

Greek government survives, battles on to avoid bankruptcy

REUTERS, Athens

Greece's government will approve a new austerity package on Wednesday after it survived a confidence vote that was a crucial hurdle in a battle to avert the euro zone's first sovereign debt default.

Prime Minister George Papandreou's reshuffled cabinet aims to get parliamentary approval for a package of spending cuts, tax hikes and state asset sales by June 28 and implement it by July 3 to secure 12 billion euros (\$17 billion) in aid that is vital to avoid bankruptcy.

The vote follows a European ultimatum linking the release of the next instalment of a 110 billion euro EU/IMF aid package to the tougher new five-year belt-tightening plan.

Without the loans, Athens would plunge into default next month, sending shock waves through the global financial system.

The euro rose in hopes that the immediate threat of market chaos could be avoided. But the gains were short-lived as traders remained worried about the will to implement harsh austerity measures against fierce public resistance and by doubts about Greece's ability to reduce its debt burden without some form of restructuring.

The yield on Greek government bonds tightened slightly against benchmark German Bunds, with the 2-year bond yield dropping 28 basis points, while Greek banking stocks opening flat after strong gains on Tuesday.

After some brief scuffles between police and protesters



Greek Prime Minister George Papandreou addresses members of parliament, while Finance Minister Evangelos Venizelos (L) looks on, prior to the vote of confidence at Parliament in Athens yesterday.

after the late night vote, the streets of Athens were calm on Wednesday with traffic running normally through Syntagma square where 20,000 demonstrators besieged parliament on Tuesday night.

The government won the late night confidence motion by 155 to 143 with two abstentions after all of Papandreou's Socialist Party deputies voted solidly with the government.

But with unions bristling for a fight and much of the public outraged by new austerity measures, implementing any reforms will be a challenge as

Greece struggles in its worst recession in 37 years.

"Within the parliament there is no problem at all, the real problem is in society," said Costas Panagopoulos of pollster ALCO. "There's a lot of disappointment in the Greek society, there's a lot of anger and there's no hope at all. The new minister of finance and the government...have to offer some hope otherwise I cannot see how the government could remain stable."

Eurozone creditor governments were starting talks with commercial banks and insurers on Wednesday about a "volun-

tary" private sector contribution to a second rescue program for Greece, a source in the German government said.

"The finance ministry has invited banks and insurers for talks on a working group level in Frankfurt," the source told Reuters, adding that the same would begin elsewhere in the 17-nation single currency area.

Private bondholders will be asked to commit to rolling over their Greek bonds when they mature, but Berlin was forced to drop a more ambitious plan for a bond swap extending maturities by seven years after the Euro-

pean Central Bank objected.

Speaking hours after the vote, Mohamed El-Erian, head of Pimco, the world's biggest bond fund, said he expected Greece to end up defaulting on its debt.

"For the next three years, we're going to see different economies work out different problems. For European economies, especially Greece, it would be through default," El-Erian told a conference in Taipei.

Papandreou managed to stifle dissent within his party last week, replacing unpopular government figures with critics of the austerity plan and repeatedly hammering home the message of what was at stake.

"If we are afraid, if we throw away this opportunity, then history will judge us very harshly," Papandreou said in a final appeal for support before the confidence vote.

Having already missed targets agreed in its first, year-old bailout, Athens needs the reforms to keep receiving those funds and secure a second bailout worth an estimated 120 billion euros.

The new mid-term plan envisions raising 50 billion euros by selling off state firms and includes 6.5 billion in 2011 fiscal consolidation, almost doubling existing measures that have helped extend a deep recession into its third year.

Most analysts remain skeptical that Greece will be able to repay its vast public debt pile of 340 billion euros, 1.5 times its annual economic output and more than 30,000 euros for each of its 11.3 million people, even if the reforms are implemented.

Ash clouds blacken Aussie tourism woes

AFP, Sydney

Cyclones, floods, earthquakes and now an ash-spewing volcano have come at a high price for Australia's aviation and tourism industries, which analysts say are losing tens of millions of dollars a day.

Already struggling with surging fuel costs and a mining-driven rally in the Australian dollar that has seen an exodus of holidaymakers offshore, tourism and travel operators could little afford this year's string of disasters.

The ash cloud from Chile's Puyehue volcano grounded hundreds of domestic and international flights in Australia this week, the second major disruption due to the plume.

Sydney, the nation's biggest airport, all but shut down for some 24 hours, and flights from Asia and Europe had to be diverted to Brisbane, stranding thousands of passengers and leaving airlines with a hefty bill.

"This will be having a very major effect (and) not only on the airlines," aviation analyst Neil Hansford told AFP.

"All they're going to save by not flying is the fuel, the payments for air traffic fees, some airport charges... but they can only get rid of up to 20 percent of their costs; 80 percent of their costs sit there whether they fly or not.

"The industry could be losing in excess of Aus\$30 million (US\$32 million) a day."

Hansford, chairman of consultancy Strategic Aviation Solutions, said the latest flight chaos would be felt particularly hard because it came mid-week, impacting business travel.

"You take taxis, then you've got to take hotels, restaurants... because this is right in the heart of the business week," he said.

Airports, which mainly profit from parking, would also see significant one-off losses from the upheaval, which affected most of the nation's major terminals, he added.

Australian flag carrier Qantas on Wednesday said the ash had cost it \$21 million before this week's chaos and estimated 200,000 of its passengers had been hit in recent days -- "well over 10 times as big" as the impact of last April's Icelandic eruption.

Tata Motors to fight decision to reclaim Singur land



A security guard stands outside the closed Tata Motors Nano car factory in Singur.

REUTERS, Mumbai

Tata Motors, the auto arm of the iconic Tata group, said it will challenge in court the West Bengal government's decision to reclaim land in Singur, another instance of conflict over land that is the biggest block for rapid growth in Asia's third-largest economy.

Tata Motors, India's top vehicle maker, abandoned plans in 2008 to build a plant on the land to manufacture what it says is the world's cheapest car, the Nano, in West Bengal after violent protests by farmers.

Returning the land to farmers was a central point of the campaign by the populist Trinamool Congress party during elections in the state in April, which saw voters throw out a three-decade old communist government. Trinamool is the largest ally of the Congress party.

Debasis Ray, a Mumbai-based spokesman for Tata Motors said on Wednesday the firm would contest the decision by the local government in the High Court in Kolkata, but did not elaborate.

Across India, several multi-billion dollar projects are being delayed as poor farmers resist the forced takeover of their lands, often at below market prices. Analysts warn this could deter foreign direct investment (FDI) and trip up plans for speedy industrialisation in India.

West Bengal has pledged to improve conditions for Indian and foreign investors after the state was shunned for

years. Major companies are forced to look at each of India's 28 states when deciding where to invest as rules, often opaque, differ from state to state, a fact that often deters investors.

On Tuesday, local protests forced local authorities to stop acquiring land for South Korean POSCO's \$12 billion steel plant in Orissa, further delaying what would be the single largest FDI into India.

Central and state governments have dithered on taking firm decisions, mindful of the wrath of the over 500 million farmers who make up their core vote base, but also wanting to accelerate economic growth to double digits.

That ambition is overshadowed by declining FDI, policy paralysis from a series of corruption scandals and slowing industrial activity due to high inflation and interest rates.

Economists, bankers and industrialists have said that without structural reforms, India could go into a slump that would be difficult to recover from.

India plans a new land acquisition law that will give farmers market or better rates for their land, taking off the edge from protests. The current law gives little or no compensation for land taken over for a "public purpose."

It remains to be seen whether the Congress-led government in the capital will push through the legislation in parliament given it is fighting an increasingly assertive opposition bent on blocking proceedings over rampant corruption.

Austerity measures threaten global recovery: UN

AFP, Geneva

The UN warned Wednesday that austerity measures in countries such as Greece threaten a global recovery, and called on governments to take social implications into account when drafting policies.

"Austerity measures in response to high government debt in some advanced economies, such as Greece and Spain, are not only threatening public sector employment and social expenditure, but also making the recovery more uncertain and fragile," said the UN department of economic and social affairs in a report.

Heavily-indebted Greece is being forced to deepen and accelerate its reforms in order to qualify for further loans from the European Union and International Monetary Fund.

However, the austerity measures being imposed in return have led to mounting social unrest in the country.

The United Nations report stressed that "it is essential that governments take into account the likely social implications of their economic policies."

It also criticised lending conditions set by institutions such as the IMF.

The report noted that 31 out of 41 agreements with the IMF included pro-cyclical policies -- such as cuts in fiscal deficits -- which could exacerbate a slowdown.

"International financial institutions ... continue to attach pro-cyclical conditions to the financial assistance packages they extend to countries in need and have paid insufficient attention to the social implications of such policies," it said.

"Countries need to be able to pursue countercyclical policies in a consistent manner.

"Such policy space should be enabled by changing the fundamental orientation and nature of policy prescriptions that international organizations impose on countries as

H&M sees profit slip, 'challenging' conditions

AFP, Stockholm

Swedish cheap-and-chic fashion giant H&M on Wednesday posted a net profit down 18 percent from a year ago and said it was facing challenging conditions in both its sourcing and sale markets.

The company's net profit was down to 4.26 billion kroner (465 million euros, \$670 million) from 5.21 billion for the same period in 2010.

The figure slightly beat the expectations of analysts surveyed by Dow Jones Newswires, who expected a net profit of 4.22 billion.

Translated into Swedish kroner and excluding value-added tax (VAT), its sales were almost flat, at 27.6 billion, compared to 27.0 billion a year earlier. In local currencies

and including VAT, they grew 12 percent.

Chief executive Karl-Johan Persson praised a gain in market share "in a very challenging market," while noting the economy had negatively affected the retail sector.

"Increasing interest rates, higher energy prices and austerity measures in many economies have decreased consumer spending power. During the spring, the fashion retail industry has been characterised by many price campaigns and special offers," he said.

He added H&M was positive for the future "despite challenging conditions both in the sales market and in the sourcing markets."

The company said that similarly to the first quarter, it decided to not pass onto cus-

tomers higher costs -- caused notably by higher cotton prices, higher transport costs and a negative US dollar effect -- keeping its prices low in order to secure its spot in the market.

"H&M chose to strengthen its price position in order to build further on its strong market position in the long term," it explained.

Known for its trendy yet affordable fashions, H&M is the world's third largest clothing group behind Spain's Inditex, which owns Zara, and Gap of the United States.

The company was founded in Vaesteraas in central Sweden in 1947. As of May 31 this year, it had 2,297 H&M stores. The H&M group also has 39 stores under its COS banner, 48 Monki stores, 18 Weekday stores and one under the Cheap Monday banner.



An activist dressed as German Chancellor Angela Merkel poses in front of the chancellery as she waits for her fellow activists to show up, in Berlin on Tuesday. Various NGOs and pressure groups including Oxfam, Attac, and Jusos, called on Merkel to press on with a proposed tax on financial transactions in order to fight poverty at the upcoming EU summit in Brussels, starting today.