Taxes on the menu in US debt-reduction talks

REUTERS, *Washington*

Top US lawmakers on Thursday are expected to discuss one of the biggest hurdles in the way of a debt-reduction deal that would allow the United States to continue borrowing at rock-bottom rates -- taxes.

As Vice President Joe Biden and six lawmakers meet for a sixth round of talks, outside pressure is growing for them to reach an agreement that would let Congress raise the $14.3 trillion debt ceiling before an Aug. 2 deadline.

Though bond markets remain placid, investors are increasingly alarmed that Congress will fail to act before that date, when the Treasury Department has warned it will run out of money to pay the nation's bills.

"I really hope that they would stop playing with fire," Li Daokui, an adviser to China's central bank, told Reuters in Singapore on Wednesday. China, the largest foreign creditor to the United States, holds about $1 trillion of the United States' outstanding debt.

Top Republicans have said that any increase in the country's debt ceiling would have to be matched by an equal amount in spending cuts, though they would not likely take effect immediately.

Participants in the Biden group say they have made steady progress since talks began early last month, and have conditionally agreed on at least $150 billion in cuts. But that is far short of the roughly $2 trillion in deficit reduction needed to ensure that Congress will not have to revisit the debt ceiling issue before the November 2012 elections.

REUTERS

A banker counts currency at a bank in Westminster, Colorado.

Democrats and Republicans agree that the United States needs to reduce deficits by $4 trillion over the coming decade to ensure its debt remains at a manageable level. Some worry that the group is not up to the challenge of fixing the country's long-term fiscal problems.

"One of my concerns about the debt ceiling negotiations is that if we kind of limp through the lowest common denominator -- what's the minimal amount to cut to get through a short term extension," said Democratic Senator Mark Warner, who has been working on a long-term deficit-reduction deal with a handful of other senators. "We may have the time, bond markets may react okay. But I don't know how big this window is."

Republicans and Democrats both say that the Biden talks are not moving fast enough, and time is starting to run short.

Moody's credit rating agency warned last week that it could consider cutting the United States' top-notch credit rating if there was no progress by mid-July. Fitch warned on Wednesday that the United States probably would not be able to maintain its top rating if it missed even a few bond payments.

Conscious of the potential for chaos in global financial markets if there is not a deal soon, both President Barack Obama and House of Representatives Speaker John Boehner, the top Republican in Congress, have endorsed a timetable for reaching a deal. Both say they would like to see an agreement within a month.

BREAKING THE DEADLOCK

The Biden group has been deadlocked over two items that could lead to the biggest savings: taxes and health benefits.

In Thursday's session, due to start at 12:30 p.m. EDT (1630 GMT) in the Capitol, the group is expected to take a look at tax hikes, said Republican Senator Jon Kyl, one of the negotiators.

A congressional aide said that in addition to revenues, the agenda for Thursday's talks included the budget process and discretionary spending.

Democrats say tax increases must be part of the solution but Republicans have refused to consider them on the grounds they would hurt job creation.

They also are expected to consider capping federal spending as a percentage of the economy. Federal spending is at 24 percent of gross domestic product, and a proposal that would cap it at 18 percent of GDP is gaining traction among key Republicans like Kyl. Liberals say that approach would prevent the government from responding to recessions and emergencies.

Another proposal, which would cap spending at 20.6 percent of GDP, has drawn support of a handful of Senate Democrats as well as some Republicans.

Finding common ground on the other big-ticket item -- healthcare -- is likely to be daunting. With the 2012 election cycle already under way, Democrats see an opportunity to win votes by opposing a Republican plan that would privatize the Medicare health plan for future retirees.

The iPod -- the iCon of Chinese capitalism

SEBASTIAN TONG

Walking past Apple's sleek shop along London's Regent Street on Sunday, my wife asked me what I wanted for Father's Day.

"An iPad?" I ventured, half-jokingly.

"Are you sure you want one? Don't you care how they're made?" came her disapproving reply.

She was, of course, referring to the rash of suicides among Chinese workers at Foxconn, the Taiwanese manufacturer of Apple's much desired iPads and iPhones.

The deaths prompted the company to raise salaries and cut working hours but lingering concerns over conditions for its over 1 million workers in China were underscored by a plant explosion last month that killed at least 3 people.

Workers like those who live and work in Foxconn's sprawling Chinese facilities have long been the backbone of the country's vast manufacturing sector which churns out a torrent of consumer goods for export.

But the recent labour unrest that has erupted in parts of China suggests that this low-cost export-fuelled growth model may be wheezing towards its expiry date.

Even as the world's largest contract cellphone maker, Foxconn is loss-making, its margins squeezed by rising production costs and falling gadget prices.

Younger Chinese workers are turning out to be more demanding employees, their bargaining power strengthening as a result of the growing labour shortages due to the country's strict birth control policies.

Noted currency guru Stephen Jen thinks the rapidly greying population may have already pushed the Chinese labour market past the crucial inflection point outlined by Nobel Prize-winning economist Arthur Lewis that will see wages and inflation continue to rise indefinitely.

Tong is a London-based senior correspondent tracking investment flows across borders and asset classes with a particular focus on emerging markets.

Opec locked in critical oil output talks

AFP, *Vienna*

Opec members were locked in a tense meeting Wednesday amid clear divisions over whether the cartel should boost oil production to help revive flagging economic growth.

The Organization of Petroleum Exporting Countries (Opec), which pumps 40 percent of global oil, must decide whether to raise production for the first time in almost four years to help out a slowing global economy and offset lost Libyan output.

Saudi Arabian oil officials, backed by Gulf producers such as Kuwait and the United Arab Emirates, are pressing for an increase of up to 1.5 million barrels a day.

But Ecuador, Venezuela, Iraq and Iran have all called for quotas to be maintained to preserve their precious oil revenues.

"There is still much uncertainty about the strength of the world economic recovery," said Iran's caretaker oil minister Mohammad Aliabadi, whose country holds the rotating Opec presidency.

"Today, we shall look at developments in the international oil market since our last meeting in Quito on 11 December 2010," he said in his opening address.

"This period has been marked by high levels of volatility and an upward trend in prices.

"In short, it has been a nervous six months for the oil market. Throughout, however, fundamentals (of supply and demand) have remained sound.

"Very much due to Opec's efforts, the world remains well supplied with oil, with ample spare capacity and adequate stock levels."

Aliabadi also blasted speculators who he insisted were behind recent sharp swings in the oil market.

"Excessive speculation in the futures markets increases volatility unrelated to fundamentals."

AFP

Nigeria's head of delegation and Opec Chairman Goni Musa Sheikh, Iran's head of delegation and Opec President Mohammad Aliabadi and Secretary General of the oil cartel Abdullah El-Badri from Libya open the 159th meeting of Opec Conference in Vienna on Wednesday.

Questioned about whether the Iran was content with high price levels, he replied: "The market sets the prices."

Brent crude was trading above $116 a barrel in London on Wednesday, having risen more than 20 percent so far this year.

The 12-member Opec has kept its output target at 24.84 million barrels per day (mbpd) since early 2009 but is currently pumping above this to compensate for lost Libyan supplies -- which limits its ability to raise output further.

UAE Energy Minister Mohammad bin Dhaen al-Hamli, speaking ahead of the meeting, said: "An increase (in the quotas) is an option, we'll discuss it today, we have many options.

"Today, yes, the market is well supplied but you have to look at the second half (of this year), it's going to be tighter. We have to look (at) economics."

But Venezuelan Energy Minister Rafael Ramirez argued that $100 per barrel -- was a "fair" price level for crude.

"We are going to discuss (an increase) but we don't believe it is necessary. We believe that $100 is a fair price."

The Opec membership remains extremely wary of the global economic outlook, particularly in the wake of the eurozone debt crisis, Japan's nuclear emergency and the fading health of the global economy.

"Opec is not about high prices, Opec is about a sustainable global economy ... to make the economy grow, so that consumers are happy and producers are happy," said Goni Musa Sheikh, head of Nigeria's delegation.

Meanwhile, Libya's delegate was on his way to the meeting after arriving late at Vienna airport, according to a source familiar with the matter.

BMW to invest 500m pounds in UK on new Mini

REUTERS, *London*

German carmaker BMW will invest 500 million pounds in Britain over the next three years, mostly on facilities to build next-generation Minis.

"We have started preparing our UK plants for production of the next generation Mini and this investment underlines that the UK will remain the heart of Mini production," BMW said on Thursday.

Most of the investment will be spent creating new production facilities and equipment at the Mini plant in Oxford, helping safeguard 5,000 jobs.

Prime Minister David Cameron welcomed the announcement which came the day after Japanese group Nissan Motor said it would invest 192 million pounds in Britain on the next version of its Qashqai model.

"The production and export of iconic British cars like the Mini is making a real contribution to the rebalancing of the economy that this government is determined to achieve," he said.

The announcements by BMW and Nissan fit with the government strategy of trying to lift manufacturing as the country struggles to recover from the financial crisis and ensuing recession. Manufacturing makes up 13 percent of the economy.

Business secretary Vince Cable will visit Detroit next week where he will meet executives from Ford and General Motors to press the case for further investment in Britain. Cable had talks with Nissan executives in

Plenty of rumours but no real suitors for Nokia

REUTERS, *London/Tallinn*

Nokia's plunging share price and persistent speculation it might be a takeover target is far from attracting real suitors interested in saving the struggling mobile phone company.

The handset maker's equity value has halved to 17 billion euros ($24.91 billion) since the leak in February of CEO Stephen Elop's memo comparing Nokia to a man standing on a burning oil platform.

But investors are afraid the company is losing market share so fast in both smartphones and low-end devices that it may never recover.

Another turn-off for investors and potential buyers alike may be that Nokia does not look like a cost-cutting opportunity because its main problems lie with technology.

One banker who advises technology companies was sceptical about any company wanting to buy Nokia, putting the likelihood of a bid for the entire company at below 10 percent.

"It would be like jumping into the ocean from 500 feet without a lifejacket," the banker said. "There is nobody driving strategy, most of the senior guys are gone. The company is firefighting."

The shares briefly rose last week on speculation that Microsoft could be interested in buying Nokia, but they fell back once Nokia denied they were in talks.

Talk of an offer from No. 2 phone maker Samsung Electronics briefly surfaced on Wednesday. But the market appeared to shrug it off and the shares fell 4 percent.

"I don't think it's a viable target for Microsoft, and even less for Samsung. I don't see any value for Samsung in buying Nokia," said Canalys analyst Pete Cunningham.

Last week Nokia warned second quarter sales and profits would miss forecasts and abandoned hope of meeting key targets set just weeks earlier as it flails at mounting competition.

Samsung, by contrast, has built up a succesful smartphone offering based mostly on Google's Android platform and took No. 1 position in Western Europe, Nokia's home market, in the first quarter, according to IDC.

Samsung is not an acquisitive company and hence an unlikely acquirer of Nokia, said a second banker, adding that Motorola Mobility had only just turned the corner after its own restructuring and would be loath to take on another struggling company.

AFP

British Prime Minister David Cameron (L) looks at a British Union Flag liveried Nissan Qashqai vehicle with President and CEO of Nissan, Carlos Ghosn, (R) outside 10 Downing Street in London, on Wednesday. Nissan will build the next model of its Qashqai car in Britain, safeguarding thousands of jobs at its key European plant and across supply chains, the company's chief executive said.