

International Business News

US already in recession: Buffet

AFP, Berlin
While economists quibble, the world's richest man has decided: the United States is already in recession. So Warren Buffet tells German magazine Der Spiegel in an interview to be published on Monday.

"It is perhaps not a recession in the way that economists would understand it... but people are already feeling the effects and it will be deeper and longer than people think," Buffet said on a visit to Frankfurt.

Buffett, the 77-year-old chief of the Berkshire Hathaway holding company, blamed financial institutions for introducing instruments "they can no longer control" and said the "genie can no longer be put back in the bottle."

Buffett, who overtook Bill Gates this year as the world's richest man, said he believed the financial markets should be more tightly regulated.

British, US trade unions to merge

AFP, London
Britain's biggest trade union is set to announce a merger with a US counterpart to eventually create the first global labour organisation, a British press report said Sunday.

The planned tie-up between Britain's Unite and United Steelworkers (USW) in the United States is designed to better protect workers against the effects of globalisation, the Sunday Telegraph said.

Unite has two million members in Britain and the Republic of Ireland working for major companies including oil giant BP and Rolls Royce, while USW has more than one million members in the United States and Canada.

The paper said the two unions had finalised the details of a "framework agreement" and a formal alliance would be unveiled at a USW convention in Las Vegas in July.

Sri Lanka sharply raises fuel prices

AFP, Colombo
Sri Lanka Sunday hiked the price of diesel and gasoline in a response to galloping world crude oil prices, the state-run Ceylon Petroleum Corporation said.

Petrol at the pump goes up by 30 rupees to 157 rupees (1.47 dollars) while diesel is up by 30 rupees to 110 rupees (1.02 dollars) per litre, the state-run monopoly fuel supplier said.

Fuel prices were last revised in January. Sri Lanka produces no oil and has been hit hard by soaring global crude prices, which have widened the trade gap and spurred 30 percent inflation in the 26 billion dollar economy.

The price hike also covers Indian fuel retailer Lanka IOC, which controls a third of the local petrol market, its Managing Director K. Ramakrishnan said.



A Sri Lankan woman models locally designed clothes at a fashion show in Colombo yesterday. Garments account for over 50 percent of the nation's 7.7 billion dollar export earnings, with high quality clothes being shipped to top brands like Victoria's Secret, Marks and Spencers, Gap, Nike and Banana Republic.

High oil prices hurting airline stocks

ANN/ THE STAR
With crude oil prices hitting new records every day, investors are not to be blamed for shunning the airline sector.

"The sector is not a strong buy at the moment as its short-term outlook is negative given the continuous rise in oil prices," OSK Research's Chris Eng said. "The sector catalyst is definitely a drop in oil price."

Oil price rallied to a record above US\$135 a barrel while jet fuel prices closed at \$172 per barrel in Singapore on May 22.

On May 22, Malaysian Airlines (MAS) shares closed down 2 sen to 3.60 ringgit (\$1.12) while AirAsia continued to trade below its retail initial public offer price of 1.162 ringgit (36 US cents), closing at 1.10 ringgit (34 cents).

"For MAS specifically, its (catalyst) would be the provision of more details on its wide-bodied plane acquisition, while for AirAsia, it would be signs that AirAsiaX is profitable," Eng said.

MAS had said that it planned to acquire wide-bodied aircraft to replace its 777s and 747s and that this would be finalised before year-end.

AirAsia X is AirAsia's low-cost, long-haul airline arm. Some analysts are maintaining their "buy" call on MAS as they feel that the company's transformation programme and full service carrier business model gave it more room to raise fuel surcharges compared with AirAsia.

CAPITAL MARKET

Pricing mechanism issue comes to the fore

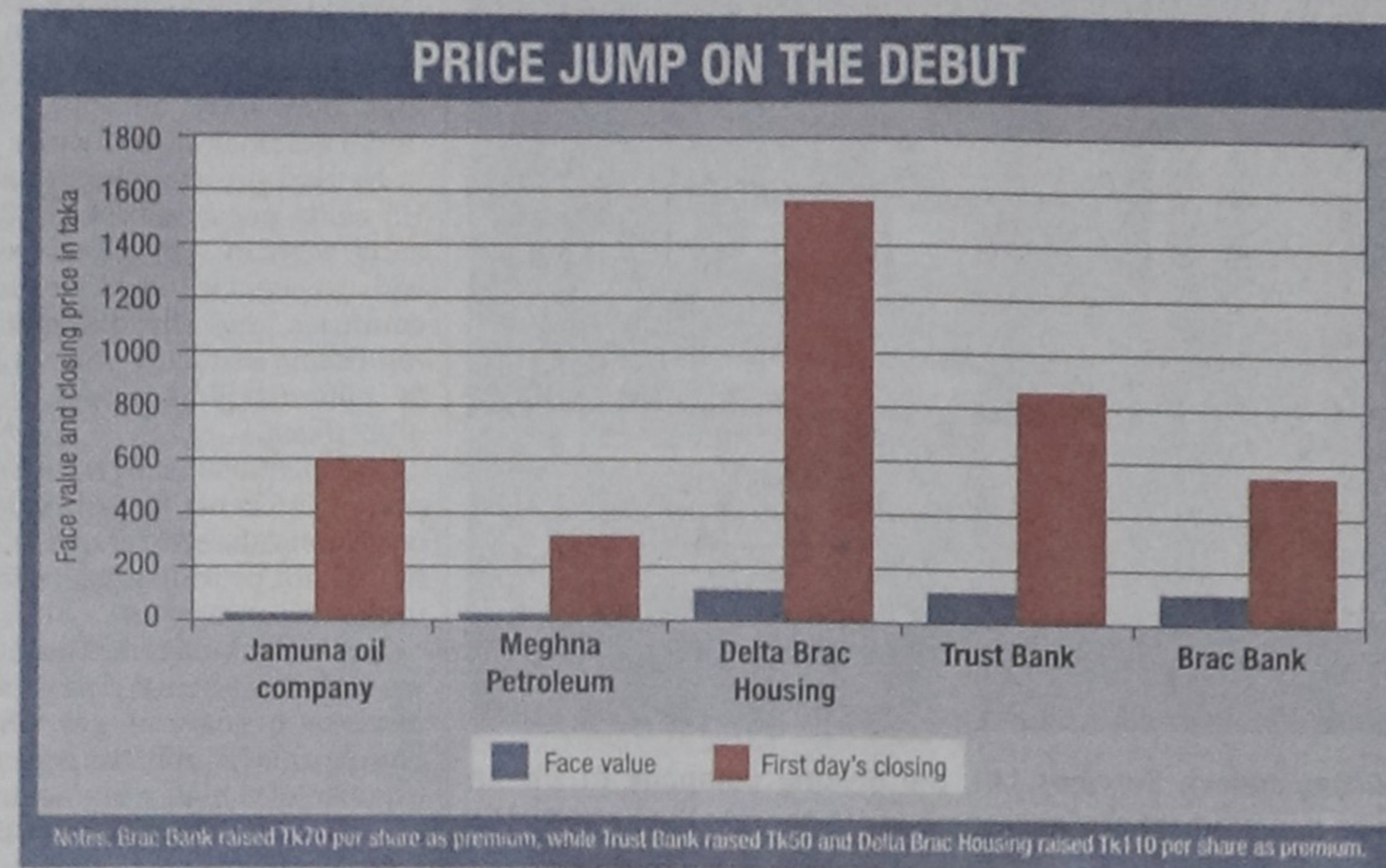
SARWAR A CHOWDHURY
The pricing mechanism issue has come to the fore once again before the submission of application by Titas Gas Transmission and Distribution Company, a state-run enterprise (SoE), for getting listed to the country's prime bourse in Dhaka very shortly.

The gas company is also expected to debut its trading on the Dhaka Stock Exchange (DSE) next month.

The recent start of such trading by some companies under both direct listing and initial public offering (IPO) systems reflected the urgency of a scientific pricing mechanism to check an unusual hike in share prices on the very first day.

Under the direct listing system, Jamuna Oil Company and Meghna Petroleum are the latest examples of such hike in share prices. The prices of these companies' shares skyrocketed from the very beginning of trading on the DSE. Each share of Jamuna, which made its debut in the capital market on January 9 this year with a face value of Tk 10 only, jumped by 95 times, while each share of Meghna, trading of which started on January 14 with a face value of Tk 10, shot up by 35 times on the first day.

In case of IPO, a lot of examples can be cited and Delta



Brac Housing (DBH) is latest one, trading of which started on April 24. On the first day, each DBH share with a value of Tk 210 including a premium of Tk 110 rocketed by 1450 percent.

The same thing happened when Brac Bank and Trust Bank made their debut on the stock exchanges last year.

The price of the shares in Trust Bank jumped by more than 700 percent on the bank's debut on the DSE on October 1 last year, while the Brac Bank shares jumped by more than 400 percent on last year's January 31, also the first day of

the bank's debut in the stock market.

Following such experiences, experts and even the capital market watchdog called for a proper mechanism that can check any unusual jump in the prices of shares. Investors, especially the small ones, on many occasions have expressed their dismay over such price hike, for which they faced huge losses.

"The existing pricing mechanism is defective. It needs immediate review to avert any distortion in the pricing system," said Yawer Sayeed, managing director and chief execu-

tive officer of AIMS of Bangladesh.

Echoing him, Wali-ul-Marooof Matin, former chief executive officer of Chittagong Stock Exchange, said the effect of the hike in the prices of shares is multi-dimensional. "On one hand, entrepreneurs or issuers are not getting actual value, while on the other, investors face losses as they experience a sharp fall in the prices of shares just after a few days they bought at a high price," he pointed out.

"While book-building, a modern pricing system, is being practiced in our neigh-

bouring India, Pakistan and Sri Lanka, why it is not in Bangladesh?" he questioned.

DSE Chief Executive Officer Salahuddin Ahmed Khan said there should be balanced price mechanism so that the entrepreneurs are encouraged to list their companies and the general investors would make profit through investing in securities.

"We have already submitted a draft proposal to the market regulator on introducing a modern price fixing system called book-building," he said.

Once it is introduced, such skyrocketing of share prices will not happen, he said.

"We have also proposed the Securities Exchange Commission (SEC) to bring about some changes in the existing direct listing rules," he added.

Under the existing system, investors who bid for shares for 10 minutes build up a price. After this, bidding continues for another one hour and 50 minutes.

The DSE proposed that instead of price building from investors, an issuer company will fix a price before the trading debut. And also, a price fixation committee will approve the price after analysing it.

Earlier, a review committee on the direct listing rules proposed that on the first day of trading institutional investors

will set the price of shares of a company. From the second day the general investors will be allowed to offer prices for the shares.

But, rejecting the review committee's recommendations, the SEC is now examining the DSE recommendation on direct listing rules.

"Apart from examining the DSE recommendations to bring about changes in such rules, we are also working on introducing book-building system," said SEC Chairman Faruq Ahmad Siddiqi.

The existing pricing system also shows the price fixing is mostly beneficial to the investors, not to the issuer, he said agreeing in principle that an appropriate pricing system should be there.

He also said if an issuer company wants high premium in line with its fundamentals under the IPO system, the SEC should consider the high premium.

"Otherwise entrepreneurs will not be encouraged to list their companies under the existing pricing systems," he added.

If Titas Gas makes its debut under the existing pricing mechanism and its share price skyrockets, there is no doubt that the pricing mechanism should be reviewed immediately.

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FOOD CRISIS

Even wealthy Finland sees food queues flourish

AFP, Helsinki
Reijo Miettinen, 62, never used to worry about going hungry, but as global food prices swell he has joined a growing number of Finns forced to turn to charity to fill their bellies.

Miettinen, a pensioner with thinning gray hair, eagerly shows off the day's catch: bread, ham, milk and a couple of ready-made meals -- all free courtesy of a group called Veikko and Lahja Hursti's Acts of Charity.

"After I pay my rent and buy a monthly bus pass, I don't have much money left. That's why I come here," he told AFP as the food queue behind him circled around the yard before disappearing around a corner.

Miettinen is not alone in complaining that sky-rocketing food prices have made it difficult in recent months to make ends meet.

According to the World Bank, 33 countries around the world face political and social disturbances due to rising food and energy prices.

Few would have expected Finland, one of the world's wealthiest nations, to feel the pinch.

But the Nordic country, which has long aimed to smooth out all class difference in its generous welfare state, has experienced growing income disparity in recent years, leaving the poor trailing ever further behind.

At a time when the rich have never been richer, charities report that in the space of just one month, from March to April this year, the number of people queuing for food and other assistance had doubled.

"For a long time we had 600-700 people queuing for food. Now we have had 1,200-1,300 people," said Heikki Hursti, who runs the charity his parents founded at the end of the 1960s.

People who drop by the charity for a free meal are retirees, unemployed and homeless people, students and even ordinary families with children.

"When I ask why they come here, they tell me they need help because food prices have increased," Hursti said.

According to Statistics Finland, around 11 percent of Finland's 5.3 million inhabitants and 12 percent of families with children are considered poor, meaning their annual income is less than 60 percent of the median income.

In 2006, the average monthly wage in Finland was 2,634 euros (4,091 dollars), which is not as high as it may sound considering the steep cost of living in the Nordic country.

More people have also been lining up at the Salvation Army's Helsinki office, and appointments at its welfare office are already fully booked for the next four weeks.

"Normally Christmastime is the busiest for us, but now I have been saying that it has been like Christmastime this spring," said Rauli Nurminen, a Salvation Army social worker, adding that she was particularly concerned that more families needed help.

"Social benefits for families have stayed the same, while the cost of living has increased," she said.

While the situation is dire for some Finns, Finland remains one of the countries least hit by the current global food crisis.

Finns saw their salaries jump nearly 50 percent on average between 1995 and 2006, figures from Statistics Finland show.

In about the same time frame, the percentage of income Finns spent on food and non-alcoholic beverages dropped to just 11 percent from 15,



People are queuing to get free food and clothes recently in Helsinki at Veikko and Lahja Hursti's Acts of Charity. According to Statistics Finland, around 11 percent of Finland's 5.3 million inhabitants and 12 percent of families with children are considered poor, meaning their annual income amounts to less than 60 percent of the median income.

with many opting to spend their excess cash on cars, electronics and holidays instead.

And while food prices have grown at an unexpected pace in recent months, rising by 9.5 percent in March compared to the same month a year ago, the increase has been far less than the European Union average of 11.4 percent, according to numbers from Eurostat and the Pellervo economic research institute, PTT.

For all of 2008, PTT forecasts an average food price hike in the Nordic country of 7.0 percent compared to last year.

Statistics meanwhile show that

while the gap between high and low wages has stayed in check after Finland's economic recession of the 1990s, the rich are getting richer thanks to capital income from dividends, rents, and a rise in real estate prices.

"The biggest reason for increased income disparity is the rise of capital incomes and their low taxation. There is strong growth in the highest incomes," said senior researcher Ippo Suoniemi from the Labour Institute for Economic Research.

"Income disparity is apparent nowadays in stores, when people choose their groceries. It is no longer just about what hobbies you can

afford to have or where you can travel or what to wear," said Elina Ingman, a welfare worker in the northern town of Kajaani.

One person who cannot afford to show off in the check-out line with foie gras and caviar is Markku Rinta, who has lined up in the same food queue as Miettinen in the hope of getting something to put on the dinner table.

"It's more difficult to get a job as a storage worker when you are approaching 50," the unemployed labourer complained, saying employers these days "want somebody in his twenties who has twenty years of work experience".

The Daily Star