Russia announces tiny oil output cut, prices tumble

AFP, *Moscow*

Russia stuck to its guns in the price war with OPEC on Friday by announcing a tiny production cut that sent oil prices tumbling on markets which had expected much firmer support from Moscow.

Deputy Prime Minister Viktor Khristenko said that Moscow would add only a cut of 20,000 barrels per day to the 30,000 bpd reduction announced earlier this month, far below analysts' expectations.

Oil prices slumped 80 cents to 18.70 dollars for Brent North Sea crude for January on the news that Russia would only reduce production by 50,000 bpd in the fourth quarter, as OPEC dismissed the move as "not nearly enough."

The deputy prime minister however noted that Russia had still not agreed the size of its export cut for the start of next year, saying that those figures "will be finalized" in the coming days.

The decision was reached during a meeting led by Prime Minister Mikhail Kasyanov and attended by Energy Minister Igor Yusufov and heads of LUKoil, Surgutneftegaz, Rosneft, TNK, Yukos and Sibneft oil companies.

Oil prices had rallied some six per cent to above 20 dollars per barrel on expectations that Moscow could announce a significant cut despite some pressure from the Kremlin and Russian energy insiders to continue exports and production at their current high rate.

In Vienna, an OPEC source said the 11-member cartel was determined to make Russia bow to reality and cooperate.

"It's not nearly enough. We should continue putting more pressure on the Russians," said the source.

He added that OPEC Secretary General Ali Rodriguez is planning to travel to Moscow, possibly in the second week of December, to discuss slumping oil prices since the September 11 terror attacks in the United States.

OPEC has indicated it will cut its production by 1.5 million barrels per day so as to support the oil market only if non-cartel producers, including Russia, cut their own output by 500,000 bpd.

However, after Norway, the world's third-largest oil exporter, announced Thursday that it was cutting its production by 100,000 to 200,000 bpd, Moscow seemed left with little choice but to follow suit.

Analysts said that Russia's tough stance risked unleashing a full-scale price war if OPEC also held its nerve and did not cut output.

"The risk is that OPEC does not cut and we head towards a price war," said Stephen O'Sullivan from the United Financial Group investment bank.

The small reduction agreed Friday came in response to heavy lobbying from Russia's most powerful oil chiefs, who are now exporting at record levels to fill in the gap left by OPEC, according to UFG.

Sibneft, the number five producer led by Yevgeny Shvidler, remained the most virulently opposed of the Russian majors to the cuts.

The number two Russian company Yukos held by Mikhail Khadarkovsky was also likely to suffer significantly from a significant reduction, and seen as a heavy opponent of the cutbacks.

"It is not in Russia's interest to reduce its output in order to preserve prices since the costs of doing so outweigh the benefits," UFG said in a research note.

Other analysts noted that Russian oil majors were much more ready to cut exports to global markets rather than production on the whole, and that an agreement with OPEC may still be reached.

French consumers rescue economy, official data show

AFP, *Paris*

Consumers put unexpected power into the French economy in the third quarter, official data showed on Friday, signalling growth of 0.5 per cent instead of 0.3 per cent as forecast.

The French economy's firm growth in the third quarter contrasts sharply with growth in the Germany where the economy contracted by 0.1 per cent in the third quarter.

In Germany consumers have been less willing to maintain spending patterns than in France where the government, which has its eyes on presidential and general elections in the first half of next year, has sent clear signals that it has opted to support growth.

But the OECD warned on Tuesday that the price will be an overshooting of the public deficit, resulting in spending cuts later.

And the French statistics institute INSEE, which published the data, revised downwards the figure for growth of gross domestic product (GDP) in the second quarter from the first-quarter figure of 2001, from 0.3 per cent to 0.2 per cent.

Deputy Budget Minister Florence Parly said earlier this month: "Our duty is to act, to act so that growth is as strong as possible." And she said that boosting consumer spending was the linchpin in the government's efforts.

So far the government's signals has borne some fruit as consumers keep spending allowing the economy to avoid the type of sharp economic downturn that has hit Germany.

Analyst at bank CCF, Niclos Claquin, said: "The motor of this growth remains household spending. Public spending has been an important support for growth helping in particular to avoid a total collapse in investment.

"It's also one of the reasons that France is resisting (the global economic slump) better than its neighbours," he added.

But it is unclear how long consumers will keep spending because, as INSEE economist Marie Reynaud pointed out, the third-quarter growth figure only "shows the situation before the (September 11) attacks and does not indicate what is going to happen in the fourth quarter."

BNP Paribas analyst Jean-Marc Lucas said: "The trough in the economic cycle is yet to come. In the fourth quarter, quarterly GDP growth should drop and be close to zero."

The data published on Friday showed that consumer spending grew at a rate of 1.2 per cent in the third quarter, sharply higher than the 0.3 per cent registered the previous quarter.

Although the government has helped convince consumers to keep opening their wallets, business leaders are still wary about economic prospects and are limiting investment.

Despite the strong growth in consumer spending in the third quarter, overall investiment was flat.

Business investment even fell 0.2 per cent compared with an increase of 0.1 per cent in the second quarter. But household investment held up in the third quarter, rising 0.1 per cent after a sharp fall in the second quarter.

INSEE said that if growth were flat in the fourth quarter, GDP growth would stand at 2.1 for the full year, which was inline with the institute's forecast. The figure is slightly higher than a forecast from the Organisation for Economic Cooperation and Development (OECD) which, on Tuesday, put French growth at 2.0 per cent for 2001.

However, the OECD has warned that France will have to cut spending in the coming years to meet deficit targets.

But the deficit is likely to be strained by measures taken by the government to underpin economic growth.

Earlier this month the government said that the budget deficit would be bigger than planned as deficits came under strain from measures to underpin growth, which the government reassures would be "at least" two per cent" this year.

Meanwhile, in Germany the government has its hands tied, unable to increase spending to boost the economy because of ballooning public deficits, which the euro zone's stability and growth pact requires to be under three per cent.

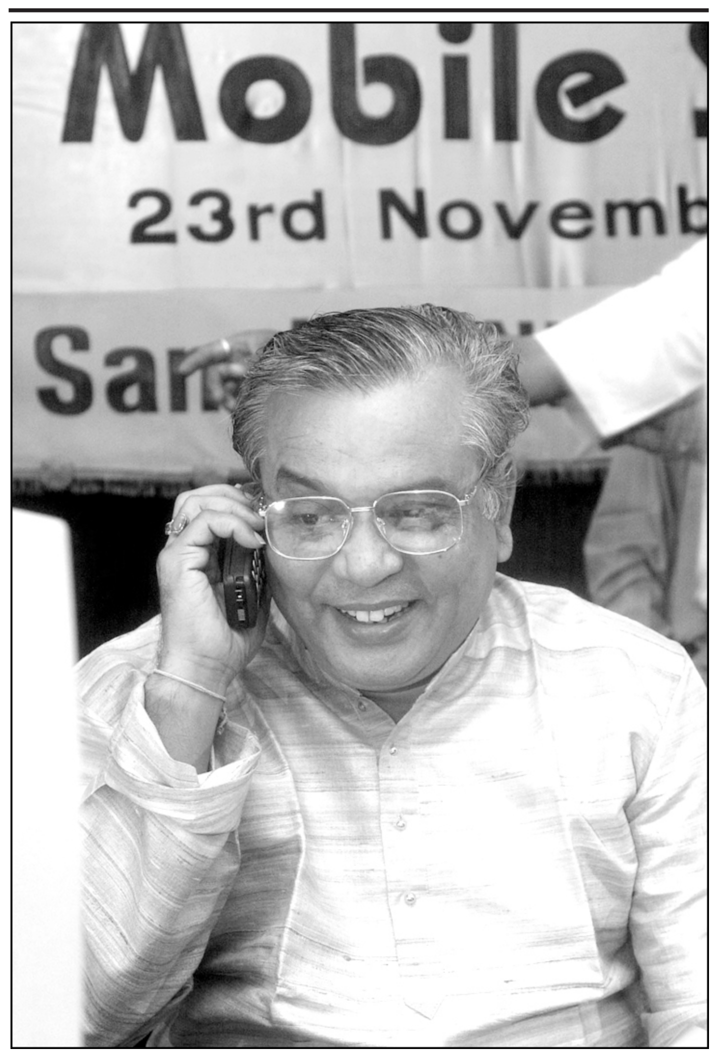

PHOTO: AFP

West Bengal state Minister for Telecommunications Tapan Sikdar holds a video conference with Indian Union Minister for Telecommunications Pramod Mahajan as they communicate through a newly launched government cellular service in Kolkata Friday. Kolkata Telephones launched the service, which it claims is cheaper than any other service and produced entirely in India.

German inflation slows to 1.7pc

AFP, *Frankfurt*

Inflation in Germany, the biggest economy in the 12-country euro zone, slowed significantly in November, falling below the key level of 2.0 per cent, preliminary data published by the Federal Statistics Office on Friday showed.

The pan-German consumer price index (CPI) rose by 1.7 per cent in November on a 12-month basis, comfortably below the 2.0-per cent level recorded in October and viewed by the European Central Bank as the maximum tolerable level of inflation.

The development therefore paved the way for further cuts in euro-zone interest rates, economists suggested.

The last time German inflation was around this level was in August 2000.

Preliminary pan-German CPI is calculated on the basis of cost-of-living data for six key states -- Baden-Wuerttemberg, Bavaria, Brandenburg, Hesse, North Rhine-Westphalia and Saxony.

Data for all six states showed a substantial easing of inflationary pressures thanks to falling oil and food prices.

Final November CPI, based on cost-of-living data for all 16 German states, is scheduled to be released in mid-December.

Nevertheless, inflationary pressures also appear to be easing further up the price pipeline.

Import prices in Germany fell by 5.6 per cent in October on a 12-month basis, the sharpest drop in nearly three years, separate data published by the Federal Statistics Office showed.

The import price index had already fallen by 0.9 per cent year-on-year in August and by 3.6 per cent in September.

Another indicator of pipeline inflation, the producer price index (PPI), rose by just 0.6 per cent on a 12-month basis in October, the office said.

PHOTO: AFP

A file picture taken in March 2000 shows the Munich headquarters of Infineon, the second largest computer chip manufacturer in Europe. Infineon does not rule out further job cuts in addition to the 5,000 already announced at the end of July 2001, the group's chairman Ulrich Schumacher said in a newspaper interview published Thursday.

Infineon doesn't rule out further job cuts

AFP, *Frankfurt*

Infineon, the second-biggest maker of computer chips in Europe, does not rule out further job cuts on top of the 5,000 already announced at the end of July, the group's chairman Ulrich Schumacher said in a newspaper interview published Thursday.

Cost-cutting plans would depend on how business developed at the end of the year, Schumacher told the daily Frankfurter Allgemeine Zeitung.

"We have a number of projects in the pipeline which we will be able to implement short term. We'll know more in mid-January," he said.

Currently, developments in the mobile phone sector were encouraging, Schumacher said.

"Our clients are placing orders again and are confident. But we'll have to wait until mid-January to see if that's going to last."

Regarding the current state of talks with Toshiba over a possible tie-up in DRAM memory chips, Schumacher said Infineon wanted to hold the majority in any joint venture formed.

"Infineon would definitely hold the majority in any possible joint venture because of its market share," he said.

Negotiations were expected to be completed by the end of the year.

"By then we will at least know if it's going to work or not," he said.

Schumacher estimated the current overcapacity in the DRAM sector at only 5-10 per cent and the exit of only one competitor from the market would be enough to solve this.

However, he expected the number of large major makers to be cut to three or four in the medium term from eight at present.

S'pore marine industry buoyant despite sinking economy

AFP, *Singapore*

Singapore's marine industry remains buoyant even as the city-state sinks into its deepest recession in more than 30 years and other industries struggle to stay afloat, officials said Friday.

"Even in this current economic downturn, the marine industry has remained one of the few bright spots," Minister for Manpower Lee Boon Yang told an industry fair offering recession-hit Singaporeans 4,000 new jobs.

The industry's three billion dollar (1.7 billion US) ship repair, ship building, rig building, offshore engineering and marine support businesses grew 45 per cent year-on-year in the first nine months of 2001.

Association of Singapore Marine Industries president Heng Chiang Gnee expects the industry to sail through the next three months, on the back of a record five billion dollars worth of new projects which would last till 2004.

"Looking ahead, I'm projecting a growth of about 20 per cent per year for the next three years," Heng told AFP.

He said the industry, which contributes 2.1 per cent of Singapore's gross domestic product, saw its core rig building and and ship repair businesses picking up despite the stormy global economy.

"The ship repair business tends to go against the shipping cycle ... When the shipping business gets weaker in times like these, owners tend to bring their ships in for repair," he said, adding that ships had to be repaired every 2.5 years under mandatory regulations.

There was also an "expectation that the world economy will recover and flow, so there is still demand for oil" and for rig building, Heng added.

Singapore's trade-dependent economy has been badly hit by the global slump and is projected to contract by 3.0 per cent this year compared to last year's 9.9 per cent growth.

The government has warned that there would be up to 40,000 retrenchments this year and next, a large number for a compact economy with a labour force of only 2.2 million. Workers and executives across the board have also undergone pay cuts.

But the marine industry is bucking the trend and fishing for more engineers, draughtsmen, technicians, electricians, welders, carpenters and apprentices instead.

US aid to boost confidence in Philippine economy

AFP, *Manila*

Philippine President Gloria Arroyo returned Friday from a visit to the United States where she received military and economic aid in return for her support to the US anti-terrorism effort.

Arroyo reportedly secured more than four billion dollars in investment, development assistance, trade commitments and tariff concessions from the US government and private companies.

"The vigorous support of the US government and firm agreements for investments from the US private sector are signs of growing confidence in our economy and the future," she said on arrival.

US President George W. Bush promised to boost military and economic aid, but appeared to rule out sending US troops to back a military drive against the Muslim Abu Sayyaf kidnap gang in the southern Philippines.

The group is linked to Osama bin Laden, who is alleged to have planned the September 11 attacks on the United States.

Arroyo has been a staunch supporter of the US-led campaign against terrorism, allowing US military aircraft and vessels to transit through the Philippines on their way to Afghanistan.

She said Friday that Bush made an initial commitment of military aid totalling 100 million dollars.

There were also commitments from private investors and miltilateral agencies amounting to two billion dollars, she said.

Arroyo made a brief visit to Mexico, where shed spoke at a gathering of Christian Democratic leaders from 72 countries, including Spanish Prime Minister Jose Maria Aznar.

On her return, she was scheduled to fly directly to the southern Philippines to campaign for government candidates in elections in the Autonomous Region for Muslim Mindanao (ARMM) but scrapped the visit due to security concerns.

Euro shows mixed results ahead of cash launch

AFP, *Paris*

Almost three years after its birth, the euro has a mixed track record; it has helped the 12-nation euro zone weather financial turbulence but has yet to seriously challenge the dollar as a refuge currency.

The European single currency has most often been hindered by the lack of a single European voice in economic, political, and security affairs.

Its main contributions are stressed often by political figures however: The euro has shielded its eponymous zone from internal currency turbulence, competitive devaluations and defensive interest rate hikes.

In fact interest rates have fallen because deficits have been slashed as part of structural policy changes under the conditions of the Maastricht treaty which laid down the euro timetable.

It has also imposed structural change on industry, finance and retailing, forcing business to increase efficiency, thereby increasing the potential of the single market, boosting competition and investment.

As a result the euro-zone has seen continued growth, even if the effects of a lagging US economy have also been felt in Europe, in particular since the terrorist attacks on September 11.

On Tuesday, the Organisation for Economic Cooperation and Development forecast that growth of the euro-zone's gross domestic product would be higher than that of the US this year and next.

Euro-zone GDP should grow by 1.6 per cent this year and by 1.4 per cent in 2002, compared with 1.1 and 0.7 per cent for the United States, OECD figures showed.

Part of next year's growth is expected to come from the launch of euro banknotes and coins, which will have finally been launched three years after a virtual euro made its debut in financial centers on January 1, 1999.

The new currency "has favored giant operations, like the Vivendi-Universal merger, or DaimlerChrysler, which have increased industrial restructuring in Europe," said Pascal Blanque, director of economic studies for the French bank Credit Agricole.