US refiners, chemical makers pare insurance coverage as accidents boost costs

NEW YORK: US refineries and petrochemical plants are cutting back on insurance because several years of severe accidents have driven up the cost of coverage, industry and insurance sources said. With less insurance coverage for physical damage and business interruption, energy companies could be liable for millions of dollars of costs in repairs and lost business in the case of an explosion or fire. In the worst-case outcome, entire refineries could close if insurance coverage is inadequate.

Insurance rates for property damage and business interruption have increased as much as 100per cent for some refiners, particularly those that have experienced explosions or fires in the past. Energy companies, which have traditionally bought billions of dollars in insurance, are buying less coverage than in the past. Unexpected refining outages have soared in recent years, surpassing 2,000 incidents in 2019, quadruple 2015 levels, according to Industrial Info Resources, a provider of industrial process and energy market intelligence.

MORE MONEY, MORE PROBLEMS: Annual insurance premiums are costly. A refiner worth US$1 billion will likely pay US$2.5 million or more, according to loss adjusters. Losses are mounting for what is known as business interruption policies, which provide coverage for companies that lose income after operational problems, according to Michael Buckle, managing director of downstream natural resources at rival broker Willis Towers Watson. Last year's fire that shut the Philadelphia Energy Solutions refinery could cost US$1.25 billion in insured losses alone, though industry sources say PES will likely receive less than that amount from its insurers. Husky Energy is counting on insurers to fund the US$400 million rebuild of its refinery in Superior, Wisconsin after a 2018 explosion.

Insurance companies with sizable energy exposure such as AIG and CV Starr are responding by offering less overall insurance capacity or reducing exposure, according to insurance industry sources. AIG did not return a request for comment and CV Starr declined comment. Insurers have increased the cost of coverage by 25 percent to 100 percent, depending on a variety of factors including the insurer's assessment of risk based on a history of losses. Some refiners are responding by curbing their coverage.

"Refiners are choosing to buy coverage for only 90, 80, 70per cent of their total asset value in response to insurance rate hikes," said one senior refining executive, who spoke to Reuters on condition of anonymity. Some refiners also choose to delay the number of days before their business interruption coverage to cut costs, the executive added.

CHANGING RISKS: Gross crude oil inputs into U.S. refineries reached a record high in 2018 of 17.3 million barrels per day. Refinery utilization rates rose to 93.1per cent in 2018, the fifth straight annual increase, according to U.S. Energy Department figures. Refining margins were strong through 2018 and 2019, which discourages refiners from shutting down for maintenance.

"When refinery margins are high, there can be a tendency for refineries to extend turnarounds in order to take advantage of the more profitable environment," said Ian Robb, head of risk engineering at insurance carrier Liberty Specialty Markets. Many U.S. refineries have added units to take advantage of growth in chemicals and plastics demand. Insurance sources said the growing size and complexity of refineries adds to insurance risks, because an interruption in one unit can affect production in several other units, such as petrochemical production. These new "interdependencies" expose insurers to increasing business interruption risk, said Steffen Halscheidt, global practice lead for oil & gas of Allianz Global Corporate and Specialty.

The growth in joint refining ventures and increased acquisition activity can add to risk for insurers, Halscheidt said. Acquisitions that cause workforce turnover can lead to changes to a refinery's operations and the departure of experienced workers. **—Reuters**

Coca Cola quarterly revenue beats on soft drinks, teas boost

NEW YORK: Coca-Cola Co on Thursday reported quarterly revenue above market expectations, driven by demand for its sparkling soft drinks, teas and coffees. Net revenue grew 16per cent to US$9.07 billion. Wall Street was expecting US$8.89 billion, according to IBES data from Refinitiv. Net income attributable to the company's shareholders rose to US$2.04 billion, or 47 cents per share, in the fourth quarter ended Dec. 31, from US$870 million, or 20 cents per share, a year earlier. **—Reuters**

Electricity in Indonesia getting more expensive thanks to climate change

ENSCHEDE: Severe weather conditions triggered by climate change can adversely affect the operation of power plants.

Heavy rainfall, heatwaves and lightning can disrupt electricity transmission and distribution networks and cause power outages. A 2019 World Bank report showed natural shocks and climate change caused 44 per cent of power outages in the US between 2000 and 2017 and 37 per cent of outages in Europe between 2010 and 2017.

LISTEN: Heart of the Matter: Talking about the Madrid climate talks, what happened and what's next? Our study found disruptive weather and climate change disrupt the electricity supply-chain, including electricity generation, transmission and distribution, affecting Indonesia's state-owned electricity company (PLN) and its consumers.

HEAVY WIND AND RAINFALL: Heavy wind and rainfall are by far the most significant threats to the power distribution networks.

In the Java-Bali region alone, these events accounted for more than 95 per cent of weather-related power outages during 2014 to 2015. Strong winds knocked down trees and billboards onto power distribution lines. Heavy rainfall also led to widespread power cuts as soaked, heavy tree branches touched distribution wires.

Indonesia flood People making their way through a flood in Jakarta. A severe flood on the northern coast of Jakarta in January 2013 forced the gas-fuelled Muara Karang power plant to shut down for 12 days and more than 500 units of inundated distribution substations in the Central Jakarta region were turned off for safety reasons. The incident cost the state US$15 million. Heavy rainfall also made coastal power plants and transmission substations more vulnerable to floods. This could lead to emergency power shutdowns.

A notable example is a severe flood on the northern coast of Jakarta in January 2013 that forced the gas-fuelled Muara Karang power plant to shut down for 12 days.

RISING SEAWATER TEMPERATURES AND HEATWAVES: Rising seawater temperatures and heatwaves can also affect the operation of power plants. For coal power plants, seawater temperature affects their cooling systems. This system circulates seawater through pipes to absorb heat from steam and discharges the warmer water back to the sea. Warmer seawater reduces the energy efficiency of the power plants. Higher seawater temperature also triggers jellyfish blooms.

In April 2016, an inflow of jellyfish forced Paiton coal power plant in East Java to shut down for 20 days. This caused an estimated loss of US$21.7 million for PLN. Indonesia's Meteorology, Climatology and Geophysics Agency has explained that an extremely cold temperature in Australian seas triggered the jellyfish outbreak. The change in temperature forced jellyfish to migrate to the warmer North Java Sea. Heatwaves are a particular concern for natural gas power plants. These plants need ambient air to produce electricity. The higher the air temperature, the lower the efficiency of a gas power plant, which then reduces its power outputs.

SEVERE DROUGHT AND LIGHTNING: Extreme dry seasons affect hydro power plant operations. Drought reduced generating capacity in Saguling and Cirata hydroelectric power plants, both located in West Java, in 2011, resulting in estimated financial losses of US$51.5 million for the utilities. Indonesia currently has installed capacity to produce about 1,400 megawatts of electricity from Power plants' transmission networks are prone to lightning strikes.

CLIMATE CHANGE AFFECTING CONSUMERS: Floods in 2014 and 2015 forced PLN to shut down the inundated distribution substations for safety reasons. It affected 89,000 consumers. They could not get electricity for an average of 16 hours in 2014 and 1.7 hours in 2015. Floods earlier this month forced PLN to turn off nearly 2,500 distribution substations in Greater Jakarta. Power interruptions are inconvenient and lead to economic losses for consumers and electric power utilities. Workers stand outside a MRT station closed due to a major power blackout in Jakarta For households, power outages make it impossible to turn on air conditioners, causing inconvenience and discomfort, especially in cities with warmer temperatures.

CLIMATE-RESILIENT INFRASTRUCTURE: Amid the constant threats of weather-related power outages, analysis of the vulnerability of Indonesia's electricity sector to climate change is still lacking. Given the sector's vital role in meeting the target of 99 per cent of the population having access to electricity as well as the national target of reducing carbon dioxide emissions by 29 per cent by 2030, the country must improve the sector's resilience to climate

Swatch profits go backwards as Hong Kong protests bite

GENEVA: Swiss watchmaker Swatch Group said on Thursday profits dwindled last year as sales in one of its biggest markets Hong Kong took a beating amid months of sometimes violent pro democracy protests.

Swatch, which is best known for its brightly coloured plastic-cased watches but also owns several luxury brands including Breguet and Omega, posted a 2019 net profit of 748 million Swiss francs (US$770 million, €699 million), marking a decline of 13.7 per cent from 2018. The company's global sales meanwhile shrank 2.7 per cent year-on-year to 8.2 billion Swiss francs, it said in a statement.

While sales were in line with expectations, the net profit figure was well below the 801 million francs analysts polled by Swiss financial news agency AWP had anticipated. Swatch said results had been hit by a range of "political uncertainties", while a "negative currency situation" in which the Swiss franc strengthened against a range of currencies had made a 76-million-franc dent in its sales. But it was especially the situation in Hong Kong that had taken a toll, the company said. The drop in sales in the former British colony, where Swatch operates more than 90 retail stores, amounted to around 200 million francs in the second half of 2019 alone, it said. Excluding Hong Kong, the company said its overall sales figure actually grew by five percent during the second half of the year. 2019. **—AFP**

Sweden's AB Volvo plans big shareholder payout as profit beats

STOCKHOLM: Swedish truck maker AB Volvo reported a smaller than expected fall in fourth-quarter earnings in the face of slowing demand and announced plans on Thursday for a payout to shareholders that exceeded market expectations. The downturn in the volatile truck cycle that will be a test of Volvo's resilience with CEO Martin Lundstedt having spent his four years at the helm boosting flexibility across the group. With forecast-beating earnings and shareholder payout, analysts saw clear signs Lundstedt's work is paying off.

"This is really what people have been waiting for," Handelsbanken Capital Markets analyst Hampus Engellau said. "The first quarter will be weaker. But if it is weaker from these levels, that still makes for very strong figures."

Operating profit at the maker of trucks, construction equipment and buses fell to 9.2 billion crowns (US$969 million) from a year-ago adjusted 10.6 billion, beating an analysts' mean forecast of 8.4 billion, according to Refinitiv estimates. The rival of Germany's Daimler and newly listed Traton said it was focused on adapting to lower volumes and while its production in Europe was well aligned with demand in Europe, further cuts were needed in North America.

"Our increased profitability and strong financial position allow us to invest in our future as well as return cash to our shareholders," Lundstedt said in a statement. Strong truck sales ahead of the current slump have helped drive cash generation at Volvo in recent years, allowing it to give an extraordinary payout to shareholders a year ago and fuelling analysts' expectations for more of the same.

Volvo proposed raising its ordinary dividend to 5.5 crowns per share from a year-ago 5.0 crowns and said it planned an extra dividend of 7.5 crowns per share, up from the 5.0 crown per share bonus payout last year. Analysts had on average forecast a total payout of 10.36 crowns per share for 2019, Refinitiv estimates showed.

The Gothenburg-based company maintained its forecast for heavy truck markets to contract just under 15per cent in Europe and nearly 30per cent in North America this year, an outlook broadly in line with that delivered by U.S. rival Paccar earlier this week. Order intake of its trucks, which includes brands such as Mack and Renault, was down 10 percent year-on-year in final quarter of last year, a far milder slump than the 45 percent decline recorded in the preceding quarter. **—Reuters**

BT says cap on Huawei in UK networks will cost it £500 million

LONDON: BT said Britain's decision to limit Huawei's role in building 5G and fibre networks would increase the cost of its gigabit-communications plan by about 500 million pounds (US$657 million) over five years. Philip Jansen, chief executive of Britain's biggest broadband and mobile provider, said he welcomed the clarity around the use of vendors such as Huawei, a long-standing BT partner.

"(We) agree that the priority should be the security of the UK's communications infrastructure," he said in a third-quarter trading update on Thursday.

"We are in the process of reviewing the guidance in detail to determine the full impact on our plans and at this time estimate an impact of around 500 million pounds over the next 5 years." BT reported a worse-than-expected 3per cent drop in third-quarter revenue to 5.78 billion pounds (US$7.6 billion), saying it was impacted by regulation, competition and legacy product declines. Core earnings were also below market forecasts, down 4per cent to 1.98 billion pounds, which the company blamed on the fall in revenue, higher spectrum fees, investment in customer experience and higher operating costs in its networks arm Openreach. Analysts were expecting the company to report total group revenue of 5.83 billion pounds and core earnings of 1.995 billion pounds, according to a company-supplied consensus. BT said it remained on track for the year, although its free cash flow would be in the lower half of its 1.9 billion to 2.1 billion guidance range. **—Reuters**

TEXAS: A process tower flies through the air after exploding at the TPC Group Petrochemical Plant, after an earlier massive explosion sparked a blaze at the plant.

Unemployment rates edge up in Singapore in 2019

SINGAPORE: Unemployment rates edged up last year amid economic challenges, in what Manpower Minister Josephine Teo said was a "concern" but not "alarming".

Singapore's annual average overall unemployment rate rose to 2.3 per cent last year from 2.1 per cent in 2018, holding steady in the last three months of the year after trending upwards in the previous quarters, according to preliminary numbers released by the Ministry of Manpower (MOM) in its Labour Market Report on Thursday. Unemployment for residents increased to 3.2 per cent last year from 2.9 per cent in 2018, while that for Singaporeans stood at 3.3 per cent, up from 3 per cent previously. NTUC assistant secretary-general Patrick Tay said that structural challenges such as skills and jobs mismatches continue to be the main cause of unemployment in Singapore. He said that he is "eagerly looking forward" to greater support and funding for Singaporeans in the upcoming Budget, particularly in a challenging climate. "With the current and impending challenges such as our demographic/labour force profile, global issues such as the US-China trade war, Brexit and increasing protectionism, technological disruption, the Wuhan virus etc, (I) am eagerly looking forward to greater support, funding and focus in the areas of jobs and skills for Singaporeans," said Mr Tay.

"The support should come in various forms and ways targeted at both workers (especially mature workers and PMEs) and employers (SMEs included) so that we can be best poised to confront, overcome and ride the wave of change and challenges," he added.

EMPLOYMENT CONTINUED TO RISE IN CHALLENGING YEAR: Total employment continued to grow last year despite economic headwinds during the course of the year and the uncertainties that remain ahead, noted MOM in its report. Totaly employment (excluding foreign domestic workers) grew by 16,600 in the October to December quarter, lower than the third quarter of last year (21,700) but higher than a year prior (14,700).

This took 2019's total employment growth to 55,200, said MOM. Local employment rose by 26,500 last year, similar to the 27,400 recorded in 2018. Expansion was seen in services industries, but local employment contracted in industries such as manufacturing and wholesale trade, which were affected by the "softer economic conditions".

"Similar to the past two decades, local employment grew in tandem with total employment," said the ministry. About half of foreign employment growth (excluding foreign domestic workers) was due to an increase in work permit holders working in construction.

Excluding construction and foreign domestic workers, foreign employment grew by 14,900 in 2019, slightly lower than 2018's count of 16,300.

RETRENCHMENTS SLIGHTLY LOWER: Retrenchments last year were slightly lower than in 2018. MOM said there were 10,700 retrenchments for the full year, compared with 10,730 in 2018. Retrenchments were higher in manufacturing and services, but lower in construction. In the last quarter, 2,700 people were retrenched, slightly higher than 2,470 in the third quarter and 2,510 in the fourth quarter of 2018. Speaking to the media on Thursday, Manpower Minister Josephine Teo pointed out that while the unemployment rate has inched upwards since the start of 2018, with resident and citizen unemployment rates hovering at around the 3 per cent mark, these numbers are still lower than the 4 to 5 per cent figures seen in the previous decade."From that perspective, the unemployment rates for 2019 are a concern but they are not alarming," Mrs Teo said.

Coupled with "better than expected" employment growth and an absence of a spike in retrenchments, the numbers suggest that "the challenge is not primarily the lack of job creation or jobs being created, but possible job-skills mismatches," Mrs Teo added. The real median income of full-time employed Singaporeans increased 3.9 per cent annually from 2014 to 2019, "significantly" higher than the 2.1 per cent annual growth in the previous five years, said MOM. Over the last five years, real income growth at the 20th percentile rose by 4.6 per cent annually, higher than the 3.9 per cent annual growth at the median.

"This was helped by initiatives to raise the income of low-wage workers in recent years. As a result, their income gap with the median worker narrowed," said MOM. **—CNA**