

Business Briefs

Carbon-Trading

Brit Hedge Funds Get Off Tax-Free

British Chancellor of the Exchequer Gordon Brown gave carbon trading by hedge funds the official British blessing on March 21—a Treasury rule exempting them from taxes! Carbon credits held by funds offshore will now be treated as exempt from any tax on profits.

To keep all their “profits” from so-called carbon trading, hedge funds had had to figure out ways to get around the tax. Now they can legally enjoy the usual UK offshore tax evasion.

“It is hugely beneficial because it [no taxes on profits] is going to bring a lot of liquidity,” said Ernst and Young Accounting partner Julian Young, no doubt dreaming of Enron. “It is clearly a good thing for climate trading and a good thing for fund managers,” he told the *Financial Times*.

The Man Group immediately formed a “Green Man Group,” announced by outgoing CEO Stanley Fink: “While the science of global warming is quite scary, there are opportunities there.” GLG Partners launched another, “to buy and dispose of carbon credits.”

How? RAB Capital’s Special Situations hedge fund bought 2.25 million acres of Ethiopian forest “on which it hopes to generate carbon credits.”

Private Equity

Danish Tax on Funds To Take Effect July 1

The Danish government reached an agreement April 3 with the Danish People’s Party on its legislation against the tax-evasion schemes by private equity funds and international corporations.

The idea is to limit the amount of interest payment that the funds can deduct from their taxes, and thereby prevent the present practice in which the funds buy up profitable companies and avoid taxes by loading the

target companies with debt, or moving the tax payments to countries with lower tax rates.

The extra revenue from these recovered taxes is to be offset by Denmark’s lowering of its corporate tax from 28% to 25%, already the lowest in the EU.

The new legislation, which is expected to be voted up before the Summer, is a watered-down version of the proposal made by Tax Minister Kristian Jensen two months ago, which came under heavy attack from the biggest Danish corporations.

They had used the same practice as the private equity funds, borrowing money to buy up new companies and thereby avoiding paying taxes by deducting interest payments. The new law won’t penalize corporations as heavily as the original proposal would have.

Anti-Globalization?

Putin and Prodi Defend Both Nations’ Assets

The announcement by the Russian airliner Aeroflot on April 2 of a bid to purchase Italy’s national airline Alitalia, and the announcement on April 3 that the Italian oil company ENI has won the auction for a stake in Gazprom’s oil unit and other assets of Yukos, might be connected. *EIR* is investigating the hypothesis that at their recent meeting in Italy, Italian Premier Romano Prodi and Russian President Vladimir Putin discussed a deal by which Italy and Russia would help each other keep control of key strategic infrastructure.

A source familiar with the energy debate inside the Italian government has concurred with *EIR*’s evaluation. However, whereas the Russian government negotiates from a position of strength, the Italian government is on a weak footing, being under the boot of the European Central Bank.

In the auction for the sale of Alitalia, Aeroflot is helped by the Italian bank Unicredito, which will buy 5% of Alitalia. The apparent incompatibility between Alitalia’s and Aeroflot’s physical capital speaks against an integration of the two companies.

However, in an interview with Interfax,

Aeroflot manager Valery Okulov stated: “Alitalia is interesting for us thanks to its numerous destinations, for the possibility offered to enter the Italian market, and also because flights from Italy represent the main door towards North Africa and Southern Europe.” Okulov, who married a daughter of the late Russian President Boris Yeltsin, Elena, is considered very close to Putin, having served as a KGB officer in St. Petersburg during the time when Putin was starting his KGB career there.

Biofuels

‘Internationalization Of Genocide’—Castro

In the second blast at the Bush Administration’s global biofuels drive in a week, Cuban President Fidel Castro penned an article under the provocative headline, “Internationalization of Genocide.” The article was the lead item in the April 3 edition of Cuba’s daily *Granma Internacional*.

Castro focussed on the March 31 Camp David meeting between Brazilian President Lula da Silva and George Bush, in which ethanol production, and particularly the Brazilian model of ethanol based on sugar cane, was a key topic of discussion.

Denouncing the “colossal squandering of grains to produce fuel,” Castro said, no one “has answered the fundamental question: Who is going to produce—and where—the more than 500 million tons of corn and other grains that the U.S., Europe, and other wealthy countries need to produce the huge number of gallons of ethanol that the large American and other corporations demand in exchange for their costly investments?”

The biofuel boondoggle will only save rich countries less than 15% of their automobiles’ annual fuel consumption, the Cuban leader caustically pointed out. “Yet at Camp David, Bush has declared his intention to apply this formula internationally, which means nothing less than the internationalization of genocide.” Where, Castro asked, “are the poor nations of the Third World to find the minimal resources for their survival?”

Briefly

In *Granma's* March 29 edition, Castro warned that "more than 3 billion people in the world will be condemned to premature death from hunger and thirst," if food is used for fuel.

Free Trade

U.S.-South Korea Deal Bodes Disaster for Both

The free trade agreement signed by the United States and South Korea April 1 would, if ratified, be a disaster for both nations.

The deal was signed literally at the midnight hour of the last day of the period for President Bush to be able to use his fast-track authority, limiting Congress to a yes-or-no vote. (That authority expires July 1, and requires that a treaty be signed 90 days before then.)

The Korea Rural Institute estimates that the treaty would eliminate jobs for 130,000 Korean farmers, and would result in the loss of \$2 billion in agricultural sales. The Seoul government has promised to subsidize farmers for lost income, or compensate those who choose to leave their land.

Even though rice is not included (despite U.S. insistence) among the 38% of agricultural products whose tariffs will be scrapped, the rural opposition to the treaty in Korea is fierce and occasionally violent. Ninety percent of tariffs on industrial goods, for both sides, would be eliminated.

President Roh Moo-hyun admits that "Parliamentary ratification won't be easy," with his own political base almost totally opposed to it, and support coming only from some among the opposition conservative forces.

One former supporter of Roh is on a hunger strike against the agreement, and said upon its passage that Roh was "handing Korea's economic sovereignty to the U.S. on a platter. This act of betrayal of the people, and their livelihood and of democracy, will be judged harshly."

In the United States, House Speaker Nancy Pelosi, joined by Democratic Reps. Charlie Rangel (N.Y.) and Sander Levin

(Mich.), wrote a letter in late March denouncing the agreement, attacking South Korea for not opening up enough, while Sen. Max Baucus (D-Mont.) called it "entirely unacceptable" because of the Korean ban on beef imports, which the deal would remove over 15 years.

The treaty is the largest the United States has signed since the North American Free Trade Agreement of 1992.

Housing Bubble

Subprimes Imploding Across the United States

The New Century Financial filing for Chapter 11 bankruptcy protection April 2 was only one of many failures to come to light during Easter week in the fast vanishing \$1.2 trillion U.S. subprime mortgage market. The rate of failures has accelerated since *EIR's* March 23 article, "U.S. Mortgage Crisis Can Trigger Collapse of the Global Casino," reported that 38 subprime or other mortgage lending institutions had failed since late 2006. Nine more subprime and/or Alt-A mortgage lenders have gone belly-up as of this writing.

First American LoanPerformance reported April 4, that 12.4% of all subprime borrowers were at least 60 days late on their February mortgage payments.

Every corner of the country is affected.

SouthStar Funding of Atlanta, a lender of supprime and exotic mortgage loans, posted a letter April 2 on its website from its President Kirk Smith: "Dear Customer, SouthStar Funding LLC has ceased its mortgage lending operations effective immediately and is unable to close or fund any loans." SouthStar will lay off 700 workers.

Other subprime lenders have ceased operations: Madison Equity Lending of Wisconsin, Sunset Direct Lending of Oregon, Kellner Mortgage Investments of Texas, Corestar Financial Group of Maryland, and Investaid Corp. of Michigan.

LoanCity of San Jose, Calif., a lender of primarily prime-grade and Alt-A mortgages, closed its doors March 20. LoanCity will lay off 350 workers.

COLOMBIA'S AGRICULTURE Minister Andrés Felipe Arias warns that ethanol is raising food prices. While some of the sharp food price increases in Colombia over the past three months may be blamed on the El Niño weather pattern, Arias said April 2, "In the medium and long term, it is the strong competition between foods and the use of sugar cane, yucca, and corn in the production of biofuels."

PRO-PRIVATIZATION fanatic Andrew Biggs has been appointed U.S. Deputy Commissioner of the Social Security Administration, after his nomination was rejected by the Senate. Biggs was appointed by Bush during the Congressional recess.

HEALTHCARE NOW!, an organization mobilizing for the "Medicare for All" legislation introduced by Rep. John Conyers, has announced that in April it will present hundreds of thousands of petition signatures to Congress, urging passage of the bill, H.R. 676. The single-payer, universal health-care bill has 59 co-sponsors. The petition and information about the bill and the mobilization are available at the organization's website, <http://www.healthcare-now.org>.

YOUNG ADULTS (19-29 years of age) are among the fastest growing segments of the U.S. population without health insurance. A recent study found that 13.7 million young adults lacked coverage in 2004, an increase of 2.5 million since 2000, and that this age group accounts for 30% of the non-elderly uninsured.

'IN THE NEXT 30 YEARS the world is to build 300 to 600 GW of new nuclear generating capacity and Russia plans to have 20% of this market," Rosatom director Sergei Kiriyenko, told a Russian energy forum April 5.