vote to leave the European Union, the US carmaker told Reuters, putting last year's record European profit levels beyond reach.

The company will no longer benefit from currency hedges that had been shielding it from the pound's slump since the June 23 referendum, Ford of Europe boss Jim Farley said on Friday.

"When Brexit happened we were fully hedged for the first quarter with the stronger pre-Brexit exchange rate," Farley said. "As we enter the rest of the year, especially the second half, we now face the full effects of the weaker sterling."

Ford is Britain's biggest engine maker as well as its top-ranked car brand by sales, with a 12 percent market share. The UK government has said it will trigger the two-year process for exiting the EU by the end of March.

The pound hit a seven-year low against the euro in October and remains almost one-fifth below its value at the end of 2015, when uncertainty over Brexit began to weigh.

Sterling's slump is the "only major headwind" Ford currently faces in Europe, Farley said. "We think it could be upwards

of \$600 million this year."

Farley was speaking a day after Ford published 2016 results that included a record \$1.2 billion European profit, while reiterating that this year's global earnings would be lower. Its shares ended 3.3 percent lower on Thursday.

Ford, which employs 14,000 workers in Britain and 25,000 in Germany, also repeated warnings against the introduction of trade tariffs with a final Brexit settlement.

The company builds engines at two UK sites for vehicles assembled in mainland Europe, many of which are then sold back in Britain. A weaker pound hurts the exchange value of UK revenues and squeezes the profitability of vehicles with euro-denominated parts and production costs.

"We've all built our businesses on an integrated model between the UK and the EU," Farley said. "We would expect both entities to work for a free-trade arrangement like (the one) we have today."

British Prime Minister Theresa May has said Britain will leave the EU single market to increase control of immigration, while calling for the "greatest possible" market access.

But German Chancellor Angela Merkel responded earlier this month that London should not get an attractive Brexit deal that might encourage other departures.



REUTERS/FILE

The assembly plant of Ford Motor Company is seen in Flat Rock, Michigan.

# India's investors see transaction tax hike, less friendly budget



REUTERS/FILE

A labourer carries vegetable oil packets on a tricycle, at a wholesale market in Kolkata, India.

REUTERS, Mumbai

INVESTORS in India are bracing for higher taxes and fewer incentives from the government's annual budget on Feb. 1 as the focus shifts to wringing out revenues to finance giveaways and higher public investment.

While Prime Minister Narendra Modi's administration is widely seen as being friendly to businesses and investors, it is not expected to announce any dramatic moves at a time when the economy is under pressure from a cash squeeze.

Among expected measures are a hike in a transaction tax on stock derivatives trading and a less beneficial approach to long-term capital gains tax exemptions, according to analysts.

India could also provide additional details for new rules in April that will crack down on tax havens, after the government on Friday provided some, but not all, key clarifications.

Foreign portfolio investors are also seeking clarity behind "indirect transfer" rules that could increase tax liabilities for overseas funds.

But any negative impact from such measures could easily be offset should the government also lower corporate tax rates or provide incentives to sectors hit by government's surprise decision in November to abolish high-value banknotes, analysts said.

"We can certainly see a sensitivity for investor concerns, and the government wants to do things like ease the cost and complexities of doing business, improve India's competitiveness rankings and attract foreign investors," said Rajesh H. Gandhi, a tax partner at Deloitte Haskins & Sells.

"However, at the same time the government has revenue pressures as it seeks the meet its fiscal targets."

Expectations for higher taxes for investors have increased since Modi said in December that market participants needed to make a "fair contribution" to nation-building, without providing any details.

Among the potential measures could be a second consecutive annual hike in the Securities Transaction Tax for futures and options markets, currently set at around 0.05 percent for every 10 million trades. India could also lower the time threshold for long-

term capital gains.

Currently, investments sold after at least a 12-month holding period are exempt from taxes, while anything below that is taxed at up to 20 percent of the gains.

For foreign investors, the budget is expected to provide guidelines behind the General Anti Avoidance Rule (GAAR) that will start in April that are intended to crack down on tax avoidance.

The government eased some of the doubts on Friday by saying that GAAR would not apply for foreign investors based in a jurisdiction for genuine commercial reasons, while saying investors meeting key conditions of individual tax treaties would not be subject to GAAR.

Overseas portfolio investors will also seek more details after India's tax department said in December that foreign companies with more than 50 percent of their assets in India could be liable to pay indirect transfer taxes when exiting from their investments.

The comment was seen as potentially ensnaring foreign funds that have more than half of their portfolios invested in India.

# Uber driver: rare job for hard-up French suburban youth

AFP, Aubervilliers, France

MALIGNED by leftist French politicians as a symbol of the jobbing economy, Uber is making inroads in high-rise Paris suburbs, with the prospect of work luring thousands of young drivers despite difficult conditions.

On a freezing afternoon in January a line of young men stretched out of the door at an Uber driver centre in the tough suburb of Aubervilliers, northeast of Paris.

Around 800 people visit the centre a day, according to Uber, many seeking information on how to become a driver for the ride-hailing app in one of its biggest markets.

With unemployment in Aubervilliers running at around 25 percent, Uber and other ride-hailing apps offer rare prospects for those prepared to work between 10 and 15 hours a day.

"A lot of friends of mine have no degree. They have nothing. Here they don't ask for anything. We show our criminal record, our ID and that's it," said Riyad Boumendjel, a 23-year-old driver with an angular soccer-player haircut. Boumendjel delivers meals for Uber's takeaway food business, UberEats.

Like many suburban youths with names that hint at immigrant origins, he says he faces discrimination when applying for regular jobs.

Being his own boss allows him to avoid bias from employers, even if it means putting in long hours to make a decent buck -- a fact that sparked protests and blockades by Uber drivers in December.

Yanis, a 25-year-old father of two, also credits Uber with giving him a break, seeing driving as a chance "to try to make a living the legal way".

Yanis works for one of the thousands of companies that have sprung up in the Paris suburbs to supply chauffeurs for Uber and competitors such as Chauffeur Prive and SnapCar. For the first six months he spent up to 20 hours a day on the road to earn just 1,500 euros a month (\$1,600 dollars), only fractionally more than the minimum wage.

Since then he has switched to another limousine company and is happier with his lot.

"If I met the head of Uber, I'd thank him. It's because of him that I'm no longer stuck in my 'hood," he said, asking that his full name be withheld for fear of being targeted by Uber critics.

A survey carried out by Uber last year among 1,500 drivers showed that 39 percent were previously unemployed and that 41 percent did not have a high-school diploma.

Not all drivers are singing Uber's praises, however, with disaffection growing over its pricing policy and conditions.



REUTERS/FILE

A Uber recruiter talks to a jobseeker at a technology job fair in Los Angeles.

Devrim Omurca, a self-employed driver with a five-star Uber rating, says he works seven days a week to pay the bills with what's left after Uber's 25-percent cut.

"You have to do 65 hours minimum. That's too much. I don't see my family very much and it takes a toll on your health," said 40-year-old Omurca, whose wife is expecting their second child.

France's relationship with Uber has been a love/hate affair since the US upstart burst onto the scene a few years ago, throwing the taxi industry into turmoil.

In 2014, the French parliament

banned the low-cost UberPop service that used non-professional drivers.

French authorities have also taken legal action against Uber for treating its drivers as "partners" rather than employees with contracts, thereby skirting France's strict labour laws.

But the French travelling public has taken to Uber with gusto, lured by its competitive pricing, ease of use and the courtesy of its drivers, who are beholden to customer ratings.

Entrepreneurs in the run-down northern Paris suburbs have jumped on the bandwagon, with 2,003 companies set up to serve Uber and its competitors in 2015 -- everything from car leasing to insurance and

driver training academies.

But the influx of drivers onto the market has made it harder for each to earn a decent wage. In December, chauffeurs blockaded roads around Paris for a week complaining Uber was running them into the ground.

Thibaud Simphal, Uber's Regional General Manager for Western Europe, said the company was working to improve the situation and to help drivers optimise their business.

"It's not the only sector where independent workers are working very long hours for something that feels like low pay. But that is always better than no job," he argued.