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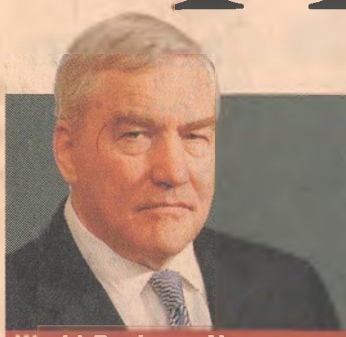

Conrad Black on Murdoch

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A bumpy ride through BlackBerry City, Ontario

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World Business Newspaper

News Briefing

Helaba pulls out of EU bank stress test
German public sector bank Helaba has heightened concerns over the credibility of this week's EU's bank stress results after pulling out of the exercise to avoid a public failure. **Page 15**

Fisheries trade scheme
The right to fish in the European Union would become a tradable concession under a market-based plan that Brussels' fisheries chief has proposed to replenish Europe's emptying seas. **Page 3**

Kan urges nuclear halt
Japanese prime minister Naoto Kan has called for the nation's gradual elimination of nuclear power in his strongest statement on atomic energy since the crisis at the Fukushima Daiichi nuclear plant after the March tsunami. **Page 6; Mure Dickie, Page 11**

Pressure over boycott
Israeli politicians are facing a backlash at home and abroad against a new law that seeks to penalise all supporters of a boycott against Israel. **Page 8**

Fund taps social media
The launch of a second US closed-end fund dedicated to private social networking and other technology companies is marking the return of an investing vehicle not seen since the dotcom bubble. **Page 15**

Rebels lose ground
Western Libyan rebels pushing towards Tripoli plan to attack a pivotal city within a week, even though their forces have lost ground captured from loyalists. **Page 8; Stuck on the island, Page 9; www.ft.com/libya**

HIV drug hopes
Clinical trials in east Africa have shown the HIV treatment tenofovir can greatly cut the risk of transmission to patients' uninfected heterosexual partners. **Page 6**

New move on US debt
US lawmakers and Obama administration officials are considering a new proposal by a top Republican to avoid default as talks to cut the country's deficit remained strained. **Page 6; www.ft.com/lex**

Campaign raises $86m
Barack Obama's re-election campaign has surpassed all expectations by raising $86m over the past three months, far more than the combined total of all the US president's Republican rivals for the White House. **Page 6**

Citi eyes card rethink
Citigroup is said to be considering keeping its $41bn private-label credit card arm in a reversal of strategy on a business it had slated for disposal in the wake of the financial crisis. **Page 15**

US rapped over Assad
Nabil el-Arabi, head of the Arab League, has criticised the US for declaring that Syrian president Bashar al-Assad has lost the legitimacy to govern. **Page 8; www.ft.com/syria**

Burma port hub plan
Thai developer Italthai is planning a $5.8bn port and industrial centre on Burma's southern coast it hopes will become a trade hub between India and south-east Asia. **www.ft.com/asiapacific**

News Corp abandons £7.8bn bid for BSkyB

Backlash over hacking scuppers pay-TV move

Murdoch's European ambitions checked

By FT reporters

Rupert Murdoch has bowed to intense political pressure and withdrawn News Corp's planned £7.8bn ($12.6bn) bid to take full control of British Sky Broadcasting, after the company admitted public condemnation of phone hacking at his UK newspapers made the climate "too difficult".

The decision to abandon the 13-month pursuit of the UK commercial broadcaster means the phone-hacking scandal has forced Mr Murdoch not only to close his most widely read British newspaper, the News of the World, but also to curtail his ambitions to consolidate his pay-television empire in Europe.

Downing Street welcomed the news, saying: "As the prime minister has said, the business should focus on clearing up the mess and getting its own house in order."

Shares in BSkyB fell 7p to 685p in London immediately after News Corp's announcement but recovered in late trading to stand ½p higher at 692½p.

News Corp shares rose 2.2 per cent to $16.44 in New York as investors hoped the move would help end the political backlash.

The withdrawal of the BSkyB bid comes after damaging revelations about phone hacking and other unethical practices at News International titles, a matter David Cameron, prime minister, called "frankly disgraceful".

Chase Carey, News Corp's chief operating officer, said: "We believed that the proposed acquisition of BSkyB by News Corp would benefit both companies but it has become clear that it is too difficult to progress in this climate."

UK merger rules could allow News Corp to return with a new bid in as little as six months, but people close to the company said they doubted the political climate would cool so quickly.

"It makes sense to come back, but not until this present furore has died down," a US adviser said. "News [Corp] is going to have to decide what to do with their money. The world will move on. The risk for News shareholders is that the company, on the rebound, goes to buy something that is not as attractive as Sky."

Analysts said a counterbidder was unlikely to emerge for the UK broadcaster, with more than 10m subscribers, given its hefty £11.9bn market capitalisation.

In a heated parliamentary debate on Wednesday, MPs vented their anger against News International, which has exercised a strong influence over British politics for decades.

Reporting by Ben Fenton, Andrew Edgecliffe-Johnson, Tim Bradshaw, Elizabeth Rigby, Salamander Davoudi and Kiran Stacey

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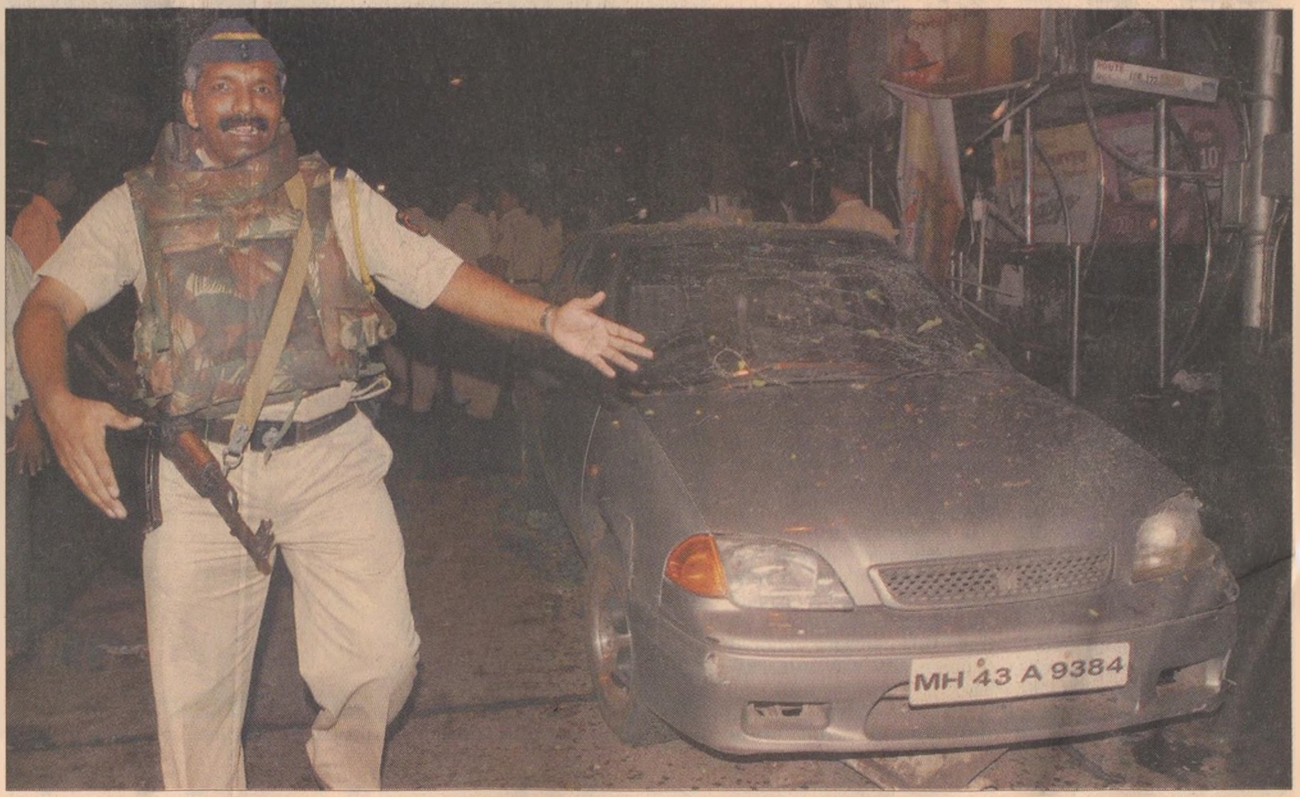
www.ft.com/phonehacking

Terror attack India on alert after blasts rock Mumbai



Three simultaneous explosions ripped through crowded commercial areas of Mumbai, India, killing at least 20 people and injuring more than 80. Police said they appeared to be terrorist attacks, the first in the city since November 2008 Report, Page 8 EPA

IMF calls on private bondholders to share burden of Greek restructuring

By Alan Beattie in Washington

The Greek sovereign debt burden risks spiralling out of control and it would be "appropriate" for private bondholders to share in any restructuring, the International Monetary Fund warned.

The IMF's intervention, in a staff report published on Wednesday, comes after eurozone finance ministers moved towards forcing private investors to accept a reduction in the value of their assets, a move regarded with great suspicion by the European Central Bank.

"It will be important for euro area member states to decide how they fundamentally wish to support Greece," IMF staff said, in a report which inspired last week's decision by the fund's executive board to release its latest tranche of rescue lending. "In this context, comprehensive private sector involvement is appropriate, given the scale of financing needs and the desirability of burden sharing."

Poul Thomsen, IMF mission chief for Greece, told reporters that Greece's debt sustainability was on a "knife-edge". While a debt writedown was not essential, discussions in Europe over the past two months had led authorities in that direction.

The fund signalled opposition to short-term rollover plans, such as that recently floated by France, which would not involve a reduction in the value of private sector holdings. "Staff has cautioned against offering any incentives for creditor participation that would negatively impact on Greece's already difficult debt dynamics," the report said.

It was published as Fitch, the rating agency, downgraded Greece's sovereign debt deeper into junk territory to CCC, one notch above default, because of the absence of a "fully funded and credible EU-IMF programme for Greece". The two other big rating agencies, Moody's and Standard & Poor's, cut their ratings on Greek debt last month.

Eurozone finance ministers are trying to work out a new multiyear programme including fresh financing for Greece, and after months of wrangling have acceded to pressure from Germany to write down private investors' holdings to reduce the amount of public funding required. But Jens Weidmann, president of the Bundesbank, said on Wednesday that involving private investors carried more risks than opportunities.

The ECB, though it has not publicly opposed writing down the debt of private investors, has insisted that any plan must not create a "selective default". The IMF said that it "may not be possible to avoid [a selective default] on a temporary basis".

The report acknowledged that only the threat of wider financial contagion allowed the IMF to keep lending to a country with such an unstable debt situation.

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China spurt

The Chinese economy grew a robust 9.5 per cent in the second quarter from a year earlier, defying expectations that government tightening measures could trigger a "hard landing" for the world's second-largest economy. The stronger-than-expected growth was boosted by the fastest pace of industrial production in almost a year, while politically sensitive food prices rose 14.4 per cent from a year earlier in June.

Report, Page 6

Fed chief opens door to stimulus and warns on US debt ceiling

Bernanke recognises economic weakness

By Robin Harding in Washington and Jack Farchy in London

Ben Bernanke has outlined extra stimulus options the US Federal Reserve could use if the economy remains weak, acknowledging a possible return to monetary easing.

"The possibility remains that the recent economic weakness may prove more persistent than expected and that deflationary risks might re-emerge, implying a need for additional policy support," the Fed chairman told the House financial services committee on Wednesday.

Mr Bernanke's comments suggest the Fed has returned to a more balanced outlook for policy, with the possibility that its next move will be further easing. He also gave his most explicit warning yet on the costs of failing to raise the federal debt ceiling, saying a recession on the scale of 2008 would be "certainly conceivable" and have "a very adverse effect, very quickly on the recovery".

Jim O'Sullivan, chief economist at MF Global in New York, said: "The words of the chairman today have opened the door a little bit to more easing. The message seems to be that either growth will reaccelerate or the Fed will step in again."

The Fed chairman's comments helped trigger a rally in commodity prices. Gold touched a record of $1,587 a troy ounce, while oil and agricultural commodities rose sharply. Gasoline futures jumped to their highest level in more than two months.

Brent crude rose to almost $120 a barrel, well above the level it was trading at when the International Energy Agency announced it would release strategic oil reserves to the market.

"The tone of Bernanke's statement... [is] causing commodity markets to back away from some of their most apocalyptic fears," said Paul Horsnell of Barclays Capital.

The S&P 500 was up 1.2 per cent in early afternoon trading and the benchmark was on course to break a three-day losing streak. Energy stocks led gains as the dollar fell sharply.

If the Fed chose further easing, Mr Bernanke said its options included keeping interest rates close to zero, buying assets in another round of quantitative easing, extending the maturity of the assets on its balance sheet or reducing the 0.25 per cent interest that it pays banks on their reserves.

Additional reporting by Michael MacKenzie in New York

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www.ft.com/usbudget

World Markets

STOCK MARKETS

	Jul 13	prev	%chg
S&P 500	1322.89	1313.64	+0.70
Nasdaq Comp	2808.19	2781.91	+0.94
Dow Jones Ind	12531.15	12446.88	+0.68
FTSEurofirst 300	1099.09	1091.72	+0.68
Euro Stoxx 50	2715.05	2693.53	+0.80
FTSE 100	5906.43	5868.96	+0.64
FTSE All-Share UK	3076.55	3057.7	+0.62
CAC 40	3793.27	3774.12	+0.51
Xetra Dax	7267.87	7174.14	+1.31
Nikkei	9963.14	9925.92	+0.37
Hang Seng	21926.88	21663.16	+1.22
FTSE All World $	(u)	220.88	

CURRENCIES

	Jul 13	prev		Jul 13	prev
$ per €	1.416	1.399	€ per $	0.706	0.715
$ per £	1.608	1.591	£ per $	0.622	0.629
£ per €	0.881	0.879	€ per £	1.136	1.138
¥ per $	79.0	79.5	¥ per €	111.9	111.2
¥ per £	127.1	126.5	£ index	78.9	78.7
$ index	76.9	77.7	€ index	95.51	95.07
SFr per €	1.165	1.165	SFr per £	1.324	1.326

COMMODITIES

	Jul 13	prev	chg
Oil WTI $ Aug	98.05	97.43	0.62
Oil Brent $ Aug	117.75	117.75	
Gold $	1,567.25	1,554.10	13.15

INTEREST RATES

	price	yield	chg
US Gov 10 yr	101.94	2.90	-0.01
UK Gov 10 yr	104.96	3.12	0.03
Ger Gov 10 yr	104.41	2.74	0.03
Jpn Gov 10 yr	100.84	1.11	0.00
US Gov 30 yr	103.22	4.18	-0.01
Ger Gov 2 yr	100.89	1.27	-0.03
	Jul 13	prev	chg
Fed Funds Eff	0.06	0.07	-0.01
US 3m Bills	0.02	0.03	-0.02
Euro Libor 3m	1.55	1.54	0.01
UK 3m	0.71	0.71	-

Prices are latest for edition

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Croatia	Kn27	Nigeria	Naira715
Cyprus	€3.30	Norway	NKr28
Czech Rep	Kc115	Oman	OR1.50
Denmark	DKr28	Pakistan	Rupee 120
Egypt	E£19	Poland	Zl 15
Estonia	€3.83	Portugal	€3.30
Finland	€3.60	Qatar	QR15
France	€3.30	Romania	Ron16
Germany	€3.30	Russia	€5.00
Gibraltar	£2.20	Saudi Arabia	Rls15
Greece	€3.30	Serbia	NewD300
Hungary	Ft820	Slovak Rep	€3.30
India	Rup85	Slovenia	€3.30
Israel	ILS17	South Africa	R28
Italy	€3.30	Spain	€3.30
Jordan	JD3.25	Sweden	SKr32
Kazakhstan	US$4.90	Switzerland	SFr5.40
Kenya	Kshs300	Syria	US$4.74
Kuwait	KWD1.50	Tunisia	Din6.00
Latvia	Lats3.40	Turkey	YTL6.25
Lebanon	LBP7000	UAE	Dh15.00
Lithuania	Litas14	Ukraine	€5.00
Luxembourg	€3.30		

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Eurozone woes

IMF eyes bickering from sidelines

Report unlocks lending tranche

Fund warns on short-term fix

By Alan Beattie in Washington

The International Monetary Fund's report on Greece, which helped unlock its latest tranche of rescue lending, shows the fund in a familiar balancing act – on this occasion complicated by its junior role in the rescue programmes in western Europe.

When dealing with countries with huge debt burdens, the fund is constrained by its rules from lending into an unsustainable situation. Yet at the same time, not least because it has been reluctant to pull the plug and bring down the wrath of private investors on its head, the IMF has often been loath to overrule a beleaguered government and force a debt writedown.

In the past, as in the Argentine crisis, the IMF has erred on the side of allowing indebted governments to keep rolling the dice by borrowing more money from the fund and hoping that growth improves. Since then, however, the fund has adopted tougher rules on assessing debt sustainability.

But since the IMF is providing only about a third of the money in the Greek rescue, the rest coming from Europe itself, it has largely been forced to stand by and watch as eurozone governments bicker with each other and the European Central Bank about the way forward. While being careful to observe proprieties and not try to impose a solution, Wednesday's IMF report steps up warnings against another short-term fix that would increase the long-term debt burden.

The fund's analysis on the sustainability of Greece's debt makes it clear that, were it dealing with a small country with no wider ramifications, it would be unable to sign off on the lending programme. Only because a chaotic Greek default could set off financial contagion throughout western Europe is the IMF allowed to dispense with its usual rule that it needs a "high probability" of sustainability.

"If the IMF really wanted to play hardball, it could refuse to disburse funds now by saying that the debt is not sustainable," says Ted Truman, a former senior official at the IMF and US Treasury. "But it becomes more difficult if the fund is the junior financing partner."

The fund details the myriad ways in which quite small deviations from the programme could push Greece into default. It also carefully says more than one solution is possible.

Governments could provide a huge amount of new finance over a longer period at cheaper rates, or the burden could be shared, with private sector bondholders being forced to accept a reduction in the value of their holdings.

However, what is clearly not sustainable is the current situation of open warfare between the eurozone and the European Central Bank, or the idea of buying time by bribing investors voluntarily to roll over debt at the cost of increasing Greece's medium-term burden.

Mr Truman says that the "theological objections" of the ECB to any writedown that can be labelled a "selective default" by the credit rating agencies are becoming deeply unhelpful.

"It is clear that there has to be a writedown in net present value [of bondholdings] at some point, though whether that is now or later will depend on what the Europeans decide and how much space the markets give them," he says. "But the ECB has painted itself into a corner."

If the current uncertainty continues and debt yields in financial markets remain high, Greece will slide towards default no matter what the IMF does.

The fund is unlikely to take much of the blame if this occurs, but questions will be raised about its involvement as a junior partner in rescue programmes where the bigger participants fail to act sensibly.

ECB pressed on liquidity package for Greek banks

The International Monetary Fund has urged the European Central Bank to approve a fresh €30bn ($43bn) liquidity package to keep Greece's cash-strapped banks afloat in case of a possible default, **write Peter Spiegel, Kerin Hope and Gerrit Wiesmann**

The package was agreed in February by the IMF, ECB and European Commission, but it has not yet been made available to banks in Athens. The delay has added to the squeeze on Greek banks, which have been shut out of wholesale lending markets for 18 months and face an erosion of deposits. It also highlights a dispute between the IMF and Greece's European partners over supporting the country's banks.

Poul Thomsen, head of the IMF mission to Greece, said on Wednesday: "It is essential that the ECB stands ready to provide liquidity support if needed ... Bonds guaranteed by the [Greek] government can be used for this purpose."

Under the scheme, the country's leading banks issue bonds guaranteed by the Athens and used as collateral for ECB funding. The IMF said in its progress report on Greece, released on Wednesday: "To manage near-term liquidity risks, expeditious approval by the ECB's governing council of the use of new government-guaranteed bonds would be very helpful."

People familiar with the issue said approval of the package had initially been delayed to press Athens to adopt more austerity measures.

Evangelos Venizelos, finance minister, said he pushed for assurances that banks would have access to ECB funding after it became clear this week that Greece faced the possibility of a selective default.

Berlin tries to slow partners' rush towards new rescue deal

By Quentin Peel in Berlin and Peter Spiegel in Brussels

Germany is firmly resisting attempts by some of its eurozone partners to accelerate talks on a new Greek rescue package, as Berlin tries to calm financial markets and reverse contagion spreading to countries such as Italy and Spain.

Berlin on Wednesday made it clear it saw no pressing reason to hold an emergency European summit at the end of the week. German officials also insisted there was no immediate urgency to finalise the Greek deal before September, although they agreed it should be done "quickly".

Senior European Union officials, including Olli Rehn, the EU's economic chief, have been pushing for a quick deal on a new €115bn ($164bn) Greek bail-out, arguing that market uncertainty over German insistence that private bondholders should pay for a portion of the rescue is fuelling bond sell-offs in other EU countries, particularly Italy and Spain.

Senior French officials were particularly angered, with one saying Berlin was not moving urgently enough to stem the crisis.

A report issued on Wednesday by the International Monetary Fund backing the German position on private bondholders is likely to bolster Berlin's hand in European debates, but it could exacerbate contagion in the EU's bond markets.

The IMF report warned that a "poorly implemented" plan for bondholder participation "could threaten stability in the euro area, with substantial spillovers to the global financial system", particularly if markets determined the EU had changed "the rules of the game".

It is the perception that the EU has changed its rules that led Moody's, the rating agency, to downgrade both Irish and Portuguese bonds in recent days.

High-level national finance officials in the euro working group are already involved in "intensive discussions" about the new Greek package, but German officials close to the talks believe it may still take weeks to reach an agreement that will involve private creditors, as well as public sector support, in a comprehensive package.

Despite the market pressures, Berlin is anxious that an over-hasty reaction to the threat of contagion in eurozone bond markets might lack credibility and only make matters worse. Germany has received support in delaying a decision from the Netherlands, which is also adamant that private creditors must contribute to the cost.

"This takes some time, and we cannot afford haste to become the enemy of the good," said Jan Kees De Jager, Dutch finance minister.

A senior EU official said Berlin was taken by surprise when Herman Van Rompuy, the European Council president, suggested on Tuesday that an emergency summit might be held on Friday night. The German government had resisted the idea, the official said, insisting it would not be rushed into a decision about a second Greek bail-out.

The IMF's support of Germany's position on Greek bondholders puts it in potential conflict with the European Central Bank, which has been adamant no action should be taken that might trigger a "selective default" by Greece.

But the rating agencies have said that any involvement by Greek bondholders would trigger a default.

Jens Weidmann, president of the German Bundesbank and an ECB board member, told the weekly newspaper Die Zeit that German central bankers were not against bondholder participation in the Greek bail-out, "since in the end the risk of insolvency is what brings discipline to financial policy".

But Mr Weidmann said the contagion risks made it inappropriate for such a move to be taken now.

'Here to stay': Giulio Tremonti has assured bankers of his intention to remain in office despite opposition from the prime minister Ropi

Finance minister denied moment of glory

Italy

Giulio Tremonti is beset by rumours of his resignation and a graft probe, write **Guy Dinmore** and **Rachel Sanderson**

Italy's finance minister should be basking in a moment of glory. After rushing back to Rome in the middle of a market attack against Italy's banks and finances on Tuesday, Giulio Tremonti restored relative calm by securing opposition pledges to push his budget through parliament at record speed.

Yet at home he cuts a lonely figure – forced to rebut constant rumours of his imminent resignation over tensions with Silvio Berlusconi, prime minister, and separately threatened by a corruption inquiry focused on a close associate.

Fond of Latin citations, Mr Tremonti assured bankers on Wednesday of his intention to fight on by quoting the historian Livy – "Hic manebimus optime", which roughly translates as "I'm here to stay".

Despite hopes that the market storm has passed, Mr Tremonti's future still appears in doubt, however.

"Who is trying to trap Tremonti?" screamed the front page headline in Il Giornale, part of the Berlusconi family media empire, which last week devoted six pages to attacking the minister but has since taken a more cautious line.

Mr Tremonti's reported assertion this week – "If I fall, so falls Italy: if Italy falls, so does the euro" – might be an over-dramatisation. Yet commentators argue his value as a champion of fiscal rectitude has translated into billions of euros saved for Italy's finances by keeping the yield on state bonds at a manageable level.

The contrast with Mr Berlusconi could not be sharper. The prime minister is seen by some as weakened by his personal scandals, but also as a financial liability, scaring investors last week with open criticism of his minister.

Mr Berlusconi's first priority after setbacks in local elections in May is to win general elections scheduled for 2013. But the prime minister saw Mr Tremonti's austerity drive as a certain vote loser, said Francesco Sisci, a columnist.

"Everybody is scared by the contradiction between the requirements for Berlusconi's political survival and those of the markets," Mr Sisci said. Should Italy fall into a full-blown contagion crisis, then it could be Mr Berlusconi who would lose out, possibly forced to resign by his coalition partners in the national interest.

For now, the priority is swift approval by parliament of Mr Tremonti's €40bn ($57bn) austerity package – with a final vote in parliament due on Friday – according to Marco Valli, chief eurozone economist at Unicredit, a leading Italian bank. "The markets probably think that Berlusconi is at the end of his ride," Mr Valli said. He echoed widespread speculation that the coalition could be replaced this year by an interim government, possibly led by Mario Monti, a former European Union commissioner.

"A government of national unity, with the more moderate and reformist parts of parliament, a strong personality with an international standing, such as Monti, as prime minister and Tremonti as finance minister, would be seen favourably by the markets," Mr Valli said.

Some bankers in Milan hold an alternative view, however. They see Mr Tremonti – criticised by fellow ministers for what they see as his irascible arrogance – as having misplayed his hand in bitter infighting. Mr Tremonti is no longer seen as indispensable, they say.

Under this scenario, Mr Berlusconi could call on a number of highly regarded technocrats who might more easily gain consensus over the deep budget cuts needed.

As a professor of fiscal law who champions ethics – and worked as a consultant to Mr Berlusconi's companies over 20 years ago – one cloud hanging over Mr Tremonti is a corruption probe into Marco Milanese, his political adviser for six years until quitting last month. A court ordered Mr Milanese's arrest last week.

Mr Tremonti announced he would immediately leave a luxury flat in Rome provided free by Mr Milanese.

Those close to Mr Tremonti say there is no danger the probe into Mr Milanese could bring the minister down. But, on the political front, one insider added: "Anything can happen."

Additional reporting by Giulia Segreti in Rome

Trade in fishing rights proposed for EU

By Joshua Chaffin in Brussels

The right to fish in the European Union would become a tradable concession under a market-based plan by Brussels to replenish the continent's emptying seas.

The scheme, unveiled on Wednesday by Maria Damanaki, EU fisheries chief, comes at a time when the debt crisis has led many of the bloc's leaders to rail against financial speculators and contributed to a distrust of financial markets across the continent.

Under the plan, a system of tradable fishing concessions would allow holders to fish in certain waters for a set period – or sell that right to another party.

Advocates say such a system could help reduce fleets by giving some vessel owners an income for staying onshore. In Denmark, for example, fleet capacity was cut by 30 per cent in four years. The UK generally supports the idea.

Others, however, are worried about the potential for market abuse, including the possibility that foreign companies or large financial interests could snap up the concessions, as happened in Iceland.

In Ireland, one of the member states worst hit by the crisis, Simon Coveney, fisheries minister, warned that the scheme would concentrate fishing "into the hands of large international fishing companies". Uta Bellion, director of the Pew Environment Group's European marine programme, dismissed tradable rights as a "quasi-privatisation" of European fish.

Ms Damanaki acknowledged such concerns – and

'[If action is not taken] our children will see fish not on their plates, but only in pictures'

the need for tight regulation – but said similar market-based systems had proved successful in many countries, including Denmark, Norway and the US.

More broadly, she warned that if the EU failed to take strong action to overhaul its fisheries policy then "our children will see fish not on their plates, but only in pictures".

The EU is the world's biggest consumer of seafood, yet chronic overfishing by subsidised fleets means that three-quarters of its stocks are being harvested faster than it can reproduce and a third is in perilous condition. The bloc imports the majority of its fish.

Speaking to reporters in Brussels, Ms Damanaki acknowledged the current policy did not work and called for wide-ranging reform. Under her proposals the practice of discarding unwanted fish overboard would be banned; politicians would have less leeway to bend scientifically mandated quotas; and more authority would be devolved to local regions.

"We are not going to decide [in Brussels] on the mesh size that fishermen in the English Channel can use to catch sole," Ms Damanaki promised.

Ms Damanaki's proposal must win approval from member states and the European Parliament to become law. Chris Davies, a British Liberal Democrat member of the European Parliament, predicted that tradable rights, which he supports, would be at the centre of the debate.

Maria Damanaki: warns o urgent need for action

Denmark's tougher border checks face renewed Brussels' scrutiny

By Stanley Pignal in Brussels

Denmark's controversial policy of re-establishing permanent customs checks at its borders will face fresh scrutiny on Thursday as European Commission officials inspect the checkpoints, with an eye to starting legal proceedings against Danish authorities if breaches in European Union law are identified.

A team of experts will assess whether the measures, enacted last week, constitute a barrier to the free movement of goods and people, banned under the 1995 Schengen agreement, which abolished borders within much of the EU.

Brussels has raised concerns about the compatibility of the measures with EU law since they were mooted by the Danish authorities in May, and has repeatedly stressed it was reviewing the plans.

The visit by the Commission is a clear shot across Denmark's bows that it will face EU action if it breaches Schengen's stringent rules on law enforcement measures aimed specifically at border areas.

Cecilia Malmstrom, EU home affairs commissioner, said a visit was necessary to gauge the effect of Denmark's policy change.

"The final decision on whether the Danish rules are in line with EU law on free movement of goods, services and persons will depend on how they are put in practice," she said.

Danish authorities reiterated that the customs checks, which will mount in intensity until 2014, were not in breach of Schengen.

"We consider that our plans are fully in compliance with EU law," Erling Andersen, director of Danish customs, told the Financial Times. The policy to bolster checkpoints is controversial partly because it emanates from a political package designed to secure the support of the far-right Danish People's party, an ally of the centre-right government.

Other countries with strong populist movements, including France and Italy, have recently publicly challenged Schengen, particularly in the wake of mass arrivals of migrants from north Africa in the first half of the year. EU leaders last month agreed to revise the rules of the agreement to exclude countries facing acute immigration problems.

Denmark's measures so far are limited to about 50 more border agents and an increase in random checks at its borders with Sweden and Germany. By 2014, they will include more border posts and lower speed limits at checkpoints to photograph car licence plates.

The set-up is seen as a test of whether Brussels has the appetite to take on what critics say are breaches of the spirit, if not the letter, of Schengen.

"These kinds of measures have huge implications for the fundamental right of people to move freely within the EU," said Sergio Carrera of the Centre for European Policy Studies.

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Greece

The endgame for Greece is approaching. Eurozone policymakers appear to accept that the country is insolvent. That comes a bit late but not too late. The eurozone faces two formidable tasks: to quarantine Greece and to fortify the bloc's core, especially Italy, to reduce the risk of contagion. These will require policymakers to be brave enough to make some tough choices.

How insolvent is Greece? Barclays Capital estimates that Athens would need to run a primary surplus of 7.4 per cent of gross domestic product by 2015 to restore debt sustainability but that the maximum achievable economically and politically is 2.5 per cent. On the latter assumption, absent a restructuring, Greece's debt to GDP ratio could reach more than 400 per cent by 2050.

A restructuring should reduce the net present value of Greece's debt (about €330bn, or 150 per cent of GDP) by at least half, and preferably to well below the eurozone target of 60 per cent. A restructuring is best done once, so that there is no risk it has to be done again.

That will mean getting tough with Europe's banks. To address any insolvency, a haircut must be imposed. In the case of Greek bonds, something of the order of 80 per cent may be necessary. Much less might not be enough both to restore solvency and to allow Greece's return to the markets.

Banks and insurers across Europe, along with their shareholders, would be hurt by such a move. However, the pain would be manageable. London's Capital Economics estimates that the cost of resolving Greece would be about €140bn – or 2 per cent of eurozone GDP.

Adding Ireland and Portugal to the mix – which may soon become inevitable as their debt is downgraded to junk status – would still not take the cost beyond 5 per cent. The alternative, a broken eurozone, would be far more costly.