EU-US trade deal unlikely before Obama leaves office

France wants more talks before agreement

PARIS: France said yesterday it wanted to halt thorny EU-US trade talks as President Francois Hollande said there would be no deal until after President Barack Obama leaves office in January. However the EU commissioner in charge of the negotiations said they have not broken down and the aim is still a deal by the time President Barack Obama leaves office. French junior trade minister Matthias Fekl said there was "no more political support in France" for the talks because US negotiators were offering "nothing or just crumbs". "France calls for an end to these negotiations," Fekl told RMC radio. Hollande, in a speech to France's diplomatic corps, chose his words more carefully but said it would be an "illusion" to say a deal was close. "The current discussions on the treaty between Europe and the United States will not lead to an agreement by the end of the year," he said.

"France would rather see things as they are and not harbor the illusion that an agreement will be struck before the end of the US president's term in office." But EU trade commissioner Cecilia Malmstroem said that she did not agree that the negotiations had failed.

"They have been difficult, of course, we knew from the beginning, but they have not failed," she said. Germany's vice chancellor and economy minister Sigmar Gabriel had said Sunday the negotiations were effectively dead in the water. "The talks with the US have de facto failed because we Europeans of course must not succumb to American demands... nothing is moving forward", Gabriel said.

The EU Commission and US negotiators began work on the Transatlantic Trade and Investment Partnership (TTIP) in 2013, aiming to create the world's largest free-trade area before Obama ends his term. But the talks have become bogged down amid widespread suspicion in the 28-nation EU that a deal would undercut the bloc's standards in key areas such as health and welfare. Malmstroem admitted there would be no deal by the end of this year as originally envisaged when the talks started. "I don't want to analyse the mind and the intentions of President Hollande. And it is clear that for the moment we do not have enough-we can't conclude before the end of the year," the Swede said. But she added: "We have the aim and we still have... that we should aim to conclude under the Obama presidency. That is still our aim. "And if that is not possible it makes sense to make as much progress as possible."

However Fekl said Paris sees an imbalance in the negotiations in favour of the US side. "The Americans give nothing or just crumbs... that is not how negotiations are done between allies," he said.

'Clear and definitive halt'

"We need a clear and definitive halt to these negotiations in order to restart on a good foundation." France will make its case for the talks to be halted at a meeting of foreign trade ministers in Bratislava in September, Fekl added. He did not say when or under what conditions the talks could restart. Germany's Gabriel yesterday said that "given the current state of the talks, no agreement is possible". "We'll see if the US position changes after the presidential election. If there is no change, there will be no TTIP," he said. Activists who have opposed TTIP since negotiations began in 2013 say the deal would only benefit multinationals and harm consumers. Behind the scenes, top diplomats have told AFP talks may be suspended until after the US presidential election in November and could even be put on hold until after elections in France and Germany next year. All EU member states and the European parliament must ratify any TTIP deal before it can take effect. — AFP

PARIS: French President Francois Hollande gestures as he addresses French ambassadors yesterday. —AP

Iowa at center of debate over 'shadow insurance' deals

IOWA CITY: For cash-strapped life insurance companies, the deal sounds almost too good to be true: A state law allows them to create complex financial instruments to transfer liabilities to new subsidiaries, instantly wiping huge debts off their balance sheets. So-called "shadow insurance" agreements have exploded over the last decade, but a growing number of critics, including economists and consumer advocates, say the practice threatens the solvency of insurers and puts policyholders and taxpayers at risk.

In 2013, then-New York insurance regulator Benjamin Lawsky warned that the arrangements amounted to "financial alchemy" and were reminiscent of practices that contributed to the 2008 financial meltdown. But these opaque instruments are not being concocted on Wall Street. They emerged in places like Cedar Rapids, Iowa, at the headquarters of TransAmerica Life, a subsidiary of the Netherlands-based Aegon NV, which was deemed one of nine too-big-to-fail insurers in the world by a global standards board last year.

"I think that the industry is headed for serious trouble with this," said Joseph M. Belth, a professor emeritus of insurance at Indiana University, who calls the practice "a shell game."

Belth has been seeking to force the Iowa Insurance Division to release documents related to eight shadow insurance subsidiaries that have been set up by TransAmerica and other companies under a 2010 state law that has encouraged the practice. Insurers say the arrangements - which they call captive reinsurance - are not risky but simply free them from 2001 accounting rules mandating that they hold excess cash reserves. Some state insurance regulators have agreed with that argument and reject Lawsky's warnings, saying it is a responsible practice when done appropriately. The National Association of Insurance Commissioners has been working with members to oversee the deals and limit the risks.

Flexibility

TransAmerica spokesman Greg Tucker noted that group declined to ban such arrangements in 2014 after "careful consideration" and made few changes to the rules governing them. Life insurers have been seeking more flexibility at a time when they are struggling to cover financial promises made to beneficiaries decades ago, when interest rates were far higher. The system works like this: Insurers create wholly owned subsidiaries on paper that assume some of the company's liabilities. Those debts are transferred off the parent company's books, lowering the amount of capital reserves they are required to hold to pay off policies. That frees up cash that companies can use to buy dividends, make acquisitions and increase executive pay, all while shaving their federal tax bills. The parent companies retain the risks because they grant their subsidiaries "guarantees" or "notes" promising to pay their debts. The details of those agreements are largely secret, making them impossible to analyze.

Iowa and a handful of other states have taken the lead in permitting the practice. A paper published by the Federal Reserve Bank of Minneapolis in May found that U.S. life insurance and annuity liabilities ceded to shadow insurers grew to $364 billion in 2012 from $11 billion a decade earlier - or 25 cents of every dollar for companies that use them. The authors, Ralph Koijen and Motohiro Yogo, said the practice may reduce the price of life insurance policies by about 10 percent on average but also increases the risk of default.

This undated photo provided by Jeffrey Belth shows Joseph M Belth, a professor emeritus of insurance at Indiana University. Belth has been an outspoken critic of the practice of "shadow insurance," in which life insurers create subsidiaries to take on some of their liabilities. — AP

The Office of Financial Research - an arm of the US Treasury created after the 2008 financial collapse to analyze risks - called in a report earlier this year for more disclosure of the arrangements and additional requirements that they be backed by quality assets.

Belth is author of a consumer's guide to life insurance and former 40-year editor of The Insurance Forum, a monthly journal that ceased publication in 2013. He has been seeking copies of the promises that insurers made to their Iowa subsidiaries and other documents under the open records law. He says the records would show just how risky they are, saying the information should be available to policyholders, shareholders and taxpayers. Iowa Insurance Commissioner Nick Gerhart has denied his requests, saying the documents are part of insurers' "plans of operation," which are confidential under Iowa law. Gerhart has argued that his staff routinely examines the transactions to ensure they are sound, and that Iowa has been more transparent than other states by releasing the subsidiaries' financial statements online every year.

After reviewing those statements, Koijen and Yogo found that six of the eight subsidiaries created in Iowa "have significant negative equity under statutory accounting" - meaning their assets are worth less than their liabilities under traditional insurance industry standards.

Belth said he got interested in Iowa's practices two years ago, when Bellevue, Washington-based Symetra Life Insurance Company announced it was moving its legal headquarters to Iowa "to take advantage of the state-of-the-art statutes and regulations governing the life insurance industry in Iowa." Symetra has since set up one of the shadow insurers in the state, but its size pales in comparison to those created by TransAmerica. TransAmerica has set up one subsidiary that carries a "parental guarantee" of more than $2 billion and a second that has a "credit linked note" worth $924 million. Under traditional accounting rules for the industry, insurers could not count those as assets but Iowa has permitted them. Belth said that he's trying to shine a light on a practice that should not be confidential. "What's the secret? They don't want this discussed. I think that is the bottom line," he said.—AP

Sustainability certified India tea estates 'violate' workers' rights

CHENNAI: Tea estates in southern India are hiring temporary workers during peak plucking season and denying these laborers basic rights as required by law, said a report released yesterday. A survey in the southern state of Tamil Nadu at two tea estates - both certified by the international nonprofit Rainforest Alliance - found that in 2015, up to half of the workforce were temporary workers, and most were migrants or retirees. Focus group discussions and individual interviews with the workers showed the casual laborers did not receive a bonus, contributions for their children's school fees, a pension fund, creche facilities or other social security benefits given to permanent workers.

"Tea workers around the world are facing dangerous and degrading working conditions," said the report by India-based Glocal Research and The India Committee of the Netherlands, non-governmental organizations working on labour and human rights. Tea plantations in India - the world's second largest producer of tea after China - employ an estimated 3.5 million workers, the report said. The report focused on the Nilgiris district in Tamil Nadu, one of the main tea-growing belts in India with approximately 200,000 tea plantation workers.

Up to half of the workforce are migrants from other parts of India. According to the Indian Plantation Act of 1951, all workers, temporary and permanent, should be treated equally. However, poor enforcement by government authorities has allowed estate managers to deny workers their rights, the report said. The report also raised concerns about advances paid once a year to workers to meet their expenses for education, marriage, house construction and emergencies. Temporary workers have to repay the advance in full if they want to leave the estate for other work, creating a cycle of debt bondage in some cases.

The report found that risks of injury or illness remain high, particularly among female workers. It also found that overtime hours and compensation do not comply with legal requirements or the criteria of the Rainforest Alliance and the Sustainable Agriculture Network of non-profit conservation groups. Responding to the findings, the Rainforest Alliance said they had formally complained to the two certified plantations, and an investigation had been initiated. Unilever, a buyer from both plantations, said they welcomed the re-audit of the estates and were "fully engaged with their suppliers to improve labor, safety and housing standards". — Reuters

A Union Jack flag and a European flag blow in the wind in front of the city hall in London. —AP

Germany's EU commissioner doubts Brexit will happen

BERLIN: Germany's EU Commissioner Guenther Oettinger raised doubts yesterday about whether Britain would leave the bloc, saying he wouldn't bet on "Brexit". Oettinger told Germany's daily Bild that he assumed June's referendum outcome in favour of Britain exiting the EU was "binding".

"But it is possible that public opinion will tip if the economic situation in the wake of the Brexit vote worsens," said Oettinger, who is Digital Economy Commissioner. "In any case, I wouldn't place any major bets on Brexit." Oettinger predicted that the longer the British government waited to trigger Article 50 of the EU's Lisbon Treaty-the legal process for leaving the bloc-"the more insecure the situation will become-economically and politically". Once Article 50 is triggered, it would start a two-year countdown to Britain's exit from the European Union. Prime Minister Theresa May has said it will not be enacted this year, the government needing time to shape Britain's exit objectives first. German Chancellor Angela Merkel has called for giving London the time it needs to plot the way forward and has refused to enter into preliminary negotiations before Article 50 is activated.

The commissioner said public opinion in Britain could shift against leaving the bloc if the economy worsens as a result of the country's decision to exit.

Britain voted in a June 23 referendum to leave the 28-nation EU. New Prime Minister Theresa May hasn't formally triggered the start of withdrawal negotiations but is convening her Cabinet to discuss the potential first steps today. — Agencies

Gold lower as focus shifts to US data

LONDON: Gold fell yesterday after Federal Reserve officials sounded a hawkish note on interest rates, boosting the dollar, while attention turned to US payrolls data this week for further clues on the pace of rate hikes. Fed Chair Janet Yellen said on Friday the case for higher rates was strengthening, though she gave little clarity on when it would move. Later that day Vice Chair Stanley Fischer suggested a hike was possible as soon as September and yesterday he said the U.S. job market was nearly at full strength.

Spot gold was down 0.2 percent at $1,320.33 an ounce at 1149 GMT, while U.S. gold futures for December delivery were down $3.7 an ounce at $1,323.40.

The pace of rate hikes is heavily dependent on US economic data. Non-farm payrolls data due on Friday is seen as a key measure of the strength of the US labour market, and could reinforce hawkish messages from Yellen and other Fed officials. "For this week, the focus is on one thing and one thing only, which is the US non-farm payrolls," Think Markets chief market analyst Naeem Aslam said. "This is the final piece of the puzzle which will enable the Fed to make their timeline decision with respect to a rate hike."

Gold is highly sensitive to rising US interest rates, as these increase the opportunity cost of holding non-yielding bullion, while boosting the dollar, in which it is priced. The dollar rose against the euro yesterday as investors focused on the next set of US data to see whether it supports expectations the Fed will raise interest rates soon.

Employers are expected on Friday to show 180,000 job gains in August, according to a Reuters poll, below the better-than-expected 255,000 additions in July and 292,000 gains in June.

"With investors pricing in a greater likelihood of a Fed rate increase before year end, pressure is likely to continue to weigh on gold," MKS said in a note. Silver was down 0.4 percent at $18.77 an ounce, having hit a two-month low of $18.36 in the previous session. Platinum was 0.2 percent higher at $1,076.20, while palladium was down 0.2 percent at $694.60. Platinum's discount to gold narrowed to $244 an ounce, from a near seven-week high of $253 an ounce at the end of last week. — Reuters

ANDOVER: A home for sale in Andover, Massachusetts. The Standard & Poor's/Case-Shiller 20-city home price index for June was released yesterday. —AP

US home prices rise in June at slowest pace in 10 months

WASHINGTON: US home prices rose modestly in June, pushed up by strong sales and a limited supply of available properties. The Standard & Poor's CoreLogic Case-Shiller 20-city home price index, released yesterday, increased 5.1 percent in June compared with a year ago. That's down from a 5.3 percent annual gain in May and is the slowest year-over-year pace since last August.

Home values are still soaring in the Northwest, but have slowed to more sustainable rates elsewhere. In Northeastern cities such as New York and Washington, DC, they are rising at roughly the rate of inflation, and in Boston, less than 5 percent. Still, nationwide prices are increasing more quickly than incomes as buyers compete for the dwindling supply of available homes. That could stifle sales in the coming months.

Home prices in the Northwest continued to climb at a double-digit pace. They rose 12.6 percent in Portland, 11 percent in Seattle, and 9.2 percent in Denver. Those three cities have topped the list of price gains for the past five months. Cities in the Midwest were mixed. Home prices in Cleveland and Chicago rose 2.5 percent and 3.3 percent, respectively, while in Minneapolis they climbed 5.1 percent, the same as the nationwide pace.

Southern cities saw stronger price gains. They rose 8.9 percent in Dallas, 7.9 percent in Tampa, and 5.8 percent in Atlanta. The 20-city price index plunged after the housing bubble started to burst in 2006, plummeting by more than a third before prices began to rise again in March 2012. In June, they were still 8.1 percent below their peak level.

The Case-Shiller index covers roughly half of US homes. The index measures prices compared with those in January 2000 and creates a three-month moving average. The June figures are the latest available. —AP