Europe slaps sanctions on US over export tax breaks

AFP, *Washington*

European trade chief Pascal Lamy said time has finally run out and Europe will launch sanctions Monday to pressure the United States to scrap illegal export tax breaks.

But for the first time, Lamy said he would consider allowing a transition period for removing the subsidies, ruled illegal by the World Trade Organization.

"We have been very patient but there is no way now that we can avoid this action, which hopefully will concentrate a few minds on the urgency of this legislation," the European trade commissioner said.

The European sanctions, to be ratcheted up each month to increase pressure on the United States to overturn the law, would be lifted when Congress passes legislation to repeal the subsidies, he said.

Tariffs, already approved by the WTO, begin at five percent on a range of goods from American meat to nuclear reactor parts. The duties will rise by one percentage point a month.

In 2004, the extra duties would be worth a total 315 million dollars, according to the Europeans.

The WTO has ruled that the so-called foreign sales corporation (FSC) law flouts global trade rules by allowing US firms, operating through subsidiaries in offshore tax havens, to benefit from reduced export taxes.

WTO arbitrators have agreed with the EU that just over four billion dollars (3.4 billion euros) would constitute "appropriate counter-measures" based on the trade impact of the US policy.

Lamy said he had no desire to take sides on the various proposals for US legislation to replace the FSC law; he only wanted to check the final proposal before it becomes law.

The House of Representative and Senate are drawing up rival proposals for legislation, which would need to be hammered out in a compromise text before signature by President George W. Bush.

Two of the main proposals contain a three-year transition period to phase out the tax break, however.

"The WTO ruling says that the only WTO-compliant transition period is zero. That is what the WTO ruling says," Lamy said.

"This being said, we have a margin of appreciation and if my judgment at that time is that I can use a bit or part of this margin of appreciation, I will do it (while) keeping my goal ... which is getting this thing repealed."

The trade boss said he would have to consult with the European industries affected by the US tax break, however, "to see whether or not they can live with such and such option."

Lamy noted that he had received a letter from European business chiefs suggesting they could live with a transition period.

The European business group UNICE sent a letter to Lamy on February 13 noting that the Congress was considering a three-year transition period for removing the tax break.

"For our part, we are ready to consider, while reluctantly, a reasonable transition period, as short as possible, for repeal of the current legislation," it said.

"It would therefore be appreciated if such flexibility could be explored, provided that the final outcome would be WTO-compatible and not affecting negatively European interests."

US regrets record EU sanctions in tax break row

AFP, *Brussels*

The United States "regrets" an EU decision to impose record trade sanctions on the United States in a row over illegal tax breaks but is working to end them rapidly, a US spokesman said Friday.

The European Union will slap duties on a wide range of US products from Monday in the row over the Foreign Sales Corporation (FSC) law, which gives tax breaks to US exporters deemed illegal by the World Trade Organization (WTO).

The US administration is pressing is pressing the US Congress to move forward "as quickly as possible" to repeal the offending terms of the legislation, said the US mission to the EU.

"We've urged the European Commission to refrain from imposing retaliatory tariffs, given the complexity of the legislation and we regret that they are moving foward," a mission spokesman told AFP.

"But we will continue to work with Congress to get the legislation moving as quickly as possible," he added.

Tariffs, already approved by the World Trade Organization, begin at 200 million dollars (164 million euros) on goods such as American meat, paper, nuclear power parts and semi-precious stones.

They will be ratcheted up by 40 million dollars a month until the so-called foreign sales corporation (FSC) law is scrapped.

US Treasury Secretary John Snow, US Secretary of Commerce Donald Evans and US Trade Representive Robert Zoellick wrote to Congressional leaders this week "urging prompt action on this legislation this week," said the US spokesman.

"The legislation is moving forward in the revelant congressional committees, it's working its way through both the Senate and through the House versions of the legislation.

"The Senate is trying to bring the legislation to the floor in early by March, maybe even by this coming week," he added, while declining to forecast how long it take to repeal the tax breaks.

Bigger long-run deficit in Bush plan

REUTERS, *Washington*

President Bush's budget plans would improve the fiscal deficit in the next few years but send the shortfall soaring over the longer run, congressional analysts said on Friday.

Democrats and even some in Bush's own Republican Party have criticised him for the growing deficits, which have become a thorny political issue for him before the Nov. 2 election. Bush inherited a budget surplus when he took office in January 2001.

In a review of the president's budget, the non-partisan Congressional Budget Office said Bush's policies would lead to a deficit of $356 billion in 2005, slightly better than the $363 billion deficit the CBO is forecasting without taking the president's budget proposals into account.

From 2005 until 2014, the cumulative total of the deficit would balloon to $2.75 trillion, far worse than the $2.01 trillion the CBO is looking for under existing policies.

The report came just two days after Federal Reserve Chairman Alan Greenspan warned Congress a major budget crunch loomed as tens of millions of baby boomers, born after World War II, begin to qualify for early retirement benefits.

Earlier this month, Bush proposed a $2.4 trillion election-year budget that would boost defence spending by about 7 percent, slash 128 programs and seek to cut this year's record deficit in half.

Tax cuts and spending on defence paired with a sluggish economy have helped create a record budget deficit the White House estimates will hit $521 billion this year.

The CBO is slightly more optimistic, expecting a deficit of $477 billion this year, the same projection the budget forecaster made in January.

The 10-year outlook is likely to garner the most interest among Bush's political opponents as they look to pin blame on him for what they say are poor economic policies.

The White House, which put out a five-year budget plan, said long-term outlooks could be unreliable.

"The further you go out, the more likely there are to be inaccuracies. They don't even do error estimates for 10-year figures," said Chad Kolton, spokesman for the White House Office of Management and Budget.

Democrats say the cost of Bush's tax cuts will eat into future funding for Social Security and other social safety nets.

Republican fiscal conservatives are also calling for spending restraint.

The CBO is forecasting deficits for every year through 2014, the last year it looks at in this report.

The congressional analysts also estimated the cost of making Bush's tax cuts permanent to be about $1.3 trillion over the next 10 years.

Western investors warm to gold

REUTERS, *London*

An ailing dollar, a growing appetite for alternative investments in a politically uncertain world and inflation worries are enticing more and more cash into gold, a report said Friday.

Investment demand accounted for some 21 per cent of global gold purchases in 2003, with Western demand seen as the main driver as the dollar price for bullion rose 21 per cent in the year, the study compiled by research group GFMS for NM Rothschild showed.

It estimated that investment in the metal represented an inflow of around $10 billion -- double the value of fresh demand in 2002.

Bullion made a 15-year peak of $430.50 an ounce in early January as the euro touched a record high against the dollar.

"Dollar depreciation has certainly encouraged the view that gold prices are set to move still higher," the report said.

Gold also broadened its appeal, with hedge funds and high net-worth private investors joining the fray, encouraged by investor friendly gold-linked products such as Gold Bullion Securities, which was listed in London late last year.

Workers at KEB credit card unit end strike

AFP, *Seoul*

Workers at the credit card unit of Korea Exchange Bank (KEB) ended their 46-day-old strike on Saturday after agreeing to a plan for voluntary redundancies.

The union backed down from its earlier opposition to layoffs after many union members agreed to accept a voluntary redundancy package instead of forced layoffs, company officials said.

The company said on Friday it would cut its regular workforce by 40 percent or 266 workers and issued dismissal notices to 161 workers, after 105 accepted voluntary redundancy.

However, after overnight negotiations, the company reduced the scale of job cuts to 35 percent and all departing workers accepted the redundancy package, the firm said.

"The two sides agreed on reducing the number of the regular (permanent) employees by 35 percent or by 231 people to 431," KEB spokesman Kwak Heui-Jin told AFP. "The employees will return to work on Monday."

Ex-banker paid millions over Parmalat

REUTERS, *Milan*

A former Bank of America Corp. executive under investigation in the Parmalat fraud case has admitted he received millions of dollars from work linked to the food firm but said the payments were commissions, judicial sources said on Friday.

The sources said Milan prosecutors had discovered two Swiss bank accounts linked to Luca Sala, the former head of Bank of America's corporate finance division in Italy, which had received more than $30 million in deposits since 1997.

Sala, under investigation for suspected market rigging and money laundering, told magistrates he had received the money as bonuses for work connected to Parmalat before Italy's biggest listed food group went insolvent last December, they said.

PHOTO: GP

Anisul Haque, general manager (Sales and Marketing) of Kallol Group, a leading distribution company in Bangladesh, and Kafil HS Muyeed, general manager, Sales and Marketing Division, GrameenPhone Limited (GP), sign an agreement on behalf of their organisations recently in Dhaka. Under the deal, Kallol Group has become GP's corporate client.

Oil prices near post-war highs on gasoline tightness

REUTERS, *New York*

Oil prices jumped again Friday hitting a post-Iraq war high in London as tighter supply and fears of gasoline shortages fueled buying in the run-up to the US summer driving season.

US light crude CLcl settled at $36.16 a barrel, or up 1.8 per cent, the highest settling price since Jan 20 and the highest since before the start of the US-led war on Iraq last March.

In London, Brent crude rose 66 cents or 1.8 per cent to $32.23 a barrel. It hit a daily high of $32.35 to mark its highest since the war began.

But traders pointed out that volumes were thin.

US government oil inventory data showing no improvement in thin crude stocks and a drawdown in gasoline, combined with signs that OPEC was starting to implement supply cuts to support the market, kept investment funds from unwinding amassed long positions.

The US April gasoline contract gained 1.24 cents to $1.1254 a gallon, after setting a new contract high at $1.1320. The expiring March contract also posted a contract high at $1.1080.

Oil prices have now risen nearly $2.50 since Feb 10, when the Organization of Petroleum Exporting Countries agreed to cut production quotas by 1.0 million barrels per day (bpd) from April 1, and to stamp out 1.5 million bpd of production over current quotas with immediate effect.

Market skepticism over the extent to which the cuts will be implemented has had a restraining influence on the price rise, particularly with some OPEC ministers indicating the curbs, meant to support prices at a time of seasonally lower demand, could possibly be reversed.

But physical crude traders have started to say lower crude exports for April are being scheduled for some OPEC producer countries, adding weight to cartel ministers' own statements that the cuts are being carried out.

PHOTO: MAAS TRAVEL AND TOURS

Azizur Rahman, chairman of MAAS Travel & Tours Ltd, general sales agent of Continental Airlines, Managing Director Khwaja A Azad and directors AH Salauddin and Saiful Azam with their top agents pose for a photograph at a reception held recently at a local hotel.

Jump in business spending boosts US growth

REUTERS, *New York*

The US economy grew a bit more quickly than first thought at the end of last year as business investment jumped, official figures showed on Friday, in an encouraging sign for further solid growth.

A separate reading on Chicago-area business activity also provided a rare ray of hope on the employment front with a big jump in jobs, despite an overall decline in business activity.

US gross domestic product, the broadest measure of the nation's economic health, was revised upward to a 4.1 percent annual growth rate for the fourth quarter, just above the initial reading last month of 4 percent, the Commerce Department said.

That confounded forecasts of a downward revision to 3.6 percent and showed the strongest back-to-back quarters since 1984, beating even the dramatic gains of the late 1990s boom.

"Overall, the signals on growth are pretty positive. It's very clear that business investment has rebounded, but there are still questions about what's happening in the labour market," said Jim O'Sullivan, senior economist at UBS.

He said the economy is "if anything" stronger in the current quarter, with growth likely around 5.0 percent, which bodes well for an eventual rise in hiring.

The report helped lift the stock market through the day, but the S&P 500 index slipped in late trade to end flat at 1,144. The bond market largely shrugged off the revisions since more recent capital spending data has been buoyant.

The fourth-quarter GDP reading was nudged higher because business spending on equipment and software was more robust than first thought and firms added to inventories at a faster pace.

Thai PM firm to privatise largest power company

AFP, *Bangkok*

Prime Minister Thaksin Shinawatra on Saturday warned of dire economic consequences if he abandoned privatisation efforts for Thailand's largest power producer, as employees kept up their protests.

"It is impossible to cancel privatisation, I will not betray my people," Thaksin told listeners of his weekly radio address.

"If I backtracked, the stock market would crash, its index would nosedive and the baht (currency) would fall sharply as investors would view the government as abandoning its policy which they had trusted."

Thaksin's radio broadcast came as thousands of employees of the country's largest state-enterprise, the Electricity Generating Authority of Thailand, laid siege to EGAT headquarters for a sixth straight day of protests at plans to sell off some 25 percent of the company.

The demonstrations appeared set to swell with reports that other state enterprise unions were preparing to lend their support.

"I ask all of you to go back to work otherwise a 'third party' could interfere," Thaksin said.

He insisted the government would retain majority ownership of the huge firm, which currently employs some 27,000 people.

The plan would streamline EGAT operations, boost transparency, and reduce public debt, said Thaksin, who countered allegations that privatisation would merely raise power charges and slash employee benefits.

Electricity prices have risen at an average of 5.4 percent annually since 1993, he contended.

The protesters have warned they could mount power blackouts and halts to other basic services unless Thaksin yields to their demands for a stop to the privatisation process and the removal of EGAT's governor Sitthiporn Rattanopas.

"We want the government to halt EGAT's privatisation process now and go back to public hearings as both sides claim they are working for the public," Nopphakhun Young-iam EGAT employee and protest leader told AFP.

India hopes to hit fiscal deficit target

REUTERS, *Mumbai*

India's fiscal deficit at the end of January was 77.2 per cent of a revised budget estimate for the year to March 2004, indicating the government will hit its target amid robust tax revenues and a renewed drive to sell assets.

Analysts said the health of government finances was set to improve last two months of the fiscal year as the government collects proceeds from the sale of stakes in state-run companies.

The fiscal deficit totalled 1.02 trillion rupees ($22.5 billion), according to data released by the government. Net tax revenues were 1.31 trillion rupees, or 70 percent of the full-year estimate, while total expenditure was 3.52 trillion rupees or 74.4 of the budget estimate.

Coming in below the full-year deficit target would be helpful for the government as it seeks re-election about six months early in April-May, when it will make a showpiece of its economic record as well as recent peace moves with neighbour Pakistan.

Earlier this month, with tax revenue collections buoyed by strong economic growth, India revised its fiscal deficit target to 4.8 percent of gross domestic product for 2003/04 (April-March), from an earlier estimate of 5.6 per cent.

With just two months left in the financial year, India is stepping up a privatisation drive despite falling share prices on a volatile market. It is raising $3 billion through equity sales in the next few weeks, which will help bridge the fiscal gap.

The federal government plans to raise 145 billion rupees from asset sales in the year to March 2004, but has only raised 15.4 billion rupees so far as stiff political and union opposition obstructed the privatisation of two cash-rich oil refiners.

International agencies cite India's stubbornly high deficit as the main obstacle to it achieving the high growth rates needed to wipe out rampant poverty among its billion-plus people.

India's economy, Asia's third-largest, is poised to grow a massive 8.1 percent this financial year, aided by strong farm and services sector growth after the best monsoon rains in a decade.

ECB stands aloof on rate cut

AFP, *Frankfurt*

The European Central Bank signalled Friday it would remain impervious to political pressure to cut its key rates to contain the rise of the euro, but financial markets seem to think that a reduction might be in the air nevertheless.

Eurozone politicians have been turning up the heat on the ECB all this week to cut eurozone borrowing costs as a way of curbing the flight of the soaring euro.

The appreciating euro is seen as a threat to Europe's frail recovery by putting a brake on exports.

German Chancellor Gerhard Schroeder, French Prime Minister Jean-Pierre Raffarin and Luxembourg Premier Jean-Claude Juncker all urged, directly or indirectly, the ECB to act.

Schroeder said in a television interview on Wednesday: "The weak dollar and the corresponding euro strength are causing problems for our exports and the ECB should consider this intensively."

And while remaining wary of interfering in the ECB's much-prized independence in monetary policy decisions, he added: "There is good reason (for the bank) to consider possible interest rate reactions" to the euro's strength.

French premier Raffarin joined in the fray on Thursday, saying: "I share Chancellor Schroeder's view."

And Luxembourg's Juncker also threw in his halfpenny, saying that Schroeder and Raffarin were "perfectly correct" in their analysis, even if he acknowledged that "it is not wise for prime ministers to make public recommendations for the monetary authority".

Financial markets have this week interpreted such verbal intervention as heralding a rate cut, with the euro falling to just above 1.24 dollars from a high of more than 1.29 dollars last week.

By going public with their calls for a rate reduction, politicians are playing a dangerous game.

The ECB is very protective of its independence in monetary policy matters and has hinted in the past that political pressure for a rate cut might have delayed a reduction as the bank wanted to avoid any impression it was caving into political pressure.

PHOTO: ANWAR CEMENT

Anwar Group of Industries Managing Director Monwar Hossain speaks at the Annual Dealers' Conference 2004 of Anwar Cement Limited held in Dhaka recently.

CURRENCY

Following is Saturday's (Feb 28, 2004) forex trading statement by **Standard Chartered Bank**

Sell			Buy		
TT/OD	BC	Currency	TT Clean	OD Sight Doc	OD Transfer
59.1500	59.2000	USD	58.2550	58.0839	58.0144
74.8780	74.9413	EUR	71.8808	71.6697	71.5839
111.4386	111.5328	GBP	108.0048	107.6875	107.5586
46.5806	46.6200	AUD	44.3612	44.2309	44.1779
0.5472	0.5477	JPY	0.5282	0.5266	0.5260
47.2595	47.2995	CHF	45.7404	45.6061	45.5515
7.9887	7.9955	SEK	7.4407	7.4189	7.4100
44.6786	44.7164	CAD	43.2833	43.1562	43.1045
7.6092	7.6156	HKD	7.4746	7.4527	7.4438
35.0166	35.0462	SGD	34.1231	34.0229	33.9822
16.2353	16.2490	AED	15.7318	15.6856	15.6669
15.8997	15.9131	SAR	15.4114	15.3661	15.3477

Exchange rates of some currencies against US dollar

Indian rupee	Pak rupee	Lankan rupee	Thai bath	Nor kroner
NZ dollar	Malaysian ringit			

Local Interbank FX Trading
Local interbank market was subdued on Saturday. Dollar remained at the same level against Bangladesh taka.

Local Money Market
Money market was active. Call money rate remained almost unchanged and ranged between 2.00 and 2.50 percent compared. Central bank accepted two days reverse repo for BDT 5.35 billion at 2.45 and 2.5 percent.

International Market
The dollar fell 0.4 percent against the euro on Friday as investors took profits on gains won earlier in the session after news that US economic growth in the fourth quarter exceeded expectations. A sharp fall in the University of Michigan's consumer sentiment report for February, as well as a report by prominent research firm that discounted the prospect the European Central Bank would cut interest rates next week, clouded the economic outlook and contributed to the dollar's fall. The dollar trade down 0.5 percent against the yen at 109.15 yen.

At the closing of New York on Friday, euro was at 1.2489/93, GBP was at 1.8680/85, yen was at 109.09/17 against US dollar.

This memorandum is issued by Standard Chartered Bank and is based on or derived from information generally available to the public from sources believed to be reliable. While all reasonable care has been taken in its preparation no responsibility or liability is accepted for errors of fact or any opinion expressed herein.

ReadyCash Raffle Draw Winners

The latest ReadyCash Raffle draw was held at ReadyCash Bangladesh office at Dhanmondi in Dhaka on Saturday, says a press release.

Prizes	*Name of Winners*	*Card No*
China Junction Chinese Free Lunch for Two	Dr. Md. Mohiuddin Miah	5047980000051403
TOMBOY Chinese Free Lunch Package	Aminul Haque Raton	5047980010028955
Meal in the Box free Lunch	Mohammad Omar Faruk	5047980020003316
Sentosa Chinese free Lunch/Dinner Package	Syed Enamul Huq	5047980010028620
Everyday Everything FEDS free Gift Box	Dr. Amaresh Ch Shaha	5047980010028653

Winners can collect their prizes from the Executive, Promotion of ReadyCash within 30 days of this news circulation by producing their ReadyCash card transaction vouchers. **ReadyCash encourages its cardholders to read The Daily Star and the Daily Prothom Alo on every Sunday or call our Customer Service at: 8123850, 8130497, and 8125294-7.**