In crisis fallout, rethinking risk and human judgment

By Lynnley Browning

NEW YORK

Call in the philosophers, call the psychologists. The idea of risk, the most fundamental concept in the insurance industry, is undergoing its most rigorous analysis in decades.

As the financial crisis sweeps Wall Street and Europe, big insurers are scrambling to unearth flaws in their core assumptions about the chances for financial outcomes — and to devise new ways to cope with uncertainty and "slippery slopes," both for themselves and the companies that buy their products.

"With this crisis, everybody is re-evaluating the concept of risk management," said Richard Phillips, a professor of risk management and insurance at Georgia State University, which has a leading program for insurance studies.

The scrutiny goes beyond a dissection of the complex mathematical models created by financial engineering, particularly those behind credit default swaps, the $63-trillion-dollar market of insurancelike products that nearly bankrupted American International Group, caused steep losses at MBIA and Ambac, and has upset banks from Seattle to Amsterdam.

Rather, the rethinking "is focusing on the overreliance on models," said Carol Fox of the Risk and Insurance Management Society, a trade group.

Because nearly all risk-management models failed to predict or protect against the crisis, Fox said, insurers will increasingly view risk "more as a function of behavior than of models."

Going forward, she said, insurers will use models "as a point of information, but it won't drive risk tolerance" or the appetite for making financial and other bets.

Although both rely on historical data, the actuarial models behind life, property and casualty insurance — the industry's stock in trade — are not the same as those behind complex derivatives.

So the rethinking means considering the role of financial models in a company's overall operations, and whether those models fail to consider, for example, the risk of collateral calls or write-downs on the company's balance sheet — both missed by AIG.

"People have been managing the wrong risks — they have been taking microrisks rather than macrorisks," said Peter Bernstein, a historian and the author of "Against the Odds: The Remarkable Story of Risk."

"They weren't thinking about how the degree of risk in the system might be changing. They weren't thinking beyond their own models. Risk management is about making choices, not preventing losses. I don't think chief risk officers were asking that question."

With the exception of AIG, whose highflying London unit, AIG Financial Products, dived deeply into the derivatives business, insurers have not suffered losses comparable to those on the rest of Wall Street, where the carnage includes the collapse of Bear Stearns and Lehman Brothers.

But in a world of blurring boundaries between banks and insurers in interconnected markets, in which insurers buy and sell derivatives and manage investments and retirement funds that dip into derivatives, insurers are only relatively insulated.

As go their biggest customers — large companies and national and municipal governments — so go the insurers.

Insurance executives say the one thing the financial crisis has made clear is that risk, and how one deals with it, can mean wildly different things to different companies, from gamble, hazard or chance to threat, possibility or opportunity.

It can be a bucket of nasty things to be avoided, or a daring play. Some companies — AIG, for example — found it too risky to avoid the big profits trading mortgage-backed securities in a soaring market, and dived in head first, while others determined that such bets would undermine their operational risk, or business functioning.

Despite the vagueness of the concept, the insurance industry in recent years spawned a cottage industry of specialists and consultants offering advice on every type of risk under the sun: credit risk, liquidity risk, market risk, legal risk, catastrophe risk, regulatory risk, political risk, compliance risk and reputational risk, to name a few.

It didn't help matters that until the crisis, the field enjoyed a halo of academic credibility.

"All these rocket scientists with Ph.D.s provided reassurance to decision makers and buyers," said Paul Bracken, a professor of political science at Yale University.

But Robert Merton, the Harvard Business School professor who received the Nobel in economic science in 1997 for inventing a new method to value derivative contracts, said: "It would be a mistake to think the essence of the problem is complex math models that were inadequate. A lot of it is straightforward things, like judgments made to accept ratings.

"We've got to get these financial engineers and quant types out of the banks and get sensible types in."

Beyond math and models, businesses are scrambling to find new ways to cope with events that can't always be anticipated

Yet, as accident investigators know, human judgement can err. Merton, after all, not only developed the options pricing model that is the most widely used in risk management programs but also served on the board of Long-Term Capital Management, the giant hedge fund that imploded in 1998.

Another case in point: In recent years, risk management came to be viewed by many chief risk officers as complying with laws and regulations, in particular the Sarbanes-Oxley law, the landmark U.S. antifraud legislation passed in 2002 in the wake of corporate scandals.

That was a big mistake, according to many insurance and risk management specialists.

"Our definition of risk became confused with obeying the law," said Bill Sharon, chief executive of Sorms, a risk-management consulting firm. "We created an environment where we didn't know what we were doing, but it was legal and making profits."

Now, insurers are increasingly looking at risk management as a process applying not only to the activities of particular divisions but also to big-picture questions — a concept known as enterprise risk management.

John Phelps, the director of business risk solutions at Blue Cross Blue Shield of Florida, said that "the big rethink is, what happened to the 'e'?" — as in "enterprise."

After all, said Martin Grace, associate director of the Center for Risk Management and Insurance Research at Georgia State University, "you can have math models, but that doesn't tell you how to manage the firm."

Wave of blame crashes on credit-rating agencies

By Paul Sullivan

STAMFORD, Connecticut

On Jan. 2, the stock of a large U.S. insurance company stood at $84.93. It trended down from there, steadily falling throughout the summer — but nothing too drastic, given the worsening state of the American economy. On Sept. 8, it closed at $66.27. Then it went into free fall, from $56.64 on Sept. 26 to $19.23 on Oct. 10. That seemed like the bottom for a week, but after a slight bounce it slid again. It ended the month of October at $10.32. Over the past year the stock has lost 90 percent of its value.

The company was Hartford Financial Services Group, and its collapse is a cautionary tale. The Hartford, named for the Connecticut city once known as the insurance capital of America, had been a profitable insurer for years. It sold meat-and-potatoes products like life insurance and annuities. On the surface, it wasn't a highflyer like American Insurance Group, the giant insurer whose positions in little-understood and even less-regulated credit default swaps would have brought it down without emergency intervention by the U.S. government.

As leading firms face questions about conflicts of interests with the clients who pay for their ratings, small rivals get a chance to shine

While arguments have been made that AIG's collapse resulted from a lack of oversight in the derivatives markets, the Hartford was a different situation. Its main liability was something that until recently seemed like a great asset: It had carved out a niche selling annuities with guaranteed retirement benefits. Just a few years ago, they seemed like a sure win for insurers and an overly cautious investment for their beneficiaries. The underlying portfolios were growing fast enough to make a tidy profit for the insurer and more than cover the eventual payouts.

But now the tables have turned, and the Hartford is faced with the prospect of payouts that far outstrip the value of the underlying assets, which, in many cases, were structured products that had been given high ratings by credit agencies.

Whether or not the market is overreacting — all of the annuities are not going to come due at the same time, after all — investors are again blaming the top three rating agencies: Fitch Ratings, Moody's Investor Services and Standard & Poor's. As at other points during the collapse of credit markets, the complaint against the rating agencies, whose job is to guide investors, is that they, too, missed the warning signs of the financial crisis.

Normally, credit-rating agencies occupy a sleepy but hugely profitable and established area of finance. Many bank and loan covenants explicitly state that the deals must be rated by one of the big three companies, while pension funds and insurance companies can buy only a security with a minimum credit rating. The higher a company's rating, the lower its cost of borrowing, and the greater the number of investors who want the issue.

The problem this time around came from a flood of securitized and structured products — portfolios of housing loans with high amounts of subprime mortgages in them — that inundated the market. There were so many that the rating agencies were strained trying to keep up with the demand for their services.

"There were lots of these businesses coming along. There was pressure to rate deals," said Andy Catalan, a senior portfolio manager and the director of investment-grade strategies at Standish Investments in Boston. "Whether there was pressure to supply a particular rating is hard to say. The question is, how much due diligence have they done?"

The consensus seems to be that there was not enough. On Nov. 12, the European Commission, the executive arm of the European Union, called for regulation of credit agencies. The commission said it wanted to insure the publication of "high quality credit ratings which are not tainted by the conflicts of interest which are inherent to the ratings business."

Fitch's chief executive, Stephen Joynt, quickly issued a statement supporting the commission's proposal, saying that "strengthened market confidence in the opinions of rating agencies is an important aspect of working through these challenging times."

A spokesman for S&P expressed a similar view: "We share the commission's goal of bringing greater transparency and confidence to the markets and are examining its latest proposals to see if they support ratings opinions that are independent and internationally consistent."

But for all the apparent unanimity, the commission's proposed regulations highlight a fundamental criticism raised by dissatisfied investors against the business model of the established rating agencies: How can any of them objectively judge the quality of products issued by companies that pay them to do so?

That is the problem: The issuer of anything from corporate bonds to mortgage-backed securities to commercial paper is the client who pays the agencies to assign a rating to their deal.

Far from resolving this conflict of interest, the U.S. government may be worsening it with its bailout package for the financial industry. "The government has actually further entrenched the rating agencies with its new commercial-paper facility, which is only available to 'A-1/P-1' issuers," said Carol Levenson, director of research for Gimme Credit, an independent rating service in Chicago. In other words, you have to pay to play.

There are several smaller credit-rating companies in the United States, like the aptly named Gimme Credit, that have found success with the reverse model. Instead of being paid by the issuer to rate a deal, they sell subscriptions for their research to investors.

Jack Lemery, managing director and portfolio manager at Emerson Investment Management, said his company paid about $30,000 a year for reports from one such agency, CreditSights. Another independent is Egan-Jones, which asks on its home page: "Has Moody's, S&P or Fitch ever made you any money?"

These companies have a devoted following among investors who use the ratings to supplement the findings of the big agencies and their own research. But the independents lack the institutional backing that underlies the power of Moody's and S&P.

"We need to rethink who is paying for those ratings," Lemery said. "We need to let the model be, customers like us should pay for these ratings."

This call is sounded during every credit crisis, but it subsides when the markets settle. Rating agencies, meanwhile, reject any suggestion of impropriety.

"Many of the requirements being proposed are already standard practice at S&P Ratings Services, such as analyst rotations, prohibition of consulting or advising, and delinking analyst compensation from fees paid by issuers they rate," an S&P spokesman said.

Yet a bigger problem this time may be the difficulty that investors have in determining whether ratings are equivalent across asset classes.

"The question that comes up is when a rating agency gives out a rating of triple-A and you have different asset classes," said Catalan, the Standish Investments portfolio manager. "When they give out a rating for the city of Worcester, is the criteria being used the same as a corporate bond and a structured credit bond? Or does that rating mean different things across different asset classes? There should be indications."

In other words, in every other aspect of our lives, a ton is a ton regardless of what is being weighed, but investors fear this is not always the case when investing.

For his part, Catalan said his company had created its own internal rating system, which circumvented big and independent rating agencies, though he acknowledged that this was not feasible for smaller investors.

And the independent agencies benefiting from anger at the industry leaders are not overly sanguine about their chances for a new place in the world.

"I expect the business model will roll on after this bump in the road," said Levenson, the Gimme Credit research director. "And those of us who make a living from the agencies' lack of omniscience will continue to do so."

When crisis hit, analysis proved an educated guess

By Conrad de Aenlle

The Basel II international accord on banking supervision was meant to pave the way for state-of-the-art risk management in the financial system, providing a framework for lenders to gauge the uncertainties on their balance sheets more accurately and to ensure that they had enough capital to avoid collapse.

It did not work out as planned.

The agreement, reached in 2004 after five years of negotiations by a panel of the Bank for International Settlements — a sort of central banker for central banks in Basel, Switzerland — was a response to the Asian financial crisis and Russian debt default of the late 1990s. But any belief in its effectiveness faded quickly this year as the worst financial panic since the Great Depression rolled out from the United States, toppling banks and freezing credit markets.

Basel II failed its first big test in part because global diplomatic initiatives are always difficult to implement. The task is even trickier, specialists in financial services say, when theoretical concepts must be adapted to a complex real world populated with bankers who can be both ignorant and ingenious at the same time.

The centerpiece of Basel II was a more rigorous, or at least more detailed, method for assessing the quality of loans, securities and other assets on a bank's books by taking account of their susceptibility to different types of risk. The intention was to calculate an institution's capital-to-assets ratio — a primary measure of financial strength — more precisely. The accord also called for greater supervision of banks and established guidelines for disclosure of their activities.

After the approval of Basel II, the sequel to a 1988 accord that had been rendered obsolete by deregulation and financial market innovation, the dickering and dithering continued, making for a rough, disjointed implementation. The European Union put its provisions into effect fairly swiftly, while the United States, at the core of the global banking system, was still doing so this year, four years after the agreement and just as the credit crisis ignited by subprime mortgage defaults was gathering pace.

Even if Basel II had been put into practice immediately, it might not have averted the crisis. Critics contend that the various models, formulas and equations used to determine asset quality provide a false sense of precision, leaving bankers and regulators with no clear idea of where they stand. The numbers that are derived amount to an educated guess calculated to umpteen decimal places.

"There has been too much focus on quantitative issues and data and models and a lack of understanding of what the main risks are in the business model," said Peter Neu, a principal in Frankfurt for the Boston Consulting Group. "Risk managers are too busy with models and bringing up data that can't be absorbed by senior management."

'There has been too much focus on quantitative issues and data and models and a lack of understanding of what the main risks are.'

A shortcoming of some models is that their risk projections come with a caveat that they are assumed to be accurate during normal market conditions. That is like an airplane's safety equipment being certified as effective except during a sudden loss of altitude.

Assessment procedures can even exacerbate excessive risk taking, rather than just fail to measure it, said Jerome Booth, research director at Ashmore Group, an asset management firm in London.

"You've got this quant approach that just looks at recent data and extrapolates," he said. "That actually encourages and foments the building of bubbles."

Using the home loan market as an illustration, he noted that when times are good, home values rise, loan defaults drop, and agencies raise ratings on loans and debt securities. So far, so good, but then banks, encouraged by those higher ratings, lend more against the inflated home values, leaving them more exposed, not less, to a housing downturn.

Risk control "is all about behavior, not numbers," Booth said.

Some of the behavior of lenders, borrowers and investment bankers was questionable, if not dishonest, and that contributed to the failure of Basel II. Komal Sri-Kumar, chief global strategist at TCW Group, an asset management arm of the French bank Société Générale, highlighted the aggressiveness of some banks in building their loan books.

"When a loan is being pushed by a bank and given to a borrower who doesn't deserve the credit, you're not going to get help from Basel II," he said.

What happened to the loans after that may have been worse. The securitization process — packaging loans into securities that can be bought and sold like stocks and bonds — raised opportunities for malfeasance by creating an extra degree of separation between creditors and debtors and leaving each somewhat unsure of what the securities contained.

"If you securitize everything to the hilt, you can get collusion and fraud on both sides," Booth said.

The securitization assembly line spawned a trend that resulted in a gross underestimation of the risk building up at financial institutions. Many banks invested so much in loan securities that they removed them from the books and ring-fenced them in subsidiaries devised solely to hold them. The point was to reduce reported assets and aggrandize the capital ratio.

"There was a lot of gaming going on with off-balance-sheet financing and special-purpose vehicles that changed the risk profiles of banks' balance sheets," said Julian Franks, a professor of finance at London Business School. "With hindsight, we shouldn't have expected the measures of Basel II to properly capture solvency and liquidity issues."

Whether Basel III, or whatever comes next, does the job any better will not be known for a while. A meeting held last weekend by the Group of 20, a consortium of large nations, to discuss the world's battered economy decided to put off action on financial regulation until next year.

When the subject is tackled, Sri-Kumar suggests an approach both global and local. He would create an organization that differs from the BIS by giving a bigger role to developing countries and acting more like a real bank, with members depositing cash and being able to borrow during hard times.

That should help limit risk from a systemic crisis such as the present one. The micro element of Sri-Kumar's approach would be more rigorous supervision at the point of loan origination.

"If they're checking at the level of the loans being made and the creditworthiness of borrowers, then securitizations will be of much better quality," he said.

Neu, at Boston Consulting, would emphasize communication between banks and their risk control departments. More than rating agencies or government regulators, they are in a position to know what is on the books.

He would compel banks to heed their risk managers, he said, by ensuring that they are "well paid, independent and incentivized in a way that allows them to tell the truth and be heard at board level."

It is especially important, he said, for banks to have "extreme risk teams" that focus on exposure across different business lines, look for early signs of trouble — like a sudden increase in profitability from certain activities — and plan for outcomes that are highly improbable but disastrous if they occur. Neu's faith in the ability of government authorities to perform those tasks is limited.

"You can't come in and just look at the books," he said. "Any regulator will have shortcomings, and bankers always have more information than regulators."

As a golden era ends, private bankers find it harder to earn trust

By Sonia Kolesnikov-Jessop

SINGAPORE

Delivering returns and controlling risks are the bread-and-butter business of private bankers and wealth managers. When the going was good, many delivered strong returns to their clients. Now, the going is sticky, and questions are being asked about their assessments of risk.

"The raison d'être of the industry is very simple. A private banker is there to conserve the wealth, and to create wealth for the client and his future generations," Pierre Baer, chief executive of SG Private Banking for Singapore and South Asia, said on the sidelines of a conference here.

"…he industry was gearing up, ther… were a lot of new players that came to the market," he said. "Some felt they weren't growing fast enough and were willing to take a lot of people who had very little private banking experience, put them through a very quick training program, and out came a 'private banker.' "

"On top of that, they also wanted to maximize their profit so they decided to have their own products they were promoting to clients. So of course, you have young bankers with little experience, pressure from the companies saying 'this is what you have to do,' and of course they did.

"But what does this have to do with the raison d'être of the industry?" Baer asked.

With markets struggling worldwide, and wealth evaporating daily, trust in private banking services is at one of its lowest points ever. A survey in the United States conducted in September by P…e & Associates, a private wealth research firm, showed that about 81 percent of clients with $1 million or more under management were planning to take money away from their adviser, while slightly more than half were planning to switch advisors altogether.

Prince found that client dissatisfaction was much higher with the large "brand" managers than with boutique

'I think banks failed in assessing the risk appetite of clients.'

…s, said John Evans, editor of the in…ry newsletter Private Banker Inter…nal. "It's going to become even …r for private bankers to attain the …grail of becoming the central, …d advisor."

…nwhile, an annual study by Bar…e business magazine, showed …ets under management at the …rivate banks rose just 4.3 per…the year to June 30, down from …f more than 20 percent in 2006 …7. Boston Consulting Group …that global wealth, defined as …ts under management, could …0 trillion this year from $109.5 … the end of 2007, ending a six-…of expansion.

…ot all the news is bad. Data …C, for example, showed that a … billion of new money flowed …ate banking in the third … with September a record …though risk aversion among …sulted in more money being … deposit or in government …

…isk-shy environment, clients … to gravitate toward banks … sound advice rather than the … of quick and easy returns. …peaking at an annual wealth …ent conference in Singapore …h had a clear message: Less …g, more products that are …derstand, and an improved …nding of risk.

…k what went wrong is that … clients wanted to buy apples, …onship manager would advise, …e a product with apples in it'," …n Su-Shan, head of private … management for Southeast Asia …tralia at Morgan Stanley. Some …ship managers "maybe did not …nderstand" how some of their …ts were structured, she added.

…nowledging a general lack of …lence in the financial industry, …o de Guzman, chief executive of …rivate Banking Asia Pacific, told …onference: "We need to provide …nsight for risk management and …k our clients' chosen risk toler… and their chosen types of …cts.

…ients want simpler and easy to …rstand products, a back to basics …d they also want less leverage, at …ow," de Guzman said.

… over-reliance on packaged …cts is one thing that has to …e, said Patrick Wild, head of …e banking for overseas clients at …ank Group in Liechtenstein.

…ivate banking is not about provid…roducts, but providing solutions," … said during an interview. First of …at means "understanding what …ient's investment needs are, short, …nd long term," and then "coming …th investment ideas and solutions …it the risk appetite of the client.

…hink banks failed in assessing the …ppetite of clients and educating … in a proper way in properly un…nding risks," Wild added. …y've only seen the sky and never …ht about the floor."

…e private bankers that did a good …ill stay on with their clients and …es that were only selling the hot …s, the latest investment ideas, they …ose their clients."

…nothing else, the current crisis …d be a salutary reminder of the …or diversification. "What's hap…g now is nothing new," Wild said. … memories of investors, and …e bankers, are very short. Some …em have experienced it already and I hope they will learn a second time that they should think mid to long term and think about diversification."

In coming months, several private bankers said, two important trends are likely to emerge: a shift toward the so-called family office model, designed for ultra-wealthy clients with over $50 million in liquid assets; and increased training for private bankers.

In June, SG Private Banking took a minority equity stake in Rockefeller Financial Services, the parent company of Rockefeller & Co., which was started to manage the wealth of the family of John D. Rockefeller but now oversees the wealth of other families.

"I think there is going to be a dramatic shift in the industry," Baer, of SG, said. "That's one of the reasons why we got into an alliance with Rockefeller & Co. earlier this year. We believe the holistic approach will become more and more important, particularly with the ultra-high-net worth individuals. They don't want to be sold products. They want to have an overview."

The findings of a private-banking industry survey by Pricewaterhouse-Coopers last year now look like an early warning of the confidence crisis, one that the industry ignored.

Flight of clients leads to a round of soul-searching

In the survey, only 17 percent of chief executives at private banks rated their client relationship managers as having a very high ability to manage their clients' needs; and only 39 percent of relationship managers strongly agreed that there were enough resources allocated to properly training employees.

Mario Bassi, head of strategy and business development at Deutsche Bank Private Bank, said he expected that more time would be spent on training in the future.

"The current market creates a moment of truth for private bankers," Bassi told the conference. "Many relationship managers would have joined the industry recently and never experienced a crisis.

"This crisis will separate the men from the boys," he added. In terms of training and experience, "the offering was there, but ego did not allow for self-reflection."

In addition to restoring a respect for knowledge and experience, the market meltdowns this year are likely to return to favor risks that can be analyzed and understood.

"The current financial crisis will result in a lot of products disappearing and they will probably no longer resurface, or at least not for a very long time," said Rolf Gerber, chief executive in Singapore for LGT Bank, based in Liechtenstein.

In the future, Gerber said, the industry's approaches to investment will be "a lot more back to the good, old-fashioned basics."

BUSINESS

WITH REUTERS

DAVID LEONHARDT
Economic Scene

U.S. needs to think, then build

CHICAGO

Near the intersection of 47th Street and Lake Park Avenue here — a gateway to the Hyde Park neighborhood that's home to the next president of the United States — sits an enormous, barely patched pothole. That pothole is a fitting symbol of this country's crumbling infrastructure: its clogged roads, overburdened airports, aging subway systems and failed levees.

Now, however, some help seems to be on the way. The U.S. House of Representatives recently passed a bill that would allocate $18 billion for new construction projects. President-elect Barack Obama has signaled that he will sign a version of that bill and probably ask for tens of billions of dollars in more spending to create badly needed jobs and help fix up America in the process. Money is going to start flowing.

And yet when it comes to the nation's infrastructure, money isn't the main problem. A lack of adequate financing is part of the problem, without doubt. But the bigger problem has been an utter lack of seriousness in deciding how that money gets spent. And as long as we're going to stimulate the economy by spending money on roads, bridges and the like, we may as well do it right.

It's hard to exaggerate how scattershot the current system is. Government agencies usually don't even have to do a rigorous analysis of a project — how it would affect traffic and the environment, relative to its cost and to the alternatives — before deciding whether to proceed. In one recent survey of local officials, almost 80 percent said they had based their decisions largely on the political popularity of a project, while fewer than 20 percent cited its potential benefits.

There are monuments to the resulting waste all over the country: the little-traveled Bud Shuster Highway in western Pennsylvania; new highways in suburban St. Louis and suburban Maryland that won't alleviate traffic; all the fancy government-subsidized sports stadiums that have replaced perfectly good existing stadiums. These are the Bridges to (Almost) Nowhere that actually got built.

They help explain why our infrastructure is in such poor shape even though spending on it, surprisingly enough, has risen at a good clip in recent decades. Spending is up 50 percent over the past 10 years, after adjusting for inflation. As a share of the economy, it will be higher this year than in any year since 1981.

So if you talk to people who spend their lives studying infrastructure, you'll hear two reactions to the attention that Obama, Nancy Pelosi and even some Republicans are now lavishing on the subject. The first is: Thank goodness. The second is: Please, please don't just pour more money into the current system.

"The system is fundamentally broken. We send a blank check and kind of hope for the best," Robert Puentes, the infrastructure maven at the Brookings Institution in Washington, told me. "We need an extreme makeover."

LEONHARDT, Continued on Page 13

iht.com/biz

Read more of David Leonhardt's columns on economics.

Ominous doldrums in Greece

Photographs by Yiorgos Karahalis/Reuters

Above, ships anchored in the port of Piraeus, near Athens. Left, a ship's ropes moored to a dock in the port. Right, a cargo container being loaded onto a vessel.

By Daniel Flynn and Deborah Kyvrikosaios
Reuters

PIRAEUS, Greece: From his plush office in the port of Piraeus, Leonidas Polemis, heir to one of the oldest Greek ship-owning families, looks out at the heart of the Greek shipping industry and sees a severe economic storm approaching.

Global shipping is facing its worst crisis in decades. In just a few months, dry-cargo rates have fallen by more than 90 percent as a five-year boom has turned to bust. For Greece, which owns a fifth of the world's fleet, that spells trouble.

"Panic is one word to describe what is going on," Polemis said as he sat beneath an oil painting of one of his family's first vessels, bought about 200 years ago. "People are selling some ships in a panic mode Some companies will go bust."

Greece has a lot to lose. At 170 million tons, its merchant fleet is the largest in the world. It is the second-biggest contributor, after tourism, to an economy valued at €240 billion, or $300 billion. The fleet accounts for 7 percent of output.

Shipping's tendrils stretch into many sectors, with magnates investing in everything from banks to building and tourism.

The slick cars and quayside restaurants of Piraeus testify to fortunes earned in the boom, but executives say they face a perfect storm of plunging demand and oversupply of ships.

"This is the worst it has ever been," said George Xiradakis, head of XRTC, a shipping consultancy in Piraeus. "Everybody will be affected. This is a globalized market, probably the first globalized market in the world."

The global economic slump has slashed demand for transport of commodities to fast-growing nations like China and India. On top of that, the credit crunch has made banks reluctant to lend money to shipowners and to provide the financial guarantees that allow their ships to sail, leaving some stuck in harbor.

Dry-cargo vessels that commanded $150,000 a day in May are now earning $7,000 or less. The tanker market, where Polemis's company, Remi Maritime, owns 22 vessels, has been less badly hit but is still sharply down.

Prices could fall further next year, when a record number of ships are set to flood the market: More than 10,000 new ships are on order, according to the United Nations Conference on Trade and Development.

Greeks have been seafarers for thousands of years. Shipowners made fortunes running the British naval blockade in the Napoleonic wars; and in the 20th century, the riches and rivalry of Aristotle Onassis and Stavros Niarchos were legendary.

For many in Greece, the latest crisis has revived painful memories of the collapse that occurred in the early 1980s, when hundreds of huge cargo vessels floated chained together in the Saronic Gulf off Athens, unable to find charterers as the market dried up.

Brokers say some vessels are already being ordered to slow to half speed on the high seas because there is no cargo to pick up when they arrive.

The number of ships asking to idle off Piraeus has risen and officials say traffic at the port is down sharply.

SHIPPING, Continued on Page 14

A five-year boom has turned to bust for the Greek merchant fleet, the largest in the world

Carmakers renew plea for aid but get a chill

Legislators remain leery of industry's capacity to reform

By Bill Vlasic
and David M. Herszenhorn

WASHINGTON: The chief executives of the three U.S. automakers were back on Capitol Hill on Wednesday, appealing this time to the House of Representatives to approve $25 billion in bailout funds to stave off industry collapse.

Much like senators at Tuesday's hearing, who mostly reacted with skepticism and criticism of the auto industry's grave management problems and ability to reform, many House lawmakers expressed concern that American taxpayers — many of whom make less than the average auto worker — would be sacrificing when the industry was not.

"A bailout is not a solution to the fundamental problems of the Big Three automakers," said Repre...tative Spencer Bachus, Republic... of Alabama. "A bailout of the auto industry will just push the problem further down the path. To survive, the Big Three will have to become more efficient and competitive. I am not sure if management and labor are ready to make that sacrifice."

The chairman of the House Committee on Financial Services, Representative Barney Frank, Democrat of Massachusetts, cautioned against a dou... standard of using the $700 billion b... out to aid a white-collar industry -... nancial services — but not a blue-... lar one.

'A bailout is not a solution to the fundamental problems.'

"The U.S. auto industry is ... Street," added Fred Upton, Rep... of Michigan. "The U.S. auto in... created the middle class, you d... more Main Street than the auto... try, and turning our backs wo... disaster for our economy."

The heads of the three Detr... makers — Robert Nardelli of C... Alan Mulally of Ford and Rick... er of General Motors — plead... nesday with many of the sam... they used Tuesday for emerge... ernment aid.

"What exposes us to failure n... global financial crises which ha... ted credit," Wagoner said. "Our ... needs a bridge to span the ... chasm which has opened befor...

All three executives argue... filing for protection from cred... der Chapter 11 of the U.S. Ba... Code, saying that it would u... consumer confidence and h... automakers' liquidation.

"It would turn us upside do... and deeper than where we a... Wagoner said.

On Tuesday, after four hour... mony, it appeared the exec... not persuaded enough lawm... move quickly on a bailout. Democratic leaders said at th... they had not been able to get... votes to assure that a bill wou... And most Republicans remain ... vinced.

There is still a possibility th... billion may be freed up from a... ously approved loan program t... automakers retool their plants t...

AUTO, Continued on Page 14

Germany holds on to its money

As prospects dim, government resists calls to spend more

By Judy Dempsey

News Analysis

BERLIN: Along Berlin's busy Friedrichstrasse or in the fashionable designer stores off Kurfürstendamm, the shops are unusually quiet for this time of year.

But the banks are especially busy as they pull in hordes of nervous Germans looking to deposit their savings in safe, interest-bearing accounts.

"Save, save, save" is the message the country's big banks are conveying in a barrage of expensive television advertising just before the news each night.

That mind-set helps explain why even as China and Japan and the United States prepare big stimulus programs, Germany, the largest European economy, is resisting pressure to do more, either in the way of tax cuts or additional government spending.

That is all the more surprising as the two major parties in the governing coalition begin to stake out their positions before federal elections next year.

In a surprising show of unity, the conservative Chancellor Angela Merkel and Peer Steinbrück, her Social Democratic finance minister, are holding the public purse strings tight — at least for now.

"Steinbrück is simply not convinced that Germans will spend even if they were given tax rebates," said Stefan Schneider, an economist at Deutsche Bank. "When the economic news is grim and times are very uncertain, the Germans hold onto their money."

Still, with the German economy now in recession and expected to show no growth at all next year, some analysts are surprised that Merkel and Steinbrück have not opened the coffers, especially because money is available.

The government was criticized last week by its own Council of Economic Experts for being shortsighted in its meager economic growth package.

The modest package amounted to €12 billion, or $15.1 billion, spread over the next two years, which the government says could generate investments of about €50 billion.

By contrast, the bailout plan for German banks involves €480 billion in debt guarantees, injections of capital and purchases of illiquid assets.

The economic advisers recommended the stimulus program be doubled or even quadrupled, to €12 billion to €25 billion a year.

"It is justifiable for net investments to be expanded next year and financed by a higher deficit," they wrote in their report. Without such a package, they warned, the government could expect no lift in growth.

Such paltry sums have also enraged the influential conservative lobby of small and midsize companies. Its chairman, Josef Schlarmann, called the package "cosmetic" and "ineffective."

With unemployment falling to its lowest level last month since the early 1990s, tax revenue is up and wages are moderately increasing, so the government has some leeway to spend.

But unemployment, now 7.6 percent, is expected to rise in the coming months as the crisis starts hitting the automobile and construction sectors. That means tax revenue will fall and the social welfare bill will increase, said Elga Bartsch, chief European economist at Morgan Stanley.

When Merkel replaced the Social Democratic-Green coalition led by Gerhard Schröder in 2005, the first thing she and Steinbrück did was to reduce the deficit to under 3 percent of gross domestic product to comply with EU rules, ending years of embarrassing battles in Brussels.

Bartsch said the government was not ready to undo all the work that went into reducing the deficit and restoring Germany's reputation as prudent managers, which included raising the value-added tax to 19 percent from 16 percent.

"That took a lot of pain," Bartsch said. "The government does not want to start borrowing heavily again."

Then there is the fear that bailouts or spending sprees would only create demand for more.

"It's all very well telling the government to spend more, but these projects have to be executed very carefully," she said. "Besides, any massive infrastructure projects take a long time to turn around. Or once you bail out one industry, others will ask, what about us?"

So far, the public has accepted Steinbrück's decisions, perhaps because it has not yet been really affected by the global meltdown. And the government has already adopted quasi-populist spending measures. It unraveled labor market reforms designed to restructure the social welfare system and get people back to work, which the Schröder government had introduced.

Merkel has also agreed to a minimum wage and to bolster pensions for 20 million Germans, a measure that will cost €12 billion.

"Steinbrück has the reputation for being tough when it comes to spending," Bartsch said. "But he has coughed up money in the past. The fear is that in the coming months, insolvencies will go up, unemployment will go up. With elections looming, we will see what the government will do."

Johannes Eisele/Reuters

Finance Minister Peer Steinbrück and Chancellor Angela Merkel on Wednesday in Berlin. They have been criticized for not sufficiently opening up Germany's coffers.

U.S. needs to think, then build

LEONHARDT, From Page 12

Mary Peters, the U.S. transportation secretary, put it this way: "The United States is one of the few countries in the world to make the majority of its transportation investments without first conducting any kind of economic analysis to determine whether those investments will have any practical benefits for commuters or shippers. The results are telling."

How can we do better? I think there are four principles to follow.

The first is that we just need to start trying. Right now, federal funds aren't tied to tangible goals, like how much a new road would reduce traffic — or how much a new train line would reduce carbon emissions and oil imports. Much of the time, the government doesn't even collect this sort of information.

That is not the case in Britain and some other countries. As Puentes points out, projects in Britain are still sometimes based on political horse-trading.

"But at least politicians are forced to stand up, in the face of evidence, and defend a decision," he says. "It's so different in this country, where there is no evidence."

One of the best examples is the success of congestion pricing in London. By charging fees to drive into the center of the city, the government has vastly reduced traffic. The program, which initially faced skepticism, is a big hit.

In the United States, the government keeps on building roads that keep on filling up with cars, because drivers don't bear the full costs of the traffic, pollution, wear and tear that they create. Just imagine if Congress, as a condition for financing new roads, demanded evidence that they would reduce traffic congestion.

The second principle is that we could indeed stand to spend more on infrastructure. Spending may be at a 27-year high, but it's still far from the levels of the 1950s, '60s and '70s, when the Interstate Highway System was being built. As a percentage of gross domestic product, it is below current levels in European countries.

All told, government agencies in the United States spend about $400 billion a year on infrastructure. The Congressional Budget Office recently estimated that about $100 billion a year in worthy projects was not being done.

Finally, it's important to remember why infrastructure has become a hot topic now. The economy already appears to be in its worst recession in a generation. Without a major stimulus package, it could get a lot worse next year. So now isn't the time to overhaul the entire system. Speed matters.

Yet the current system is so inefficient that even a minimal amount of change would represent progress. If you want your project moved to the front of the line, you should have to come to Washington bearing hard data — not flimsy boosterism — about its economic and environmental benefits.

And infrastructure doesn't have to mean just bridges and tunnels. It could also mean schools and homes. One intriguing idea is for the government to subsidize basic renovations to make houses more energy-efficient. This would have the added benefit of putting unemployed construction workers and contractors back to work.

Over the longer term, there are some reasons for optimism. At the Transportation Department, Peters has pushed for more cost-benefit analysis (without getting much help from Congress).

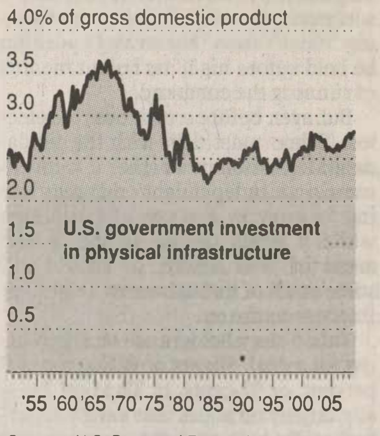
Obama has called for the establishment of a separate "infrastructure bank," which could potentially make decisions more on the merits and less on politics. None of these changes would happen without a fight, for the simple reason that some people and places benefit from the current system. But that fight is worth having.

Today, when everyone is talking about stimulus, and big deficits are seen as necessary, government money may be easy to come by.

Someday, though, those deficits will have to be repaid, and there will be no justification whatsoever for infrastructure spending that doesn't really help the nation's infrastructure.

Still spending

U.S. government spending on infrastructure fell after the construction of the Interstate Highway System but has risen gradually over the past 25 years.



Sources: U.S. Bureau of Economic Analysis; Moody's Economy.com

U.S. consumer prices fall sharply

By Jack Healy

NEW YORK: In another sign that the struggling U.S. economy continues to slow, consumer prices tumbled by a record amount in October, carried lower by skidding energy and transportation prices, while new home construction continued to fall.

The consumer price index, a prime measure of how much Americans spend on groceries, clothing, entertainment and other goods and services, fell by 1 percent in October compared with the previous month, the Labor Department reported Wednesday. It was the steepest single-month drop in the 61-year history of the pricing survey.

"It's funny that just a few months ago everyone was wringing their hands over inflation," said Nariman Behravesh, chief economist at Global Insight. "It's gone. It's over."

Energy prices led the decline, falling 8.6 percent in October as the price of gasoline continued its steady slide from highs of more than $4 a gallon. The costs of transportation fell 5.4 percent while clothing prices fell 1 percent.

"The dominant and common factor is the plunge in gasoline prices, which drove the bulk of the weakness," said James O'Sullivan, a U.S. economist at UBS. "You're going to see huge declines in a month's time in the November reports. That's the biggest part of the weakness."

A report on the beleaguered real estate market showed that housing starts fell 4.5 percent in October, to a seasonally adjusted 791,000, from September. Housing starts in October were 38 percent lower than their levels in the month a year earlier.

Economists said tumbling consumer prices offered more evidence that companies ranging from boutiques to airlines to car dealerships were beginning to offer deep discounts to compete for a shrinking pool of disposable cash. Americans tightened their spending as job losses mounted and easy credit dried up, and retailers are bracing for a punishing holiday shopping season.

"We're looking at a pretty deep recession now," Behravesh said. "All of a sudden, any pricing power that companies might have had is gone. You're going to see discounting like crazy going on. All kinds of sales. You're going to see all kinds of prices being slashed."

With consumers pulling back, many analysts are expecting a difficult Christmas shopping season. Retail sales, for example, were down 2.8 percent in October from September, and 4.1 percent from October 2007 as consumers pared their spending.

In Wednesday's report, even excluding the prices of volatile food and energy, prices dropped 0.1 percent in October. It was the first such decline in more than two decades and raised the specter of deflation as the economy contracts and demand for goods and services plummets.

"This month it's more than slowing, it's outright contraction," O'Sullivan said. "And yes, if you extrapolate that, it's deflation."

O'Sullivan added that he expected core prices, which are up 2.1 percent this year, to continue to fall back, but he did not expect them to slip into negative territory.

The price of food and beverages edged up in October, and was still 6.1 percent higher than a year earlier. Alcohol, cereal, meat, fish and desserts were all more expensive in October while the price of produce and dairy products dipped slightly.

And while energy prices fell sharply in October, they were still an unadjusted 11.7 percent higher than a year ago, thanks to a long run-up in oil and energy costs. The decline in consumer prices was the latest symptom of an ailing economy. On Tuesday, the government reported that wholesale prices dropped a record 2.8 percent last month as commodity prices plummeted on slumping worldwide demand.

Crude oil prices, which peaked near $150 a barrel this year, are now hovering at $55 a barrel, and the prices for gold, silver and other metals have collapsed.

Gary Gardiner/Bloomberg News

A steep drop in gasoline and other fuel prices led to a 1 percent decline in the consumer price index in October, the steepest single-month fall in the index's 61-year history.

Food costs to keep rising despite other drops in U.S.

By Andrew Martin

NEW YORK: For the past year or two, U.S. food manufacturers have streamlined production, reduced package sizes and raised prices, saying that they had little choice because of the unprecedented increases in the cost of ingredients like corn, soybeans and wheat.

Now, with the price of oil and other basic commodities plunging, it might seem logical that food prices would follow. Do not count on it.

Government and food industry economists are predicting that the overall cost of food at U.S. grocery stores and in restaurants will continue to increase in 2009, with the prices being particularly high for meat and poultry.

Even as overall consumer prices recorded their biggest drop in history Wednesday, food prices continued to inch upward, albeit at a slower pace than in previous months. The Labor Department's consumer price index showed that food prices increased 0.3 percent in October, compared to 0.6 percent in September and August.

Increases for sugar and sweets, nonalcoholic beverages and meats were mitigated by declines in produce and dairy prices. The Department of Agriculture forecasts that food prices will jump by 4 percent or 5 percent in 2009, compared with 5.5 percent this year. Some economists predict much steeper increases.

Bill Lapp, principal at Advanced Economic Solutions in Omaha, said he anticipated that food prices would increase between 7 percent and 9 percent next year. He explained that the cost of ingredients like corn and soybean oil remained well above historical averages, even as they have come down from the highs of earlier this year.

"For the last 21 months, food manufacturers, restaurants and livestock producers have been absorbing significant costs that, in my view, are likely to be passed on to consumers in 2009 and beyond," said Lapp, a former chief economist at ConAgra Foods.

Additional increases in food prices might seem counterintuitive since the cost of several main ingredients — corn, wheat and soybeans — have dropped precipitously in recent months. The price of corn, for example, fell by more than half since its peak earlier this year.

In addition, some food companies, including Kraft Foods, Campbell Soup, Heinz and Kellogg's, have reported robust increases in profits, a trend that some have attributed to price increases.

But food manufacturers say they have little choice but to raise prices given the huge spikes in ingredient costs.

Officials at Kraft Foods maintain that its long-term goals are to use price increases simply to cover higher costs, not to increase profits. Michael Mitchell, senior director of external communications, said that Kraft's food costs this year were $2 billion higher than in 2007, a 13 percent increase, but that Kraft had raised its overall prices by only 7 percent.

William Roenigk, senior vice president and chief economist for the National Chicken Council, said his industry had been losing money for more than a year. The industry is trying to recover those costs by reducing production, which would eventually increase prices. "The time is coming when we're going to see a very significant increase in the retail price of chicken," he said.

Even the restaurant industry, which has been battered by a sharp drop in customers, has not raised prices enough to keep pace with the cost of ingredients. Hudson Riehle, a senior vice president at the National Restaurant Association, said wholesale food costs increased 8.8 percent this year through September from a year earlier, but menu prices increased only 4.3 percent.

BRIEFING

Siemens employees fined in bribery case

MUNICH: Two Siemens employees were convicted Wednesday of involvement in a corruption scandal at the industrial conglomerate and sentenced to probation and fines.

Ernst Keil-von Jagemann, 58, and Wolfgang Rudolph, 68, were both convicted of accessory to breach of trust charges after admitting during their trial in state court in Munich to being part of a slush-fund operation to win business. Keil-von Jagemann was sentenced to two years' probation and fined €12,000, or $15,160, while Rudolph received nine months' probation and a €20,000 fine. *(AP)*

Delay for telecoms deal

BRUSSELS: An agreement to overhaul the European Union's telecommunications sector is still months away, said Viviane Reding, the EU commissioner for the industry, sparking fears that planned investments in broadband Internet would be put on hold.

Reding proposed the overhaul to give consumers more choice among less expensive services by increasing competition among operators, but EU member governments want to dilute aspects of the plan. *(Reuters)*

■ **TURKEY'S CENTRAL BANK** cut its main borrowing rate by 50 basis points to 16.25 percent in a move that surprised analysts. The bank also cut its overnight lending rate by 100 basis points to 18.75 percent, a larger cut than had been predicted, in an effort to reduce volatility in short-term rates. Investor attention is focused on whether Turkey will agree to a loan accord with the International Monetary Fund. *(Reuters)*

EU plans aid to stir growth

Reuters

BERLIN: The European Commission plans to announce next week a stimulus package worth €130 billion aimed at bolstering the bloc's economy, a senior German minister said Wednesday.

The European Commission said that it had not yet decided on the scale of the plan, due to be announced on Nov. 26, and that it was too early to speculate on the final details.

But the German economy minister, Michael Glos, said the commission's plan, to be presented to a meeting of European leaders next month, would ask all 27 EU member states to contribute 1 percent of their gross domestic product to the growth package, or the equivalent of $164 billion.

"Overall it's about €130 billion that are to be deployed," Glos told a roundtable discussion on German television station n-tv, referring to the commission's proposals.

"Everyone is to fulfill the 1 percent target," he added. This would amount to around €25 billion, or $31 billion, for Germany, the largest European economy.

Asked about Glos's remarks, the Commission said it had made no decision yet on the size or details of a stimulus package for the European economy.

"There is no political decision so far on the figure," Johannes Laitenberger, a commission spokesman, said. "It is too early to speculate about the size or detail of the recommendations."

Data released last week showed the economy of the 15 countries that use the euro had fallen into its first recession.

EU officials have stressed, however, that there is limited scope within the bloc's central budget for the type of mass investment needed to promote economic growth.

Ex-trader seeks to confront chairman

Bloomberg News

PARIS: Jérôme Kerviel, the former trader facing criminal charges over transactions he carried out at Société Générale, will seek to question Daniel Bouton, the bank's chairman, now that judges have agreed to extend their investigation to cover additional elements of the case.

As allowed under French law, Kerviel's defense team was scheduled to meet with the judges in the case and lawyers for the bank Wednesday. But the judges postponed the meeting until Nov. 28, according to Kerviel's lawyers, Bernard Benaiem and Caroline Wassermann. Kerviel is trying to have Bouton attend that meeting, Benaiem said.

Société Générale said in January that the Kerviel, 31, took trading positions beyond his authorized limits, risking as much as €50 billion, or $63 billion, in bets he allegedly hid with faked hedging transactions and client authorizations. Kerviel has said the bank knew about his actions.

"With all of these new elements, it will take time to prepare for the confrontation," Benaiem said.

The decision by investigating judges Renaud Van Ruymbeke and Françoise Desset to delay the confrontation will allow Kerviel's legal team to pursue new information on bonuses received by his supervisors, as well as shares sold by Bouton ahead of the news about the €4.9 billion trading loss from unwinding Kerviel's positions, his lawyers said.

The bonuses and share sales have been public "for months," said Jean Veil, a lawyer for Société Générale.

Kerviel's lawyers are "doing everything they can so that the investigation doesn't end," Veil said.

"There are new facts, that is of some importance," said Stephane Bonifassi, a white-collar criminal defense lawyer who is not involved in the case. "It makes things a little more complicated."

Investigators last month interviewed auditors for the bank and Maxime Kahn, head of Société Générale's European options operations, who unwound the positions taken by Kerviel. After the meeting with auditors, Kerviel's lawyers said they were unable to find new information that implicated the bank.

Kerviel faces criminal charges including breach of trust, falsifying documents and putting false information in the bank's computers.

Sarkozy puts a Paris accent on summitry

SUMMIT, From Page 1

in world finance was over. "America is the No. 1 power in the world," he declared. "Is it the only power? No, it isn't. We are in a new world."

On the other side is Bush, playing out his final weeks in power but unwilling to allow the Europeans, particularly the French, to dominate the debate over how to respond to the crisis.

After the summit meeting, Bush made a point of stating that he did not think any one meeting was likely to change the fundamentals of the global economy.

Against that backdrop, the timing of Sarkozy's hastily convened next meeting has ruffled feathers, not just in the United States but elsewhere as well, because the Group of 20 agreed to meet again by the end of April.

The leaders assigned working groups to tackle 47 regulatory and economic issues before then. At the next meeting, President-elect Barack Obama, who was absent last weekend, would have a seat at the table. But Obama will not be in office during the Paris meeting, insuring that the participants discuss the future of capitalism when the world's leading practitioner of it is still in a political transition.

Aides to Sarkozy said the January meeting was an informal exercise and had no connection to the Group of 20.

"It's nothing to do with the G-20; it's normal that we didn't mention this," said one French official, who spoke on the condition of anonymity because he was not authorized to speak publicly. "It's a joint idea of Tony Blair and Nicolas Sarkozy. They have had it on their minds for a while."

Sarkozy was the first to propose the summit meeting to Bush. American officials said that it was Bush's idea to expand the guest list to the G-20, which includes China, Brazil, India and other emerging countries, rather than limit it to the usual gathering of seven industrialized countries, plus, at times, Russia.

The two leaders also had differing interpretations of what happened at the meeting. Sarkozy portrayed it as a landmark gathering, saying, "Europe for the first time expressed its clear determination."

"Never ever," he added, had the Americans been willing to negotiate on the kinds of radical regulatory changes that were on the table in Washington.

By contrast, Bush noted that the leaders had reaffirmed the importance of free markets, free trade and the primacy of national regulation.

Katrin Bennhold contributing reporting from Paris.

Europe puts its culture online

From books to art, digital library taps into national treasures

By Stephen Castle

BRUSSELS: France has never been shy about promoting its culture, so few were surprised that Paris took a close interest in a new European digital library designed to showcase the Continent's history, literature, arts and science.

But when the new site, called Europeana, begins life Thursday, more than half of its two million items come from just one of the 27 countries in the European Union: France.

So comprehensive is France's cultural supremacy over this outpost of European cyberspace that other countries are having their own history written for them — in la langue de Molière, of course.

"I find the figures extraordinary," said Viviane Reding, the European commissioner responsible for the project. "France has half the content — the collapse of the Berlin Wall is illustrated with a French TV documentary."

Reding added during an interview with the International Herald Tribune that it was "high time the Germans put their material together." She said "all member states should have the drive and pride" to put their national treasures online.

Europeana aims to provide a unique service, because it combines the digital resources of museums, libraries and archives of video and audio material. Material is free of copyright so can be downloaded for blogs, academic research or schoolwork by anyone with an Internet connection.

A search for Mozart, for example, should bring up musical scores, documents including his letters, audio and a video clip of a concert featuring the pianist and conductor Daniel Barenboim.

Reding said that some of the countries that were skeptical about the project had changed their mind now that it had become a reality.

Germany is not the only country playing catch-up, though with just one percent of Europeana's content, it is languishing in the cultural slow lane along with Italy. Spain does a little better at 1.4 percent.

Even Britain, which is usually eager to compete in any contest with its neighbor across the Channel, is well behind, with only 10 percent of the objects, which include digitalized books, audio and film material, photos, paintings, maps, manuscripts, newspapers and archival documents. The Netherlands has the same proportion.

For France, which has long battled to protect its language from the dominance of English, promotion of culture is a priority. This year, the Bibliothèque Nationale de France received €8, or $10 million, from the government for digitizing books.

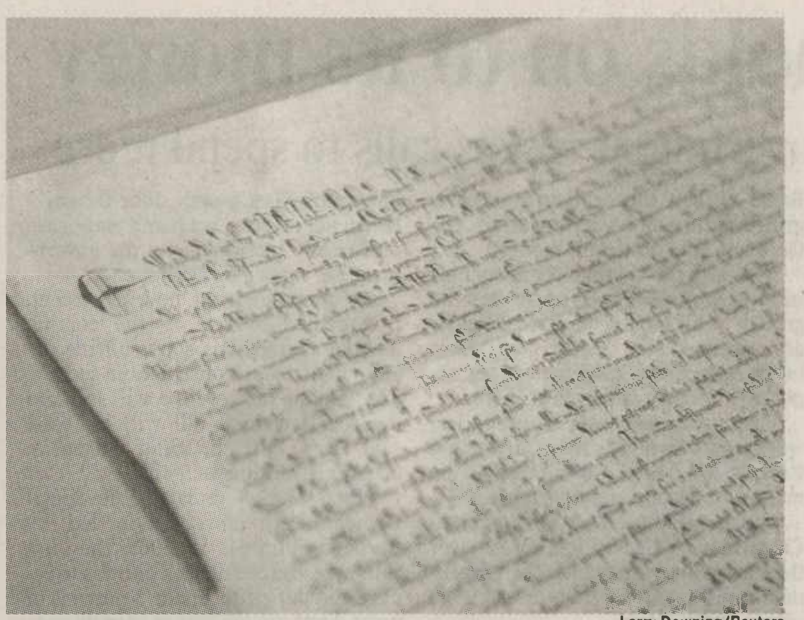
As others catch up, the cost will be high. The European Commission says that if it achieves its aim of putting 10 million items onto the digital library by 2010, it will come at a price of €350 million to €400 million.

Already, the images online include the Magna Carta from Britain, the French Declaration des Droits de l'Homme of 1789, the Vermeer painting "Girl with a Pearl Earring" from the Mauritshuis Museum in The Hague, a copy of Dante's Divine Comedy and the Carte Plana de Parte da Costa do Brazil, a map of Portuguese colonies dating from 1784.

The European Commission said that the initiative was not to create a rival to search engines like Google because the material is sifted thematically and authenticated.

"If you put Chopin into Google you get several hundred thousands of examples — in chaos," Reding said. "You don't know what is right and what is wrong."

Google, which has an online library initiative called Book Search, welcomed the arrival of Europeana. In a statement, it said it looked forward to "collaborating on initiatives such as Europeana — and taking part in what could become the biggest technological leap in disseminating knowledge since Gutenberg invented the printing press."



Larry Downing/Reuters

Images on the Europeana site will include the Magna Carta from Britain. Material is free of copyright so it can be downloaded for blogs, academic research, or schoolwork

For Europeana, one gap is 20th century material where copyright issues have limited the items available. Reding said she was holding talks with interested parties over extending the number of books that could be offered by the site, including those that were out of print. "I can't imagine having a black hole for the 20th century," Reding added.

Bruno Racine, president of the Bibliothèque Nationale de France, said the project had aroused much enthusiasm already. "It will be a very important step in creating a sense of identity in Europe," he said. "We don't expect, in the long run, the percentage of French culture will be as high as 50 percent — it's not what we want, incidentally."

Stephen Bury, head of British and American Collections at the British Library, described it as a "great achievement" and said his institution was relaxed about the dominance of Gallic culture. "When there are 10 million objects these differences will be ironed out," Bury said. "I don't think there is any plot to unseat the Anglo-Saxon world, though that may have been at the back of some peoples' minds."

Microsoft works to help media in Europe

Protecting material would buoy profits

By Eric Pfanner

PARIS: In a move to redefine the often testy relationship between online publishers and search engines, Microsoft plans to help European media owners protect and profit from copyrighted material online, the company's top intellectual property lawyer, Thomas Rubin, said Wednesday.

Rubin said Microsoft planned to work more closely with publishers on the development of a new technological standard that would give them more control over what happens to their material after it has been referenced by search engines like Microsoft's Live Search, Google and Yahoo.

The standard, called the Automated Content Access Protocol, "has the potential to be an important element of more vibrant business models for publishers in the future," Rubin said, in the text of a speech prepared for delivery Thursday in London.

His comments, while stopping short of a full embrace, are the strongest endorsement of the new standards by any of the major search engines, which follow fierce clashes between Google and publishers over copyright issues.

The Automated Content Access Protocol was introduced a year ago, and is supported by hundreds of publishers, said Angela Mills Wade, executive director of the European Publishers Council.

So far, though, no major search engines have adopted the system. Instead, they use a 15-year-old program called robots.txt. To ensure that their articles turn up in searches, publishers also have to keep using robots.txt, which gives them little control over what happens to their material after it has been released on the Internet.

Rubin said adoption of the new protocol could encourage publishers to make additional information available in digital form. Some newspaper publishers, for instance, have been reluctant to open their archives online.

Complicating the battles between search engines and copyright owners is a disagreement over how best to profit from the rise of the Internet. Some newspaper publishers, for instance, try to make it as easy as possible for search engines to find their articles in an effort to attract more Web traffic and to sell more online advertising.

Critics of the Automated Content Access Protocol have compared it to the "digital rights management" systems imposed on some online music services, saying such restrictions inhibit the development of Internet business models.

But Rubin said the practice of offering virtually unrestricted, free access to newspapers online had its limits because Internet ad revenue has not made up for a loss of readers and advertising in print versions of papers.

"The newspaper industry has tried free for a decade and it hasn't worked," Rubin said in an interview before his speech to the Association of Online Publishers in London.

But Google has been unenthusiastic about the new protocol.

"We encourage initiatives that aim to help search engines and Web publishers work better together, but it's important that such initiatives work for the entire Web — meaning millions of Web publishers, not just the needs of a small minority," Google said.

Among other things, Google is concerned that under the new protocol, publishers would have control over what snippets of text appeared in Google searches, allowing spammers to abuse the system.

Microsoft remains open to alliance with Yahoo

Software giant seeks Web search deal

From news reports

BELLEVUE, Washington: Steve Ballmer, the Microsoft chief executive, said Wednesday that the company was still interested in some sort of Internet search deal with Yahoo.

Ballmer, speaking at the company's annual shareholder meeting, said Microsoft was no longer interested in buying all of Yahoo. But he told shareholders that the company would be "very open" to a search collaboration.

Yahoo spurned a $47.5 billion takeover offer from Microsoft in May, and it also rejected a later Microsoft bid to buy only the Yahoo search engine. But the Yahoo co-founder Jerry Yang, who resisted those overtures, said this week he was stepping down as chief executive.

"Let me be clear," Ballmer said. "We are done with all acquisition discussions with Yahoo." He said the companies were not currently talking about a search deal, either.

Yang said Monday that he would relinquish the chief executive role once a successor was named and revert to being "chief Yahoo," the strategy position he held before his 18 turbulent months of running the company.

But even before a new boss is selected, Yahoo must deal with the fundamental question of whether it wants to remain an independent company, trying to grow in a range of businesses while it fights Google in the crucial arena of Web search, or should sell some or all of its businesses to another Internet company.

Yahoo shareholders are clearly rooting for a deal. Shares of Yahoo rose 8.7 percent, or 92 cents, to $11.55 on Tuesday, largely on hopes that Yang's departure might help push the company into the arms of an acquirer.

Many observers and Internet industry veterans agree that a deal with Microsoft for its search business remained the most attractive option for the company.

"Yahoo is still in many ways the definitive brand of the consumer Internet, but I don't think they can or should compete with Google any longer," said Ross Levinsohn, a former president of Fox Interactive Media. "That game is over."

If the Yahoo board agrees, analysts said it would want to appoint an experienced chief executive with a history of deal-making who was also capable of running the online media properties that would be left behind if the search business were sold.

Potential candidates who could embrace this vision of Yahoo include Peter Chernin, the president of News Corp.; Jonathan Miller, a former chief executive of AOL; and John Chapple, president of Hawkeye Investments, who was listed on the alternative slate of Yahoo directors offered by Carl Icahn, the activist investor, during a proxy battle for control of the company last summer.

But some observers think Yahoo's board could forgo any kind of deal with Microsoft and select a leader who stabilized the company, unified its employees and tried to capitalize on its broad technology assets. Potential candidates that fit with this strategy and have strong technical backgrounds include Marc Andreessen, the co-founder of Netscape, and Jeff Jordan, a former eBay executive who runs the online reservations start-up OpenTable.

Susan Decker, the president of Yahoo, will also be considered for the job, although analysts say anyone from Yahoo's current leadership would generate significant skepticism among investors.

The U.S. advertising industry is one constituency hoping that Yahoo remains independent and intact. It often looks at Google and Microsoft as competitive threats that increasingly seek to broker the sale of ads in all media formats and, in some cases, to help advertisers create their own Internet spots.

Yahoo, on the other hand, remains largely unthreatening.

"The ad community doesn't want another big Internet player sitting in the hands of someone that competes with them," said Mike Leo, the chief executive of Operative, a digital-advertising technology firm.

Elaine Thompson/The Associated Press

Steve Ballmer speaking at a Microsoft shareholder meeting Wednesday in Bellevue, Washington. He said the company was no longer interested in buying all of Yahoo.

To avoid deals that would break up Yahoo, a new chief executive would need to tackle some of the well-chronicled problems with its corporate culture, which former employees said seemed to get worse under Yang.

These include a climate of indecision; constant, interminable meetings; and widespread overlapping of responsibilities. The new chief executive will also have to deal with a legacy of head-scratching management decisions — like Yahoo's announcement last month that it would lay off 10 percent of its employees but would not announce which jobs were being cut until December. That put Yahoo employees under a two-month cloud of uncertainty.

Whatever the Yahoo board decides to do, it still has considerable assets with which to work. The company attracts 500 million users a month, is the leading Web-based e-mail service and has many other profitable Internet franchises in news, sports and video. *(AP, IHT)*

Bleak outlooks for chip sales

From news reports

SEOUL: In one of a spate of bleak reports, the Semiconductor Industry Association on Wednesday forecast that global semiconductor sales would drop 5.6 percent next year, posting the first decline since 2001.

The group, based in San Jose, California, said total sales of semiconductors would fall to $246.7 billion in 2009.

The group also cut its prediction for industry growth this year to 2.2 percent from a June forecast of 4.3 percent.

In another report, iSuppli, a U.S. research firm, said global semiconductor revenue would fall 2 percent in 2008, hit by the sweeping economic downturn.

It also said questions remained about how long the decline would extend into next year.

The U.S. research firm forecast semiconductor sales this year at $266.6 billion, down from $272 billion in 2007. Its previous prediction from September anticipated growth of 3.5 percent.

Consumer demand for electronics, from computers to digital cameras, is drying up quickly amid the financial crisis and the prospect of a lingering global recession.

"As dramatic declines in consumer and industrial confidence began developing in late summer, order cancellations began to grow," said Dale Ford, iSuppli's senior vice president. "Players across the supply chain moved to extremely cautious positions in the face of increasingly negative economic news."

P&G unites with Google for synergy

The Associated Press

CINCINNATI: Procter & Gamble, the world's largest producer of household products, and Google, the online search leader, are working together to learn more about each other and about reaching customers.

Procter & Gamble said Wednesday that it had been sending some executives to work with Google and that Google employees had been at Procter & Gamble's headquarters in Cincinnati to help with training.

Allison Yang, a spokeswoman for Procter & Gamble, said it wanted to reach consumers who were using the Internet more.

"This is all about learning," she said. "It's about putting consumers in connection with our products in the right spots."

The job swaps began in January, with brand managers for Procter & Gamble's Tide detergent brand visiting Google while Google officials headed to Cincinnati.

Managers of the Pampers diaper brand and a digital marketing manager were the next employees to participate, and last month, about 15 Procter & Gamble employees from various divisions spent time with Google teams last month.

Yang said Procter & Gamble had shared information with Google visitors about its consumer research, planning and operations.

"We'll continue looking at what the opportunities are," she said.

Procter & Gamble, the largest U.S. advertiser with a global budget of nearly $9 billion, has been emphasizing the superior value of its products with its marketing efforts.

The company has also been expanding its online reach, in part by offering coupons via the Internet.

Google did not respond to a request for comment.

Analysts have predicted slower revenue growth for the company as the economy slows worldwide, reducing the likelihood that Internet users will click on advertising links.

Automakers renew push before a skeptical House

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duce more fuel-efficient vehicles.

The executives defended themselves before the Senate on Tuesday, saying that the cause of their misfortunes was not management mistakes, but the weak economy and the inability of consumers to obtain credit to buy cars.

The executives seemed stunned by the general lack of confidence that lawmakers showed in their companies.

"We have little evidence that $25 billion will do anything to promote long-term success," said Senator Michael Enzi, Republican of Wyoming.

The discussions were tense, with the automotive executives on the defensive from the start on Tuesday. At times, it appeared the lawmakers had little familiarity with the deep reorganization steps already taken at the companies. On the other side, the Detroit executives painted a bleak picture of an industry under siege. The chief executives of GM and Chrysler said their companies were using up their cash at a rate that could leave them close to insolvency without federal aid.

"Without immediate bridge financing support, Chrysler's liquidity could fall below the level necessary to sustain operations," Nardelli said.

Despite the urgent tone of the executives, lawmakers in both parties saw little chance that a bailout could be put together and passed during the current session of Congress. While President-elect Barack Obama has said the auto industry should get assistance, he said in a recent television interview, "I think that it can't be a blank check."

The administration of President George W. Bush has steadfastly refused requests by Democratic leaders to tap into the financial rescue program to aid the automakers. The White House instead has pushed for the auto companies to get immediate access to $25 billion in previously approved loans to retool production plants to make fuel-efficient vehicles.

The overall United States vehicle market has fallen 14.8 percent through the first 10 months of the year. But sales in October fallen 31.9 percent.

"There is no great mystery as to why this enormous decline in sales has occurred," said Ron Gettelfinger, president of the United Automobile Workers union. "Because of the overall credit crunch, most families cannot get credit on reasonable terms to finance the purchase of a vehicle."

▪ Opel takeover is proposed

Solarworld, a German solar power company, said Wednesday it would offer to take over the German operations of Opel, a division of General Motors, and transform it into a green carmaker.

Solarworld, which is based in Bonn, said it wanted GM to pay it about €1 billion, or $1.3 billion, to compensate the company for taking on Opel's 25,700 workers in Germany.

"This is pure speculation," said Nelson Silveira, a GM spokesman. "Opel is not for sale."

Shawn Thew/EPA

Robert Nardelli, chief executive of Chrysler, testifying before the Senate.

iht.com/biz

Watch video: The recession finally catches up with Sweden, where Volvo is laying off thousands of workers.

Greeks hit by end of shipping boom

SHIPPING, From Page 12

The fall in traffic has been brutal and is expected to worsen "in the near future," said Nikos Arvanitis, head of the International Maritime Union at Piraeus. He said that if the trend continued, jobs would be affected. "We have to reduce costs," he said.

While shipping accounts for just over 1 percent of Greece's 4.5 million work force, its economic influence is far higher. Foreign earnings from shipping were €17 billion last year, according to the central bank.

"We estimate the slowdown in shipping will take around 0.5 percent off GDP," said Nicholas Magginas of National Bank.

He added that there was a "significant risk" that there could be "some problems with the bank debt" and "a need for some restructuring."

For the first time, Greece faces a shipping crisis in which some of its biggest shipowners are on the stock market rather than in charge of private businesses.

Since the billionaire George Economou floated his company DryShips on the Nasdaq in 2005, a dozen other mostly Greek dry-bulk shipping companies have listed in New York, raising some $4 billion.

But public listings mean public scrutiny. DryShips said in an exchange filing that it might not be able to meet its covenants to banks if things worsened. Economou, who defaulted on bonds in the 1990s, said it had no trouble paying its debts.

Xiradakis, the head of XRTC, noted that some debt renegotiations and ship sales were likely.

"The longer this crisis goes on, the worse it will be, even for big firms," he said. "Banks have to stand by their clients and wait for the smoothness of the cycle or we are going to have a lot of losses."

Local lenders, like Piraeus Bank, have about €10 billion in loans to Greek shipowners, but their relationship is built on years of understanding. Piraeus says its €1.4 billion portfolio is spread among 60 traditional shipowners.

Many analysts question whether foreign banks, which hold over three-quarters of Greek shipping debt, might be more jittery. Royal Bank of Scotland, which has needed £20 billion, or $30 billion, of emergency capital from the British government, is one of the biggest lenders to the Greek shipping market.

Some companies are already protectively canceling orders for new ships. Genco, founded by Peter Georgiopoulos, annulled a $530 million deal for six vessels, forfeiting a 10 percent deposit. Shipping analysts estimate a third of worldwide orders may be canceled.

For those forced to sell, prices have tumbled. Xiridakis said one 1980s cargo vessel that would have sold for $18 million last year was going for just over $3 million this year. Smaller companies with older vessels will be worse hit, he said.

But some Greek shipowners, used to downturns, are thinking in the long term. The commodities carrier Diana Shipping canceled its dividend this month but said it was saving the cash to acquire ships at low prices during the downturn.

"We are not worried," Xiradakis said. "In Greece we know any crisis brings opportunities and shipping is in our blood."

▪ Neptune to cut 9% of jobs

Neptune Orient Lines, a major container carrier, said Wednesday that it would lay off 9 percent of its work force and warned that the outlook was grim as the shipping sector faced a prolonged economic downturn, Reuters reported from Singapore.

Shares of the company, which is based in Singapore, fell almost 3 percent after it announced the elimination of 1,000 jobs, mostly in North America, as it tried to weather the economic slowdown.

Neptune Orient Lines said it would incur a $33 million restructuring cost in its fourth quarter.

iht.com/biz

Watch video: The shipping industry is facing a longer downturn than expected.