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BUSINESS REUTERS 12

KATHIMERINI

Greece's Leading Newspaper | English Edition

INSIDE

Argentine players take the pain and win one for the coach

SPORTS 16

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Republicans fear McCain might lose

Party splits on tactics to counter Obama

By Adam Nagourney
and Elisabeth Bumiller

WASHINGTON: After a turbulent week that included disclosures about Sarah Palin and signs that John McCain was struggling with the tone of his campaign, Republican leaders said over the weekend that they were worried the Republican nominee for president would lose the race unless he brought stability to his candidacy and settled on a clear message to counter Barack Obama.

ELECTIONS
2008

Again and again, party leaders and conservative spokesmen said in interviews and on television that while they believed that McCain could still win, they were concerned that he and his advisers were adrift in dealing with an extraordinarily challenging political battleground and a crisis on Wall Street.

Bill Kristol, a conservative political commentator, said Obama's favorable ratings had steadily risen despite tough negative ads from the McCain campaign. A lack of coherence in the McCain camp was taking a toll, Kristol said on Fox News.

"It's a stupid campaign," Kristol said in unusually blunt language that seemed to reflect deep frustration. "It's really become a pathetic campaign."

'You're starting to feel real frustration because we are running out of time.'

The expressions of concern came after a difficult week for McCain. On Friday, an investigation by the Alaska Legislature concluded that Palin, the governor, had abused her power in trying to orchestrate the firing of her former brother-in-law, a state trooper.

"I think you're seeing a turning point," said Saul Anuzis, the Republican chairman in Michigan, where McCain has decided to stop campaigning. "You're starting to feel real frustration because we are running out of time."

Tommy Thompson, a former Republican governor of Wisconsin, said it would be difficult for McCain to win in his state but not impossible. Asked if he was happy with McCain's campaign, Thompson replied, "No," and he added, "I don't know who is."

In Pennsylvania, Robert Gleason Jr., the Republican chairman, said he was concerned that McCain's increasingly aggressive tone was not working with moderate voters and women in the important southeastern part of a state.

"They're not as susceptible to attack ads," Gleason said. "I worry about the southeast. Obama is making inroads." Several Republican leaders said McCain needed to settle on a single message and warned that his changing day-to-day dialogue — a welter of evolving economic proposals, mixed with on-again, off-again attacks on Obama's character — was actually helping Obama in his effort to portray McCain as erratic.

"The main thing he needs to do," said Vin Weber, a former Republican congressman from Minnesota, "is focus on a single message — a single, concise or clear-cut message, and stick with that." John Danforth, a retired Republican senator from Missouri, said McCain should turn his attention mainly to drawing contrasts with Obama and "essentially go back to the basics," including "the very dramatic taxes and spending in the Obama program."

Even that might not be enough, he said. "This is a year where everything that could go in Obama's favor is going in Obama's favor," he said. "Everything that could go against McCain is against him. It's absolutely the worst kind of perfect storm."

McCain's advisers said they remained confident. "John McCain beat back what was a political climate that would have snuffed out any other candidate in the Republican Party," said Nicolle Wallace, a senior adviser. "He's beat back every hurdle that was ever placed in front of him."

McCain acknowledged the challenge Saturday as he campaigned in Iowa, where President George W.

MCCAIN, Continued on Page 7

■ **Palin's fear of state trooper discounted by investigator.** *Page 5*

The Associated Press

Changing the Chinese landscape

Europe agrees to banking rescue

Philippe Wojazer/Reuters

Meeting at the Élysée Palace on Sunday, from left: Angela Merkel, Nicolas Sarkozy, François Fillon and José Manuel Barroso.

Big infusion will provide equity stakes to authorities

By David Jolly and Katrin Bennhold

PARIS: European financial and political leaders agreed late Sunday to a plan that would inject billions of euros into their banks in a bid to restore confidence to the teetering financial system.

Following the British rescue package announced last week, the countries pledged to take equity stakes in distressed banks and vowed to guarantee bank lending for periods up to five years.

"We are committed in all European states to recapitalize banks if we establish a threat to solvency and a risk to the economy," the Belgian finance minister, Didier Reynders, said after the leaders met. "The goal is to kick-start the interbank lending market."

Reynders said the European Central Bank had also committed to helping to unfreeze the commercial paper market, where companies conduct short-term borrowing.

But leaders of the 15 countries that use the euro did not put a price tag on any of their promises — contrary to Britain, where Prime Minister Gordon Brown announced £150 billion, or $255 billion, in government funds and other measures, and the United States, where a $700 billion bailout plan will now partly be used to recapitalize banks.

Officials said action would be taken at the national level, within the framework of the agreed "toolbox." The idea, they said, is that governments face different challenges and need to act quickly in the face of a crisis and that a common front will avoid the possibility that one country may undercut another. Each euro-zone country will announce concrete figures for the measures they expect to take individually, Reynders said.

"There is no question of setting up a European fund," Reynders said.

After Britain and the United States announced last week that they would move to take ownership shares in ailing banks, the 15 leaders of the euro zone found themselves looking for a collective response to avoid tit-for-tat actions by individual countries that might harm their neighbors.

Brown said earlier after meeting at the Élysée Palace with the French president, Nicolas Sarkozy, that he believed that Europe would "work together with America." Brown, whose country has maintained its own currency, the pound, in the face of European monetary integration, also warned that the decisions made Sunday would have economic consequences for years to come.

In contrast to the meeting last weekend, leaders of the major European Union countries seemed to be reading from the same script on Sunday.

"Our goal is to have coordinated action for the euro zone," said Angela Merkel, the German chancellor, and the meeting "is a very important signal for the strength of the euro zone."

Officials said France and Germany

CRISIS, Continued on Page 14

Lenders can't count on Mideast for aid

By Landon Thomas, Jr.

Ahmed Jadallah/Reuters

Traders in Dubai on Sunday. Despite piles of cash, the region is unlikely to help banks.

LONDON: Don't expect Middle Eastern sovereign wealth funds to jump on the government bailout bandwagon.

As stock markets around the world have cratered, some of the world's largest wealth funds have been hoarding cash, much like the hedge funds and big institutional investment funds that have been running for cover in recent weeks.

The oil-rich emirate of Abu Dhabi oversees the world's largest government-sponsored fund and has been steadily increasing its cash position to the highest level it has been in years. According to people who have been briefed on its investment strategy, the Abu Dhabi Investment Authority now has a cash position between 10 and 20 percent of its total size, estimated at $550 billion. The sum could reach $100 billion.

Very little of that amount is expected to go to wounded financial institutions in America, these people say.

The second largest fund in the region, the Kuwait Investment Authority, with assets of about $250 billion, has also been accumulating cash. The fund director, Bader al-Saad, was in New York last week and he has told bankers that he has no interest in buying distressed financial companies.

That means the cash-hungry U.S. and British governments, which together plan to commit about $800 billion in borrowed money to invest in flailing banks, cannot rely on foreign contributions as they confront the momentous task of saving their troubled financial institutions.

About all that can be expected of the cash-rich wealth funds, analysts said, is that they will lend some money to the U.S. government on a short-term basis because they can count on it to be paid back.

"Sovereign funds are piling up cash because there has not been a big reward of putting your money to work," said Brad Setser, an international finance analyst at the Council of Foreign Relations. "But what I find to be more worrisome is a complete absence on the part of sovereigns to hold anything else but super safe Treasury bills."

That sovereign funds appear to have the same buyers' fright as the portfolio manager of a U.S. mutual fund should not necessarily be a surprise, given the widespread revulsion for holding assets with even the slightest risk. But with their longer-term investment horizons, these funds were expected to have a stronger stomach for riding out the stomach-churning ups-and-downs of the market.

The plunge in the value of oil, along with fears that the global economic downturn is likely to be deeper and longer-lasting than expected, has probably been the most important factor in changing that thinking.

Setser points to data showing an up-

FUNDS, Continued on Page 14

INSIDE

European action will inject billions of euros

CRISIS, From Page 1

were planning to announce national rescue packages on Monday worth hundreds of billions of euros.

The freezing of credit markets has made it difficult for most companies to borrow money on more than an overnight basis. Stocks have plummeted, meanwhile, making it much more difficult for troubled banks to shore up their balance sheets by raising more capital from investors.

In Oslo, which is outside the euro zone, the Norwegian central bank moved to provide banks with $58 billion in additional liquidity.

"The Norwegian money market isn't working," the central bank governor, Svein Gjedrem, was quoted as saying by Reuters. "Today, Norges Bank is for all practical purposes functioning as a clearing house for all activity in the Norwegian money market."

Michel Fleuriet, director of the investment banking program at Université Paris-Dauphine and the former head of Merrill Lynch in France, said: "Governments have to come up with something to unblock the credit market. We're talking about the blood of the system and it just isn't flowing right now."

Earlier Sunday, the authorities in Australia and New Zealand announced a blanket guarantee of bank deposits. Australia's prime minister, Kevin Rudd, called the financial meltdown "the economic equivalent of a national security crisis" because of the danger that funds would flee Sydney banks for countries where governments had guaranteed deposits.

"I don't want a first-class Australian bank discriminated against because some other foreign bank, which has a bad balance sheet, is being propped up by a guarantee by a foreign government," Reuters quoted Rudd as saying.

In Washington, President George W. Bush held a Saturday morning meeting at the White House with G-7 finance ministers, who were in the city for the annual meetings of the International Monetary Fund and the World Bank.

"All of us recognize that this is a serious global crisis, and therefore requires a serious global response, for the good of our people," Bush said afterward in the Rose Garden.

Bush said the countries had agreed to general principles to respond to the crisis, including working to prevent the collapse of important financial institutions and protecting the deposits of savers. But the G-7 communiqué issued Friday did not clearly detail what measures would be taken, suggesting that countries remained unable to agree on a common approach to shoring up their respective financial systems.

The Group of 20, which includes the world's 20 richest nations, issued a statement in support of that communiqué late Saturday after Bush, Treasury Secretary Henry Paulson Jr. and the Federal Reserve chairman, Ben Bernanke, met with leaders of the group.

Germany is considering injecting €50 billion to €100 billion into its banks, with a price tag for all of the new measures reaching as much as €400 billion, or $536 billion, said a person briefed on the government's work. But a German official cautioned that the numbers remained speculative at this point.

The turbulence of the past week moved Germany from advocating action on a case-by-case basis to support for a systemic solution for the country's banks. So far Germany has rescued several banks and guaranteed deposits.

Germany's major publicly listed banks, which have done better than their counterparts in Britain and the United States, accept that partial nationalizations — even if they are not called that — are necessary under the circumstances, said Klaus-Peter Müller, chairman of the German Banking Association. "This measure will be like a bridge since for some firms there is no capital out there on reasonable terms," Müller said.

The shift in Berlin does not extend to contributing to a common fund that would support all European banks, largely because the government fears that German taxpayers would end up financing other countries' banks. But Merkel said in an interview published on Sunday that Germany intended to put its sovereign guarantee behind the banking system.

Current plans are to have the package approved by the cabinet on Monday and rushed through the German Parliament this week.

France will announce on Monday a two-pronged national rescue plan that aims to safeguard the solvency of French banks and jump-start lending between financial institution, according to a senior official who has worked on the plan.

Paris is expected to announce that it will buy stakes in any banks threatened by failure, though the magnitude of any rescue fund will be smaller than the €50 billion to €100 billion plan expected in Germany, the official said, arguing that French banks were more solvent than their counterparts across the river Rhine. "Our need for recapitalization is certainly weaker than that in Germany," he said.

The government will also pledge more than €100 billion to address pressing liquidity concerns in banks and insurers. A new instrument guaranteeing bank debt in exchange for collateral will be announced Monday, the official said. A draft law will be passed Monday in an extraordinary cabinet meeting and will be submitted Tuesday to Parliament.

With the U.S. bond market and all Japanese markets closed on Monday for holidays, British policy makers appeared to be speeding plans to inject capital into their troubled banks. At the top of the list is Royal Bank of Scotland, whose market value has fallen to below £12 billion pounds, or about $20 billion — less than the amount of capital it raised from private investors in June.

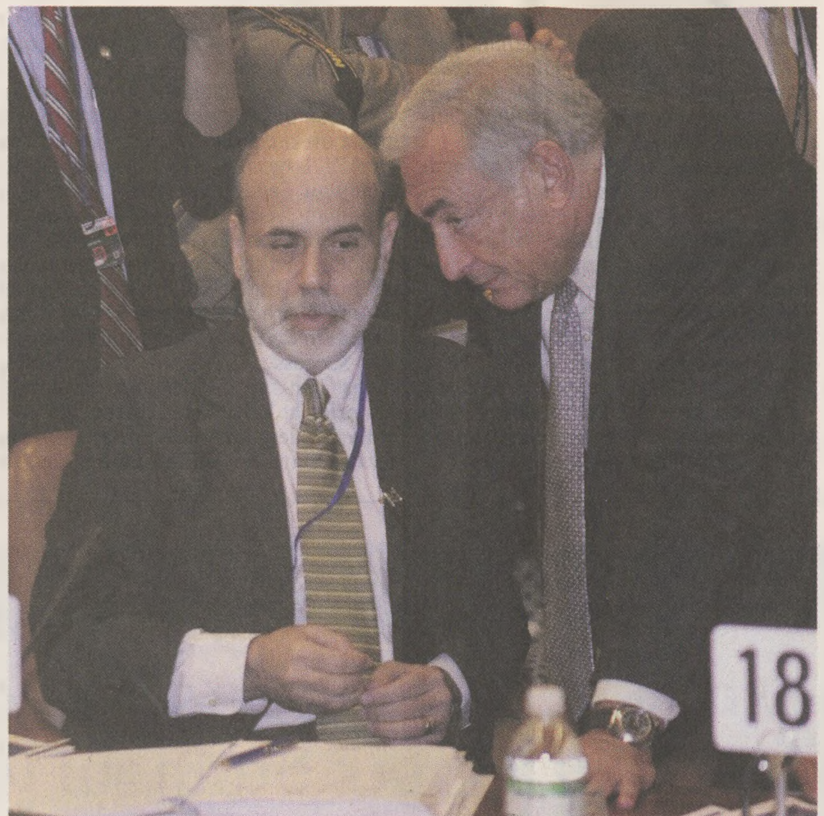
Royal Bank of Scotland is expected to need about that amount from the government, giving the Exchequer a majority stake. As much as £35 billion of the £50 billion that the government set aside for sick banks could be disbursed.

Other British banks that are likely to receive tax payer funds include HBOS, Lloyds TSB and Barclays. That these banks, which for weeks have been saying they did not need new funds from taxpayers, will now welcome the British government as one of their largest shareholders is a reflection of how deep the confidence crisis has become in Britain.

Late last week, Barclays had signaled that it might go to capital markets for the £3 billion it needs to bolster its tier-one ratio, a measure of financial strength. Such an initiative would take as much as 10 days, an eternity in today's fear-stoked climate. And now Barclays, along with its peers, is preparing to take the direct, if not more humiliating, path by accepting public funds.

Faced with the growing intensity of the crisis, the Bush administration has embarked on an overhaul of its own strategy. Two weeks after persuading Congress to let it spend $700 billion to buy distressed securities tied to mortgages, the administration put that idea aside in favor of a new approach that would have the government inject capital directly into the nation's banks — in effect, partially nationalizing the industry.

Landon Thomas Jr. contributed reporting from London; Carter Dougherty from Frankfurt; and Edmund L. Andrews and Mark Landler from Washington.



Yuri Gripas/Reuters

Ben Bernanke, left, chairman of the Federal Reserve, and Dominique Strauss-Kahn, managing director of the International Monetary Fund, in Washington.

No lifeline for banks in Mideast cash hoards

FUNDS, From Page 1

ward spike in the holdings of Treasury bills by foreign institutions since the credit crisis first erupted about 15 months ago. That has led to a sharp decrease in their purchases of riskier securities, like the equities and bonds issued by corporations and Fannie Mae and Freddie Mac.

In the 12-month period that ended in July, the net purchase by foreigners of U.S. long-term securities almost halved — from $751 billion in the year to July 2007 to $456 billion for the same period ending in July of this year.

Both Kuwait and Abu Dhabi, which has a mandate to invest overseas, were early buyers of big Wall Street financial firms. Abu Dhabi invested in Citigroup and Kuwait purchased a stake in Merrill Lynch and a subsequent position in Citigroup, too.

The investment returns have been poor — Citi trades at $13, down from $31 when Abu Dhabi invested. What is worse, economic troubles are now cropping up closer to home.

In Kuwait, its stock market has stumbled badly, prompting its sovereign fund to promise to invest $1 billion to prop it up.

As for Abu Dhabi, it may become distracted by an imminent economic slowdown in Dubai, its neighboring emirate, which has attracted global renown for its debt-fueled development boom, one that it has undertaken through heavy reliance on now stricken international loan markets. Unlike Abu Dhabi, Dubai does not sit on a large oil reserve.

This year alone, Dubai's borrowing has swelled to $32 billion — a large figure relative to its $54 billion gross domestic product. With many ambitious development projects depending on rising property prices, the combination of a price correction and an inability to borrow could result in the type of reversal that has plagued the U.S and British economies.

While the Abu Dhabi Investment Authority's international orientation makes a bailout of Dubai less feasible, analysts say that Dubai's financial difficulties and lower oil prices will stanch what had been a growing flow of petrodollars to Western stock and bond markets.

Indeed, Gulf Arab states took emergency measures to support their financial systems Sunday. These included a rare cut by Saudi Arabia in its benchmark lending rate and a vow by the United Arab Emirates to protect national banks and guarantee deposits.

Gulf stock markets have been falling for weeks now, driven lower mostly by the decline in oil prices.

Wealth funds outside the Middle East are facing similar pressures.

The $5 trillion explosion in global dollar reserves during this decade was driven by an export boom in Asian countries from China to South Korea and India that relied largely on satisfying consumer demands in the United States and Europe. As a recession takes hold, demand will flag and foreign institutions in these counties are likely to be more concerned with using their surpluses to stimulate their own economies, analysts say.

In recent months, many troubled financial firms made the pilgrimage from Abu Dhabi to Singapore in search of an investment lifeline. They went home empty handed.

"These funds are risk averse like others are now," said Edwin Truman, a long-time observer of global finance at the Peterson Institute for International Economics in Washington. "Because of the attention paid to them in the past two years, they may be even more so."

BRIEFING

Hong Kong firm joins list of canceled sales

HONG KONG: PCCW, the biggest Hong Kong telephone company, scrapped a plan Sunday to sell as much as 45 percent of its main unit, blaming the "market downturn" for low bids.

Offers for the stake in HKT Group Holdings "were not sufficiently attractive," PCCW said. PCCW joins two Chinese companies, Huawei Technologies and Ping An Insurance, in canceling transactions amid the financial crisis. PCCW was seeking $1 billion to $1.5 billion from the sale, according to Kelvin Ho, an analyst at Nomura International. *(Bloomberg)*

Ford seeks Mazda sale?

HONG KONG: Ford Motor, after almost three decades as an investor in Mazda Motor of Japan, is considering selling its controlling stake, a person familiar with the deliberations said after the Nikkei business daily reported the news.

A sale of the one-third holding in Mazda is not certain, said the person, who asked not to be identified because no decision had been made. Ford and Mazda declined to comment.

The Nikkei reported that the trading companies Itochu and Sumitomo were considering buying the shares. *(Bloomberg, Reuters)*

■ **THE DANISH** financial regulatory office banned short-selling of shares in bank and financial institutions, starting Monday. *(AP)*

■ **GERMAN** tax revenues rose 0.8 percent from a year earlier to €48.8 billion, or $66.97 billion, the Finance Ministry said. *(Reuters)*