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Euro zone looks abroad to widen aid for currency

BRUSSELS

Leaders reach agreement on recapitalizing banks, but thorny issues remain

BY STEPHEN CASTLE, STEVEN ERLANGER AND JAMES KANTER

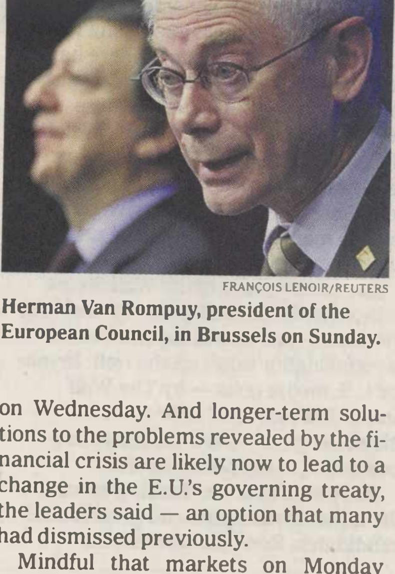
Struggling to assemble a credible backstop for their troubled single currency, European Union leaders on Sunday reached out for wider international support for their bailout fund by seeking investment from non-European countries or the International Monetary Fund.

The heads of state and government of the 27 E.U. nations chalked up one victory from lengthy weekend meetings in Brussels, striking a deal to recapitalize the sickly European banking sector.

But as of Sunday evening they still had no definitive answer on how they would expand the euro rescue fund, the European Financial Stability Facility — though one official said they were aiming for effective firepower of between €750 billion and €1.25 trillion, or $1 trillion to $1.7 trillion.

The leaders were still struggling with the amount of the loss holders of Greek bonds will be required to take in the rescue of that country — by some estimates as much as 60 percent — a key element that is essential to making the rest of the E.U package of measures add up.

Final decisions on these two issues will have to wait until a second summit



FRANÇOIS LENOIR/REUTERS

Herman Van Rompuy, president of the European Council, in Brussels on Sunday.

on Wednesday. And longer-term solutions to the problems revealed by the financial crisis are likely now to lead to a change in the E.U.'s governing treaty, the leaders said — an option that many had dismissed previously.

Mindful that markets on Monday would be watching the announcements from Brussels, the president of the European Council, Herman Van Rompuy, sought to reassure Europeans and the wider world that the Union was on track to reach a comprehensive deal at a meeting on Wednesday to stop the crisis from spreading.

"We are confident that we will get an agreement on Wednesday," said Mr. Van Rompuy, whose group represents E.U. governments. "The union must remain safe ground."

With the Group of 20 meeting in Cannes in less than two weeks, European leaders clearly were making an ef-

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Euro zone leaders seek global aid for currency

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fort to internationalize Europe's crisis, with calls for more resources from the I.M.F., which has already participated extensively in the bailout of Greece.

"We've seen the debt crisis is really global. We want to reinforce the I.M.F.," said José Manuel Barroso, president of the European Commission, the E.U. executive agency.

"The I.M.F. is the most important global institution for financial matters," Mr. Barroso said, "so it's natural that countries that have a large external surplus can contribute to the common good and to global stability in financial terms."

In the meantime, one of the roadblocks to agreement over the bailout fund — a rift between France and Germany — seemed to have eroded, with France retreating from its position that the European Central Bank should be used to backstop the euro bailout fund and Chancellor Angela Merkel of Germany asserting that there were now "two different models" under consideration.

Under one of these plans, a new body would be set up, financed by the current bailout fund but also seeking to attract outside investment. This body would buy bonds of troubled countries, providing that their governments agreed to make significant changes to improve their economic condition.

The alternative would involve using the current euro rescue fund to offer insurance against a proportion of losses on sovereign bonds.

A European official said the new entity could be created under the auspices of the I.M.F, while another minister said the head of the I.M.F., Christine Lagarde, supported the idea.

Prime Minister Fredrik Reinfeldt of Sweden, when asked about a fund involving non-European investors, said "That's obviously on the table now."

"If you are crossing that track, it is because you think you could get additional resources," he said, while underlining that the leaders were "not ready" to commit to a solution after Sunday's meeting. "That's why we are meeting on Wednesday," he said.

The meeting Sunday proved tense and difficult on several occasions, with consistent pressure on the Italian prime minister, Silvio Berlusconi, to push through tough changes as a condition of any further European support.

Mr. Berlusconi met with Mr. Barroso and Mr. Van Rompuy, over breakfast Sunday before going on to a meeting with Mr. Sarkozy and Mrs. Merkel.

JOHN THYS/AGENCE FRANCE-PRESSE

Prime Minister Silvio Berlusconi of Italy reaching out to the European Commission president, José Manuel Barroso, at the European Union headquarters in Brussels on Sunday.

German officials are angry at the behavior of Mr. Berlusconi, who promised to enact changes in August before the European Central Bank bought Italian bonds, but then tried to water down the program once the E.C.B intervened.

Europeans leaders, fearful that Italy could be the next applicant for aid, want the country to cut its €1.9 trillion debt load, which amounts to 120 percent of gross domestic product.

"Trust will not happen from a new package for Greece," Mrs. Merkel said, aiming her comments at Italy. "Trust will only happen when everyone does their homework."

Mr. Sarkozy also took a clear swipe at Italy, saying that he and Mrs. Merkel were not responsible for admitting nations into the euro that did not meet the original membership criteria.

Mr. Berlusconi suggested earlier that Italy's economic performance would ultimately be judged satisfactory. "I've never been forced to repeat a school year," he told reporters.

Meanwhile, the British prime minister, David Cameron, clashed with Mr. Sarkozy over the format of the meeting Wednesday and whether countries like Britain, which is outside the euro, should take part. In the end there will be a brief meeting of the heads of the 27 nations after the leaders of the 17 euro-zone countries have met.

Before the Wednesday meeting, however, the European Union must strike a deal with bankers who are being asked to take losses of as much as 60 percent on their Greek bonds after a worse-than-expected report on the state of Greece's finances.

There was also a noticeable shift of ground Sunday to acknowledge the need for economic growth in Europe to offset the impact of austerity.

"If we do not act decisively to boost our growth rate and competitiveness we risk either recession or a jobless recovery or even a lost decade," Mr. Barroso said.

Whatever emerges Wednesday will not be final word in Europe's battle to construct a new and more durable framework for its single currency.

Mr. Van Rompuy raised the prospects of "deepening economic union, including exploring the possibility of limited treaty changes," but underlined that such measures would need approval from each of the 27 E.U. member countries.

"If we need treaty changes in a limited way, it is not a taboo, but it's not the aim," Mr. Van Rompuy said. "The aim is deepening our economic union and strengthening fiscal discipline."

"It is normal that those who share a common currency must take some common decisions relating to that currency," he added. "In fact, one of the origins of the current crisis is that almost everybody has underestimated the extent to which the economies of the euro zone are linked, and we are now remediating that."

Prime Minister Donald Tusk of Poland, who has indicated that he would like to bring his country into the euro but is in no hurry to do so, said, "We all have a sense that the crisis in the euro zone is reaching very worrisome levels. We have to be happy that the decision-making progress has gained some momentum, although we can't say we have reached the finish line today."

Jobs saw textbooks as new chance for Apple

NEW YORK

Notoriously secretive, founder opened up to author of his biography

BY DAMON DARLIN AND NICK WINGFIELD

Steven P. Jobs was notoriously secretive about Apple's plans when he was running the company. But in a new biography, the late executive offered a couple of tantalizing clues about technologies and businesses the company was exploring.

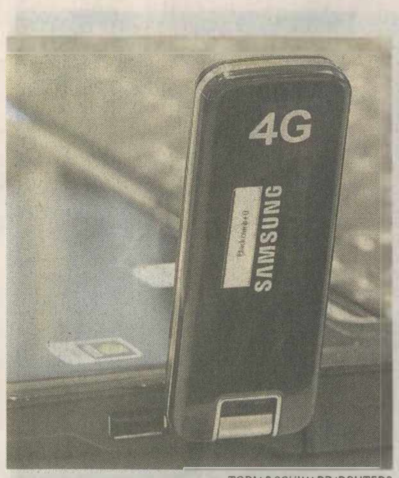
Mr. Jobs's biographer, Walter Isaacson, says in the new book that Mr. Jobs viewed textbooks as the next business he wanted to transform. His idea, according to Mr. Isaacson, was to hire textbook writers to create digital versions of their books for the iPad.

He held meetings with major publishers about joining up with Apple, according to the book, "Steve Jobs," published by Simon & Schuster. If textbooks were given away free on iPads, Mr. Jobs thought, the publishers could get around the need to obtain certification for textbooks from state governments in the United States. Mr. Isaacson said Mr. Jobs believed that states would struggle with a weak economy for at least a decade.

"We can give them an opportunity to circumvent that whole process and save money," he told Mr. Isaacson.

In one other hint about the company's plans, Mr. Isaacson describes the board meeting in August when Mr. Jobs resigned as chief executive, during which Scott Forstall and Phil Schiller, two Apple executives, joined the session to show off prototypes of future products. According to Mr. Isaacson, Mr. Jobs peppered the executives with questions about the data capacity of fourth-generation cellular networks, known as 4G, and what features should be in future phones. Apple has not yet released an iPhone for 4G networks.

The biography, "Steve Jobs," was scheduled to be published Monday.



TOBIAS SCHWARZ/REUTERS

An LTE USB stick. LTE has theoretical download speeds of 300 megabits a second, much faster than landline broadband.

Operators make wager on the future of broadband

RAW DATA, FROM PAGE 15

Vodafone would not disclose how many people actually use LTE service. That is because compared with its total number of customers, there are not many using LTE, and the reason is the price, said Arkadi Panitch, the chief executive and founder of Effortel, a company in Brussels that operates virtual mobile networks for the French retailer Carrefour.

Retailers like Carrefour and Tesco in Britain hire companies like Effortel to lease bulk space on an operator's network and sell a branded mobile service with low calling, messaging and Internet prices.

Effortel runs Carrefour's mobile service in Belgium, Poland, Italy and Taiwan. Mr. Panitch described the typical user as "a bread and butter customer who uses short text messages for most of their needs."

The bulk of consumers will not buy LTE, Mr. Panitch said, until the price of service comes down to what most people are now paying for third-generation, or 3G, services.

But there is a silver lining for operators. They will probably end up benefiting from the faster networks, Mr. Panitch said, because LTE uses the broadcast spectrum much more efficiently than do 3G networks, and can handle much more data traffic.

So LTE may not deliver higher prices for broadband service, he said, just many, many more customers for each operator. "Operators will not get more revenues per customer, but they will end up getting more customers," Mr. Panitch said.

Taxpayers' role in bailing out banks questioned

DEXIA, FROM PAGE 1

Given the global and interconnected nature of the financial system, institutions around the world have other types of indirect risk to European debt problems. But the scope of these ties is not fully known, because the exposure is hidden by complex transactions that do not have to be reported in detail.

Dexia, which was bailed out by France and Belgium once before, in 2008, is just a small piece of the broader European debt and banking turmoil. But its collapse comes at a critical point. European officials were to meet this weekend to work out how taxpayer money should be used to resolve the Continent's debt crisis.

The most acrimonious debate has been over the amount of losses banks should suffer for lending hundreds of billions of euros to countries that may not be able to repay fully. In the case of Greece, big lenders in Europe have tentatively agreed to swallow modest losses on what they are owed but are resisting proposals that would force them to take a much bigger hit. Even if they accept losses, they may then seek tens or hundreds of billions in capital infusions from their governments.

As the Dexia bailout deal closed last week and was approved by the French Parliament, officials overseeing the restructuring said that the bank would meet all of its obligations in full. Alexandre Joly, the head of strategy, portfolios and market activities at Dexia, said in an interview that the idea of forcing Dexia's trading partners to accept a discount on what they are owed "is a monstrous idea." He added, "It is not compatible with rules governing the euro zone, and it has never, ever been considered to our knowledge by any government in charge of the supervision of the banks."

While several government officials in France and Belgium agree that they expect to allow Dexia to use its rescue money to pay its trading partners in full, others said a final decision had not been made. Representatives for Dexia's trading partners, like Morgan Stanley and Goldman Sachs, said they were not concerned about exposure to Dexia.

Dexia has suffered in several lines of business, including investments in sovereign debt from countries like Greece. But the biggest drain stemmed from a series of complex, wrong-way bets it made on interest rates related to its municipal lending business. A significant part of Dexia's business is lending money to these localities at a fixed interest rate for relatively long periods, say 10 years. But, because the interest rate that the bank itself pays to finance its operations fluctuates, that exposes it to potential risk. If its cost of borrowing exceeds the interest it charges on loans outstanding, it loses money.

To protect itself, Dexia entered into transactions with other banks. But in doing so, it miscalculated and protected itself only if interest rates rose. Instead, interest rates fell, and according to Dexia's trade agreements, Dexia had to post billions of euros in collateral to institutions on the opposite side of its trades, like Commerzbank of Germany, Morgan Stanley and Goldman Sachs.

THIERRY ROGE/REUTERS

Dexia said it was a "monstrous idea" that banks like Goldman Sachs should have to accept a discount on what they are owed.

Dexia is also suffering losses on about €11 billion, or $15.3 billion, in credit insurance it has written on mortgage-related securities, the same instruments that felled A.I.G., echoing that insurer's troubles. In this business, too, Dexia's problems have been worsened by aggressive demands by some trading partners for additional collateral. According to a person briefed on the transactions, Goldman Sachs, one of Dexia's biggest trading partners, has asked for collateral equal to nearly twice the decline in market value of its deals. As was the case with A.I.G., Dexia must provide the collateral when the prices of the underlying securities fall, even if they have not defaulted.

In all, Dexia has had to post €43 billion to its trading partners to offset potential losses, up from €26 billion at the end of April and €15 billion at the end of 2008. The bank's need for cash to meet these demands drained its coffers, and contributed to its need for a government bailout. The Belgian, French and Luxembourg governments provided a guarantee of as much as €90 billion to Dexia, and Belgium purchased part of it outright.

Dexia declined to specify how much money had already gone to each trading partner. A Commerzbank spokesman declined to comment. Jeanmarie McFadden, a Morgan Stanley spokeswoman, said that the bank's exposure to Dexia was immaterial and that Morgan Stanley had received adequate collateral to cover it. Lucas van Praag, a spokesman for Goldman, said "we have no reason to believe that Dexia will not continue to meet its contractual obligations after it is restructured."

As for the aggressive collateral calls by Goldman, Mr. van Praag said: "Our dealings with Dexia have been perfectly normal. In an environment of widening credit spreads and increased volatility, collateral calls are to be expected." The suggestion that Goldman has been more aggressive than Dexia's other trading partners is "quite odd," he said, adding: "If collateral is owed, we ask for it." Mr. Joly of Dexia said the bank did not have "significant issues" with Goldman over collateral owed on some contracts.

Economists and financial players are closely watching how European officials handle Dexia's financial contracts, which span the globe, to see what that might mean for other European banks that might need government support. As trading partners demand more cash, those demands could consume more of the money put up by the Belgian, French and Luxembourg governments.

"We know what the guarantees are that the government put down, but you don't know how much the taxpayer will end up paying," said Paul De Grauwe, a professor of economics at Catholic University of Leuven in Belgium. "I'm pretty sure there are other banks in Europe that have done similar things and may be caught in the crisis that is now brewing. I don't think this is an isolated incident."

Critics warn of a replay of the financial crisis of autumn 2008.

It may be difficult for European governments to avoid making bank trading partners whole, especially U.S. institutions, since the U.S. government paid full value to foreign banks that dealt with A.I.G. and also opened Federal Reserve programs to troubled foreign banks. Dexia, for example, leaned heavily on emergency lending programs created by the Fed during the depths of the financial crisis. At its peak borrowing near the end of 2008, Dexia received $58.5 billion from the Fed.

Walker F. Todd, a research fellow at the American Institute for Economic Research and a former official at the Federal Reserve Bank of Cleveland, said governments were setting a troubling precedent when they bailed out a company and paid its trading partners in full, as occurred with A.I.G. and as might occur with Dexia.

Microsoft and Nokia betting on new phones

NOKIA, FROM PAGE 15

Analytics in Milton Keynes, England. Profit margins for top-end devices, like Apple's iPhone, are about 36 percent, Mr. Mawston said. For midrange devices, the gains are much smaller, from 1 percent to 15 percent.

"The top end is where the biggest revenue and profit pools lie," Mr. Mawston said. "The volume is at the low- and midtier."

Mobile network operators are hoping that Nokia-Microsoft smartphones will sell well, because that will help them command lower prices from Apple and the makers of Google's Android phones for their models, Mr. Mawston said.

"Apple's iPhone is widely perceived among operators as being overpriced, but Apple is so popular that operators can't reduce the price they pay for it by even a small amount," Mr. Mawston said.

Nokia is expected to introduce the first new Microsoft devices in places where it already has a relatively strong market share, like Western Europe. It hopes to build momentum and positive reviews and take the devices to the United States, the world's largest smartphone market.

There, Microsoft, based in Redmond, Washington, is helping Nokia, based in Finland, open doors to the four largest U.S. operators, which control more than 90 percent of all cellphone sales.

Nokia's North American market share in smartphones in the third quarter was only 1.2 percent, according to IDC. Microsoft's share of the global smartphone software market was not much bigger: 2 percent, globally.

While Internet access is rapidly shifting from traditional desktop and laptop PCs to mobile devices, Microsoft, the world's largest software maker, can still fall back for the time being on its dominant Windows licensing business.

That is why Nokia, which makes most of its money selling cellphones, has much more at stake in the collaboration than Microsoft, analysts said. But the venture is also crucial to Microsoft, which despite several attempts on its own has largely failed to gain a foothold in the software business for mobile devices.

"I think given Microsoft's dominant position in fixed and portable keyboard computing, Nokia is not their final chance, but it is probably one of their final chances to enter this market," Mr. Mawston said. "They probably won't get too many goes after Nokia."