Nokia and Microsoft? Just maybe

JOHN C ABELL

Before there were smartphones Nokia made smart phones. Sleek. Colorful. Attractive. Sporting a distinctive, trademarked ring that, because there are so many Nokia handsets in the world, may actually be heard 20,000 times a second.

Nokia's phones never made a huge splash in the United States, but worldwide they are to this day the market leader with some 300 million in use. In Q4 of last year, Nokia's flagship Symbian mobile phone operating system boasted more than a third of the world's market share. At nearly 37 percent, that was 10 percent more than the range of devices running Google's Android, and more than Apple's iPhone and Rim's Blackberry combined.

But Nokia is losing, by leaps and bounds. The handwriting is on the wall. Nokia CEO Stephen Elop, who joined the company only last September, minced no words last Wednesday when he said the company was standing on a "burning platform."

So it really came as little surprise when two days later the company announced a massive strategic alliance with Microsoft that would mean the end of Symbian and the adoption of Windows Phone 7 by the finicky Finnish handset maker.

Nokia had nowhere to go. The paradigm shift in mobile phones began little more than three years ago with the first iPhone. That isn't a lot of time to go through the five stages of grief, even if Nokia had immediately appreciated the seriousness of the iPhone challenge.

Oh, if only Nokia could come up with an operating system that wasn't so evolutionary.

Microsoft has nowhere to go, but up. It has never moved the needle much in the mobile space, and insists on slapping Windows onto everything. But finally, with WP7, Microsoft is getting previously elusive favourable reviews from the tech press.

Oh, if only Microsoft had a handset partner that could put their OS in enough hands to go viral.

Windows Phone 7 will continue to be on plenty of other phones -- Samsung HTC, LG, Dell -- but Nokia is a jewel in the crown. Nokia could have gone with Google's Android, the fastest growing mobile OS. But with Microsoft it gets a mega-marketing partner instead of a company so unprepared to face customers it stopped selling the Nexus One after seven months.

The new partners say 2011 and even part of 2012 will be "transition" years, but they need to come up with something quickly. Apple and Google aren't going to stop innovating to let them catch up.

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Nokia Chief Executive Stephen Elop (L) gestures as he sits with Microsoft CEO Steve Ballmer during the Nokia Strategy and Financial Briefing at the Intercontinental Hotel in London, on February 11. AFP

Elop is not only new to Nokia but a former Microsoft hand, so it wouldn't have been much of an emotional call for him to put Symbian out to pasture. But neither is it a surrender.

Nokia's course change seems bold, the sort of high-risk gambit you don't see much from the corner office. It's right up there with Apple's decision to stop licensing the Mac OS, Coke's decision to stop selling their flagship product (without the delusional part), and Arianna Huffington's decision to become a liberal.

Two tech powerhouses have just humbly admitted that they are now the underdogs in what will be a long slog against unexpectedly successful upstarts in a space that is still anybody's to win.

How do you not root for that?

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EU cacophony fuels market doubts on euro zone

REUTERS, *Paris*

A renewed outbreak of cacophony in the European Union is fuelling market doubts about whether the bloc will come up with a convincing solution to the euro zone's debt crisis next month.

The risk premium on peripheral euro zone sovereign debt climbed last week after an acrimonious Feb. 4 EU summit at which several countries rejected a German-led plan to anchor debt curbs in national constitutions, end wage-indexation and link higher retirement ages to demographic trends.

At the same time, political opposition in Germany and the Netherlands has cast doubt on how far the euro zone's rescue fund will be strengthened and its scope widened to help states in difficulty.

"We cannot afford to go for a lowest common denominator solution this time," said a senior European official involved in negotiations on a so-called "comprehensive response".

The elements of a package deal -- stricter budget discipline rules, tougher bank stress tests, a pact on economic reforms, a stronger rescue fund and some debt relief for Greece and Ireland -- are all on the table, but compromise seems remote.

Markets hammered Portuguese bonds last week due to concerns that Lisbon may need a bailout like Greece and Ireland but will resist until the last minute because of the historical stigma attached to going to the International Monetary Fund.

Portuguese 10-year bond yields rose as high as 7.6 percent, a euro lifetime high and well above the 7 percent level which the country's finance minister has described as unsustainable.

So far, renewed market fears have focused on Portugal rather than stretching across the entire euro zone periphery.

The premium investors demand to hold Portuguese bonds over their Germany counterparts has soared above 400 basis points while the equivalent figure for Spain has been much steadier at around half that.

Neither has the euro currency dropped dramatically.

With rescue mechanisms in place, there is less of a fear of the euro zone-wide meltdown that gripped markets before Greece was bailed out last year. Ireland has also received EU/IMF aid.

However, if Portugal succumbs to a bailout, other countries could quickly move into the markets' cross-hairs.

Other uncertainties have added to market jitters. A growing number of economists believe Greece will be unable to service its debts even if it implements an EU/IMF adjustment programme in full, and will have to seek a restructuring.

European Commission President Jose Manuel Barroso (R) speaks next to Prime minister of Moldova Vladimir Filat (L) during a press conference following their working session on Febuary 10 at the EU headquarters in Brussels. AFP

Last week, EU and IMF inspectors approved 15 billion euros of fresh bailout funds for Greece but warned its fiscal programme could go off the rails unless it accelerated reforms and scaled up privatisations -- a markedly less optimistic outlook than they gave in November.

A study by the Bruegel think-tank last week argued that even if the EU adopts three proposed measures to ease Athens' burden -- extending the maturity of multilateral loans, reducing the interest rate and helping Greece buy back its own bonds -- the country would still require a further debt reduction.

A Feb. 25 general election in Ireland has raised the possibility that a new government may force senior bondholders in shattered Irish banks to share losses with taxpayers, despite EU and European Central Bank opposition.

The surprise withdrawal of Germany's Axel Weber from the contest to succeed ECB President Jean-Claude Trichet has added another uncertainty to the list.

Political analysts believe German Chancellor Angela Merkel may have to drive a harder bargain on her demands for a euro zone "competitiveness pact" to bring home a trophy after Weber's exit robbed her of her strongest candidate for the ECB job.

Merkel faces several political and legal constraints in the negotiations. Her liberal FDP coalition partners publicly oppose increasing the eurozone rescue fund or letting it finance debt buy-backs or cheaper loans to Greece and Ireland.

Voters may punish her Christian Democrats (CDU) at a key regional election in the state of Baden-Wuerttemberg two days after the March 24-25 EU summit if she is seen to pledge more German taxpayers' money to rescue profligate countries.

Parliament's legal service has now said Merkel will need a two-thirds super-majority to pass a bill to create a permanent rescue mechanism for the euro zone -- meaning she will have to obtain the opposition Social Democrats' support.

STANDARD OPERATING PROCEDURE

The chancellor also has to avoid any concession that could prompt Germany's constitutional court to rule later this year that Berlin's participation in the EU rescue fund is illegal.

German officials say that means there is no question of letting the euro zone rescue fund give flexible credit lines to support countries such as Portugal before they are driven out of the credit markets. Aid has to be only a "last resort".

With six weeks left until the decisive summit, diplomats say public posturing and the laying down of "red lines" is standard operating procedure in EU negotiations.

But markets will be watching closely to judge whether key elements of the comprehensive package are watered down to the point where they undermine the credibility of a deal.

For example, analysts say a failure to test banks' capacity to cope with liquidity shocks and a sovereign debt "haircut" would make the next stress tests as unconvincing as last July's exercise, which failed to expose Irish banks' fragility.

Likewise, failure to enable the European Financial Stability Fund to conduct or fund a debt buy-back for Greece and other stricken countries could hasten another run on euro zone debt.

"We can expect another round of market turmoil in late March and April if the summit outcome is not convincing," the senior European official said, noting that Portugal has a heavy debt repayment deadline in April.

However, on the basis that a sense of crisis can focus minds, bond market tensions may yet help force a more ambitious "comprehensive response" at the March summit.

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