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Germany pushes back on Greek rescue plan

PARIS

Demand that lenders take a hit underscores deepening divide in E.U.

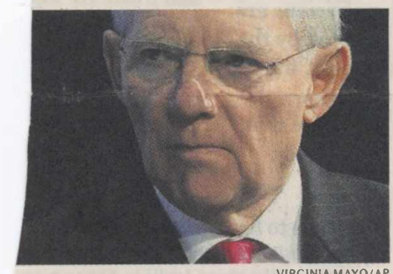
BY MATTHEW SALTMARSH

Putting Germany at odds with the European Central Bank and the French gov-ernment, Berlin has proposed extend-ng the maturities on Greek bonds by even years, insisting that private in-estors must share in the cost of any esh financial aid to Greece.

The German finance minister, olfgang Schäuble, in a letter to his ropean counterparts as well as to the ernational Monetary Fund, the .B. and the European Commission, o will meet June 20 to discuss aid, ote: "Any additional financial sup-t for Greece has to involve a fair bur-sharing between taxpayers and ate investors and has to help foster Greek debt sustainability."

r. Schäuble added that any deal to port Greece at the meeting would to "lead to a quantified and sub-tial contribution of bondholders to upport effort" and would "best be hed through a bond swap leading to longation of the outstanding Greek reign bonds by seven years." The r was dated Monday and released lnesday.

ichard McGuire, a strategist at obank in London, said the letter



VIRGINIA MAYO/AP

Wolfgang Schäuble, the German finance minister, wants lenders to make a "substantial contribution" to a Greek rescue.

highlighted a division among the core members of the euro zone as well as with the central bank. As a result, he said, there is "the clear risk a Greek deal could well hit a snag." That risk was underscored Wednesday by a report from the so-called troika — the I.M.F., the European Union and the E.C.B. — monitoring Greece's progress at meeting its goals for receiving a €110 billion, or $160 billion, bailout.

The report said that Greece could not receive the next installment this month until a plan to meet the country's financ-

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GREECE'S FADING DREAM OF EASING PAIN
Athens has shelved any notion of transferring its debt to the European Central Bank and has returned to its austerity planning. *PAGE 13*

REUTERS BREAKINGVIEWS
The government of Chancellor Angela Merkel is on a collision course with the European Central Bank. *PAGE 18*

Business
WITH REUTERS

Puncturing Greek dreams for easing pain

LONDON

Athens returns its focus to cuts after shelving a debt-transfer plan

BY LANDON THOMAS JR.

In March, just as it was becoming clear that Greece might have to ask Europe for another package of loans to prop up its failing economy, Prime Minister George A. Papandreou seriously considered a radical plan intended to resolve, once and for all, his country's debt crisis. Under the proposal, Greece would transfer as much as €133 billion — or 40 percent of its government debt — to the European Central Bank, which would then pay off the obligation by issuing its own euro bond.

It would be a "restructuring without a haircut," in the view of the plan's proponents, who enthusiastically described it to Mr. Papandreou in a series of secret meetings earlier this year. The result, ideally, would be to ease the weight of the Greek debt on the economy, clearing the way for renewed growth while keeping the bankers and credit ratings agencies on board.

In many ways, the plan was a dreamy alternative to the grim calculus of Europe's demands for more austerity from Greece in return for more loans. And Mr. Papandreou went so far as to ask a political ally and the plan's two proponents, a British and a Greek economist, to lobby Europeans in its favor.

But, according to economists who participated in the discussions, the Greek finance minister, George Papaconstantinou, was opposed, arguing that Germany, to say nothing of the E.C.B., would never go for it. And while a number of economists contend that Europe will ultimately have to develop some sort of plan for restructuring Greece's debt, Athens has shelved any such notion for now as it moves toward another bailout to keep the country out of bankruptcy.

"It was a nice idea, but not defensible in current circumstances," said Daniel Gros, the head of the Center for European Policy Studies in Brussels, who took part in one of the meetings with the prime minister to discuss the plan's merits. "If there is one person who can not propose something like this it is the Greek prime minister — it would have to be a German."

This week, Mr. Papandreou is struggling to persuade his increasingly disruptive party members that Greece must agree to another round of austerity measures to qualify for a second portion of loans from the European Union and the International Monetary Fund, including closing down public-sector enterprises, selling more assets and ramping up the tax take. The new package will be submitted to Parliament on Thursday and a vote is expected before the end of the month.

Signs are growing, however, that the patience of the long-suffering Greek public is wearing thin. Mr. Papandreou's approval ratings are below 30 percent and, as uncertainty builds, Greeks continue to take money out of the banking system.

Mr. Papandreou's interest in a plan to transfer much of its debt to the rest of Europe may well have been a passing fancy.

And his chances of persuading Jean-Claude Trichet, the president of the E.C.B, to take on even more debt on top of the nearly €200 billion, or $292 billion, it already is exposed to were always going to be a long shot.

"The prime minister is in favor of the proposal," said Vasso Papandreou, a former top financial advisor to the prime minister and an influential mem-

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ORESTIS PANAGIOTOU/EUROPEAN PRESSPHOTO AGENCY

Amid extended protests against government austerity programs in Greece, a banner displayed Wednesday in an Athens square proclaimed, "We owe nothing, we pay nothing."

Rift emerges as OPEC holds line on output

HOUSTON

Decision is a setback for Saudi Arabia, which had pushed for increases

BY CLIFFORD KRAUSS

Ministers from the Organization of the Petroleum Exporting Countries failed to reach a consensus Wednesday on raising oil production levels, leaving production quotas in place despite rising world prices.

The lack of even modest action was a setback for Saudi Arabia, which had argued for a change in quotas that had been set nearly three years ago. But it is likely to have little more than symbolic importance, since OPEC is now pumping about 1.5 million barrels a day above the quota levels anyway and Saudi Arabia has been increasing output the past several weeks by an estimated 200,000 barrels a day.

Iran led the bloc of OPEC countries that opposed changing the quotas even though it has been exceeding its allotment by about 50,000 barrels a day for over a year to raise funds as a means of countering economic sanctions.

Oil experts said that Iran, which holds the presidency of the organization this year, was merely maneuvering to undercut Saudi Arabia, its traditional adversary.

Oil benchmark prices rose Wednesday in response to the surprise outcome, but only modestly, by a bit more than a dollar a barrel.

"Everybody in OPEC is cheating and everyone knows that," said Fadel Gheit, an oil analyst and managing director at Oppenheimer. "Don't listen to what they say but watch what they do."

The decision comes at a time when international oil markets are tightening, with stockpiles declining in much of the world. The U.S. Energy Department estimated this week that world oil con-

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Lessons from an uneven transition

VIENNA

East European leaders tell North Africa to keep an eye on elites' motives

BY JACK EWING

Not far from where a section of the Iron Curtain crumbled more than two decades ago, talk turned Wednesday to a more recent citizen revolution and whether the journey that Eastern Europe has made in the past two decades offered any precedent for the transition that now confronts North Africa.

To people who lived through the upheaval that followed the fall of the Berlin Wall, their experience provided lessons — as well as warnings.

Valdis Zatlers, the president of Latvia, pointed out the huge difference between Estonia, which at the beginning of the year joined the euro area, and Belarus, still a Stalinist dictatorship. "Twenty years ago they were at the same starting point," Mr. Zatlers said during a panel discussion at the World Economic Forum on Europe and Central Asia on Wednesday. "Look at the different results."

North Africa, as well as the economic challenges that continue to confront Eastern Europe and Central Asia, was a major topic of discussion during a one-and-a-half-day event in a former imperial palace, which was managed by the same organization that stages the annual World Economic Forum in Davos, Switzerland.

What can Egypt and Tunisia do to turn out more like Poland or the Czech Republic, rather than Kyrgyzstan, the former Soviet republic? In a measure of the misery that still prevails in Kyrgyzstan, the country's president, Roza Otunbayeva, said Wednesday that one of her goals was to lift the country above its 164th place ranking, out of 178, on the Transparency International index of corruption.

"We want to be among civilized countries," Ms. Otunbayeva said at the event.

There are some parallels between Eastern Europe in 1990 and North Africa today. Like Eastern Europe then, the North African countries were police states that needed to create democratic institutions from nothing.

Appearing on a panel with representatives from Libya and other Arab countries, Mr. Zatlers of Latvia warned that they could expect old elites to try to become the new elites. "In every society you have people who were more active in the previous society," he said. "They are the first to participate. They want to keep power. We are still witnessing that 20 years later."

The Eastern European countries were planned economies, while Egypt and Tunisia are nominally free market economies, but with a high degree of government intervention.

What can Egypt and Tunisia do to turn out more like Poland or the Czech Republic, rather than Kyrgyzstan?

"The majority of business make their money by being close to government," said Khalid Abdulla-Janahi, honorary chairman of Vision 3, an alliance of three investment banks in the United Arab Emirates.

Countries in the Middle East may have some advantages because they have more extensive trade ties than was the case in Warsaw Pact countries, as well as basic financial infrastructure like stock markets.

But North Africa faces some additional challenges. Eastern Europe bordered the wealthy countries of Western Europe and could benefit from trade and investment as well as direct aid. The prospect of joining the European Union served as a powerful incentive for political and economic modernization, a unifying goal for society.

"There was a much easier game plan — you turn to the European Union," Peter Attard Montalto, emerging markets economist at Nomura International, said during an interview. North Africa, he said, "is a much bigger challenge."

In the Arab world there is the destabilizing threat of Islamic extremism, as well as of meddling by countries like Iran or Saudi Arabia with no interest in promoting democracy.

East European societies tend to be aging and some are facing population decline, which can be a drag on economic growth and a burden for pension systems. The Arab world is dominated by people younger than 30. They are a potential source of entrepreneurial energy, and a huge pool of consumers.

"It is one of the youngest populations we have," said Luis Álvarez, president of the emerging markets business of BT, the British telecommunications company, which offers services to companies in North Africa. "We see that as an opportunity for a large number of companies."

But the young people also create political volatility. Mustapha Kamel Nabli, the governor of the Central Bank of Tunisia, warned that young people had high expectations after the country's citizen revolution that would be difficult to fulfill.

"Young people want things to happen, but the economy is going down," Mr. Nabli said during a panel discussion. Aid from institutions like the International Monetary Fund or European Bank for Reconstruction and Development is welcome but will not be enough, he said.

"We want private investors to come in and say they are willing to bet on our success," he said.

Eastern Europe has demonstrated that, to some extent, a country's fate depends on circumstances beyond its control, like geography, natural resources or size. Poland has benefited from its border with Germany and its domestic market of 38 million people. Kazakhstan has oil and natural gas and lots of land.

North African countries like Egypt and Tunisia, which do not have huge reserves of oil or gas, need to find economic niches to drive growth, Mr. Montalto of Nomura said. They could try to take advantage of business opportunities in sub-Saharan Africa, for example. Several speakers said they considered Turkey a stabilizing force.

But, like Eastern Europe two decades ago, representatives from North Africa said that they, too, were looking to Western Europe. European leaders and businesses should recognize that they have a strong interest in promoting economic development in countries trying to become democratic, they said.

"Libya is in the neighborhood," said Tarik M. Yousef, a Libyan who is dean of the Dubai School of Government. "Libya matters." Referring to the countries that after 1989 "built up almost from scratch," he added, "I look to Europe for help."

ROLAND SCHLAGER/EUROPEAN PRESSPHOTO AGENCY

President Roza Otunbayeva of Kyrgyzstan, left, with President Heinz Fischer of Austria in Vienna on Wednesday. Ms. Otunbayeva said her goal was to cut corruption in her country.

Small U.S. firms are leaving home to find cash

NEW YORK

Overseas markets offer low listing hurdles and an eager pool of investors

BY GRAHAM BOWLEY

Reva Medical, a maker of medical devices in San Diego, wanted to go public last year to raise money to satisfy impatient venture capitalists and finance research for its heart stents.

But it found little investor interest in the United States for an early stage medical device company that had not yet made a profit.

Reva Medical did what a small but increasing number of young American companies are doing: it looked abroad for money — in Reva's case, to the Australian stock exchange.

After an eight-month road show, meeting investors and pitching the prospects of a biodegradable stent, the 12-year-old company sold 25 percent of its stock for $85 million in an initial public offering in December.

"There are so many companies that require capital like our company, and they don't have access to the capital markets in the United States," said Robert Stockman, Reva's chief executive. "People are looking at any option to stay alive, which is what we did."

Reva's experience shows that nearly three years after the financial crisis began, markets in the United States are barely open to many companies, leading them to turn to investors abroad. Denied a chance to list their stock and go public at home, they are finding ready buyers of their shares on foreign markets.

Nearly 1 in 10 American companies that went public last year did so outside the United States. Besides Australia, they turned to stock markets in Britain, Taiwan, South Korea and Canada, according to data from the consulting firm Grant Thornton and Dealogic, a financial data firm.

The 10 companies that went public abroad in 2010 — and 75 from 2000 to 2009 — compare with only two U.S. companies that chose foreign exchanges from 1991 to 1999.

The trend reflects a decidedly global outlook toward stocks, just as the number of public companies in the United States is shrinking.

From a peak of more than 8,800 American companies at the end of 1997, the number fell to about 5,100 by the end of 2009, a 40 percent decline, according to the World Federation of Exchanges.

The drop comes as some companies have merged, or gone out of business or been taken private by private equity firms. Other young businesses have chosen to sell themselves to bigger companies rather than go public.

To be sure, as the economy improves and investors shaken badly by the financial crisis begin to regain their confidence, American stock markets may once again open up for companies trying to go public and listings may rise in the United States.

LinkedIn, the social networking site for business professionals, had a successful initial public offering last month on the New York Stock Exchange, and Groupon, the social buying site, has registered its plans to go public in the United States.

But those are big companies, enjoying the popularity of Internet darlings. Executives and analysts fear that a long-term structural shift in American equity markets means that those markets are now closed to legions of smaller, more ordinary businesses. They could more easily have gone public in the United States in the past. But they now remain private or, for the time being, have to market themselves overseas and rely on foreign investors.

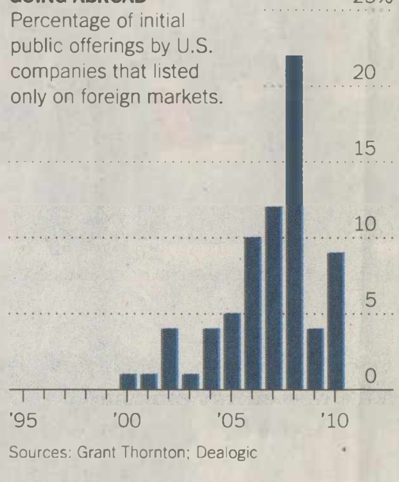
For example, initial public offerings by American companies totaled only 119 in the United States last year, according to Dealogic — more than the depressed numbers of the previous two years but a far cry from the 756 companies that went public at the peak in 1996, a few years before the technology bubble burst.

As young, fast-growing companies look overseas for public status and investors, executives and analysts fear they may increasingly shift their geographic focus — and as a result any jobs they create will be abroad.

"Issuers have to put themselves through a grinder to go overseas, so any significant percentage of overseas listings is a sign that our markets have become hostile to innovation and job formation," said David Weild, a former vice chairman of the Nasdaq stock exchange and a senior adviser to Grant Thornton, an auditing and consulting firm.

MINH UONG/THE NEW YORK TIMES

GOING ABROAD
Percentage of initial public offerings by U.S. companies that listed only on foreign markets.



Sources: Grant Thornton; Dealogic

Many factors explain each company's decision to list on a foreign exchange, like the increased regulatory costs of going public in the United States. Costs of underwriting, legal services and other necessities are typically lower in foreign markets, companies say.

The Alternative Investment Market, or AIM, a part of the London Stock Exchange intended for small company listings, is a popular destination for some U.S. companies. The cost of an initial public offering there is about 10 to 12 percent of total capital raised, compared with 13 to 15 percent on Nasdaq, according to Mark McGowan of AIM Advisers, which helps American companies list on AIM.

In addition, the extra annual cost of maintaining a public listing, including complying with Sarbanes-Oxley rules, can be much higher in the United States: $2 million to $3 million each year, depending on the size of a company, compared with a cost as low as $320,000 on AIM or $100,000 to $300,000 in a market like Taiwan's, according to advisers.

There are concerns that some non-U.S. exchanges attract companies because their oversight may be less stringent. But companies insist that standards are high.

A more important factor than cost, said Sanjay Subhedar, managing director of Storm Ventures, a California venture capital firm, is that investors in the United States that traditionally participate in I.P.O.'s and the banks that underwrite the offerings are no longer interested in share sales by small companies.

Institutional investors like mutual funds want the liquidity of larger offerings with abundant buyers and sellers, he said; bank underwriters want to focus on the more lucrative fees that bigger deals generate.

Last year, one of the companies he invests in, Integrated Memory Logic of Campbell, California, became one of the first companies from outside Taiwan to list on the Taiwan Stock Exchange. A supplier of semiconductor chips for LCD screens, it raised $40 million with a 10 percent sale of the company after the exchange changed its rules to allow foreign companies to join.

Integrated Memory Logic, which had a work force of 60 when it went public, has since added a handful of engineers in the United States and 40 employees in Shanghai, Taipei and Seoul.

"Because of the nature of the industry, large mutual fund companies and investment banks don't want to do an offering of less than $100 million," Mr. Subhedar said. "This means unless the company has a market size of $500 million, you can't really go public in the United States. We were in the $250 million to $350 million range."

Another reason to go abroad, as U.S. businesses like HaloSource of Seattle are discovering, is that American investors may not be as interested as investors elsewhere are in companies whose growth potential is strongest overseas.

HaloSource makes water purification devices for use in American pools and spas but also for drinking water in countries like India, China and Brazil. Last year, it had an $80 million initial public offering on AIM. One reason it chose London, according to James Thompson, its chief financial officer, was that investors there were more tuned in to growth opportunities in emerging markets. "Though it is a smaller capital market than New York, AIM is much more globally focused," Mr. Thompson said.

For companies like HaloSource, the move to a foreign exchange may make longer-term strategic sense as their growth shifts away from the United States to markets like China and India. Integrated Memory Logic's biggest suppliers of the wafers for its semiconductor chips and its biggest customers are in Asia — so a listing in Taiwan raises its profile in a region that is already home to most of its corporate partners.

Another company, Samsonite, the luggage company that was founded in Denver in 1910 but shifted its corporate location to Luxembourg in 2009, now sees most of its growth coming from Asia. It plans a $1.5 billion offering in Hong Kong next week.

The attraction of an Asian listing will be underlined further this month when Prada, the Italian fashion house, lists its shares in an offering that could generate $2.5 billion, also in Hong Kong.

But while some U.S. companies see a foreign I.P.O. as a long-term move, others see it as an interim step, one that after further expansion could lead them to seek investor interest back home and a dual listing in the United States.

One reason Reva Medical chose Australia was that country's system of research hospitals, which it intends to use for its clinical trials.

Mr. Stockman, the chief executive, also sits on the board of another company, HeartWare International, based in Massachusetts and Florida, that carried out an Australian I.P.O. in 2005 and then listed on Nasdaq in the United States in 2008.

Mr. Stockman said two Wall Street investment banks had told him that there was no interest in an offering of the company in the United States. Instead, he found an underwriter, Inteq, in Australia. In the end, the cost of the Australian listing was $7 million, about what it would have cost Reva to list in the United States, he said.

One of the biggest costs was travel time and flights. He concedes that he would have preferred to list in the United States in the first place — after all the traveling back and forth to Australia, and the long road show in Asia, the United States and Europe.

"All things being equal, it would have been easier," he said. "It is a long way."

Puncturing a dream for easing pain of Greece

GREECE, FROM PAGE 13

ber of Parliament within the governing Socialist party, known as Pasok, who has been openly critical of the government's austerity plan. "This is not a Greek problem any more — it's a European problem."

Ms. Papandreou is not related to the prime minister.

A spokesman for the prime minister said that Mr. Papandreou and other European officials had long supported a euro bond as one policy option, but that his current priority was to make the Greek economy competitive again.

"In search of the best solutions to effectively and permanently exit the crisis, the prime minister will continue to exchange views with his counterparts around the world as well as leading economists and academics," he said.

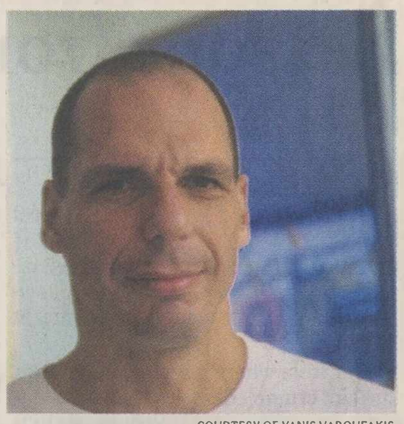
The two architects of the idea have longstanding ties to Mr. Papandreou. They have characterized their sweeping plan, with a bit of cheek, a modest proposal.

Yanis Varoufakis, a political economist and blogger at the University of Athens, was a speechwriter and advisor to Mr. Papandreou from 2004 to 2006. Stuart Holland is a Europe expert and former high-ranking official in Britain's Labour Party who was a longtime advisor to Andreas Papandreou, Mr. Papandreou's father, who was once prime minister himself.

"When you are insolvent, you do not solve things with new loans," said Mr. Varoufakis, who this week wrote an open letter to Mr. Papandreou that urged him to reject the onerous terms of the second bailout. "I want George to look into the camera and tell the German taxpayer: 'I cannot in good conscience take any more of your money because if I do so this money will just go to the bankers who will only hoard it.'"

The plan's root premise — that Greece is not capable of generating sufficient funds to pay down its debt — is by no means outlandish, and it has been echoed by economists and ratings agencies alike.

Indeed, in pushing Mr. Papandreou to present Europe with this basic reality, the plan updates one of the more popular sayings of the economist John Maynard Keynes: If I owe you a pound (or euro, in Greece's case) I have a problem; but if I owe you a million, the problem is yours.



COURTESY OF YANIS VAROUFAKIS

The economist Yanis Varoufakis said transferring Greek debt to the European Central Bank would reduce suffering in Greece.

Following that logic, the problem of Greece's debt is as much the E.C.B.'s, which is now the largest institutional owner of Greek sovereign debt, as it is Greece's.

This reality was underscored this week when the Bank for International Settlements released data showing that European banking exposure to Greece, while high at €121 billion, has been declining as French and German banks have been reducing their exposures. That means, in many cases, that the E.C.B. has been left holding the bag, which helps explain why the central bank is so opposed to any talk of restructuring Greece's debt, or requiring bondholders to share in any losses, something known as a haircut.

Mr. Varoufakis says that there are other important components to his and Mr. Holland's proposal, like getting Europe's main rescue fund, the European Financial Stability Facility, to recapitalize European banks and promoting a New Deal-style investment program for Greece.

But the transfer of Greek debt onto the E.C.B.'s books is the key, since the E.C.B., with the full resources of the European monetary system as backing, can borrow at much lower rates than Greece can. The plan calls for the debt to be sold as a 10-year bond at 3 percent interest, with Greece paying back the E.C.B. at that same 3 percent over 10 years — in theory at no cost to the European Central Bank.

As someone who has worked closely with the prime minister in the past and keeps in contact with his immediate family, Mr. Varoufakis is convinced that Mr. Papandreou will ultimately embrace his plan as the only alternative to endless pain and suffering for the Greek people.

Mr. Papandreou recognizes that the latest austerity proposal is "not going to work," Mr. Varoufakis insisted. He "is like an atheist now, crossing himself and hoping for a miracle."

Berlin insists investors must share Greek pain

EURO, FROM PAGE 1

ing needs for 2012 is worked out, Bloomberg News reported from Berlin. Greece's financing costs remain "prohibitive," the report said, making it impossible for Greece to return to markets next year as planned under the three-year rescue program.

Germany's latest position on extending debt maturities will probably gain support from countries like Finland and the Netherlands, which have taken a tough line on any new aid to Greece, seeking to win over skeptical public opinion at home. The plan is likely to run into opposition from several other euro zone governments, however, and frustrate the E.C.B., which has been positioning itself against moves to require private bondholders to book some losses on their holdings, in part because of the hefty holdings of Greek debt that the E.C.B. itself is carrying.

While France has consistently stood against private-sector involvement in the bailout of Greece, Germany's position has fluctuated. Previously, Berlin proposed a milder plan to stretch out Greece's debt at the expense, in part, of existing bondholders, but backed away after the E.C.B. vehemently objected.

There is "the clear risk a Greek deal could well hit a snag."

According to the Bank of Greece, Greek banks had borrowed €86.8 billion from the E.C.B. via so-called refinancing operations as of the end of April. The E.C.B. has also bought Greek bonds directly from investors.

If credit agencies view a Greek restructuring as a default, and further downgrade the country's ratings, the E.C.B. fears that it might no longer be able to accept Athens' debt as collateral for its loans, potentially further hampering the viability of Greek banks.

The E.C.B. appears to favor encouraging private-sector debt holders to lend the proceeds from the redemption of Greek debt back to Athens on the same terms in a "voluntary rollover" or a "soft reprofiling," which would not set off a formal default.

But, European diplomats and officials said privately that the central bank is increasingly isolated. David Geen, general counsel of the International Swaps and Derivatives Association, a derivatives industry body, said Wednesday that a debt exchange that pushed out maturities would also probably avoid a formal default because it would not lead to payment of contracts to insure against default, known as credit-default swaps.

The central bank also appears to fear the possibility of contagion in the European banking sector in the event of a Greek default, concerns that are shared in Paris and Brussels.

Data from the Bank for International Settlements suggest that French banks could lose more from a collapse of Greek banks than other countries, with total actual and potential liabilities of $65 billion at the end of last year compared with $39.9 billion for Germany and $41.5 billion from the United States.

"The French position is that we are against a restructuring of Greek debt, no matter how it's formulated," the government spokesman, François Baroin, said Wednesday.

The position of Jean-Paul Chifflet, the chief executive of Crédit Agricole, a large French bank, was more nuanced. He said Wednesday that he expected the authorities to broach the possibility of a extension soon and he voiced support for the idea, Reuters reported. Crédit Agricole controls Emporiki Bank of Greece.

Christoph Rieger, head of interest rate strategy at Commerzbank in Frankfurt, said, "Someone needs to give in."

Were the proposal for a debt extension to be blocked, more guarantees would be required by Athens, which would then need to raise more from privatizating assets or tougher tax enforcement to plug the gap. Such steps could further hamper the recovery of the Greek economy.

Despite the disagreement, Mr. Rieger said that there would probably be an agreement this month to finance Greece until 2014 with no default. But he added that "it then still remains likely that a hard restructuring will have to happen by 2013," before the expiration of the new aid and German elections.

"With bank recapitalizations having advanced by that time," he said, "a new E.C.B. president could then also more easily display a tougher attitude toward commercial investors."

In the letter, Mr. Schäuble said that the current international support programs for Athens were "insufficient to cover Greece's financial needs over the program period."

Stephen Castle contributed reporting from Brussels.

BP sets its sights outside Russia

LONDON

After collapse of deal to drill in Arctic, oil giant says it's 'moving on'

BY JULIA WERDIGIER

BP said Wednesday that it would focus on oil exploration outside Russia after a deal with Rosneft collapsed last month, but added that there were no plans to sell its stake in the Russian joint venture TNK-BP.

The BP chief executive, Robert W. Dudley, said "very quietly BP is getting on with its strategy of exploration" in Australia, Brazil, Azerbaijan and the United Kingdom.

"We're moving on," he said at a news conference to present the company's annual review of energy markets.

Mikhail Loskutov, a spokesman for the AAR consortium, which is BP's partner in TNK-BP, declined to comment, as did a Rosneft spokeswoman.

Mr. Dudley's plan to explore in the Arctic through a share swap and cooperation agreement with Rosneft, the state-controlled Russian energy company, failed when BP's partners in TNK-BP took legal action to block the deal. BP said in May that it would continue to talk to both Rosneft and its partners in TNK-BP, but Mr. Dudley said Wednesday that "it's very quiet" and that "there was no news" on that front.

Instead, he said, BP would focus on exploration opportunities elsewhere, including in Angola and Trinidad, and on further rebuilding trust in the company in the United States, where it is still recovering from the Gulf of Mexico spill last year.

Mr. Dudley denied newspaper reports published Tuesday that said BP was preparing to sell some of its stake in its lucrative TNK-BP joint venture to try to rescue its deal with Rosneft.

"BP is not planning to sell its shares in TNK-BP," Mr. Dudley said. He also described BP's relationship with Rosneft as "excellent," despite the disappointment about the collapsed deal.

Mr. Dudley's comments indicated that the only way to revive the deal with Rosneft, which also included a share swap component, was for BP's partners in TNK-BP and Rosneft to come to an agreement. BP's partners in TNK-BP, a group of Russia billionaires, claimed the deal violated their shareholder agreement. TNK-BP is third-largest oil producer in Russia and accounts for about a quarter of BP's output.

Carl-Henric Svanberg, BP's chairman, said reaching an agreement was difficult because it would involve "three individuals with their own agendas and time horizons." He added that there were 40 other exploration blocs in the Arctic region and that he was optimistic that "some Rosneft deal would materialize in some form or another down the line."

BP's shares fell 0.9 percent to 444 pence, or $7.27, in London on Wednesday. They have declined 7 percent since BP announced the deal with Rosneft in February and more than 30 percent since the rig explosion in the Gulf of Mexico in April 2010.

Some analysts have said that BP will have to wait until presidential elections in Russia that are scheduled for next year to try to revive the exploration pact with Rosneft.

In the meantime, Rosneft is free to open talks with other international oil companies about cooperating on exploration. A possible short list includes Statoil, which is partly owned by the Norwegian government, Exxon Mobil and Royal Dutch Shell.

Consensus frays as OPEC holds its output steady

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sumption would grow by 1.7 million barrels a day, mostly because of increasing use of oil for electricity generation in China, Japan and the Middle East.

In the meantime, the turmoil in Libya has taken more than 1.3 million barrels a day off the world market, and unrest in Yemen and Syria have subtracted as much as 300,000 barrels a day.

The International Energy Agency, the Paris-based organization that represents industrial countries, reacted to the OPEC inaction with concern.

"We have noted with disappointment that OPEC members today were unable to agree on the need to make more oil available to the market," the I.E.A. said. "A further tightening in the market and potential increases in prices risk undermining economic recovery."

But the organization also noted that "what really matters is actual supply."

Ever since Libyan exports slowed around March, Saudi Arabia has assured importing countries that it would increase production. As the only OPEC member with considerable spare capacity, estimated at 2.5 million to 3 million barrels a day, Saudi Arabia is the only member that has the ability to increase supply and curb price rises.

"In the end, it's all about how much extra oil Saudi Arabia can or is willing to put on the market," said Amy Myers Jaffe, an energy analyst at Rice University in Houston. "Who cares what Iran says? It doesn't matter. The countries produce whatever they think is best for their individual financial needs and long-term strategy."

Iran was able to block Saudi Arabia in large part because it holds the OPEC presidency this year. The organization is likely to meet again in Iran within three months to reconsider its decision.

Relations between Iran and Saudi Arabia, never warm, are particularly tense these days over the sectarian turmoil in Bahrain. Saudi Arabia sent more than 1,000 troops into Bahrain in March to help put down predominately Shiite protests against the Sunni monarchy. Saudi Arabia blames Iran for inciting the protests, and Iran has harshly criticized Saudi Arabia and Bahrain for repressive policies.

The current OPEC quotas were set by the 12-nation organization in December 2008, when oil prices were plummeting at the outset of a global recession. The quotas put a floor on slumping prices and maintained moderate and stable prices for over a year. But as prices began to rise, many OPEC members began to increase output, making the current quotas little more than a shadow benchmark.

With oil prices rising more than 35 percent in the last year, a debate has emerged inside OPEC about what to do about them. Saudi Arabia has led members who want to help save the economic recovery with moderate prices, while Iran and Venezuela have resisted. Most OPEC countries, including Saudi Arabia, say speculators rather than tight supplies are the cause of the rising prices.

"The Organization abides by its longstanding commitment to order and stability in the international oil market," OPEC said after the meeting.