Germany calls on ECB to end economic stimulus

FRANKFURT AM MAIN: The European Central Bank should begin winding down its expansive monetary policy in 2017 as inflation returns in the eurozone, German Finance Minister Wolfgang Schaeuble said in an interview yesterday.

"It would probably be right if the ECB starts daring to head for the exit this year," Schaeuble told the Sueddeutsche Zeitung newspaper-although he acknowledged it would be a "difficult task".

The ECB has fixed interest rates at record lows in the 19-nation single currency area, as well as offering cheap loans to banks and buying up tens of billions of euros per month of government and corporate debt. The moves are designed to make more cash from the financial system available to the real economy, powering growth and investment and driving inflation towards its target of just below 2.0 percent.

German economists and political leaders have long grumbled about the policy, objecting that low interest rates hurt savers. With interest rates on many savings accounts lower than inflation, Germans' cash piles will shrink in real terms if prices continue to grow and rates remain unchanged.

"I share the concerns" of savers, Schaeuble told the SZ yesterday, noting that inflation is expected to rise further in 2017. In Germany, prices increased faster in December than in the rest of the eurozone, at 1.7 percent compared to an average of 1.1.

There is "ongoing evidence of German inflation picking up markedly," IHS Markit economist Howard Archer tweeted yesterday, warning that the rise would "fuel tensions with the ECB".

Schaeuble acknowledged that any exit from expansive monetary policy would be "a difficult task to solve" for the ECB, as moves that look like removing the support could spook financial markets.

The German minister also cast barbs at fellow eurozone members he sees as laggards on economic reform. "The problem at the moment is not the ECB," he told the SZ.

"A range of member countries are not delivering what they committed themselves to, namely improving their competitiveness." German inflation breaking away from the eurozone average showed that "the problem is the weakness of other states, not Germany's strength," Schaeuble said. — AFP

TURIN: The logos of automobile companies (L toR) Abarth, Lancia, Fiat, Alfa Romeo and Jeep are pictured at the entrance to the Fiat Chrysler Automobiles (FCA) at the Fiat Mirafiori car plant yesterday in Turin. —-AFP

Fiat Chrysler shares up as investors shun EPA impact

MILAN: Fiat Chrysler Automobiles (FCA) shares rose yesterday as investors played down the potential impact of the US Environmental Protection Agency (EPA) accusing the company of concealing diesel emissions. Fiat's Milan-listed rose more than 7 percent in early trade and stood 3.53 percent higher at 9.09 euros at 1101 GMT.

The shares tumbled 16 percent on Thursday after the EPA accused the world's seventh-largest carmaker of illegally using hidden software to allow excess diesel emissions to go undetected, suggesting a maximum fine of about $4.6 billion.

Larger rival Volkswagen has admitted to cheating diesel emissions tests and agreed to spend up to $22 billion in the United States to address claims from owners, environmental regulators, US states and dealers. FCA lacks Volkswagen's cash pile but analysts said its case looked much less severe than that of its German counterpart.

The EPA said FCA failed to disclose engine management software in 104,000 U.S. vehicles leading to an increase in emissions of nitrogen oxides (NOx). However, the authority has not yet labeled them "defeat devices" as in Volkswagen's case. FCA Chief Executive Sergio Marchionne categorically rejected the allegations on Thursday saying there was no wrongdoing and the company never attempted to create software to cheat emissions rules. He also stressed FCA's situation cannot be compared with VW's.

Analysts drew best and worst case scenarios, estimating potential fines ranging from several hundred million dollars to $4 billion. But they said the likelihood of hefty fines were very low. "Our base case is that the current violation notice is settled as a reporting violation of $140 million, a very manageable figure for FCA," said Stuart Pearson, an analyst at Exane BNP Paribas. "However, until the issue is settled, emissions uncertainty is likely to remain a significant overhang to the shares and break the stock's impressive recovery since Trump's election." Analysts also noted that FCA's vehicles are equipped with selective catalytic reduction (SCR) systems, so could likely be fixed at a relatively immaterial cost. Before this week's tumble FCA's shares had risen by around 70 percent since Donald Trump's election on expectations of less stringent emissions policies under the next US administration. —Agencies

As talks loom, 'hard Brexit' option raises fear of tariffs

EU may impose tariffs on estimated 15,000 goods

LONDON: Is it cod or haddock? That's the sort of question that will matter to Britain if it leaves the European Union's tariff-free single market and ends up operating under rules overseen by the World Trade Organization. A complete divorce, often referred to as "hard Brexit," would see the EU impose tariffs on an estimated 15,000 goods, in no uniform way: some British exports, like pharmaceuticals, would face no extra charge but the large majority would.

How big the tariffs are will depend on a complex series of factors. So cod and haddock may sit side by side in your average British "fish and chip" restaurant but they are classified differently by the EU - cod would be slapped with a 12 percent tariff and haddock 7.5 percent.

And the list goes on and on

According to a recent analysis from Civitas, a London-based economic think tank, the average tariff on British exports to the EU under WTO rules would be around 4.5 percent. It's a scenario that many experts, including from the ranks of those who backed Britain's departure in June's referendum, say would be a worst case scenario for British businesses. That's why the pound has fallen any time Prime Minister Theresa May's comments point to such an outcome. The response to her Brexit speech on Tuesday will be interesting.

The issue is heating up as May plans to start by the end of March the formal talks to leave the EU. German Chancellor Angela Merkel and other EU leaders have repeatedly warned Britain cannot retain access to the single market if it wants to control the immigration of EU citizens. May's repeated focus on the need to control borders suggests Britain won't be able to remain a member of the single market.

WHAT WOULD THAT MEAN?

Britain would trade on the rules devised and policed by the Geneva-based WTO, which has 164 members and is responsible for the vast majority of global trade.

Under WTO rules, Britain would not be able to trade with its former EU partners on terms that would be any more advantageous than other countries that do not have trade agreements with the EU, such as the United States.

Most British exports to the EU would be subject to the EU's Common External Tariff, or CET, meaning that - all other things being equal - most British goods would instantly become less price-competitive in the EU. Goods coming into Britain from the EU would also be subject to tariffs, suggesting the sides would be inclined to agree on a new trade deal to lower the tariffs again. Free trade deals typically take years to negotiate, though.

It's not just about tariffs. Certain standards and regulations would still have to be met by British businesses if their products are going to make it to the European marketplace. The EU has limits on foods containing genetically-modified products, for example.

THE US EXAMPLE

Under WTO rules, Britain's trade relations would closely resemble those that currently exist between the US and the EU.

The two sides trade under conditions that the WTO describes as "most favored nation" status. It facilitates some trade but does not eliminate tariffs across the board. So US motor vehicle manufacturers pay a 10 percent tariff on most passenger cars. But minibuses can face a 16 percent charge while snowmobiles are slapped with only a 5 percent tariff.

It's the same complicated story across other sectors: there are about 15,000 different classification codes for goods. Tariffs on fish would vary not only depending on the species but also whether it's traded alive, fresh, frozen or filleted.

SOUNDS COSTLY

While the WTO option ensures that Britain gets back control of its borders and regains its ability to set regulations and taxes, many critics say it would diminish the country's trade and lead to bigger falls in national income than other Brexit scenarios. Philip Hammond, Britain's treasury chief, has said the WTO option would "not be the most favored outcome."

And since services are not regulated by the WTO, Britain's crucial financial services could be seriously hurt because professionals would lose the automatic right to work anywhere in the EU. As a reflection of investor concerns, the pound has shed around 20 percent of its value since June's vote to leave the EU. It's now trading around $1.22, compared with $1.50 on the day of the vote. Less than a decade ago, the pound was flying high above $2.

REALLY THAT BAD?

Many pro-Brexit campaigners think there's nothing intrinsically wrong with the WTO option, arguing that a proper cost-benefit analysis should include the boost that a newly sovereign Britain could get from trade deals with non-EU countries. They also say that the WTO option would be far better than a transitional deal that would extend the current bout of uncertainty.

Britain, they add, could also take a global lead in reducing tariffs to lower costs for its businesses. The downside on that, though, would be that the same firms would face more intense competition in the British marketplace. Chinese steel, for example, is cheaper than steel produced in Britain. Also, Brexit supporters note that the fall in the value of the pound provides a natural cushion by making British goods more price-competitive in the international marketplace, even with new tariffs.

NOTHING CLEAR WITH BREXIT

As with most things Brexit-related, there are many legal uncertainties even with the so-called WTO option. Britain would possibly have to reapply to enter the WTO as its membership is currently invested through the EU itself.

WTO chief Roberto Azevedo has said that Britain's renegotiation of its membership would be relatively straightforward. But that's another story. —AP