

FINANCIAL TIMES

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Clouds over Cancún

Expectations are low, but not low enough. Pages 10, 14 and 15

The City's future relies on an independent Bank. Alistair Darling. Page 15

News Briefing

BP sells stake in Pan American for \$7bn

BP's asset disposals have topped the \$20bn (£12.8bn) mark after the UK oil group agreed to sell its interest in Argentina's Pan American Energy for \$7 billion to its joint venture partner, British Petroleum.

Amazon's global push

Amazon says it plans to rebuild its international e-commerce platform to make it easier to reach customers in new markets.

Lack of lenders urged

Private providers of SME services have lodged a formal complaint with the health department over plans that will see about 10,000 of care handed over to other parts of the health service.

Korea crisis talks urged

China has called for "emergency consultations" by members of the security talks with North Korea to ease tensions over Pyongyang's shooting of a South Korean jet on Tuesday, which killed four people.

Foreign tax review

George Osborne will today launch a consultation on a far-reaching overhaul of rules aimed at the departure of multinationals in recent years.

Airline presses Boeing

The repeated delays affecting Boeing's 787 Dreamliner are a great disappointment, said its first customer, Japan's All Nippon Airways.

Tencent to revamp site

Tencent, which runs QQ, the world's biggest instant messaging service, will offer users links to third-party websites and access to externally developed applications for the first time.

Travelers back checks

Most travelers support the introduction of strict security measures at airports, including full-body scanners and metal detectors that could identify passengers who pose a terrorist threat.

Egypt poll complaints

Opposition candidates and election monitoring groups complained of widespread irregularities in Egypt's run to the polls to elect a new parliament.

Dubai eyes sell-offs

Dubai is considering the privatisation of concrete companies as a means to start paying down its estimated \$10bn in debt, senior officials said.

Rio stronghold raided

Brazilian security forces have taken control of Rio de Janeiro's biggest crime stronghold.

Separate sections

Managing Climate Change. Record in depth of change in FTI. Fund management article.

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Watchdog to raise figures on growth

City economists urge cautious response. Fears eased over double-dip recession.

By Chris Giles in London and George Parker

Growth in 2010 is expected to be revised upwards and potential public sector job losses adjusted downwards today when the new independent budget watchdog presents its final autumn forecast. But leading economists warn that in spite of some December news it is too early to stop worrying about the effects of the coalition's deficit reduction plans on future growth.

The annual report, which will be published by the Office for Budget Responsibility, would be the first to take the September-expected growth this year as its starting point. It is too early to say whether the coalition's tax rises and public spending cuts will be expected to raise the deficit for 2010 growth, made at the time of the June budget.

Public sector jobs losses are expected to rise to 100,000 in the last-OBR report, said George

EU agrees €85bn Irish bail-out and accelerates debt-crisis scheme



George Osborne, chancellor, with the French finance minister Christine Lagarde in Brussels on Sunday.

Osborne, treasurer, decided to raise to benefit a further major public spending. In the second and third quarters of 2010, the economy grew by 0.8 per cent more than the OBR expected at the time of January's Budget. This "strong" growth came on the back of income tax and VAT rises and a cut in corporation tax.

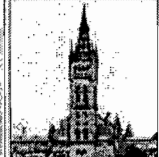
But Jonathan Layton of Capital Economics said the real economic growth was slower than expected in the third quarter. It is "worry" and "evidence from other countries" which have started their fiscal consolidation - not least Ireland - is "hardly encouraging".

Chris Egan of the British Venture Capital Association said it would expect support from the financial sector to ease even without the cuts.

The British contribution below about 0.5bn. Interest rates will vary on different parts of the package but the Irish government said that the average rate would be 5.6 per cent. But opposition parties in Ireland have already raised concerns that by closing off alternative bank financing from the ECB to Irish banks and replacing that with longer-term bank facilities, EU institutions were in effect shifting risk between themselves and leaving Ireland with a higher interest bill.

Britain, Ireland's former minister said that the loan-out was "the very best that is achievable for our country".

Free thinking



Glasgow University, the alma mater of James Watt and David Hume, is making a bold attempt to commercialise a science research by offering its intellectual property for use in British enterprises.

The move is a first for a UK university, as a means of raising the profile of Glasgow's research and helping commercialise its intellectual property.

It left Barack Obama's administration scrambling to limit the damage.

Report, Page 2

US damage-control as WikiLeaks lays bare undiplomatic dealings

Cables cover Cameron, North Korea and Iran

By Daniel Danahy in Washington and George Parker in London

North Korea has provided Iran with new, more capable missiles, US diplomats at the UN are seeking challenges on allies and Washington is deeply concerned about Iran's nuclear potential.

It left Barack Obama's administration scrambling to limit the damage.

The reports also reveal instructions for US diplomats to obtain sensitive information for

intelligence agencies, including credit card numbers, on their counterparts in the UN and elsewhere. They said that the US has tried since 2007 to remove weapons-grade uranium from a Pakistani research reactor, out of fear that it could be used for a bomb.

These cables detail extensive private discussions with foreign governments and opposition leaders.

It described the "field reporting" in the cables as "confidential, often incomplete and not an accurate record of what

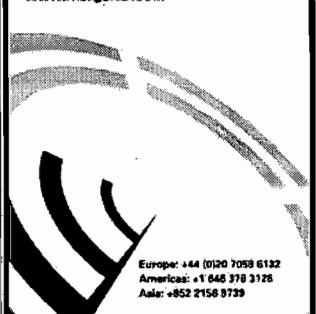
Reports and analysis, Page 12. In depth: www.ft.com/wikileaks

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It's time for a radical rethink of global energy conversation THE JOURNAL REPORT

BP selling \$7 billion stake in Pan American Energy BUSINESS & FINANCE 19

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Rio police claim ascendancy in shantytown battle



Brazilian police and security forces raided the Alemao shantytown in Rio de Janeiro Sunday and gained the upper hand against up to 600 drug traffickers holed up there. Article on page 3

EU officials set aid blueprint, plan Irish loans

BY CHARLES FORELLE AND MARCUS WALKER

BRUSSELS—Europe sealed a €67.5 billion (€80.34 billion) bailout of Ireland Sunday, while simultaneously laying plans to transfer some of the cost of rescuing an insolvent country, years in the future, to its private-sector lenders. The Irish deal includes €50 billion to prop up government finances and billions more thrown into Ireland's ailing banks. Money is coming from two European Union funds and the International Monetary Fund. Three countries outside the euro area—the U.K., Sweden and Denmark—also agreed to chip in money.

The Irish bailout is intended as a signal that the euro zone will come to the aid of its own. The plan to share pain with banks and other private-sector lenders is a message that the munificence won't continue forever. Germany has pushed such a measure for months. To Germans, the higher cost of

borrowing that would result is an essential disincentive to the sort of profligate debt accumulation that felled Greece this spring and triggered the crisis.

But heavily indebted countries, such as Italy, aren't keen on the potential strain to their public purses. Plus, no one wants to shock already-jittery debt markets.

Under the compromise reached Sunday, the EU agreed to enact a new big bailout fund of undetermined size. It will replace, in 2013, the €440 billion temporary facility created in May and now being used to help Ireland. Under the new fund's terms, creditors of countries considered insolvent could be forced into a restructuring before the fund doled out aid.

For Greece and now Ireland, European taxpayers and the taxpayer-backed IMF have stepped into the breach with cash.

Germany didn't get its way entirely: Both Jean-Claude Trichet, president of the European Central Bank, and

Jean-Claude Juncker, the Luxembourg premier who heads the group of euro-zone countries, said that private-sector creditors would face restructuring on a "case-by-case" basis—and not automatically, as Germany had wished.

The new system wouldn't affect creditors until mid-2013, and new "collective action clauses" that could smooth restructuring would only be inserted into euro-zone bonds issued from June 2013 onward.

Ireland is the second euro-zone country, after Greece, to call for help paying its bills. Ireland needs cash to cover a big deficit, made worse by its spending on bank bailouts. Bond markets have all but cut Ireland off by demanding soaring interest rates.

They have also become more wary of lending to Portugal and Spain, stoking fears

Please turn to page 3

- Ireland's woes hit the country's 'new poor' 4
Belgian debt level prompts investor concerns 4

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The Quirk



What's in a name? It's hard to tell what some companies actually do. Page 33

World Watch

A comprehensive rundown of news from around the world. Pages 34-35

Editorial & Opinion

Spanish growth. Seriously. Page 13

WikiLeaks releases data despite push from U.S.

A Wall Street Journal Roundup

Hundreds of thousands of leaked U.S. State Department documents reveal a hidden world of international diplomacy, divulging candid comments from world leaders and detailing occasional U.S. pressure tactics aimed at hot spots in Afghanistan, Iran and North Korea.

The classified diplomatic cables released by online whistleblower WikiLeaks and reported on by news organizations in the U.S. and Europe provide often unflattering assessments of foreign leaders, including U.S. allies such as Germany and Italy.

The more than 250,000

documents also contain new revelations about nuclear trouble spots, detailing fears of Iran's growing nuclear program and U.S. discussions about a united Korean peninsula as a long-term solution to North Korean aggression. Saudi King Abdullah repeatedly urged the U.S. to attack Iran's nuclear program and China directed cyberattacks on the U.S., according to the documents released.

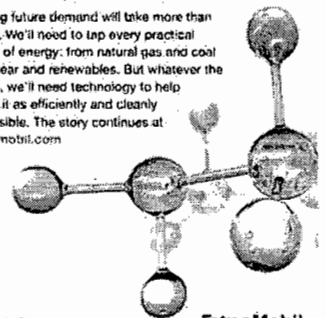
The State Department made a last-minute push to press WikiLeaks founder Julian Assange not to release the classified documents, arguing it could endanger activists globally, U.S. counterterrorism operations and the

war in Iraq and Afghanistan.

In a letter sent Saturday, the State Department's legal adviser, Harold Koh, also denied a request made by Mr. Assange's lawyer for the U.S. government to provide WikiLeaks with information on the people Washington believes could be endangered by the publication of the documents. "Despite your stated desire to protect those lives, you have done the opposite and endangered the lives of countless individuals," Mr. Koh wrote. "We will not engage in a negotiation regarding the further release or dissemination of illegally obtained U.S. government classified materials."

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PAGE TWO

Italy seems in good financial health, but the warning signs are still there

The new businesses needed to generate innovation and growth are hard pressed to get off the ground.

By IRWIN STELZER



The good news is that Italy, euroland's third largest economy, is not like Greece or Ireland. No major

housing bust, no major banking implosion, at least not yet. The bad news is that Italy is like Portugal, which also has so far escaped housing and banking problems of Greco-Irish proportions, but is growing so slowly that its tax revenues might fall short of covering its IOUs. The worse news is that Italy's economy is almost half again as large as Spain's, and troubled Spain is a country deemed too big to fail, but which the euro zone can't command sufficient resources to save.

Italy's relatively good financial position is due to some competent bank regulators and its talented central bank governor, Mario Draghi. Unfortunately, their success does not mean that all is well. Mr. Draghi complains that Italy is "incapable of growing at a sustained rate ... a clear loss of competitiveness compared to our main European partners." From 1998 to 2008, German productivity increased 22%, France's 18%, and Italy's a mere 3%. If productivity growth is not increased, Italy's economy will be unable to grow at faster than the

1% rate the government projects for this year and next. In which case, says the Organization for European Economic Co-operation, tax revenues will decline, and Italy will not be able to meet its deficit target.

But the new businesses needed to generate innovation, productivity and growth are hard pressed to get off the ground. Credit Italy's entrepreneur-blockage to the spaghetti-like red tape, corruption, a tax structure that maximizes incentives to evasion, and an overweening government bureaucracy.

Compounding the problem is the depressed view Italy's business community has of its government. Prime Minister Silvio Berlusconi, his widely reported dalliances with young women not as amusing to Italians as they are to the rest of the world, will face a confidence vote on Dec. 14. Italian businessmen with whom I have spoken believe that no matter the outcome of that vote they will end up with a government still incapable of clearing the garbage from gangster-controlled Naples, or saving Italy's crumbling art treasures, or pushing through needed structural reforms of the economy.

Add a quite justified feeling of helplessness. Italians cannot set the exchange rate they need to become competitive, especially with China's under-valued renminbi: Italy long ago gave up the lira for the euro. They cannot set the interest rate appropriate to their economic circumstance:

that is set by the European Central Bank largely to suit the Germans. They cannot control their energy costs: the cartel that is the Organization of Petroleum Exporting Countries determines the cost of energy in a country overly dependent on oil.

The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized family-owned enterprises. These labor-intensive industries are finding that the market for high-price quality goods is being eaten away by lower-quality and far lower-priced goods made by Chinese laborers both in the People's Republic and in Italy.

In Venice, designers and makers of the city's famous glassware doubt they will long survive the competition of made-by-Chinese knock-offs. Vicenza's gold-jewelry manufacturing industry is also shrinking as Asian makers take over that market. These labor-intensive industries and their family-owned companies are not dissimilar to Portugal's shoe industry, which is being wiped out by cheaper Chinese imports.

Competition comes not only from far-away Asia. Many products once turned out by Italian craftsman are now manufactured in Italy by colonies of Chinese immigrants working hours and at pay that Italians are unable or unwilling to match. Worse still, I am told that both in China and in Italy the workers toil



on machines that were designed in Italy, sold to China, and then copied for use by the low-paid Chinese workers.

There is a flip side to this coin. The streets of many major Italian cities are crowded with Chinese shoppers depleting the shelves of big name-brand retailers such as Gucci and Prada. By their shopping bags shall ye know them. Italian-made unbranded goods can't lure the international-brand-obsessed Chinese into their stores. So Italian manufacturers and shop keepers doubt their ability to survive.

Greece, Ireland, Portugal and Spain are paying premiums of between 5% and 7+% over German 10-year bunds. Italy, which recently paid a premium of only about 1.7%, might be next in investors' sights unless it can get its economy growing at better than the 1% rate it is now managing. After all, with debt equal to 120% of gross domestic product, Italy is more heavily in hock than Portugal, its total debt running at 85% of GDP. And Portugal's World Bank ease-of-doing-business rank of 31 puts it just below Israel and the Netherlands, while Italy is ranked 80th, meaning it is tougher for an entrepreneur to do business in Italy than in Mongolia or Zambia, and only a notch or three easier than in Jamaica, Albania and Pakistan. That might be the most ominous portend of all.

—Irwin Stelzer is a director of economic-policy studies at the Hudson Institute.

Berlin and Paris agree debt crisis mechanism

Bail-out response

Role of private creditors outlined

Changes to come into effect in 2013

By Ben Hall in Paris, Quentin Peel in Berlin and Joshua Chaffin in Brussels

European finance ministers have given their blessing to the outline of a new permanent mechanism to deal with future eurozone financial crises, after a deal was brokered in Brussels with France and Germany.

The proposal was presented to the finance ministers by the European Commission on Sunday, with the blessing of Jean-Claude Juncker, chairman of the 16 eurozone member states in the Eurogroup, and Herman Van Rompuy, president of the European Council, as well as the French and German governments.

The plan spells out how private creditors will be involved in future eurozone debt crises, and how a new European stabilisation mechanism will take over as a financing mechanism for debt-laden states from 2013, when the present €440bn scheme runs out.

Officials said they hoped a deal would convince the markets of the resilience of the eurozone.

The main feature of the new system, the ESM, will be for future borrowing by eurozone members to include collective action clauses that would involve bondholders in any eventual debt restructuring.

The clauses make it easier for creditors and debtors to agree to change the terms of a bond.

"The message to the markets is that it will only come into effect in 2013, and

there is nothing in there that the markets do not already know about," a senior German official said. "Collective action clauses are already used in the US and UK."

Governments that borrow from the facility would be bound by the sort of strict conditions regarding their fiscal and economic policies that were attached to Greece's bail-out in May.

One potential obstacle to EU-wide approval for the mechanism came from Italy, which, according to French and German officials, argued against collective action clauses fearing they would reduce bond market liquidity.

A central element of the plan is that future debt crises in eurozone member states would be dealt with on a case-by-case basis, rather than according to any automatic mechanism.

"We are not putting in place a default mechanism of any sort," said a senior official at the Elysée palace, who pointed out that the arrangement was based on procedures used by the International Monetary Fund, a key demand of Paris and the ECB.

A eurozone country with liquidity problems would be able to apply for emergency funding from the ESM subject to a tough fiscal adjustment programme – as with Ireland or Greece – without having to restructure its debts or agree a standstill.

However, if the country's debt position was judged by the IMF, the ECB and the Commission to be unsustainable, it would have to enter negotiations with its creditors to restructure its debt as a condition of further bail-out funding.

With this new second stage of the mechanism, Germany appears to have gained some of the "automaticity" it was seeking.

During a liquidity crisis, private sector creditors would be encouraged to maintain their exposure to the real economy of a troubled country or to its sovereign debt. But during the second stage, there could be a graduated response, including debt standstills, maturity extensions, interest rate cuts and outright writedowns or haircuts.

French officials insisted that restructuring was a last-resort scenario and that collective action clauses did not make it more likely.

Under the proposal, the new system will be phased in after 2013, meaning it would take six to eight years before the new government bonds, including collective action clauses, amount to a majority of public debt.

The Commission was originally supposed to present the outlines of the mechanism at a meeting of European leaders in December. But the parties decided to accelerate their work in order to give greater clarity to jittery investors. Speculation that they would face harsh treatment in future crises is one factor that unsettled the markets, ultimately forcing Ireland to request a bail-out.

The compromise was produced following urgent negotiations over the weekend between Berlin, Paris and Brussels.

Steffen Seibert, German government spokesman, said the two-page paper was finalised by France and Germany, working "very closely" with Jean-Claude Juncker, the Luxembourg prime minister who chairs the 16 eurozone members in the Eurogroup, as well as Herman Van Rompuy, permanent chairman of the European Council, and with José Manuel Barroso, president of the European Commission.

Berlin and Paris are anxious not to be seen to be laying down the law for the other EU member states but to be working in close collaboration with all the EU institutions.



Dublin pays €17.5bn for own rescue

6%

Average rate of interest on bail-out repayment

€22.5bn

IMF contribution to the €85bn bail-out package

Pension fund and cash reserve raided

Senior bondholders at banks avoid loss

By Joshua Chaffin in Brussels

Ireland will contribute €17.5bn to its own rescue, easing the strain on European Union finances in case Portugal or other crisis-hit member states require assistance.

The Irish contribution to the €85bn bail-out will come from its cash reserves and its National Pension Reserve Fund, a sovereign wealth fund which, at the end of September, had €24.5bn under management.

After much debate, it was also determined that the senior bondholders who lent money to Irish banks will not have to suffer losses. "There will be no haircut on senior debt," said Olli Rehn, the EU's commissioner for economic and monetary affairs.

Mr Rehn said the interest rates Ireland would pay would average approximately 6 per cent. That figure is based on prevailing market rates, plus an additional 300 basis points.

Ireland extracted one concession from the commission and the IMF: an agreement to extend by one year

its deadline to reduce its fiscal deficit to 3 per cent of GDP. According to the terms of the package, it will now have to do so by 2015.

The interest rates were among the last pieces of the package to be agreed, and have been the subject of intense bickering between EU officials and the Irish government as they scrambled to finalise the package over the weekend.

Finance ministers discussed Portugal and Spain during Sunday's meeting, with both countries reviewing their responses to the crisis. Yet officials refrained from mentioning either country. For the last week, they have launched a public campaign to draw distinctions between them and Ireland.

"It's clear that the Portuguese don't believe they need [help] yet," said one person briefed on the meeting.

"No one can ask us for more austerity measures because it would make matters worse and endanger our recovery from the crisis," Elena Salgado, Spanish finance minister, told reporters in Brussels.

The bail-out represents the first time the EU has drawn on a €750bn emergency funding system drawn up with the International Monetary Fund following the Greek bail-out in May. The sheer size of the system was supposed to reassure investors that it would never be put to use.

Of the €85bn package, the IMF will contribute €22.5bn and Europe will contribute €45bn. Half the European share will come from the European Financial Stability Mechanism, a fund overseen by the commission and

backed by the EU budget. The balance will come from the European Financial Stability Facility, backed by the 16 members of the eurozone, as well as bilateral loans from the UK, Sweden and Denmark.

The UK will put up €3.84bn in such loans. It will also account for €3.1bn of the EFSM money - or roughly 3 per cent. The Swedish loans will amount to €598m, while the Danish contribution will be €393m.

The question of imposing losses on bondholders was debated intensely leading up to Sunday's agreement. While it would be politically popular in Ireland, European policymakers were concerned that it could again unnerve markets just as they are trying to reassure them and bring the crisis to a halt.

Fears that it could spread further were one reason that policymakers were keen to limit the strain on the EU's financial arsenal. Diplomats generally agree that there is enough money in the system to cover a bail-out for Portugal, but probably not Spain.

Both countries saw their borrowing costs continue to rise last week even after the outlines of the Irish austerity package. That suggests investors are still nervous about European debt.

European leaders will receive a first indication if their latest effort has been more successful when markets open today. Seeking to sway the debate, Mr Rehn said that the Irish bail-out "should decisively address the current nervousness in the financial markets".

Additional reporting by John Murray Brown in Dublin



Outline for stabilisation mechanism ● Eurozone rescue fund to be replaced €85bn Irish bail-out agreed

Interest rates will vary on different parts of the package but the Irish government said the average rate would be 5.8 per cent

By Nikki Tait and Joshua Chaffin in Brussels, Quentin Peel in Berlin and John Murray Brown in Dublin

European Union finance ministers last night signed off an €85bn bail-out package for Ireland and approved the outlines of a permanent mechanism for dealing with future debt crises in the eurozone, in a move to head off further contagion affecting borrowing for Portugal and Spain.

In a surprise move, proposals for the permanent mechanism were dramatically accelerated from a December deadline, after a flurry of telephone conversations between Berlin and Paris and top officials in Brussels and the European Central Bank.

The plan would replace the present €440bn eurozone rescue fund, due to expire in 2013, with a permanent "European stabilisation mechanism". At the same time, private creditors would be involved in any future debt rescheduling or restructuring through collective action clauses attached to eurozone government bonds after 2013 - in line with current International Monetary Fund practices.

"We are applying a doctrine based on the experience of the IMF at a global level," said Jean-Claude Trichet, president of the European Central Bank.

EU leaders hope the moves will calm bond markets in the 16-country eurozone. Olli Rehn, EU monetary affairs commissioner, said the aim was to "clarify once and for all" private

sector involvement in future government debt crises.

Under the Irish package, EU countries and the IMF will provide up to €85bn, which may be drawn down over up to 7½ years.

About €50bn is aimed at bolstering Ireland's public finances while it implements a €15bn austerity package in the next four years. Of the remaining €35bn, €10bn will recapitalise Ireland's stricken banks, while €25bn will be a contingency fund to help support the banking system if necessary.

The Irish government will contribute €17.5bn towards the bank contingency fund, while the IMF will put in €22.5bn. This will also include three bilateral loans from the UK, Sweden and Denmark, with the British contribution being around €3.8bn.

Interest rates will vary on different parts of the package but the Irish government said the average rate would be 5.8 per cent. But opposition parties in Ireland have raised concerns that by closing off short-term bank borrowing from the ECB to Irish banks and replacing this with longer-term bank assistance, EU institutions were effectively shifting risk between

themselves and leaving Ireland with a higher interest bill.

Brian Cowen, Ireland's prime minister, said the bail-out was the "very best that is achievable for our country". Michael Noonan, finance spokesman for Fine Gael, the largest opposition party, said any incoming government would accept the fiscal targets in the austerity package, but would want to renegotiate those terms.

EU ministers also said that loan maturities in the Greek package, agreed this year, would be extended in line with the Irish terms.



Raggiunto un accordo del valore di 85 miliardi di euro per il salvataggio dell'Irlanda (pds)

Britain approves £3.2bn assistance

Bilateral loans

By George Parker
In London, Joshua Chaffin
In Brussels and
Andrew Ward in Stockholm

Britain has approved £3.2bn in bilateral loans to Ireland, as part of a wider UK contribution to the bail-out of its "friend in need" across the Irish Sea.

George Osborne, chancellor, also agreed British loans worth £2.6bn to Ireland through its participation in the EU's €60bn (\$80bn) stability mechanism, as well as support worth £800m through the International Monetary Fund. Total costs to the UK will be up to £6.6bn.

Mr Osborne said the rate of interest applicable to the bilateral loan would be "very similar" to that applied to the rest of the Irish bail-out package. "That is money we fully expect to get back," he said.

Britain's participation in the rescue of a eurozone country has been controversial with many of Mr Osborne's Conservative colleagues, who say the issue is primarily one for members of the single currency.

But the chancellor has tried to allay their concerns by arguing that Ireland is a "specific case" because of its strong economic links with Britain.

Mr Osborne is also concerned about the exposure of British banks to Ireland, notably RBS, which is largely state-owned. Paris and Berlin argued that Brit-

ain had no choice but to be fully involved in the rescue.

Sweden and Denmark - two other non-eurozone countries - also weighed in, with contributions of €598m and €303m respectively.

Sweden's participation underscored its status as one of Europe's most willing economic firefighters since the global financial crisis erupted, having played a central role in international bail-outs for Iceland and Latvia in 2008.

Anders Borg, Swedish finance minister, told the Financial Times last week that, while his country had little direct economic exposure to Ireland, it was in Sweden's interests to help: "The financial stability of Europe is at risk so it is important to make a broader effort to try to stabilise the situation. For a country like Sweden, that is so open and dependent on Europe, it is impossible to sit on the sidelines when this kind of risk occurs."

Of the Nordic countries, Denmark has the most direct interest in Irish stability because its largest lender, Danske Bank, has a sizeable presence in Ireland through its subsidiary, National Irish Bank. But Claus Hjort Frederiksen, Danish finance minister, echoed Mr Borg in arguing that Denmark's main concern was the threat of contagion to the broader European financial system: "It is in Denmark's interest as a small and open economy to ensure a stable Europe."



Europe is edging towards the unthinkable

If we had the luxury of not starting from here, as the Irish joke goes, a less invasive solution could have been found



Wolfgang Münchau

A correspondent whom I respect challenged me last week. It is easy to criticise eurozone governments, he wrote. But how about some constructive advice?

OK. The following actions would solve the problem. But the chances are you are going to hate them.

First, I would favour some immediate debt restructuring for Greece, Ireland and Portugal – the three countries with the most unsustainable debt trajectories. This could involve haircuts, debt-for-equity swaps or other schemes. What matters is that the liabilities of the public sector are reduced to a sustainable level.

On its own, this would not be a solution at all. On the contrary, the bond markets would seize up completely. Investors would quickly conclude that all European debt – except German – was insecure.

For the plan to work, it would take two further steps. First, we have to find a way to separate national debt from financial debt. I would change the remit of the European financial stability facility, the sovereign bail-out fund, and charge it with the restructuring and downsizing of the European banking sector. Banking must be taken away from the member states.

That would alleviate the pressure on sovereign debt but would not solve the problem. For that, I would turn all outstanding sovereign bonds, existing and new, into a common European treasury bond.

Since a single bond constitutes the core of a fiscal union, you also need a functioning institutional set-up. You need, of course, a eurozone treasury, lots of rules and democratic

control. What I am proposing is a regime change. It would require a new European treaty, no doubt. But it would end the crisis. And it would end all speculation about the longevity of the euro.

Meanwhile, back on earth, let me assure you that my proposal stands no chance of success. For a start, Angela Merkel, the German chancellor, would not allow it. The German constitutional court would not allow it either. The proposed treaty change would almost certainly be defeated in some referendum if it were agreed. And member states would never countenance ceding control of their banking sectors.

So how about some realistic suggestions? I think we have moved beyond a situation in which the “realistic” technical fix can do the job. If we had the luxury of not starting from here, as the Irish joke goes, a much less invasive solution could have been found several years ago. One could have constructed a system based on policy co-ordination. One could have established credible bail-out, default and exit rules. But the European Union chose not to act during the euro’s fair-weather decade. The longer you wait, the more radical the solution has to become. Today, the eurozone must deal with a simultaneous – and inter-acting – financial and governance crisis. The radical nature of my proposed solutions is merely a reflection of the mess we are in.

So what is going to happen? The eurozone has only one strategy for now, the bail-out, shortly to be followed by the bail-in. Axel Weber, president of the Bundesbank, last week made a revealing comment when he offered his macro-arithmetic of the crisis. He said the various bail-out funds added up to €925bn. The maximal possible financial risk in the eurozone is €1,070bn, leaving a small gap of €145bn. The implication is that the eurozone would somehow find the petty cash to make up the difference in a worst-case scenario.

This is very typical of the complacency with which European policymakers approach this crisis. How can we be so certain about the maximum damage? Every day last week, the markets seized on another country. On Friday it was the turn of Spain. Who knows, this week they might go after Italy and Belgium.

There are other accidents waiting to happen. Ms Merkel and Nicolas Sarkozy, the French president, were last week putting the final touches to their new bail-in rules, to introduce collective action clauses in sovereign bond contracts. I would not be surprised if at least one member state rejected the Franco-German diktat. For example, I cannot see how Spain or Italy can conceivably support them. To use a seasonal analogy, it would be like turkeys voting for Christmas.

Another accident waiting to happen could be a decision to appoint an unknown technocrat to lead the European Central Bank when Jean-Claude Trichet retires next autumn. As Mr Weber is skilfully manoeuvring himself out of contention, there is a danger that the EU may once again settle for a less well-known candidate, similar to Herman Van Rompuy, who in his first year as president of the European Council has failed to provide leadership during the crisis.

A more immediate accident could be an unco-ordinated decision to wipe out Irish bank bondholders. If that happened, eurozone sovereign risk premiums would go through the roof. This is why I am proposing to separate banking risk from sovereign risk – and to pool the latter. I think bondholder bail-ins are a good idea. But they cannot work on their own.

The eurozone is manoeuvring itself into a position where it confronts the choice between two alternatives considered “unimaginable”: fiscal union or break-up. If you are saying my proposals are unrealistic, you are making a very strong statement indeed – one with implications that I somehow find unimaginable.

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L'Europa si sta spostando verso l'impensabile (pds)

Germany sets out roadmap to default

Berlin's moves on bank and sovereign debt are welcome

Throughout the eurozone crisis, policymakers have been reluctant to countenance the idea that either sovereign borrowers or big banks might ever default. Now Germany has come up with two policies that would make both far more credible. This is to be welcomed.

The first is an idea to append so-called collective action clauses to all future issues of eurozone sovereign debt. The second is a law that Berlin is pushing through to establish a special resolution regime that would allow the regulator to deal with failing banks

Germany has been rightly arguing for an orderly mechanism to allow countries to default if they cannot repay their debts. The collective action clause could be a way to achieve this. Eurozone countries would add the clause to the contracts of new sovereign debt issues, allowing restructurings to be accepted by a majority vote of the creditors. By overriding holdouts, this would make orderly restructurings possible.

True, this would not change things today. Collective action clauses help only when enough of a country's outstanding debt contains such clauses to make a difference. That lies some years in the future - even were such a measure to be agreed upon across the eurozone and enacted immediately. But

where it might help in the current crisis is in persuading Germany to extend or enlarge the European Financial Stability Facility.

In the meantime, with sovereign solvency far from assured, there is a risk of contagion to the financial sector - especially for those sovereigns with bloated banks. Crises can blow up with surprising speed. So it is to be welcomed that Germany is finally enacting a special resolution regime that could permit the regulator to impose restructurings on banks. True, this will work only if the regulator has the gumption to use it. So far, Berlin has shown little willingness to let creditors suffer. But at least it demonstrates that Germany is trying to get ahead of events at last, rather than trail behind them.

Doing these things in the midst of a crisis is not ideal. Objectors will point out that they will push up borrowing costs both for banks and for states at the very moment when this is hardest to bear.

But there are no easy choices. Some countries already face sky-high borrowing costs. And it is clear that there can be no return to pre-crisis conditions, where all could borrow at or near German rates. That flawed model is now broken. Berlin's ideas may not be the final destination, but at least they point in the right direction.

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La Germania stabilisce la roadmap per le inadempienze finanziarie (pds)

ECB to rethink phasing out of liquidity support

'Trichet's touch is going to have to be deft in managing the debate and communication'

Governing council

By Ralph Atkins
in Frankfurt

The eurozone's escalating crisis has put the European Central Bank on guard ahead of its interest rate-setting meeting this week, leaving open the possibility it will shelve further steps to unwind emergency liquidity support for the region's banks.

Jean-Claude Trichet, president, has flagged Thursday's meeting as the moment when it will decide on liquidity arrangements for early 2011. Public comments prior to the ECB's pre-meeting purdah period had hinted at another move towards normalisation.

But mounting financial market tensions over Ireland, and the threat the crisis will engulf Portugal and Spain, have altered the debate within the ECB's 22-strong governing council and strengthened the case for staying its hand.

Mr Trichet could instead focus more on maximising the pressure on governments to act swiftly to stabilise problem banks and restore investor confidence. "Mr Trichet's touch is going to have to be as deft as ever in managing the debate and communication," said Julian Callow, European economist at Barclays Capital.

Earlier this month, Jürgen Stark, one of the more hawkish council members, argued "conditions in both

money and financial markets had improved significantly" notwithstanding the problems in "some" segments. "The phasing out of our liquidity support measures will continue after the end of the current quarter," he added.

After the collapse of Lehman Brothers in September 2008, the ECB started providing unlimited liquidity for periods of up to a year. It has since stopped supplying unlimited 12-month and six-month loans, without creating much disruption. A next move could be to reintroduce an auction system for three-month liquidity.

Such a step, however, would depend on the market reaction to the week-end's Irish developments – as well as on the ECB judging that the eurozone's weakest banks could manage on unlimited offers of only monthly and weekly liquidity, and that such an announcement would not add to market nervousness.

When setting its main interest rate, ECB decisions are based on conditions in the eurozone as a whole. But policymakers at the euro's monetary guardian know it is not possible to take the same approach with "non-standard measures", such as the unlimited liquidity provision.

Use of the facilities is concentrated in the eurozone "peripheral" economies, where banks are cut off from other sources of financing. At the end of October, Irish banks had

€130bn (\$172bn) in loans outstanding from the ECB, almost a quarter of the total. They have also borrowed directly from the Irish central bank – suggesting some might have run out of the collateral needed to borrow from the ECB.

But banks in Portugal, Spain, Greece and even stronger economies such as Germany, are still borrowing heavily from the ECB.

To ease their dilemma, ECB council members could consider action to deal directly with the problem of those banks "addicted" to its liquidity, possibly by altering its operational framework. But it seems unlikely that such measures will be announced as early as this week.

Meanwhile, economists expect the ECB to revise its economic forecasts to show the 16-country eurozone economy expanding by about 1.6 per cent next year. In September it had expected 2011 growth in a range with a mid-point of 1.4 per cent. A similar pace of growth is likely to be forecast for 2012.

Forecasts for annual inflation are expected to show it remaining more or less within the ECB's goal of a rate "below but close" to 2 per cent – strengthening expectations that the ECB's main interest rate will remain firmly at the record low of 1 per cent at least until well into next year.



Banking landscape set for dramatic change

Belt-tightening

By Sharlene Goff and Jennifer Hughes in London

The landscape of the Irish banking market is set to change beyond recognition after the government on Sunday night signed off a €35bn rescue package to restore capital and liquidity to the country's financial institutions.

The bail-out will include an upfront capital injection of €10bn as a quick fix for the banks' tattered balance sheets and a further €25bn of liquidity measures to ease the recent paralysis in their funding markets.

The recapitalisation will fire the starting shot on a painful restructuring process that is expected to trigger a wave of building society mergers and push every large lender into government hands.

Allied Irish Banks will in effect be nationalised after the government is expected to provide €5.3bn of fresh funds needed to lift its core tier one capital ratio above the newly required level of 12 per cent. Bank of Ireland must raise €2.2bn of fresh funds and could see the government's stake rise from 36 per cent to as high as 80 per cent.

The banks have already been forced to make considerable concessions for the state aid they have received during the financial crisis and people close to the latest bail-out talks believe this time the terms will be even tougher.

Both Bank of Ireland and Allied Irish are to be

shrunk to a fraction of their former size, while smaller lenders, such as mutually owned EBS, Irish Nationwide Building Society and Irish Life and Permanent, could disappear altogether as they are merged or folded into larger organisations.

Analysts say the key to restoring confidence in the banks is to strip them of the billions of euros of risky loans that are still clogging up their balance sheets.

However, people close to bail-out talks say a big challenge is finding a way to clean up the banks without crystallising large losses, which would renew pressures on their capital levels.

The government is expected to set targets for the banks to slim down their balance sheets and work with them to identify packages of loans for sale.

An additional €16bn of distressed loans is set to be siphoned off into Nama, the vehicle set up to buy toxic commercial assets, as a part of the deleveraging process.

The government recognizes that investors are unlikely to show interest in assets at anything but rock-bottom prices and so has set aside €2bn of the initial €10bn capital injection to boost the quality of saleable loan portfolios.

It is understood to still be discussing the creation of a giant state-owned bad bank that could sweep up all the institutions' toxic loans. However, this would mean the government would still shoulder the risk of the loans turning bad.

Speculation had focused

on whether the banks could force their senior, or most protected, bondholders to take losses as part of any recapitalisation. Cutting their debt would help shrink the banks' balance sheets. However, the heavy reliance of the sector on government-guaranteed bonds and secured borrowing means that of the €46.2bn of bonds to be repaid in the next three years by the three largest banks - Bank of Ireland, Allied Irish and Anglo Irish Bank - only 35 per cent is not already tied up in this way.

Bankers have warned too that a so-called "haircut" on senior bondholders - which only usually happens in bankruptcy - would risk upsetting other European banks' access to the senior debt markets, where they have collectively raised more than €560bn this year.

Another big concern is the dramatic reduction of competition likely to come as a result of the bail-out.

Bank of Ireland and Allied Irish, the two largest lenders, will be focused on deleveraging, while the wind-down of already nationalised Anglo Irish is expected to be accelerated.

Plans to merge the three smaller lenders - Permanent TSB, the banking arm of Irish Life and Permanent, EBS and Irish Nationwide - are also being discussed.

Two foreign providers - Danske Bank of Denmark and Ulster Bank, which is owned by Royal Bank of Scotland - say that they are still committed to Ireland but both have drastically scaled back their lending operations.



Banking by mobile phone finds its global niche

BERLIN

Less-developed countries embrace sending money through text messaging

BY KEVIN J. O'BRIEN

In Tanzania, a hospital sends money by text message to women in remote areas so they can pay for bus fare to travel for critically needed surgery. In Afghanistan, the government pays its police officers by text message to skirt corrupt middlemen. In Pakistan, the biggest financial network is not a bank, but a unit of Telenor, the Norwegian mobile phone operator.

While storefront bank branches and online banking are ubiquitous in the United States and most developed countries, in less-developed countries only a small fraction of the population is served by banking services.

Mobile banking first appeared in the Philippines in 2001, when two operators, Globe and Smart, introduced their own domestic payment plan. In most mobile banking models, the person sending a payment sends the amount by text to the recipient's phone number.

The person receiving the payment goes to an authorized local agent, typically a mom-and-pop retailer that also sells prepaid mobile phone cards, and withdraws the cash.

In parts of Latin America, Africa, the Middle East and Asia, more than 90 percent of people typically carry at least one mobile phone, a technological tether that mobile operators are exploiting to become retail bankers to the emerging world.

"Five years ago, there was hype around mobile banking but no real numbers in terms of customers," said Mung Ki Woo, vice president of electronic payments and transactions at Orange, the wireless unit of France Télécom. "Now we are starting to see significant numbers. I think the potential of mobile banking is huge, going forward."

Since December 2008, Orange has signed up one million people for its Orange Money mobile banking service in six African countries: Mali, Senegal, Ivory Coast, Madagascar, Kenya and Niger. In Kenya and Tanzania, subsidiaries of the British mobile operator Vodafone now process more international wire transfers than Western Union.

In Kenya, Vodafone has 13 million customers and in Tanzania, six million customers for its mobile banking service, which generated 670 million transactions last year, primarily for domestic or international money transfers, said Peter Cornforth, a Vodafone business development manager for the service, called M-Pesa. Pesa is the Swahili word for money.

In Kenya, coffee growers routinely pay their field workers by text message,

"I think the potential of mobile banking is huge."

and in Tanzania, Vodafone customers pay the national electric utility, Luku, by text. In Dar es Salaam, Tanzania, a rehabilitation hospital called C.C.B.R.T. sends bus fare via texts to women who travel to it for surgery to correct fistula incontinence, a common side effect of childbirth.

"Apart from being a serious new business for operators, these services for the first time are connecting people to critical banking services, and making positive changes" in their lives, said Mr.

Cornforth, who is based in London.

Telefónica, the Spanish operator that is a market leader in Latin America, plans to start mobile banking services in four South American countries next year. Globally, the number of mobile banking users is expected to surge more than sixteenfold, to 894 million by 2015 from 55 million in 2009, according to Berg Insight, an industry research firm based in Stockholm.

Almost all of those mobile banking customers — 78 percent, or 697 million people — are in Asia, Africa, the Middle East and Latin America, according to Berg Insight. In Europe and North America, mobile banking remains secondary to personal computer-based Internet banking. Even so, the on-the-go convenience of mobile banking is attracting users in the West.

About 10 percent of U.S. bank consumers use mobile banking, usually to transfer money, make payments or monitor bank accounts, said Teresa A. Epperson, a partner at Mercatus, a Boston company that advises banks and financial institutions. As more U.S. consumers buy smartphones, mobile banking's market penetration is expected to exceed online banking's, which currently is about 50 percent, by 2015, Ms. Epperson said.

"This is only going to get bigger, in our opinion," she said.

The potential is great in Latin America, where only 35 percent of the people have bank accounts, only 19 percent have bank cards but 90 percent have mobile phones, said Pablo Montesano, the head of mobile financial services at Telefónica.

Investors are also beginning to recognize the potential of the technology. In September, a leading maker of mobile banking technology for SIM cards, a French company called Gemalto, bought Trivnet, an Israeli company that makes financial transaction management software for mobile operators, for \$40 million.

Only six months earlier, Trivnet had won the contract to supply mobile bank-

ing technology in Latin America to Telefónica.

Amit Mattatia, the Trivnet chief executive, said that 10 to 15 operators next year are planning to start large mobile banking operations in big markets in Latin America, the Middle East and India. Citing confidentiality, he declined to identify the operators.

"Because so much of the world is under-banked, consumers want these services very much," Mr. Mattatia said.

As the cost of a simple mobile phone has fallen below \$20 in most of the world, mobile banking is becoming affordable in emerging markets.

"This is now poised to explode in the developing world," said Philippe Vrieland, a senior vice president in Singapore for Gemalto.

In Pakistan, where only 14 percent of the people have bank accounts, Telenor introduced mobile banking in November 2008.

The service, called Easypaisa (100 paisa equal a Pakistani rupee), now has 500,000 active users who sent transactions worth a combined 5.5 billion rupees, or \$64.1 million, in the first quarter of this year.

Most were domestic money transfers, which are limited to \$120 a transfer. Telenor exacts a fee of as much as 5 percent of the transaction.

Easypaisa is available at 11,000 independent retail agents that make up Telenor's distribution network, which outnumber the 8,300 combined branches of all Pakistani banks.

Within three years, Telenor plans to expand the number of retailers in its network to 36,000.

"This service is about addressing the unmet needs of the consumer," said Aamir Ibrahim, a vice president and chief strategy officer at Telenor Pakistan. "I think this is suitable for all of our markets everywhere."

Le operazioni bancarie tramite dispositivo mobile trovano una nicchia nel mondo (sa)

