

International Business News

Stress tests aim for capital 'buffer' for banks

AFP, Washington  
The "stress tests" of major US banks will call for a capital buffer to help them withstand a worse-than-expected 3.3 percent economic contraction in 2009, the Federal Reserve said Friday.

Preliminary results of the tests were given to the 19 largest banking firms Friday and complete results will be made available starting May 4, according to the Federal Reserve, which released its methodology for the tests.

Fed officials said the tests would help reveal the need for additional capital from the government or private sources in case of a bleaker economic scenario than expected.

A Federal Reserve "white paper" showed the baseline forecast of a 2.0 percent decline in US output in 2009 followed by growth of 2.1 percent in 2010.

But banks would be expected to withstand a scenario in which the economy dropped 3.3 percent this year and grew only 0.5 percent in 2010.

The tests are part of an effort by President Barack Obama's administration to introduce transparency into its efforts to rescue the crippled banking sector, and will also help it evaluate how much government cash individual banks might need to return to health.

Officials declined to offer details on how results would be revealed for the leading 19 banking groups subject to the stress tests.

MSFG wins priority in talks to buy Nikko from Citigroup

AFP, Tokyo  
Sumitomo Mitsui Financial Group (SMFG) has been granted preferential negotiating rights to buy Nikko Cordial Securities from US financial giant Citigroup, news reports said Saturday.

SMFG offered the highest bid of 500 billion yen (5.2 billion dollars) among three major Japanese commercial banks in a tender set by Citigroup, the Nikkei business daily and Kyodo News said.

SMFG is expected to hold negotiations with Citigroup on a more detailed assessment of Nikko Cordial's assets, with an eye to striking a deal as early as next month, Kyodo said.

The acquisition, if realised, will likely allow SMFG to expand the scope of its securities business to compete with Japan's biggest brokerage house Nomura Holdings, Kyodo said.

Citigroup has been looking for buyers of its units worldwide, including Nikko Cordial, as part of a survival strategy for the economic crisis.



AFP  
An Indian labourer loads stalks of sugarcane onto a cycle rickshaw at a wholesale market in Hyderabad yesterday. Sugar production in India has fallen by some 20 percent because of lower harvest in the main growing areas. The output declined to 9.5 million tonnes from 11.83 a year ago, as a result, India may seek to import raw sugar to boost local supplies according to local newspaper reports.

China bans foreign firms from express mail market

AFP, Beijing  
China's parliament has revised the nation's postal law in a move that will ban foreign delivery companies from handling domestic express mail, state press reported Saturday.

The revised law was passed by the National People's Congress on Friday despite opposition from express delivery giants including DHL, FedEx, TNT and UPS, the China Daily reported.

The newly amended law that goes into effect on October 1 bans foreign companies from delivering express letters within China, the newspaper said.

But foreign delivery companies with operations in China will be permitted to deliver express packages domestically, as well as express letters internationally, it said.

Legislators insisted the new law complied with China's World Trade Organisation commitments, it said.

The Conference of Asia Pacific Express Carriers, which represents the four global giants and lobbied against the amendment, called for an "open and level playing field" in the sector.

Former Facebook executive named MySpace CEO

AFP, Washington  
Faced with the spectacular growth of Facebook, MySpace on Friday appointed a former top executive at its rival to head the social network.

Owen Van Natta, 39, who stepped down early last year as chief revenue officer and vice president of operations for Facebook, will begin work immediately as MySpace chief executive, MySpace owner News Corp. announced.

Van Natta replaces MySpace co-founder Chris DeWolfe, who stepped down earlier this week. He will be based in Los Angeles and will report to News Corp.'s new chief digital officer, Jonathan Miller, News Corp. said.

"Owen combines a deep understanding of social networking, a keen business sense and the operational experience to guide MySpace through its next phase of growth," Miller said. "I'm confident his leadership will be an invaluable asset."

Van Natta, who left Facebook in February 2008 for Project Playlist, an online music site, helped negotiate Facebook's 240-million-dollar investment from Microsoft.

INTERVIEW

SoE divestment to gain speed

Says new boss of Privatisation Commission

REFAYET ULLAH MIRDHA

The Privatisation Commission will expedite divestment of the state-owned enterprises (SoEs), as government's job is not to do business, but to regulate.

"As many as 43 such SoEs will be privatised under a set government guideline, of which 12 are in the pipeline," Dr Mirza Jalil, the commission's chairman, said in an exclusive interview with The Daily Star.

Jalil admitted that the government can hardly manage operations of these enterprises efficiently as a section of employees and other vested interested groups always tries to gobble up the profits of those.

When his attention was drawn to the violation of rules relating to the operations of sold-out SoEs by their new owners, the commission chief said his organisation would go for a strict monitoring of the performances of the sold-out enterprises, as most buyers flout the official instructions on resumption of production in their factories.

As per rules, the new owners are supposed to resume operations of the closed SoEs, or to go for any expansion of those they bought from the Privatisation Commission.

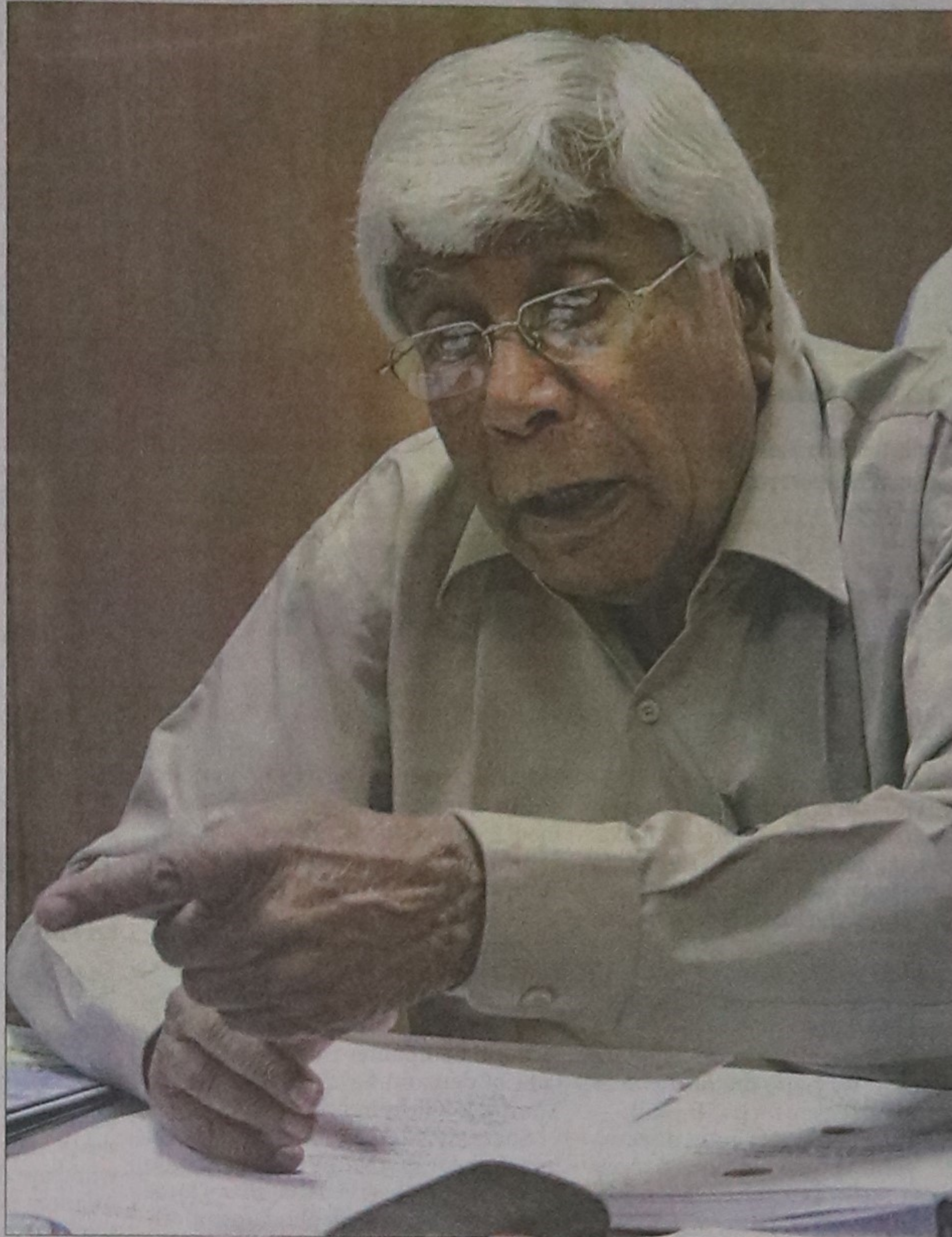
Such violation takes place because of the laxity in application of rules, admitted the new boss of the state body that runs the SoE divestment.

The commission, which is under the Prime Minister's Office (PMO), has so far privatised 76 SoEs since its inception in 1994. Its erstwhile name was Privatisation Board, according to commission officials.

Jalil expressed his firmness to become very cautious from now on in selecting bidders to sell-off SoEs so that the private owners cannot go against rules.

He also said that the commission would check any price anomalies in selling out state enterprises, pointing to the fact that people buy those at a price next to nothing cashing in on the absence of proper monitoring of price fixing.

Generally, the highest bidders are awarded with the ownership of SoEs, but the new private entrepreneurs are not properly checked by the Privatisation Commission whether they run the factories



Dr Mirza Jalil

or not. This is the reason why the private owners take the mismanagement of public entities to their advantage.

"From now on we would first check whether the private owners would run the enterprises or not, as in most cases they just

become owners of the public land and enterprises at a throwaway price," Jalil said.

He said the commission would also monitor it strictly whether the private owners develop any establishment for housing purpose on the public land they purchased,

as the divestment guideline strictly forbids any such housing.

"In some cases these buyers even construct buildings on public land because of the absence of strict monitoring," Jalil said in response to a query.

On the privatisation process of the much-talked-about state-owned Rupali Bank, he said it was wrongly handled, for which both the participating parties failed to finalise any deal.

"We, the commission, have again initiated a move to privatise Rupali to make it more profitable," Jalil said.

In this context he referred to a letter sent to Finance Minister AMA Muhiith on the 15th of this month, which requested the minister to table the bank's privatisation issue as an agenda in the next Economic Affairs Committee meeting of the Cabinet.

Earlier, the Finance Division on December 9, 2003 recommended that the Privatisation Commission divested Rupali Bank in line with the prescription of the World Bank's Enterprise Growth and Bank Modernisation Project, Jalil said.

Rupali's privatisation process started from May 12, 2005 through floating international tender to get a buyer.

Saudi Prince Bandar Bin Mohammad Bin Abdul Rahman Al Saud was selected as the highest bidder in the process, but he failed to strike the final deal due to the delay in finalising the sales and purchase agreement and the then volatile political situation, the commission chairman further pointed out.

The Saudi prince won the bid to purchase the bank's 93.11 percent government shares for \$458 million.

On a query on the closures and losses of the SoEs, Jalil blamed frequent labour unrests and misappropriation of public funds by a nexus of government officials and trade unionists for this situation.

Jalil said his organisation can come up with a policy support in case the government wants to re-start any loss making enterprise among the sold-out ones.

Recently workers and trade union leaders of some closed factories, especially jute mills, raised their demand to re-start those, he pointed out.

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AUTOMOBILE

Ford sees light at the end of tunnel

AP, DEARBORN, Michigan

Better-than-expected earnings from Ford raised hopes Friday that the automaker's restructuring and new products may be enough to spare it from a federal bailout, while General Motors received more government help and Chrysler raced to avoid bankruptcy.

Ford still lost \$1.4 billion from January through March, but that was less than expected, and executives said the outlook for future sales was good enough to increase production of its most popular vehicles.

Ford Motor Co has taken steps over the last few years to avoid government intervention: cutting costs, focusing on its core brands, and introducing new vehicles and advanced features.

"Ford is building the best stuff it's ever made in terms of quality rankings and critical reviews," said Aaron Bragman, an auto analyst at IHS Global Insight. "The vehicles are sufficiently improved and people are starting to realize that."

While Ford tries to go it alone, federal officials are questioning every penny spent by General Motors Corp. and Chrysler LLC, which are both subsisting on government loans.

On Friday, the Treasury Department said it loaned \$2 billion to GM, bringing the automaker's total to \$15.4 billion. Chrysler has borrowed \$4 billion and could get \$500 million more so it can keep running while it restructures.

But Ford, under the leadership of former Boeing Corp. CEO Alan Mulally, mortgaged all of the automaker's assets - including the trademark blue logo - a few years ago, when loans were easier to get from the private sector.

As of March 31, Ford had \$21.3 billion in cash to help it survive the worst market for U.S. auto sales in 27 years.

The company said Friday it had spent just \$3.7 billion of its cash during the first three months of this year, far less than the \$7.2 billion it burned in the fourth quarter of 2008. Investors sent Ford's shares up 11 percent.

"I think the important comparison for us is 'Are we improving versus the fourth quarter?'" said Chief Financial Officer Lewis Booth. "Because the fourth quarter, things were really dreadful."

He said cost cuts and better pricing for its vehicles helped the company narrow its losses from \$5.9 billion in the fourth quarter, and he expects continued improvement for the remainder of the year.

Ford said it was able to charge more for its vehicles, which are now coming loaded with features such as electronic blind-spot detection and technology that links drivers' cell phones and MP3 players to a voice-activated command centre.

Chrysler, on the other hand, spent more on sales incentives than any other

automaker, averaging about \$5,000 per vehicle in March, according to Edmunds.com.

With a government-imposed deadline for massive restructuring less than a week away, Chrysler and federal officials held out hope that they could keep the automaker out of bankruptcy court, according to two people briefed on the talks.

Chrysler and the Treasury Department are preparing paperwork for bankruptcy filings - one as a reorganisation in Chapter 11 with government funding and the other as a liquidation if no government money is available, both people said, speaking on condition of anonymity because the fast-moving negotiations are private.

Chrysler has until Thursday to work out a joint venture with Italian automaker Fiat SpA. GM has until June 1 to make dramatic cuts.

Ford jumped ahead of both competitors in February with a new labour agreement that saved \$300 million in the first quarter. A debt-for-equity swap shed \$10 billion in debt.

Ford's overall work force in North America shrank 41 percent since December 2006, when it employed 122,400 salaried and hourly workers and began restructuring.

Ford wants to trim its work force even more. Of the 72,300 employees it had in March, 51,000 were union workers who have until May 22 to accept or reject a buyout.

"We started on this transformation of Ford two to three years ago," Mulally said

last week in an interview with The Associated Press. "We were very clear with the government that we believed we had sufficient liquidity to make it through this, and we were not asking them for money."

President Obama has dismissed GM and Chrysler's viability plans as overly optimistic, given the current sales climate and the company's sluggish pace of restructuring.

While not discounting Ford's problems, analysts said the company has been more aggressive in key areas where the administration found fault with GM and Chrysler.

For instance, GM was faulted for its unwieldy size, with eight different brands. Ford sold its Aston Martin, Land Rover and Jaguar lines in 2008. It also reduced its stake in Mazda and is currently looking to sell Volvo. That will let Ford focus on Ford, Lincoln and Mercury.

Chrysler was also faulted for focusing on SUVs and minivans, leaving it ill-prepared for high gas prices. Ford is rolling out a mix of fuel-efficient vehicles that have been well-received by consumers who may be concerned about the uncertainty surrounding GM and Chrysler.

Ford's midsize Fusion model is a viable competitor against Toyota Motor Corp.'s popular Camry, with the 2010 models getting praise for quality, safety and fuel economy. More than 40 percent of the 2010 Fusions sold have been hybrids that get 41 mpg on the highway.

Ford is also bringing the Fiesta, its small European car, stateside next summer, and

its compact Focus is selling well.

Ford's assembly plants will be churning out more of those products in the second quarter.

One day after GM said it would temporarily close 13 North American plants for up to 11 weeks this summer to slash inventories, Ford said it expects its production to increase 19.5 percent from the first quarter.

"We believe, with the decisive actions we have taken over the last few quarters, we have the dealer stocks well in line," Mulally said. "And with what we see with the reception of the new products, we believe we can go up a little bit more to support the real demand."

Ford said it's on track to break even or turn a profit in 2011. But the company isn't squeaky clean. It still has debt, an underfunded pension plan and a primary market - the U.S. - where consumers are skittish about buying a new car amid mounting job losses in a recession.

Should GM or Chrysler, or even a key supplier file for bankruptcy, Ford's production is likely to be affected. Mulally said the company has met with the government's auto task force to help it "understand the importance" and "interdependencies" of the supply base.

"The health of the supply base is probably the most critical issue as the government helps GM and Chrysler restructure," he said. "I think they will continue to pay the highest priority as they restructure to the supply base to make sure it stays intact for all of us."



A new model, Ford Fiesta, has recently been launched at Auto Shanghai 2009. Better-than-expected earnings from Ford have raised hopes that the automaker's restructuring and new products may be enough to spare it from a federal bailout.