EU finance ministers tackle 'Banking Union' differences

AFP, *Luxembourg*

EU finance ministers will try again this week to resolve deep differences over how to supervise, and if necessary close, failing banks before they can plunge the economy into crisis.

Ireland was among the worst affected by the collapse of its banks but over the weekend announced it would exit its 3-year, 85-billion-euro bailout programme on schedule in December.

The Irish news, plus the fact that further aid for twice-bailed out Greece is not pressing, highlights how far the 17-nation eurozone has come since the dark days of 2009-10.

Now the spotlight and the controversy is on what comes next.

At the height of the global financial meltdown, ambitious plans to ensure that the taxpayer would no longer have to foot the bill for bailing out overextended banks made sense, along with much tighter economic policy coordination adopted by EU governments.

But as the pressure has eased and the European economy stabilised, national concerns have resurfaced, making implementation of the mooted "Banking Union" ever more difficult.

The 17-eurozone ministers meet Monday in Luxembourg, followed by talks Tuesday with their 11 non-euro colleagues hoping for progress on a hugely complex issue surrounded by political sensitivities.

In a research note entitled, "EU Banking Union: Right idea, poor execution," Deutsche Bank said the plan "has a sound economic rationale and would, if it were implemented in a consistent fashion, substantially strengthen financial stability in Europe and in the euro area in particular."

The problem, however, is that it suffers "from two very fundamental contradictions."

"On the one hand, there is a schizophrenic attitude of member states with regard to the necessary degree of supra-nationality to preserve a financially stable internal market for financial services.

"On the other, there are the contrasting expectations and motives of member states with regard to Banking Union," it said.

Driven by the debt crisis, the eurozone has already agreed a Single Supervisory Mechanism, due to be operational late next year, to regulate the sector under the European Central Bank.

The next step is a Single Resolution Mechanism, open also to non-euro members who want to take part, to close banks that cannot be rescued.

Top EU and ECB officials say the SRM is essential to complement the SSM.

US lawmakers split as debt deadline looms

AFP, *Washington*

THE United States was still facing a potentially devastating sovereign debt default and making markets nervous after senators failed to agree on terms to reopen the federal government and raise the country's borrowing limit.

Republicans and President Barack Obama's Democrats -- at war over the country's finances for more than two weeks -- tried to shed a positive light Sunday on a weekend of talks that despite the threat of global economic censure produced no solution.

The Senate convened a rare Sunday session to try and break the budgetary impasse that prompted the government to shut down on October 1, a move that has undermined America's reputation as the world's economic superpower.

If the US debt ceiling is not raised by October 17, the Treasury would run out of money and could begin defaulting on its obligations for the first time in history.

Seeking to avert that scenario, Democratic Senate leader Harry Reid spoke with the top Senate Republican, Mitch McConnell, though nothing concrete was disclosed.

"I'm optimistic about the prospect for a positive conclusion," Reid said.

Around the world, however, signs of no confidence were mounting Monday.

China and Japan -- which between them hold more than $2.4 trillion of US debt -- have urged Washington to get its house in order.

China's foreign ministry spokeswoman Hua Chunying took a chance in Beijing to wag its finger at Washington.

"The United States is the largest economy in the world and we hope that it can show its responsibility," Hua told reporters at a regular briefing.

Bank of France Governor Christian Noyer warned of dire consequences if there was no solution.

A default would be "a thunderbolt on the financial markets" that would set off "extremely violent and profound turbulence worldwide," he told the daily Le Figaro.

AFP

A protester holds a sign during a demonstration in front of the White House in Washington on Sunday, demanding an end to the US federal government shutdown.

In Asia, markets in Sydney, Seoul and Singapore were down in part over the deadlocked talks. Tokyo, Hong Kong and Jakarta were closed for public holidays.

On Asian currency markets the dollar weakened, buying 98.25 yen against 98.59 yen in New York late Friday.

"So far, markets have not panicked because both parties have come out to reassure that they are working towards a compromise after every failed vote, keeping alive hopes for a last-minute deal," Singapore-based DBS Bank said in a note.

US Treasury Secretary Jacob Lew earlier told the International Monetary Fund that Washington understood its reputation as a safe harbor was at risk.

'wreaking havoc around the world'

But it's up to Congress to resolve the problem, and polls show its approval rating at record lows, with Republicans taking most of the blame.

Both parties in recent days indicated a deal must be reached despite the rancor.

"This is something that's wreaking havoc around the world and will affect economic growth, and I do hope that over the next week we'll reach a conclusion and I think we will," Republican Senator Bob Corker told "Fox News Sunday."

Obama earlier rejected an offer by Republicans in the House of Representatives to lift the debt ceiling for six weeks while negotiations would continue on reopening the government, insisting on a longer-term solution.

Following talks with the top House Democrat, Nancy Pelosi, the president said they were not budging from their position.

Obama and Pelosi "reinforced that there must be a clean debt limit increase that allows us to pay the bills we have incurred and avoid default," the White House said in a statement.

Rising onion costs send India inflation to 7-month high

AFP, *Mumbai*

A four-fold surge in the cost of onions helped push Indian inflation to a seven-month-high in September, data showed Monday, fuelling expectations of another interest rate hike as authorities struggle to get the economy back on track.

The Wholesale Price Index hit 6.46 percent last month, from 6.10 percent in August -- and much higher than analyst forecasts of 6.0 percent -- driven by surging vegetable and fuel prices.

"Rising input costs have pushed up core inflation," said Rupa Rege Nitsure, economist with state-run Bank of Baroda.

The scandal-tainted Congress-led government of Prime Minister Manmohan Singh is anxious to tame inflation and revive the economy as it seeks a third term in office with elections due by May 2014.

The main driver of the surge in inflation was vegetable prices, which rose 18.40 percent year-on-year while the cost of onions, regarded as cooking essential, increased 322 percent owing to a supply shortage.

Fuel prices jumped 10 percent, data showed.

India's new central bank governor Raghuram Rajan surprised markets last month by hiking interest rates as inflation began to creep up.

Rajan had earlier warned he was prepared to take unpopular steps to bring the economy back up to speed.

With inflation well above the Reserve Bank of India's comfort zone of 5.0 percent, economists say a further rate rise is likely.

"Concerns over inflation remain. We expect a 25 basis point hike in interest rates," said Dharmakirti Joshi, chief economist with rating agency Crisil.

The RBI meets on October 29 for its quarterly monetary policy decision.

The government also revised upwards July's inflation reading to 5.85 percent from 5.79 percent reported earlier.

Yahoo CEO Mayer has advertisers' attention, but can she get their dollars?

REUTERS, *New York/San Francisco*

THREE weeks ago, Yahoo Inc Chief Executive Marissa Mayer strode into a Manhattan hotel and was greeted like a rock star by hundreds of advertising executives who snapped pictures as she sat down for an interview with journalist Charlie Rose.

That same audience a year ago would have been grousing that Mayer had not done enough to engage Madison Avenue, which is arguably Yahoo's most important constituent since the Internet company derives more than 75 percent of its revenue from ad sales.

"I think that Marissa has gotten a bit of a bad rap," said David Cohen, the chief media officer at UM, the global media arm of Interpublic Group.

The industry perceived Mayer as not caring about advertising, choosing instead to focus solely on products, Cohen said.

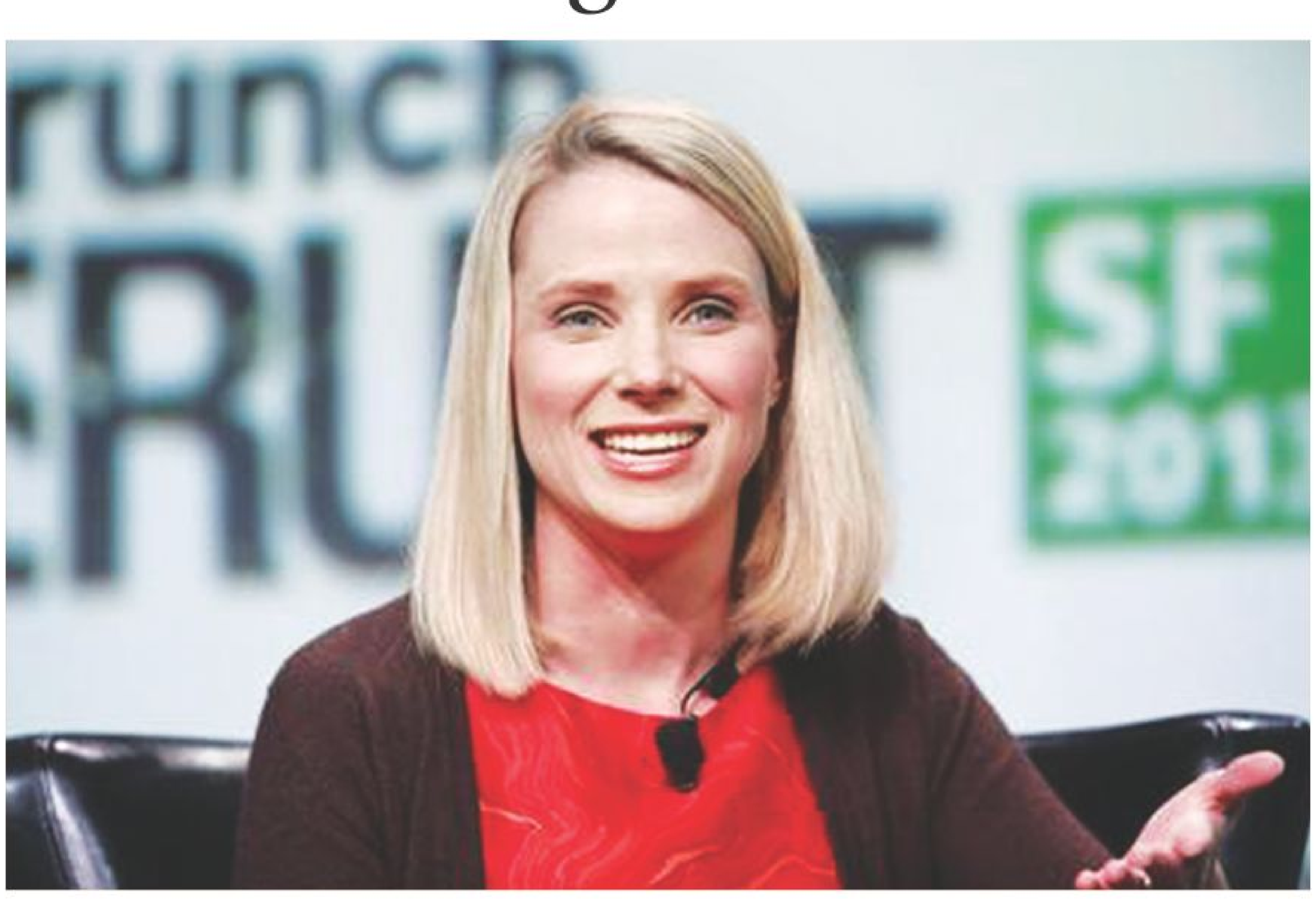
Ad agency executives say that over the past six months Mayer and her team have been working hard to change that perception, courting advertisers at key industry events, hosting lunches and attending meetings with agency representatives that include Yahoo executives like Chief Operating Officer Henrique de Castro, Senior Vice President and head of Americas Ned Brody and Chief Marketing Officer Kathy Savitt.

The charm offensive has impressed many on Madison Avenue, but getting advertisers to actually spend more on Yahoo's Web properties will not happen overnight, industry experts said.

The shift to advertising exchanges, which allow marketers to instantly buy placement for their ads across a broad constellation of websites, has pushed down the prices that online publishers such as Yahoo can charge.

That was painfully apparent in the second quarter of this year, when Yahoo's display advertising revenue slid 11 percent due in part to a double-digit decline in ad prices.

"Advertisers will become more excited if there's clear evidence that Yahoo is growing again in terms of its users and its engagement," said Mark Mahaney, an analyst at RBC Capital Markets.



Marissa Mayer

Since Mayer became CEO, Yahoo's stock has more than doubled, recently reaching a near 8-year high of $35.06. But analysts say the gains are mostly due to aggressive share buybacks and the impending initial public offering of Chinese e-commerce giant Alibaba Group, in which Yahoo owns a 24 percent stake.

More than a year into Mayer's tenure, Yahoo's core business remains stagnant. Revenue has been flat or down for the past four years and Wall Street does not expect the situation to improve when Yahoo reports its third-quarter results on Tuesday.

Analysts are expecting third-quarter revenue to decline around 1 percent to $1.08 billion, according to Thomson Reuters I/B/E/S.

A Yahoo representative said the company has built a team to specifically focus on agency relationships and has recently realigned its sales force according to industry expertise.

Yahoo is "working closely with our advertisers to develop opportunities in a more integrated way across our full suite of media, programmatic, video and mobile properties," Yahoo said in an emailed comment.

Yahoo is trying to play catch-up to Facebook Inc, Twitter Inc and Google Inc in the fast-growing mobile advertising business, as consumers increasingly access the Web on smartphones instead of PCs, and flock to social media websites that require novel ad formats.

Spending on mobile ads grew 145 percent year over year to $3 billion in the first six months of 2013, according to the Internet Advertising Bureau.

Mayer has revamped many of Yahoo's mobile apps to make them more attractive to consumers and advertisers. In May she spent $1.1 billion to acquire Tumblr, a popular blogging and social media website.

"There's a promise there but it's not ready for prime time today," said Ritu Trivedi, managing director, digital marketplace at MediaVest, a Publicis media agency, referring to Yahoo's mobile ad efforts.

Mayer has said that turning Yahoo's business around will be a multi-year process. She has accelerated the pace of product development, and added workplace perks such as free food and top-of-the-line smartphones for employees.

But even as the CEO tries to forge closer ties with advertisers, she has made it clear that Yahoo's users come first. That is a big change from the old Yahoo, which was famous for loading its websites with advertising that critics said were overly intrusive and detrimental to the user experience.

For instance, Yahoo's new mobile weather app, which takes basic weather feeds and links them with the Flickr photo-sharing service, has sparked interest from advertisers. The app could be particularly appealing to hotel and retail marketers, said Peter Stein, CEO of Razorfish, a digital marketing agency.

So far however, Yahoo has kept the weather app ad-free.

"There message has been very direct and on point, they are definitely focused on the consumer," said Ari Bluman, chief digital investment officer in North America for WPP's media buying arm GroupM.

Some ad experts say Mayer's prioritization of users before advertisers is a smart move that could ultimately pay off by increasing Yahoo's popularity with consumers. But others say it may not go over well on Madison Avenue in the short term.

Chevron goes to trial in New York over $18b Ecuador award

REUTERS, *New York*

CHEVRON Corp will try to convince a US judge this week that a group of Ecuadorean villagers and their US lawyer used bribery to win an $18 billion judgment against Chevron from a court in Ecuador, in the latest chapter in a long-running fight over pollution in the Amazon jungle.

In a trial starting Tuesday, the oil company is asking a federal court in New York to prevent the villagers and their Harvard-educated lawyer, Steven Donziger, from using U.S. courts to enforce the Ecuadorean judgment.

A victory in the United States would likely help Chevron's defense in other countries where Donziger and the villagers may seek to enforce the judgment.

"We believe that any jurisdiction that observes the rule of law will find that the judgment is illegal and unenforceable because it's a product of fraud," said Morgan Crinklaw, a spokesman for Chevron.

Donziger and the villagers say they did nothing wrong in obtaining the judgment, and they accuse the judge in the US case, District Judge Lewis Kaplan, of bias against them.

"These claims by Chevron are utterly baseless," said Chris Gowen, a spokesman for Donziger and the Ecuadoreans.

The trial is the latest chapter in a dispute over environmental contamination between 1964 and 1992 at an oil field in northeastern Ecuador operated by Texaco, which Chevron bought in 2001.

Chevron says Texaco cleaned up its share of waste before turning the field over to state-owned Petroecuador. But in 2011, an Ecuadorean court awarded $18 billion to people from the village of Lago Agrio, which was affected by the pollution. The court subsequently increased the award to $19 billion to cover fees.

Donziger and the Ecuadoreans have been unable to collect the award in Ecuador because Chevron no longer has operations there.

In 2011, Chevron obtained an injunction from Judge Kaplan in New York blocking enforcement of the judgment anywhere outside Ecuador. The 2nd US Circuit Court of Appeals later reversed that ruling.

In the lawsuit, Chevron accuses Donziger of violating the US Racketeer Influenced and Corrupt Organizations Act, and says both he and the villagers committed fraud.

Central to Chevron's case is the evidence of a former Ecuadorean judge, Alberto Guerra. Guerra said in a sworn deposition that he often wrote opinions for Judge Nicolas Zambrano, who issued the award to the villagers.

Guerra said Donziger and another lawyer pledged to pay Zambrano $500,000 from whatever they collected from the judgment in exchange for allowing them to write it. Guerra also said Zambrano promised to share part of the bribe.

Ted Boutrous, a lawyer for Chevron, said the proceedings in Ecuador were "one of the most egregious litigation frauds in history."

Donziger and the Ecuadoreans say Guerra has no credibility and say he is being paid for his testimony by Chevron. Donziger denies writing the judgment.

"We are completely and utterly denying the allegations by Chevron," his spokesman Gowen told reporters on Friday.

"Steven Donziger did not ghostwrite a judgment," Gowen said. "Steven Donziger did not bribe a judge."

In January, Chevron said it relocated Guerra's family to protect his safety and paid him $38,000 for the costs of providing his evidence. Chevron also confirmed that it agreed to pay Guerra's family $10,000 per month for living expenses and $2,000 for housing.

Guerra and Zambrano are expected to testify at the trial, which is expected to last several weeks.

Donziger and the Ecuadoreans argue that the relief Chevron seeks - a ban on enforcing the Ecuadorean judgment in US courts or profiting from it in any way - would violate the 2nd US Circuit Court of Appeals' reversal of Kaplan's 2011 injunction.

They also say they are fighting an unfair battle. Chevron has overwhelmingly more resources. And Donziger and the villagers accuse Kaplan of bias. In a court filing, they wrote that Kaplan's "contempt" for Ecuador, "its courts, and its laws has only grown more prominent over time."

The 2nd Circuit on September 26 rejected their request to remove Kaplan from the case.

Earlier this month, Kaplan ruled that the villagers and Donziger are not entitled to a trial by jury, as they had preferred, because Chevron waived damages claims against them.

The case is Chevron Corp v Steven Donziger et al, US District Court for the Southern District of New York, No. 11-0691.