

International Business News

Sri Lanka growth slows to 1.8pc in first half

AFP, Colombo

Sri Lanka's economy grew 1.8 percent year on year in the first half of 2009, dragged down by weak demand for clothing and tea, official data showed Monday.

The figure contrasted with 6.6 percent expansion in the first half of 2008, but analysts expect an economic revival after government forces crushed the Tamil Tiger rebels in May following nearly four decades of conflict.

"The impact of the global downturn reduced demand for our exports and resulted in this reversal," deputy director of the Department of Census and Statistics, Nalini Kumarasinghe, told reporters.

The war-battered economy slowed to 2.1 percent in the second quarter, from 7.0 percent in the same period a year earlier, as the services sector including banks, shipping and telecom were slow to recover.

The sector slowed to 1.1 percent in the second quarter compared to 6.5 percent at the same point last year.

Agriculture grew 4.4 percent, from 7.4 percent the previous year, while industrial output expanded 3.0 percent, against 6.9 percent a year earlier.

Sri Lanka's central bank has raised year-end economic targets to between four and five percent, from 2.5 percent to 3.0 percent, after the Tigers were defeated.

"We expect full year 2009 forecast to be around 4.5 percent, driven by economic activity in construction, trade and tourism," said Yohan Seimon, an analyst at John Keells Stockbrokers.

UAE delays \$41b nuclear plants contract

AFP, Dubai

The UAE has delayed awarding a 41 billion dollar contract to build nuclear power plants saying that the decision between the three rival bidders was too close to call, an Abu Dhabi daily said Monday.

"What happened ultimately was some of the bids were so close in some areas, we decided to proceed with all three," a senior government official told The National. "It will mean a slightly longer period of negotiations."

The decision on the contract, which was due to be awarded this Wednesday, will not come out until the end of the month, the newspaper reported, citing an unidentified diplomat.

A French group led by Areva, Electricite de France, GDF Suez and Total is competing against a Japanese-American alliance of Hitachi and General Electric, and a Korean-American consortium comprising Korea Electric Power, Samsung, Hyundai and US firm Westinghouse.

The Arab world's second-largest economy, the United Arab Emirates is seeking to reduce its dependence on hydrocarbons for power generation and to boost its image as an environmentally friendly country.



Frozen chicken wings line a supermarket shelf in Beijing. China said Sunday it was probing possible unfair trade practices involving imports of US car products and chicken meat, firing back after Washington slapped tariffs on Chinese tyre imports. China called that move "protectionist" and had threatened retaliation in its first trade spat with the Obama administration.

Sarkozy threatens to walk out of G20

AFP, Paris

French President Nicolas Sarkozy is ready to walk out of next week's G20 summit if no progress is achieved on curbing bankers' bonuses, his chief of staff said Monday.

"There must absolutely be an agreement to make things change and the president is absolutely determined on that score," said Claude Gueant, the secretary general of the Elysee, on RTL radio.

Sarkozy will be leading a charge for tough curbs on bonus payments for bankers at the G20 meeting of the world's major economies in the US city of Pittsburgh on September 24 and 25.

France argues that the big payouts reward the risk-taking that led to the 2008 financial meltdown.

Already, at the G20 summit in London in April, Sarkozy had threatened to storm out of the gathering and later credited this threat for an agreement on steps to clamp down on tax havens.

Sarkozy's proposals for capping bankers' bonuses has won support in the European Union but Britain and the United States have voiced reservations.

Russia, US bank near deal in \$22.5b lawsuit

AFP, Moscow

Russia and the Bank of New York Mellon (BNY) are near a settlement in a 22.5-billion-dollar lawsuit linked to an infamous 1990s money-laundering scandal, the Kommersant daily reported on Monday.

BNY has offered Russia a four-billion-dollar line of credit under favourable terms so Russian authorities will drop their lawsuit, the newspaper reported, citing a source close to the Russian finance ministry.

"This offer was made by the US bank at the end of August in the framework of an amicable settlement being prepared with the (Russian) Federal Customs Service," the source was quoted as saying.

The Russian government -- which says that it lost billions of dollars in tax revenues due to BNY's actions -- is weighing whether to accept the offer, Kommersant reported.

Russia's Federal Customs Service sued BNY in a Moscow court in May 2007, claiming that Russia had suffered 22.5 billion dollars in damages from a money laundering scheme run by a former BNY vice president and her husband.

ECONOMIC CRISIS: A YEAR ON

Risk-taking back for banks

AP, New York

A year after the financial system nearly collapsed, America's biggest banks are bigger and regaining their appetite for risk.

Goldman Sachs, JPMorgan Chase and others, which have received tens of billions of dollars in federal aid, are once more betting big on bonds, commodities and exotic financial products, trading that nearly stopped during the financial crisis.

That Wall Street is making money again in essentially the same ways that thrust the banking system into chaos last fall is reason for concern on several levels, financial analysts and government officials say.

There have been no significant changes to the federal rules governing their behavior. Proposals that have been made to better monitor the financial system and to police the products banks sell to consumers have been held up by lobbyists, lawmakers and turf-protecting regulators.

Through mergers and the failure of Lehman Brothers, the mammoth banks whose near-collapse prompted government rescues have gotten even bigger, increasing the risk they pose to the financial system. And they still make bets that, in the aggregate, are worth far more than the capital they have on hand to cover against potential losses.

The government's response to last year's meltdown was to spend whatever it takes to protect the financial system from collapse -- a precedent that could encourage even greater risk-taking from the private sector.

Lawrence Summers, director of the White House National Economic Council, says an overhaul of financial regulations is needed as soon as possible to keep the financial system safe over the long haul.

"You cannot rely on the scars of past crises to ensure against practices that will lead to future crises," Summers says.

No one is predicting another meltdown from risky trading in the near term. Rather, the concern is what happens over time as banks' confidence grows and the memory of the financial crisis of 2008 fades.

Will they pile on bets to the point that a new asset bubble forms and - as happened with mortgage-backed securities - its undoing endangers banks and the broader economy?

"We're seeing the same kind of behaviour from the banks, and that could lead to some huge and scary parallels," says Simon Johnson, former chief economist with the International Monetary Fund.

Some risk-taking is good. When banks are willing to invest in companies or lend to home-buyers, that nurtures economic growth by generating employment and consumer spending, feeding a cycle of expansion.

The problem is when banks' quest for profits leads them to take on too much risk. In the case of the housing bubble, which burst last year, banks lent too freely to consumers with weak credit and wagered too much on complex financial instruments tied to mortgages. As real-estate prices turned south, so did the financial industry's health.

Because the largest banks' trading divisions make their bets with each other, their fortunes are intertwined. The collapse of one can threaten another - and another - if it is unable to pay off its debts.

This so-called counterparty risk is a



A file photo taken on September 15, 2008, in London, shows a Lehman Brothers employee carrying his office belongings as he leaves the Lehman Brothers European Headquarters building in Canary Wharf. The former deputy head of the Bank of England said yesterday he was "astounded" that the US government did not step in to halt the collapse of Lehman Brothers 12 months ago. On the one-year anniversary of the fall of Lehman which has come to mark the beginning of the financial crisis, John Gieve said he had expected government money to be pumped in to rescue the stricken investment bank.

major reason the Obama administration's regulatory overhaul plan calls for the creation of a "systemic risk regulator."

The administration is also seeking tougher capital requirements for banks, arguing that banks' buying of exotic financial products without keeping enough cash on reserve was a key cause of the crisis. Treasury Secretary Timothy Geithner has urged the Group of 20 nations - which meets this month in Pittsburgh -- to agree on new capital levels by the end of 2010 and put them in place two years later. Geithner hasn't said how much extra capital banks should be required to keep on hand.

Data from the April-June quarter show that the banks are leaning heavily again on their trading desks for revenue.

During the fourth quarter of 2008, when

the financial crisis made even the shrewdest bankers risk-averse, Goldman's trading of risky assets nearly stopped. But in the second quarter of 2009, trading revenue had climbed to nearly 50 percent of total revenue, closer to where it was two years ago before the recession began. JP Morgan's reliance on trading revenue has exhibited a similar pattern.

Also in the second quarter, the five biggest banks' average potential losses from a single day of trading topped \$1 billion, up 76 percent from two years ago, according to regulatory filings.

The government hasn't just watched banks resume their freewheeling ways and prosper. It has been an enabler in the process. The Federal Reserve, the Treasury Department and the Federal Deposit

INVESTMENT

Energy giants sign off on huge Australian project

AFP, Sydney

Energy giants Chevron, Shell and ExxonMobil on Monday agreed to develop Australia's massive Gorgon field, giving the final go-ahead to a liquefied natural gas (LNG) project worth hundreds of billions of dollars.

Chevron said the joint venture partners would start work immediately on the plant, pumping 43 billion Australian dollars (37 billion US) into the initial construction phase.

Prime Minister Kevin Rudd said the project off Australia's northwest, which is expected to begin production in 2014, would provide a valuable source of jobs and exports.

"The Gorgon investment will be Australia's largest-ever resources development and is expected to generate 300 billion (Australian) dollars in Australian export earnings," he said in a statement.

The project is already underpinned by supply contracts with China, Japan, India and South Korea worth a combined 145 billion Australian dollars, including ExxonMobil's record 50 billion dollar deal with PetroChina.

"Gorgon will supply cleaner burning natural gas for the growing Asia-Pacific and Australian markets, create thousands of jobs, and generate substantial revenue for Australia," senior Chevron executive Jim Blackwell said.

Gorgon, the world's largest LNG plant, will be built on Barrow Island, a nature reserve about 70 kilometres (44 miles) off Western Australia.

The Australian government approved the project last month after imposing strict environmental conditions.

ExxonMobil said Gorgon had an estimated 40 trillion cubic feet of natural gas, providing an important source of energy for Asia's burgeoning economies.

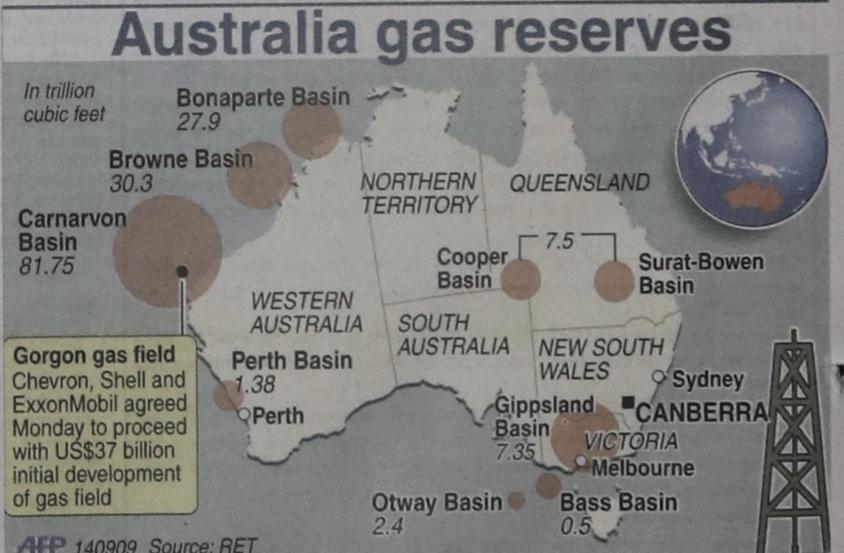
"With global demand for LNG forecast to triple by 2030, the Gorgon project will be a critical supply source in meeting this future demand, particularly for the economies in the fast-growing Asia-Pacific region," ExxonMobil senior executive Neil Duffin said.

Chevron owns a 50 percent stake in Gorgon and will operate the plant, with ExxonMobil and Shell each holding 25 percent.

Chevron said it was set to award construction contracts worth more than 10 billion dollars in coming months as building work gets underway.

Rudd predicted immense economic benefits for Australia, with the project set to boost government revenues by 40 billion dollars over the next 30 years, generating 10,000 construction and 3,500 permanent jobs.

"Gorgon will help to stimulate Australia's economic growth and provide energy security for many



decades," he said.

Macquarie economist Hayden Atkins said the mammoth project had positive growth implications for the entire economy.

"This provides upside to both near and medium-term growth projections," he told Dow Jones Newswires.

Rudd also praised Gorgon's environmental credentials, saying plans to pump excess emissions

into rock two kilometres beneath Barrow Island would make it the world's biggest carbon dioxide geological storage project.

He said economies that used LNG rather than coal to generate energy also significantly reduced their greenhouse gas emissions.

Gorgon is just one of a clutch of LNG projects planned in Western Australia and Queensland over the next decade that analysts say will

see Australia challenge Qatar as the world's major gas exporter.

Australia exported 15.2 million tonnes of LNG worth 5.2 billion dollars in 2006, a figure the government estimates will quadruple to 60 million tonnes by 2015 if all planned projects proceed.

The gas is liquefied for shipping abroad, where it is turned back into gas and distributed via a pipeline.