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Linkages between Informality, Competition and Economic Growth

Conventional views and existing empirical work show that formalisation of any hitherto informal segment of the economy would increase the rate of economic growth. The informal sector may have growth implications through indirect channels such as the level of competition in the economy. This piece presents an argument as to how the informal sector may impact economic growth by altering the degree of competition in an economy.

Positive Linkage

A large number of producers in the informal sector selling almost identical products would imply a small market share for each existing supplier resulting in a reduction in mark-up of price over cost. Low prices will increase consumer surplus and can contribute to household savings and/or increase demand for other products. Both rise in household savings and increase in demand contribute to economic growth. Increase in the degree of competition may incentivise or compel firms to innovate, which in turn has a positive effect on economic growth.

Negative Linkage

A large informal sector may crowd out formal enterprises in certain industries, generating a small number of formal firms, each with considerable market power. This may have an adverse impact on competition within the formal segment of a dual economy.

Informal firms may also engage in anti-competitive practices such as price collusion and product adulteration which may have detrimental impact on both formal and rival informal competitors, thereby reducing the degree of competition in certain product lines. This can lead to lower output/choice and higher prices for consumers. Product adulteration also adversely impacts consumer welfare by way of harmful health effects which can have negative growth implications.

Anti-competitive practices by formal firms can drive informal enterprises out of the market as the latter usually tend to be small and mostly a part of the household. Formal firms may face unfair competition from informal enterprises due to tax avoidance and regulatory non-compliance by the latter. This may reduce entry into the formal sector, decrease incentives and ability of existing formal enterprises to innovate and grow, consequently creating an environment conducive to lack of enterprise which hinders economic growth.

To conclude, the presence of a sizable informal sector may either increase or decrease the level of competition in a product line. The direction of the outcome depends on sector specific characteristics and the relative strength of resultant positive and negative effects on competition. When positive effects outweigh the negatives, informal enterprises would increase the degree of competition in an economy. Therefore, positive implications for growth would follow.
Hong Kong to Introduce Competition Bill

The Government of Hong Kong is working at full steam towards introducing the Competition Bill, taking account of stakeholders’ comments and other issues. The Competition Policy Advisory Group plans to improve some of the original proposals for the competition law following a three-month public consultation in 2008.

Changes to the institutional arrangement for the competition regulatory regime are being considered under which the Competition Commission will only investigate and prosecute cases while the Competition Tribunal will be established as a special court within the Judiciary to hear and adjudicate on all cases of the competition law and hear private rights of action in all sectors.

(www.news.gov.hk, 08.12.09)

MRTP is Now Laid to Rest

The government placed the Competition (Amendment) Bill in the Parliament, which on enactment would end the 40-year-old competition law regulator, the Monopolies and Restrictive Trade Practices Commission (MRTPC).

Amending section 66 of the Competition Act, 2002, the Bill provides for transfer of all cases relating to monopolistic and restrictive trade practices to the Competition Appellate Tribunal (CAT). Currently, the cases pending with the MRTPC, would be transferred to CAT when the Bill becomes law.

However, these cases will be decided by CAT in accordance with the older legislation, i.e. the Monopolies and Restrictive Trade Practices (MRTP) Act. The MRTPC is now set to shut down after the establishment of the Competition Commission of India, which wields similar powers.

(www.MyNews.in, 14.12.09)

Angola’s New Price Regime

The adoption of a new regime of prices and approval of a competition law in Angola is expected in early 2010. The government’s National Plan for 2010-2011 and the State Budget for 2010 were intended to protect consumers, stimulate internal production and guarantee price justice.

There would be tighter control over public investment prices, physical and financial exercise, given its direct relation with internal production. The government approved the national strategy on food and nutritional security and a respective plan of action as part of the fight against famine and poverty.

The purpose is to increase and diversify the production and trade of agro-farming and fishing products, with a view to increasing the stocks of food, their quality and variety, thus responding to the needs of the population.

(www.world.brunei.fm, 15.12.09)

Cartel Regulation in Cyprus

The struggle against cartels has moved beyond the traditional model of European Union (EU) law enforcement because parties to a cartel intentionally set out to interfere with competition and act against the industrial group as a whole. However, significant changes to the EU leniency programme, the introduction of private enforcement and the imposition of higher fines and criminal penalties have all contributed to detection and deterrence.

Cyprus has incorporated these changes into national law and is now also successfully fighting against cartels. With the recent entry into force of the Protection of Competition Law, competition law in Cyprus has finally been brought into line with EU regulations.

(ILO, 22.10.09)

KFTC Implements Leniency Programme

The Korea Fair Trade Commission amended the Notification on the Implementation of the Leniency Programme for Corrective Measures against Confessors. The purpose of this amendment is to increase incentives for leniency and remedy problems arising from the existing leniency programme.

Provisions concerning the leniency programme are contained in the Monopoly Regulation and Fair Trade Act and the enforcement decree thereof. The amended notification provides detailed requirements and procedures for the leniency programme.

(ILO, 12.11.09)

Antitrust Law in the Offing

The Competition Bill of Botswana was presented in the Parliament for second reading. The main objective of the proposed law is to regulate competition between firms as well as to establish a Competition Authority.

The bill basically provides for the prevention of anti-competitive practices in the market. It aims to address problems arising from the globalisation cartels, abuse of dominance, and monopolisation of key sectors of the economy by corporate entities following the opening up of markets as a result of economic reforms and liberalisation of international trade.

Many countries have adopted the law in recognition of the important role, which competitive markets can play in promoting economic growth and alleviating poverty.

(www.allafrica.com, 12.12.09)

Namibian Competition Body in Action

The Namibian Competition Commission was launched on December 09, 2009, six years after the Competition Act was passed in 2003. The Commission would enhance the development of enterprises, production and allocation efficiencies, which will yield benefits for the economy in terms of growth and consumers in the form of competitive prices.

Namibia’s competition law covers three major competition concerns of anti-competitive agreements, abuse of dominance and anti-competitive mergers. The Commission would convince stakeholders of the benefits of the competition policy and law, inform stakeholders of their rights and responsibilities, explain the practices and procedures of the competition authority, and encourage compliance with the law.

(NE, 11.12.09)
The Mauritian Competition Act came into full effect on November 25, 2009. An apparently enthusiastic and skilful Competition Commission has been waiting in the wings since June 2009 to implement this important legislation and is rearing to go. With powers to implement fines of up to ten percent of a company’s annual turnover, multiplied the number of years that the restrictive agreement was in place, companies will need to urgently pay attention to this expansion in Mauritian law, or else soon realise the true meaning of “ignorance of the law is no excuse”.

The Act deals with both merger activity and restrictive prohibited practices. A merger situation is described as the combining of two or more entities of which at least one carries on its activities in Mauritius or through a company incorporated in Mauritius. In terms of prohibited practices, the guidelines issued by the Commission stipulate that the authority is concerned with competition in local markets and competition to supply those markets. The implementation of this important piece of legislation is, therefore, relevant to all parties involved with a company registered or active in the popular Mauritius region, as well as those entities who are entering into merger transactions with such entities.

A merger situation is subject to scrutiny by the Commission, where the parties to the merger together supply or purchase more than 30 percent of the goods or services in a relevant market. Furthermore, the authority is empowered to investigate any merger situation which it has reasonable grounds to believe has resulted in a substantial lessening of competition within any market for goods or services.

Unlike South Africa’s Competition Act, the Mauritian legislation does not contain any specific provisions which call for the compulsory pre-notification of a merger. The closest resemblance to such a requirement is that an enterprise may obtain “guidance” from the Commission before proceeding with a merger. The benefit of this is that merging parties do not have to engage in the costly process of submitting a merger filing and no filing fee is required to accompany such a filing to the competition authority.

The Act also provides for complaint procedures and any person may call upon the Executive Director to conduct an investigation into alleged anti-competitive conduct. The Director then has a period of two years to deal with the complaint, thereafter he or she must either refer the matter to the Commission or issue a notice of non-referral, if no restrictive practice is found to exist.

The manner in which Mauritius has undergone its process of developing competition law is commendable. The Commission issued comprehensive guidelines on a range of relevant sections in the new legislation within six months of the body’s formation and this is indicative of the proficiency of this new agency.

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The previous Chief Economist of the UK Commission, John Davies, is the first Executive Director of the Mauritian Competition, who is empowered to enquire actively into merger activity or potential restrictive business practices. He has the power to request specific information from any enterprise, to invite parties to provide information on a specific matter or business practice, to invite parties for an interview or to request written explanations relating to specific conduct or merger activity which is of concern to the authority.

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It is now only a matter of time before similar competition law agencies come to being in other African countries and companies can no longer think that they have free reign to engage in anti-competitive conduct on the continent. It is clear that the need to be compliant with any applicable competition law is becoming vital in order to avoid potentially costly fines and even jail time in certain jurisdictions.

* Abridged from an article contributed by Jason Van Dijk that appeared in the Mondaq (www.mondaq.com), on November 24, 2009.
Microsoft, EU Settle Antitrust Dispute

The European Commission (EC) settled its remaining antitrust issues with Microsoft Corp., ending a decade-long battle over the software giant’s monopolistic business practices. The EC agreed to abandon its case against Microsoft over whether the software giant is illegally abusing its dominance in the Internet-browser markets in return for a legally binding commitment for Microsoft to market rival browsers alongside its own Internet Explorer.

Microsoft has committed to offer the choice of browsers for a five-year period. It will also allow computer manufacturers to pre-install competing Web browsers, or have the option to exclude Internet Explorer completely. By asking Microsoft to deliver a ballot screen of browser choices to Windows users in Europe, the commission is expecting to increase the market share of rival browsers.

(Livemint & FT, 17.12.09)

US FTC Files Lawsuit Against Intel

The US Federal Trade Commission (FTC) has filed an antitrust-related lawsuit against Intel, charging the world’s largest computer chip maker with illegally using its dominant market position to stifle competition and strengthen its monopoly for a decade.

The FTC alleged that Intel has waged a “systematic campaign” to cut off rivals’ access to the marketplace. Intel deprived consumers of choice and innovation in the microchip industry.

The FTC’s decision to move forward with a case against Intel comes just a month after Intel settled antitrust and patent disputes with rival Advanced Micro Devices (AMD). Intel agreed to pay AMD US$1.25bn in the settlement. The FTC’s complaint is an effort to create “new rules for regulating and micro-managing business conduct”.

(Telkom Abuse Case Set to Drag On)

The South African Competition Commission has referred its findings of abuse of dominance against Telkom to the Competition Tribunal for adjudication and has asked the Tribunal to levy an administrative penalty of 10 percent on Telkom’s annual turnover.

The investigation follows five complaints lodged by the Internet Service Providers Association and other internet service providers. The Commission found that Telkom abused its near-monopoly position in the market for the provision of telecommunications network facilities. Telkom’s prices were more than double the average of South Africa’s major trading partners in 2006.

The Commission noted that Telkom’s downstream competitors have been consistently losing market share, while Telkom’s share has been increasing over time, pointing to an inability on their part to compete effectively with Telkom.

(www.Superset.net.co.za, 28.10.09)

Thomson Reuters Faces EC Questions

The European Union (EU) antitrust regulators are investigating whether Thomson Reuters Corp. is breaking monopoly abuse rules by preventing customers from applying their own codes to financial market data feeds.

The EC wants to check if the company locks in customers because it may make it difficult for them to use their own or other software to translate the Reuters Instrument Codes that identify the securities and where they are traded.

If officials find evidence of antitrust abuse, they can demand that a company change its behaviour under threat of fines of up to 10 percent of its global turnover for every year that the business broke the law. (BS, 10.11.09)

EU Antitrust Raid on Ranbaxy

After facing a slew of troubles in the US market in 2008, the country’s largest drug maker, Ranbaxy Laboratories Ltd, in which Daiichi Sankyo of Japan has a 64 percent stake, is in for some rude shock in Europe. The French unit of the Gurgaon-based drug firm was one of the many pharma companies where EC officials carried out raids. The officials launched antitrust investigations against alleged ‘restrictive trade practices’ by pharma companies.

The EU antitrust regulator suspects that innovator pharma companies could be colluding with their generic counterparts and indulging in unethical practices by deliberately delaying the launch of affordable generic versions of medicines in the European market.

(IE, 07.10.09)

IBM Faces Justice Inquiry

The US Department of Justice (DoJ) is investigating allegations that International Business Machines Corp. (IBM) has monopolised the market for mainframe computers, broadening Washington’s search for anti-competitive behaviour in the technology industry.

Members of the Computer and Communications Industry Association recently received civil investigative demands from the DoJ seeking information related to IBM. The requests followed a complaint by the group to the DoJ accusing IBM of harming businesses by abusing its dominance of the market for mainframes.

(WSJ, 09.10.09, BS & FE, 08.10.09)

FAS Initiates Probe against Gazprom

The Federal Anti-monopoly Service (FAS) of Russia has initiated proceedings against OJSC Gazprom for allegedly abusing dominant position by creating unlawful barriers to entry to the gas market in order to deter the entry of OJSC Rosneft Oil Company.

Rosneft complained to the FAS that between April and August 2009, Gazprom restricted acceptance of gas from the gas fields of Rosneft to Gazprom’s gas-transportation system.

Rosneft further stated that as a result of those restrictions, it was forced to burn the surplus gas, leading it to exceed its statutory norm and thereby violate environmental regulations. Gazprom claimed that its reduced levels of gas acceptance were a result of a reduction in gas consumption in Russia. (FAS Press Release, 28.10.09)
Nokia Accused of ‘Unfair Competition’

In response to Nokia’s own claims of copyright violation, Apple accused the largest handset maker in the world of copying some of the technology inside the iPhone. In a suit filed in US District Court for the District of Delaware (PDF), Apple says Nokia is infringing 13 of its patents.

Apple’s filing is a response to Nokia’s suit against Apple over 10 patents the Finnish phone maker says it owns related to wireless handsets. In its countersuit, Apple denies Nokia’s claims of copyright violation, saying that the licenses Nokia insists Apple and other smartphone makers pay are “unfair, unreasonable, and discriminatory” and “non-essential” to the iPhone.

Apple says Nokia is in violation of a range of patents, from real-time signal processing methods to list scrolling and document translation, scaling, and rotation on a touch-screen display, and is asking the court for monetary damages, and legal fees. (www.guardian.co.uk, 11.12.09)

**CARTELS**

**EU Regulator Hit Plastics Cartel**

The EC has fined several leading plastic companies over US$250mn for violating the EC Treaty’s ban on cartels and restrictive business practices.


Chemtura Corporation participated in the cartel, but was not fined because it revealed the existence of the cartels to the Commission. Fines on Arkema France, Baerlocher and Ciba were reduced for cooperating with the Commission investigation, but Arkema France’s fine was increased by 90 percent, as it had previously taken part in similar cartels. (TEO, 12.11.09)

**Singapore Fines Coach Operators**

16 coach operators plying between Singapore and Malaysia and their association have been fined US$1.69mn for price-fixing. The Competition Commission of Singapore (CCS) has found the companies and the Executive Bus Agencies Association (EBAA) guilty of setting a minimum price for coach tickets sold and for a fuel and insurance surcharge on each ticket. This collusion took place between 2006 and June 2008.

The fines, ranging from US$10,000 to US$518,167, are pegged to the company’s size and the amount earned from the price-fixing. The total fine is the biggest penalty handed down by the CCS, which promotes healthy competition in the various industries and administers the Competition Act. (ST, 03.11.09)

**Japan Slaps Fine on Panasonic**

Japan’s fair trade watchdog announced US$37mn in fines for Panasonic and two South Korean rivals for running a cartel in the television industry. The Japan Fair Trade Commission announced penalties totalling US$38mn for cathode-ray tube display firms affiliated with Panasonic, Samsung Electronics and LG Electronics.

It slapped US$20.24mn in penalties on four units of Panasonic, US$15.4mn on two Samsung firms and US$1.70mn on LG Philips Displays Korea. The companies allegedly met regularly every two months from 2003 and jointly set their minimum target prices for cathode-ray tube displays.

**BA Pleads Guilty in Air Cargo Probe**

British Airways (BA) has agreed to pay a fine of US$4.1mn after pleading guilty to taking part in a cartel that fixed prices on air cargo in Canada. The fine by Canada’s Competition Bureau is the latest in a series of penalties imposed by authorities on airlines around the world.

The Bureau announced that BA had “admitted to fixing surcharges on the sale and supply of international air cargo exported on certain routes from Canada between April 2002 and February 2006”. The Bureau’s investigation has benefited from the cooperation of BA and certain other air cargo carriers through the Bureau’s Leniency Programme. (FT, 02.10.09)

**EU Charges TV Tube Manufacturers**

The EC launched antitrust charges against a number of companies producing TV and computer monitor tubes, including Royal Philips Electronics. The commission’s investigation focuses on two types of cathode ray tubes, namely colour display tubes used in computer monitors and colour picture tubes used in colour television sets.

Philips said that it had received the charges and “intends to continue assisting the regulatory authorities in these investigations”. If found guilty, those companies would face fines as high as ten percent of their annual global turnover. (AP, 26.11.09)
**Fines & Penalties**

**Record Fine on World's Largest Brewer**

The Administrative Counsel for Economic Defence (CADE), Brazil fined AmBev – one of the biggest breweries in the world – US$201mn for anti-competitive conduct in the beer market. This is the highest ever fine imposed by CADE on a company.

AmBev filed an appeal against CADE’s decision before the Federal Court, questioning the fine’s value and CADE’s evaluation of AmBev’s anti-competitive practices. The Federal Court granted AmBev the injunction, suspending CADE’s record fine on the condition that AmBev deposit the value in a judicial account.

CADE has clearly stated that it will not tolerate antitrust violations, particularly in cases involving large companies such as AmBev.

(ILO, 15.10.09)

**Mexico Imposes Fine on Televisa**

The Mexico Federal Competition Commission is fining media giant Televisa almost US$44mn for refusing to let a cable operator transmit its channels, the latest in a push to boost competition in the sector.

Televisa controlled by billionaire Emilio Azcarraga Jean, controls about 70 percent of the broadcast television market share in Mexico, with TV Azteca accounting for most of the rest. That puts any cable company that cannot offer Televisa’s programming at a disadvantage. Televisa, which may appeal the resolution, had no immediate comment. The company has stakes in two other cable companies in Mexico.

(Reuters, 01.12.09)

**Price Fixing**

**Spain Fines Insurance Groups**

Spanish regulators fined six European insurance companies a total of US$180mn for fixing prices on building defect coverage during the Spanish housing boom. It was the heftiest fine ever imposed and the sanctions can be appealed.

The six firms were guilty of a “very grave infraction” of competition rules by engaging in this practice in Spain from 2002 to 2007, when the housing market was red hot and new homes sprouted like mushrooms. The companies named are Mapfre, Asefa and Caser of Spain, along with Swiss Re, Munich Re and Scor of France.

(BW, 12.1109)

**Thai Air Accused of Price-fixing**

The Australian Competition and Consumer Commission (ACCC) alleged Thai Airways colluded with other international airlines between 2001 and 2006 to effectively fix the price of fuel and security surcharges. The carrier is the eleventh to be pursued by the ACCC in the Federal Court over the alleged cartel activity, which has, so far, resulted in airlines being ordered to pay US$37mn in penalties.

In February 2009, the Court ordered Societe Air France, Koninklijke Luchtvaart Maatschappij NV, Martinair Holland NV and Cargolux International Airlines SA to pay penalties totalling US$14mn. The ACCC has also instituted proceedings against Singapore Airlines Cargo, Cathay Pacific Airways, Emirates and PT Garuda Indonesia Ltd.

(ST, 28.11.09)

**Nokia Sues Over LCD ‘Price-fixing’**

Nokia, the world’s largest handset maker, has sued 11 makers of liquid crystal display screens, accusing them of a conspiracy to fix prices. The US lawsuits come a month after AT&T made similar claims against display manufacturers, and follows a US DoJ investigation into anti-competitive behaviour in the industry.

The liquid crystal display (LCD) screens are used in mobile handsets, and are one of the most expensive parts of the phone, accounting for up to a quarter of the total bill of materials. Mobile phone makers are increasingly scrutinising the costs as screens become ever-larger, especially in the new generations of smartphones.

(FT, 02.12.09)

**Polish Watchdog Hit Cement Cos.**

Cement giant CRH will appeal the findings of the Polish competition authority which said the Irish company’s subsidiary was part of a cartel that had sought to manipulate cement prices for at least a decade.

Following a three-year investigation by Poland’s Office for Competition and Consumer Protection (OCCP), it levied a US$36mn fine against CRH’s Grupa Ozarów subsidiary as part of a total of US$144m in penalties on six of seven companies found to be in breach of the law.

The OCCP claimed they had engaged in practices they knew to be illegal that helped them fix minimum prices for cement, freeze their respective market shares, and timetable production so as to maintain pricing levels.

(FT, 02.12.09)

**Collusive Tendering in Electricity**

The Switzerland Competition Commission fined eight undertakings US$1.9mn for collusive tendering in relation to private and public tenders for electrical equipment in construction projects.

Following a complaint, the Commission found signs of market sharing in the Bern region in the way that tenders for electrical equipment in private and public construction projects were being submitted.

The enquiry found that the undertakings concerned had participated in hardcore competition restrictions and, thus, were liable to a fine. The Commission fixed these fines after considering the type, duration and gravity of the respective infraction.

(ILO, 08.10.09)
Collusion Against a Law

Asad Jamal*

Constitution requires the government to regulate trade, commerce and industry in the interest of free competition and public interest. Will the Parliament and the government act in public interest or fall prey to manoeuvrings of the strong cartel lobbies?

The Competition Ordinance, 2007 (the Ordinance) is one such legislation which established Competition Commission of Pakistan (CCP). The Ordinance was promulgated under Article 89 of the Constitution on October 03, 2007, replacing the outdated Monopolies and Restrictive Trade Practices Ordinance of 1970 (MRTPO).

The CCP in its short existence has done some commendable work in the interest of the people of Pakistan. It has successfully taken on strong vested interest which holds back the national economy and works to the disadvantage of ordinary citizens. Examples include the cartels in the cement, sugar and banking sector. The Commission has also taken on cellular phone companies and other businesses which indulged in unfair and anti-competitive trade practices.

Taking on strong vested interest has also earned the Commission the ire of the elements involved in anti-competitive and anti-people activities. There has been efforts to influence the government to dilute the powers of the Commission. There is now a general agreement in federally structured states that competition is a subject within the competence of the federation as, inter alia, the provinces/states, jointly or severally, are constitutionally incapable of enacting an effective legal scheme concerning competition.

Reportedly, an argument has also been tried at, based on constitutional provisions of the abrogated constitutions of 1956 and 1962. While the 1956 constitution had a specific item on the federal legislative list concerning industrial monopolies, the 1962 constitution had no reference to the subject, neither in the substantial provisions nor in the legislative lists. We should not forget that the former anti-monopoly law, MRTPO of 1970, was given protection under the Constitution of 1973. Therefore, any argument on the basis of previous constitutional provisions also does not hold.

The amendment under consideration by the federal government regarding the quantum of penalty also needs to be considered carefully. The Ordinance provides that the Commission may impose fine on any enterprise found guilty of violating its provisions, a fine of Rs 50 million or 15 percent of its annual turnover, leaving discretion with the Commission. The amendment proposes insertion of words ‘whichever is less’ for imposition of fine from the two amounts. This is clearly at the behest of powerful cartel lobbies in the country and is intended to reduce the quantum of penalty which will substantially take the sting out of the powers of the Commission. This should not happen.

In this regard, it may also be mentioned that international best practices prescribe that penalties be linked to turnover. At this juncture of the development of law and competition regime, it would be best to leave the discretion with the Commission. It can be strongly argued that this is important to deter increasing cartelisation in Pakistan.

Corporate and individual criminalisation of offences will give powers in the hands of the Commission, for which it may not have the requisite experience. However, any such provisions, if introduced, may be envisaged to come into force at an appropriate future date, a few years from now, after taking stakeholders on board.

The law must be amended by involving a judicial body in the mechanism. The Supreme Court as the direct appellate forum from the Commission’s decisions appears on the face of it somewhat problematic and needs to be debated in terms of the Articles, among others, 185, 175 and 212 of the Constitution. However, such considerations need time which is short at present, as the law must sail through the Parliament or promulgated as an ordinance. The Constitution requires the government to regulate trade, commerce and industry in the interest of free competition and public interest.

Microsoft-Yahoo Search Pact Approved

Microsoft Corp. and Yahoo Inc.’s proposed search and advertising partnership has been cleared by antitrust officials in Canada and Australia. Yahoo is counting on the partnership to help it significantly cut costs as it focuses on its online display advertising business, while Microsoft hopes the deal will enable it to become a powerful force in Internet search, and the lucrative search advertising business.

Under the terms of the deal, Microsoft’s Bing search technology would underpin Yahoo search pages, which Yahoo would maintain. In return, Yahoo would receive nearly 90 percent of the resulting advertising revenue. Microsoft and Yahoo currently command just under 30 percent of the US search market combined while Google holds a roughly 65 percent market share. (FT, 15.12.09)

Wal-Mart Sells Asda in UK

Wal-Mart has sold Asda for US$11bn to a Leeds-based investment vehicle called Corinth Services Limited for only US$319m more than it paid for the UK supermarket chain in 1999.

In the previously undisclosed group restructuring that took place in August 2009, the world’s largest retailer let its subsidiary Wal-Mart Stores (UK) sell 3.1bn ordinary shares in Asda in return for a US$9.07bn cash payment from Corinth, a fellow Wal-Mart group company, and US$1.98bn in shares.

Asda described the deal as a "group reconstruction", which valued the company at “historic book value” rather than the result of an independent revaluation. A spokesman said that it had been done “for good financial management” reasons.

(Www.Standard.co.uk, 09.11.09)

BA-Iberia Agreed to Merge

British Airways (BA) Plc agreed to a US$7bn merger with Spanish carrier Iberia Lineas Aereas de Espana SA, ending more than a year of talks on a tie-up aimed at fighting a slump in travel and closing the gap with competitors.

Under the all-share deal, BA investors will own about 55 percent of the business. The merger would not be completed until late 2010 and can be called off by Iberia if BA fails to resolve pension-deficit issues.

The combination will meld the UK company’s web of US routes with Iberia’s Latin America services, extending its leading position in the lucrative trans-Atlantic market and consolidating its status as Europe’s third-largest airline.

(WSJ, 13.11.09 & ET, 14.11.09)

Cisco to Acquire Tandberg

Cisco made a US$3bn cash offer for Tandberg, a Norwegian video-conferencing company. The acquisition is the largest since the US network equipment maker’s US$3.2bn cash purchase of online collaboration company Webex in 2007 and is set to round out its portfolio of video, messaging and other collaboration tools.

Cisco has heavily promoted its high-end “telepresence” systems, which are designed to bring an almost lifelike quality to video conferences, but has lacked a wider range of conferencing products, including ones for desktop computers. The acquisition of Tandberg, which generated revenues of US$809mn in 2008, leaves Polycom, a US-based video-conferencing company, as the only sizeable independent in the market.

(Fortune, 02.10.09)

PepsiCo-Anheuser in Landmark Pact

An unusual deal between PepsiCo and Anheuser-Busch, the US subsidiary of the world’s largest brewer, has highlighted a developing global alliance that could eventually threaten Coca-Cola’s position as the world’s largest beverage company by sales.

PepsiCo and Anheuser agreed to work together to cut costs by combining their purchasing of items such as office supplies and computers. The companies provided no details of the expected cost savings. But, the arrangement reflects the growing strategic relationship between PepsiCo’s soft drinks and snack business and Anheuser-Busch InBev, the global brewer created by InBev in a US$52bn takeover. (FT, 15.10.09)

Petroleum to Take on Oil Groups

Nippon Oil and Nippon Mining signed the largest merger deal in Asia so far in 2009, as they agreed to create JX Holdings, a petroleum refining group worth US$11.3bn. The combined group is expected to rank among the world’s 10 largest private sector oil companies by revenues, although low profit margins mean it will lag behind in terms of profits and market value.

The two companies would shrink capacity by 400,000 barrels per day, or more than a fifth of combined potential output, by 2011. In addition, they would eliminate another 200,000 bpd by March 2015. The measures are expected to save US$1.1bn a year in operating costs as well as reducing downward pressure on prices. (FT, 31.10.09)

Watson Acquires Arrow Group

Watson Pharmaceuticals Inc. completed its acquisition of Arrow Group for a combination of cash and stock. The price of the purchase was a cash payment of US$1.05bn, the issuance of 16.9 million shares of common stock and US$200mn in the form of zero-coupon, non-convertible preferred shares, which was placed in escrow for the benefit of the Arrow shareholders. The preferred shares will be mandatorily redeemable in 2012.

Watson develops, manufactures, markets and distributes generic pharmaceuticals and specialised, branded pharmaceutical products focused on urology and women’s health. Arrow is one of the fastest growing generic drug companies which owns the US rights to the authorised generic version of Pfizer Inc.’s cholesterol drug Lipitor, which is the best-selling brand-name drug in the world.

(DrugLetter, 03.12.09)
Oracle Wins More Time for Sun Merger

The EC has agreed to a request by Oracle to extend the deadline for approval of its proposed US$7.4bn merger with Sun Microsystems. The Commission, which has been holding up the deal because of antitrust concerns over Oracle’s acquisition of a Sun-owned open source database company, said that the US software group had requested the extension in order to “have the opportunity to further develop its arguments in relation to the Commission’s concerns”.

The Sun deal, which has already secured approval from antitrust authorities in the US, has been held up because of the Commission’s worries about Oracle gaining control of MySQL, an open source database company which Sun acquired in 2008. (FT, 21.11.09)

France Telecom Pays in Swiss Merger

France Telecom SA, Europe’s third largest phone company, agreed to merge its Swiss unit with that of Denmark’s TDC A/S, paying US$2.25bn for control of the combined entity.

France Telecom will own 75 percent of the company formed by the merger of its Orange Switzerland unit with TDC’s Sunrise Communications SA, and has an option to buy the rest for about US$1.8bn.

The new company will be Switzerland’s second-largest mobile-phone operator behind Swisscom AG. The deal catapults France Telecom from the third spot in the Swiss market, and mirrors a similar move by the company to gain market share and cut costs in Britain. (BS, 26.11.09)

GE Nabs Vivendi Stake in NBCU

General Electric has agreed to buy the French media conglomerate Vivendi’s 20 percent stake in NBC Universal for US$5.8bn, paving the way for the US company to sell control of the TV and movie company to Comcast.

The deal, valued at US$30bn, would make Comcast one of the largest US entertainment groups, rivalling its former takeover target, the Walt Disney Company. NBC Universal was formed in 2004 after Vivendi agreed to merge its Vivendi Universal Entertainment business with GE’s NBC. (Livemint, 02.12.09)

ExxonMobil’s Strategy for XTO Takeover

ExxonMobil has signalled a significant shift in strategy with a deal to pay US$31bn in stock for XTO Energy, which will give the world’s biggest publicly listed oil company a large position in domestic natural gas. The deal gives Exxon an increased foothold in difficult-to-tap gas reserves and greater access to a cleaner-burning alternative to coal.

Exxon will create an organisation to manage the production of oil and gas from unconventional deposits, such as shale, tightly compressed sands and coal bed methane, which require sophisticated technology to tap. Exxon says the new group will help it rapidly develop and deploy technology and operating practices that will boost output. (PW, 02.12.09)
A coalition of retailers, non-governmental organisations and food manufactures has launched a foundation to combat obesity in the US. The Healthy Weight Commitment Foundation (HWCF) aims to help reduce obesity by 2015 by encouraging consumers to balance calories consumed within calories expended through physical activity. The initiative will focus its efforts on consumer eating and exercise in the marketplace, the workplace and schools.

Companies signed up to HWCF will commit to: adapting products, packaging and labelling to promote healthier lifestyles; helping their employees achieve energy balance; and launching nutrition education and physical education initiatives in schools across the US. Members of the foundation have invested US$20mn in the initiative, which is also to include a nationwide public education campaign.

Smart Choices Food Label Collapses

The Smart Choices food label, which numbered amongst its advocates companies such as Unilever, Kellog and Kraft, has been halted following controversy over whether it set the bar too low on how it rated foods.

The Food and Drug Administration was looking at what it described as “misleading food labels”. The announcement has been followed by companies such as Unilever, PepsiCo and Kellogg announcing that they would no longer use the label.

Arguments over the robustness of the Smart Choices system had focused on a number of products, such as low-fat ice cream bars and Froot Loops, which had passed the system’s criteria as being able to carry the green tick logo.

Jamaica Sued over Import of Mace

Future Services International is suing the Jamaican government for blocking the import of mace for pepper spray to help protect its employees against violent crime.

The company, which provides support for litigants in Jamaica, has filed the suit with the Supreme Court arguing that it had received no response to requests to the Ministry of National Security to allow the import.

According to court documents, the decision by the company to import the sprays followed a series of violent incidents involving members of its staff, including the murder of a security officer.

Airlines Pledge 50% Emissions Cut

Airlines, airports and aircraft manufacturers have made a commitment to halve the aviation industry’s carbon emissions by 2050. Other proposals include: making all industry growth carbon-neutral by 2020; cutting carbon dioxide emissions by 1.5 percent every year for the next decade; and a global carbon trading scheme.

The commitment comes after the Aviation Global Deal Group, a coalition of airlines, said ‘carbon dioxide emissions from international aviation must be integrated within [any] agreement, at a sectoral level’ in Copenhagen. BA has warned, however, that such a global scheme would add about US$4.9bn annually to industry costs, which would be passed on to passengers through higher fares.

BP Challenges Fine for Explosions

Oil giant BP will challenge a record fine of over US$87mn levied for failing to correct problems that led to the explosion in 2005 that killed 15 workers. The company said that it had been taken by surprise by the fine, which is considerably higher than any previous similar penalty, because it had thought there was good cooperation between it and the Occupational Safety and Health Agency (OSHA) over moves to improve site safety.

The OSHA says that BP has seriously failed to eliminate hazards similar to those that caused the explosion in the years since. BP strongly denies the claims, saying it has spent over US$1bn putting in place 550 corrective actions to improve safety at the Texas refinery.

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Sustainable Palm Oil Banned Again

A magazine advert that promoted the sustainability of Malaysian palm oil has been banned by the UK’s advertising watchdog for untrue claims. The Malaysian Palm Oil Council (MPOC) has slammed the move, arguing that the freedom of choice of British consumers is being affected by NGO attempts to stifle the case for the other side in the debate around palm oil. The advert, entitled “Palm Oil: The Green Answer” calls allegations against the industry for issues such as deforestation and treatment of farmers “protectionist agendas hidden under a thin veneer of environmental concern”. It said the case against palm oil was not based on fact.

The Advertising Standards Agency said that the ad’s claims that palm oil “puts minimal strain on the environment” could not be substantiated and should not be repeated.

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Mining Firm Loses Licence to Operate

A Norwegian mining firm has had its environmental compliance certificate rescinded for 90 days by the Philippine government’s environment secretary.

The US$2.4bn project local officials and residents which demanded the government revoke the mining permit. Government officials responsible for giving Intex the permit could also face legal action. Intex says it has “continuously conducted consultations and established a close relationship with the tribal leaders of communities” in the Mindoro area.

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CIC to Push into Mongolia

China Investment Corp (CIC) will invest US$500mn to fund the expansion of a Canadian coal mining company in Mongolia, the latest in a string of global resources deals by China’s sovereign wealth fund.

CIC will buy 30-year debentures that pay eight percent per annum and will be convertible after one year into a total of 22 percent of the common shares in SouthGobi Energy Resources, a subsidiary of Canadian mining group Ivanhoe.

China has been Mongolia’s largest trading partner for more than 10 years and accounts for about half the foreign investment in the country, which has a population of just 2.6 million. (FT, 28.10.09)

TPG Invests in Vietnamese Food

TPG, the US private equity fund, has made a landmark investment in one of Vietnam’s largest private companies, underscoring rising foreign investor interest in the growth of the country’s middle class.

The Vietnamese economy is dominated by state-owned enterprises and few of its private companies have built sufficient scale to absorb large foreign private equity investment.

Although relatively small, TPG’s US$35mn investment in Masan Group, a food producer, was the single-largest injection by a foreign private equity firm in a Vietnamese company. Masan owns a 20-percent stake in Techcombank, one of the top three Vietnamese private banks, in which HSBC also has a strategic stake. (FT, 26.10.09)

More Investment in Agriculture

India and China, the world’s two largest consumers of farm items, must invest US$29bn a year in agricultural sector in order to meet their food demand in 2050, the Food and Agriculture Organisation (FAO) said. The investment is required in primary agriculture and necessary downstream services such as cold chains, storage units, processing and market facilities.

Pointing that most of the investment will have to come from private sources, FAO said private investment needs to be encouraged at all stages in the value chain. Besides, the countries need to create a favourable investment climate and address issues such as lending policies to agriculture, risks and limitations on the ability of microfinance systems to bring about a step-change in production and productivity, it added. (FT, 11.10.09)

Equity Investment Management


The measures provide guidance on the registration and incorporation of equity investment management companies in Pudong New Area to be established by foreign equity investment capital, including private equity investment and venture capital.

A notice on industrial and commercial registration of equity investment enterprises had already issued which specifies the basic conditions for equity investment management enterprises. However, in practice, the examination and approval authorities and the registration authorities generally apply the notice’s provisions regarding equity investment management enterprises only to Chinese enterprises. (ILO, 25.11.09)

UAE Economy to Grow in 2009

The UAE economy is expected to grow 1.3 percent in 2009 and 3.2 percent in 2010, despite fears that Dubai’s debt woes have worsened prospects for an economic recovery. Inflation is expected to fall to two percent by the end of 2009 after declining to 2.5 percent in the first eight months of 2009.

The global economic downturn sent the top Gulf Arab economies – Saudi Arabia and the UAE – into a downturn in 2009 but high state spending and a turnaround in oil prices are helping the world’s top oil-producing region get back on its feet.

Inflation, a major headache in the region in 2009 of an oil and property-fuelled boom, has dropped sharply in the world’s third largest oil exporter. UAE inflation peaked at 12.3 percent in 2008. (BS, 22.12.09)

Positive Outlook for SSA

The International Monetary Fund (IMF) expects a positive recovery in sub-Saharan Africa (SSA) despite the negative effects of the global economic crisis. Many of the regional member states were hard hit by the crisis, reducing economic growth to just one percent in 2009 after a period of sustained high economic growth.

According to the IMF, for the region as a whole, the fiscal balance has swung from a surplus of just over 1.25 percent of gross domestic product (GDP) in 2008 to an expected deficit of 4.75 percent in 2009. This contrasts with the much more limited increase in deficits observed in past global slowdowns often accompanied by high debt, limited room for maneuver. (Afrol.com, 05.10.09)

South Africa to Sign Deal with Zimbabwe

South Africa is close to signing a bilateral investment treaty with Zimbabwe, paving the way for what could be a sharp increase in private sector investment in its troubled northern neighbour.

The treaty would provide mechanisms to help resolve disputes and sharply reduce the price of political risk insurance, helping ease concerns about Zimbabwe’s political stability that have inhibited investment, despite interest from South African groups ranging from mining companies to banks and retailers.

News of the investment treaty comes as the Zimbabwean economy continues to stabilise after the abolition of the local currency and amid signs that the South African government is keen to encourage closer bilateral ties. (FT, 07.10.09)
INVESTMENT & DISINVESTMENT: IN FEATURE

A New Spirit of Solidarity Rises in the South

Developing economies are not only attracting investment, they are becoming big investors in their own right.

A significant global financial landmark is passing virtually unnoticed – obscured, perhaps, by the ongoing fallout from the economic and financial crisis in industrialised countries.

According to the United Nations Conference on Trade and Development (UNCTAD), foreign direct investment (FDI) to emerging markets and developing countries in 2008 amounted to US$730bn or about 43 percent of global FDI receipts. If trends from the first half of 2009 continue, FDI to emerging markets and developing countries, which are sometimes referred to as “the South”, is on track to exceed direct investment in the mature markets of “the North”, according to Columbia University’s Vale Institute.

Granted, part of this reversal is due to the collapse in flows to developed markets, which were down by more than 50 percent, year on year, in the first half of 2009.

But this trend also reflects strong fundamentals and good policies in many emerging markets and low-income countries – policies that have helped these economies weather the crisis and rebound quickly.

Moreover, emerging and developing economies are not only attracting more investment, they are also becoming big investors in their own right. According to UNCTAD, about a fifth or roughly US$351bn of global outward investment flows during 2008 came from emerging and developing countries. This is a 50-fold nominal increase over such flows in 1990.

Emerging and developing economies invest differently. According to a recent UN estimate, 40 percent of FDI from countries of the South goes to the highly vulnerable least-developed countries, many of which are just emerging from conflict. In countries such as the Democratic Republic of the Congo, Malawi and Lesotho, for example, about half of inward FDI comes from South Africa.

FDI creates jobs and generates incomes. It also plays a key role in stimulating trade. According to estimates from the International Monetary Fund (IMF), about 40 percent of world exports in 2008 came from emerging and developing economies. Half of these exports went to other countries in the South.

Together, investment and trade, combined with sound governance, development aid and effective policies, have transformed several countries from aid recipients into aid donors. In less than 50 years, South Korea has evolved from a low-income country into an innovative provider of development assistance. Many Gulf states have also become substantial donors. China’s recent announcement that it will provide US$10bn in new financing to Africa, while at the same time cancelling US$1bn in outstanding debt, underscores its emerging leadership as a development partner.

Such “South-South cooperation” will help shape the world’s response to climate change. Many developing countries already have extensive experience in designing and using green technologies. They are sharing their insights with other countries at similar income levels.

A high-level United Nations conference held in Nairobi in December 2009 demonstrated that South-South cooperation – through aid, trade, technical assistance and investment – can play a prominent role as we work to achieve the Millennium Development Goals (MDGs). Success here rests on a recognition that eradicating poverty serves everyone’s interests. Our efforts to control this year’s H1N1 pandemic, for instance, demonstrate that we need well-functioning public health systems in every country, not just those of the North.

South-South trade and investment does not diminish the need for industrialised countries to honour their aid commitments. There are some things – such as building primary education systems and creating infrastructure – that can only be done by the public sector with public money.

Delivery on the pledges made by the G-8 at Gleneagles in 2005 is woefully off-track. In order to meet them, annual aid flows from industrialised countries need to rise by at least US$25bn by 2010, with most of this increase devoted to Africa.

Future historians may well see the rise of South-South cooperation as one of the key developments of the early 21st century. Given its vast potential to support the rise of billions of people from poverty and achieve the MDGs, it is a change that offers us great hope.

* Deputy Secretary-General of the United Nations. The article appeared in the Financial Times, on December 08, 2009.
Maritime Regulation in Brazil

The National Maritime Administration Agency is considering alterations to the norms governing the charter of foreign vessels for cabotage and maritime support. The agency intends to extend the circulation period to five days, but proposes introducing a separation stage to offer Brazilian ships additional shipment options.

It is expected that the proposed change to the norm governing chartering and cabotage will be presented at a public hearing in late October 2009. Users and shipping companies will analyse the agency’s changes during a public consultation process. (ILO, 28.10.09)

Revised Mega Power Policy

The Union Cabinet in India relaxed some stringent conditions for availing fiscal benefits to building power plants of at least 1,000MW capacity. A policy to rapidly add power generation capacity in India allows a tax holiday for 10 years and waiver from paying customs duty on equipment imports to these big projects.

The policy has been revised to make investments more attractive and make it easier for the government to achieve a proposed target of creating power generation capacity of 78,757MW at a cost of Rs 10.31 trillion by 2012. (Livemint, 02.10.09)

New Regulation for Joint Ventures

China’s State Council announced a regulation to standardise and encourage the establishment of joint venture enterprises by overseas investors. The regulation, which will take effect from March 2010, covers both enterprises and individual investors and defines those joint venture enterprises as those set up by more than two overseas investors or by an overseas investor and a Chinese investor.

The regulation aims to encourage overseas investors with advanced technology and management experience to set up joint ventures in an effort to promote the development of industries such as the modern servicing sector. (www.chinaview.cn, 02.12.09)

Allocation of Radio Frequencies

The Swiss Federal Communication Commission has instructed the Federal Communication Office to prepare for the allocation of mobile radio frequencies which are currently free or will soon become free. The frequency allocation will take place by way of auction and the public invitation to tender for these frequencies will be launched in the course of 2010.

The invitation to tender will concern frequencies in the following mobile radio bands: 900 megahertz (MHz); 1,800 MHz; 2,100 MHz; 2,600 MHz; Global Service for Mobile Communications frequencies allocated to In&Phone, Orange, Sunrise and Swisscom until the end of 2013; and Universal Mobile Telecommunications System frequencies allocated to Orange, Sunrise and Swisscom until the end of 2016. (ILO, 25.11.09)

TFN Settle Peering Fee Dispute

The National Communications Commission (NCC) of Taiwan agreed upon a new rate plan for Internet Protocol (IP) peering fees provided by Chunghwa Telecom in order to ease tensions among other internet service providers (ISPs), including Taiwan Fixed Network (TFN).

The dispute began in April 2009 when Chunghwa restricted the bandwidths available to TFN because it had not yet paid its annual fees. TFN claimed that it was being overcharged by Chunghwa.

The NCC launched an investigation and concluded that neither company had violated any regulation. The NCC hopes that the savings made by the ISPs due to the reduced peering fees will be passed on to consumers. (ILO, 23.09.09)

National Broadband Plan Considered

Among the items on the Brazilian government’s agenda is the adoption of the national broadband plan. The plan aims to expand Brazil’s internet access via broadband connections.

Although Brazil is the richest country in Latin America, broadband penetration is still very weak. According to the Cisco Broadband Barometer published in June 2009, Brazil’s broadband penetration rate is only 5.8 percent.

A recent study conducted by Oxford University, Oviedo University and Cisco Systems analysed the broadband networks of 66 countries. Brazil was ranked in 45th place. This indicates that Brazil falls far short of ideal connectivity conditions. (ILO, 02.12.09)

Enhanced Mobile Competition

The New Zealand Commerce Commission released its report on telecommunication markets. The report shows a persistent investment in telecommunication infrastructure, with the construction of new or extensions of telecommunication networks.

The Commission highlighted that the construction of technologically compatible mobile networks has facilitated the switching between companies and, therefore, enhanced competition in the market. Entry of new participants into the market means that now consumers have access to a prepaid plan at prices lower than the Organisation for Economic Cooperation and Development (OECD) average. (CC Press Release, 12.11.09)

Nigeria Pledges Strong Insurance Sector

The Nigerian Federal Government reiterated its commitment to build a stronger and more virile insurance sector with a capacity to support the development and growth of strategic sectors of the economy, including the banking as well as oil and gas industries.

The Minister of State for Finance, Remi Babalola said that the time is ripe to build on the strength of these modest achievements, particularly through the appointment of competent and experienced personnel to assist the current leadership in the regulation of the nation’s insurance market. (NEXT, 30.11.09)
SECTORAL REGULATION: IN FEATURE

Dairy Farmers Getting Milked Out of the Market

Dairy farmers are pressing federal antitrust regulators to investigate why large food companies are making hefty profits, while farmers are going broke. With more than 1.25 million cows in the state, it means the industry is losing roughly US$4mn a day.

That’s largely because farmers, who received about US$20 for every 100 pounds of milk they produced in 2008, have seen the price cut in half in 2009. In layperson’s terms, 100 pounds of milk equals nearly 12 gallons.

Some farmers have cashed out their farm equity and savings just to buy cattle feed and pay their utility bills. Entire herds have been slaughtered as part of a national programme meant to reduce milk supplies and increase the amount that farmers receive in their milk checks. At the same time that farmers are struggling, food processors have benefited from a glut of milk and the lower prices paid to farmers.

Farmers receive about US$1 from every gallon of milk sold in the grocery store. The rest of the retail price covers processing and handling costs and goes towards the profits of processors and store owners. Fewer processors and dairy industry consolidation have led to a breakdown in competition, resulting in farmers not getting a fair share of the retail food dollar.

Farm groups such as the National Family Farm Coalition have urged US Senator Russ Feingold to investigate large food companies and dairy co-operatives that sell to the companies. Feingold said the Justice Department should reconsider the 2001 Dean Foods merger with Suiza Foods that helped make Dean the nation’s largest milk processor and distributor. He also wants antitrust regulators to review Dairy Farmers of America, a dairy co-operative that controls about 30 percent of the nation’s milk supply and sells milk to Dean Foods.

Dean Foods and Dairy Farmers of America strongly deny any wrongdoing and say they are not responsible for the current farm crisis. The worst global recession in 75 years, combined with too much milk production, is to blame for the dairy crisis.

Feingold wants antitrust regulators to review the recent Dean Foods’ acquisition of Foremost Farms US processing plants in Waukesha and De Pere. The merger “seems to have eliminated virtually all competition for school milk contracts in Eastern Wisconsin”.

Numerous Complaints
According to numerous complaints, Feingold said, Dean Foods and Dairy Farmers of America have repeatedly conspired to deny independent farmers and small co-operatives access to milk bottling plants, in order to force them to join Dairy Farmers of America or market products through its affiliates.

Justice Department officials declined to comment on whether there would be an investigation into the dairy industry. But, the antitrust division is aware of the economic upheaval and that farmers were going out of business at a record rate.

Farm milk prices are set by the government, using a complex formula patched together over many decades. Farmers say consumers ought to be paying much less for dairy products now – given that the prices they receive have tanked.

Stores Set Prices
But, retail stores, not processors, set the final prices that consumers pay.

“We do not have much to do with that at all”, said McGinnis with Dairy Farmers of America.

Wisconsin’s US$26bn dairy industry is the lifeblood of dozens of communities.

But, for now, farmers are bearing the brunt of low commodity prices.

“The money is there. It is just not getting back to the farmer”, said Pete Hardin, Editor of The Milkweed, a dairy industry publication based in Brooklyn, Wis.

The Obama administration is scheduling a series of listening sessions in 2010 to hear from farmers on a variety of issues, including market concentration and competition among food processors.

Financial Reform Signed into Law

The Colombian Financial Reform Law has been signed into law. The law introduces certain changes to the regulatory framework of the financial system, the most remarkable innovation being the establishment of the multi-fund system in the pensions and severance funds regime.

Financial consumer protection has become one of the most important issues that governments must address in order to promote greater understanding of the financial products offered in the market and restrict the spread of abusive practices within the system.

The new law authorises banks to grant credit for the acquisition of companies or associations; and perform lease operations where the lessee is not allowed to purchase the goods of the lease.

Japan Unveils Banking Reform Plan

Japan’s financial regulator unveiled a basic framework for regulatory reform aimed at increasing the transparency and stability of Japan’s capital markets, in line with international moves in the wake of the global financial crisis.

Japan’s proposed initiative would, among other things, introduce measures to improve the transparency and stability of derivatives trading, broaden the scope of regulation to cover financial institutions as groups rather than individual entities and strengthen the regulation of hedge funds in line with international moves.

US’ Final Rule on Overdraft Fees

The Board of Governors of the Federal Reserve System of the US released its final rule regarding overdraft services. The rule create an in-opt rule to create an opt-in rule under which financial institutions may not charge overdraft fees to consumers in connection with automated teller machine transactions and one-off debit card transactions, unless the consumer has affirmatively consented to such fees.

The board rejected an opt-out approach to overdraft fees that had been supported by most financial institutions and largely rejected industry concerns about the operational feasibility of the new rule. The mandatory compliance date for all affected financial institutions is July 01, 2010 for new accounts and August 15, 2010 for existing accounts.

Islamic Banks Need More Regulation

The fast-growing Islamic financial sector needs strong regulation to ensure it never faces the damage caused by the financial crisis, Malaysia’s Prime Minister, Najib Razak, said.

He said the Islamic financial system was attracting growing global attention, as conventional financial institutions reeled from huge losses. However, it would remain resilient only with strong governance and risk management systems that could keep pace with sophisticated innovation.

The Islamic financial sector has emerged as a key element of the Malaysian economy, following the establishment of a single national sharia advisory council within Bank Negara Malaysia, the central bank, which also oversees the country’s parallel conventional financial system.

Restrictions on State-Aided Banks

The Latvian Parliament applied its urgency procedure to adopt amendments to the Law on Credit Institutions in order to impose additional restrictions on state-aided banks. As per the amendments, credit institutions which are receiving state aid will be bound to fulfill their subordinated obligations to repay loans and calculate, accumulate or pay the interest or other remuneration due on these loans.

The amended regulations will also apply to credit institutions upon which the Financial Services Supervisory Authority has imposed restrictions on the fulfilment of deposit obligations.

EU Banks ‘Sowing the Seeds’ of Next Crisis

European banks are emerging from the credit crisis bigger than before, posing more risk to their national economies. BNP Paribas SA, Barclays Plc and Banco Santander SA are among at least 353 European lenders that have increased in size since the beginning of 2007. 15 European banks now have assets larger than their home economies, compared with 10 lenders three years ago.

While the EU has grabbed headlines for breaking up bailed-out banks, regulators have not reined in firms that shunned state aid and are too big to fail. European bank assets have grown 25 percent since the start of 2007, compared with a 20 percent increase at US lenders.

Royal Bank of Scotland Group Plc’s assets ballooned 2,914 percent in the 10 years through 2008 as it made acquisitions, boosted trading and increased lending. Edinburgh-based RBS spent US$140bn on takeovers, culminating in the purchase of ABN Amro Holding NV in 2007 that triggered the world’s biggest bank bailout.
A global controversy is raging: what new regulations are required to restore confidence in the financial system and ensure that a new crisis does not erupt a few years down the line. Mervyn King, the governor of the Bank of England, has called for restrictions on the kinds of activities in which mega-banks can engage. British Prime Minister Gordon Brown begs to differ: after all, the first British bank to fall – at a cost of some US$50bn – was Northern Rock, which was engaged in the “plain vanilla” business of mortgage lending.

The implication of Brown’s observation is that such restrictions will not ensure that there is not another crisis; but King is right to demand that banks that are too big to fail be reined in. In the US, the UK, and elsewhere, large banks have been responsible for the bulk of the cost to taxpayers. America has let 106 smaller banks go bankrupt in 2009 alone. It’s the mega-banks that present the mega-costs.

The crisis is a result of at least eight distinct but related failures:

- Too-big-to-fail banks have perverse incentives; if they gamble and win, they walk off with the proceeds; if they fail, taxpayers pick up the tab.
- Financial institutions are too intertwined to fail; the part of AIG that cost America’s taxpayers US$180bn was relatively small.
- Even if individual banks are small, if they engage in correlated behaviour – using the same models – their behaviour can fuel systemic risk.
- Incentive structures within banks are designed to encourage short-sighted behaviour and excessive risk taking.
- In assessing their own risk, banks do not look at the externalities that they would impose on others, which is one reason why we need regulation in the first place.
- Banks have done a bad job in risk assessment – the models they were using were deeply flawed.
- Investors put enormous pressure on banks to undertake excessive risk.
- Regulators, who are supposed to understand all of this and prevent actions that spur systemic risk, failed. They, too, used flawed models and had flawed incentives; too many didn’t understand the role of regulation; and too many became “captured” by those they were supposed to be regulating.

If we could have more confidence in our regulators and supervisors, we might be more relaxed about all the other problems. But regulators and supervisors are fallible, which is why we need to attack the problems from all sides.

There are, of course, costs to regulations, but the costs of having an inadequate regulatory structure are enormous. We have not done nearly enough to prevent another crisis, and the benefits of strengthened regulation far outweigh any increased costs.

King is right: banks that are too big to fail are too big to exist. If they continue to exist, they must exist in what is sometimes called a ‘utility’ model, meaning that they are heavily regulated.

Given the lack of understanding of risk by investors, and deficiencies in corporate governance, bankers had an incentive not to design good incentive structures. It is vital to correct such flaws – at the level of the organization and of the individual manager.

That means breaking up too-important-to-fail institutions. Where this is not possible, it means stringently restricting what they can do and imposing higher taxes and capital-adequacy requirements, thereby helping level the playing field. The devil, of course, is in the details – and big banks will do what they can to ensure that whatever charges are imposed are sufficiently small that they do not outweigh the advantages gained from being underwritten by taxpayers.

These are not matters of black and white: the more we limit the size, the more relaxed we can be about these and other details of regulation. That is why King, Paul Volcker, the United Nations Commission of Experts on Reforms of the International Monetary and Financial System, and a host of others are right about the need to curb the big banks. What is required is a multi-prong approach, including special taxes, increased capital requirements, tighter supervision, and limits on size and risk-taking activities.

Such an approach would not prevent another crisis, but it would make one less likely – and less costly if it did occur.

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* Professor at Columbia University and the winner of the 2001 Nobel Prize in Economics. Abridged from an article that appeared in the Project Syndicate, on December 08, 2009.
A sound economy is the surest engine of growth and the shortest route to tackling the challenges posed by endemic poverty in developing countries. Going by the example of well-developed nations, sound economic fundamentals contribute to social development, which, in turn, strengthen political stability and good governance.

To ensure a sound economy, the legal regime must be equally sound and provide an assuring platform for entrepreneurs and businesses that can create job towards alleviating, or at least significantly diminishing, poverty.

The role of law in promoting economic development cannot be underscored, because most of our lives and interaction with each other are regulated by law. Law serves an economic function, because it recognises the freedom to do business within defined parameters.

For example, the law of contract is a devise to promote market institutions and the economy by recognising and protecting the freedom to choose, interfaced by deliberate government policies that imply that in promoting selfish economic interests entrepreneurs will promote the overall economic interest of society.

The individual can only make money by supplying commodities or providing services required by the society.

By promoting competition through the mechanism of law, government prevents monopolies and undue profits and enhances efficiency in goods and service delivery. In order to enhance the growth of business and consequently economic development, governments in developed societies use law as a catalyst for economic development.

The laws that promote economic development do not atrophy. They respond to social conditions, international developments and emerging trends. They are organic and forward looking.

They tend not to lag behind the activities of entrepreneurs, merchants and businessmen, but rather, chart new courses for them in realisation of much-needed economic growth and human development.

In the light of these fundamental objectives of the role of law in economic development, one notes with sobriety that the legal regime for doing business in Nigeria is several years behind developments in more conscious and sensitive societies desirous of boosting economic growth and alleviating poverty.

The problems with the Nigerian legal regime for economic development are myriad and indicated by archaic or multiple laws and regulations, overlaps in administrative and institutional structures, absence of laws in critical areas and a general state of confusion that is a disincentive to investment by local and international investors and entrepreneurs.

To address this problem, the Federal Government, through the Federal Ministry of Justice, in collaboration with the Department for International Development (DFID), established the National Working Group on the Review of Investment Laws of Nigeria “to review the laws and practices affecting economic activities in Nigeria and make recommendations including draft bills for reform and development of the same with a view to removing legal and other impediments to the flow of investment and conduct of business generally”.

Within this broad objective, the Working Group focussed attention on three thematic areas considered as integral and critical to governments desire to boost local and foreign investment in the short medium and long term, bearing in mind the need to modernise laws and institutions, fast track economic growth, alleviate poverty and make the environment competitive and, at the same time, attractive to business and investments.

* Professor of Law, Nigerian Institute of Advanced Legal Studies. The article appeared in the Vanguard, on October 23, 2009.
For Global Finance, Global Regulation

Europe led the way last year in facing down the global financial crisis, restructuring banking system and strengthening the global financial system. The EU was also at the forefront in calling for a new forum for economic cooperation of G-20 leaders. And from the outset of the crisis, it was Europe that promoted the fiscal stimulus – and sought to coordinate it globally – that has been a major factor in preventing recession becoming a world-wide depression. Now we need to once again lead the way in forging a new global consensus.

Stable, open and competitive European financial markets are essential to global growth. We recognise the importance to Europe of ensuring that we have globally competitive financial services, and the importance of developing world-class financial centers such as London and Paris. But the way global financial institutions have operated raises fundamental questions that we must – and can only – address globally.

Better regulation and supervision are the means by which the risk to the taxpayer can be reduced for the longer term. The EU has adopted a comprehensive set of new rules for the financial sector to avoid the repetition of the crisis: control over credit rating agencies, stronger capital requirements on complex products such as securitisation, and strengthened deposit guarantee schemes.

We also have agreed on a more efficient system for supervision of the financial sector within Europe to better monitor systemic risks, to ensure that EU regulation is applied consistently, to settle disagreement between national supervisors, and to deal with crisis situations. There is an urgent need for a new compact between global banks and the society they serve:

• A compact that recognises the risks to the taxpayer if banks fail and recognises the imbalance between risks and rewards in the banking system.
• A compact that ensures the benefits of good economic times flow not just to bankers but to the people they serve; that makes sure that the financial sector fosters economic growth.
• A compact that ensures financial institutions cannot use offshore tax havens to negate the contribution they justly owe to the citizens of the country in which they operate – and so builds on the progress already made in ending tax and regulatory havens.

Therefore, we propose a long-term global compact that will encapsulate both the responsibilities of the banking system and the risk they pose to the economy as a whole. Various proposals have been put forward and deserve examination. They include resolution funds, insurance premiums, financial transaction levies and a tax on bonuses. Among these proposals, we agree that a one-off tax in relation to bonuses should be considered a priority, due to the fact that bonuses for 2009 have arisen partly because of government support for the banking system.

However, it is clear the action that must be taken must be at a global level. We might also be able to help the funding of our Millennium Development Goals (MDGs) and address climate change. To achieve global coordination, we now propose a new process of deliberating and setting macroeconomic strategy. We need to correct and prevent the build up of global imbalances and enhance coordination at the global level so that foreign exchange volatility does not create a risk to the recovery.

Stability and confidence requires us to bring financial markets into closer alignment with the values held by families and business owners: Rewarding hard work, responsibility, integrity and fairness. People rightly want a post-crisis banking system which puts their needs first. To achieve that, nothing less than a global change is required.

L’année dernière, l’union Européen a guidé le chemin pour surmonter la crise financière en reformulant la structure de l’opération de la banque et ainsi a fortifié le système global de la finance. Maintenant c’est l’heure de composer un nouveau consensus global comme un marché stable, ouvert et concurrentiel est nécessaire pour le croissance globale. Afin de réduire le risque et le fardeau des payeurs d’impôt à long terme, il faut superviser et mieux réguler les banques. Il faut assurer que le secteur financier s’opère à l’esprit concurrentiel, partout dans le monde par une régulation correcte. Il est nécessaire de former un compact entre les banques du monde et ses utilisateurs ce qui va englober les responsabilités de la banque ainsi que le risque que la banque pose sur l’économie. Dans l’optique de parvenir à la coordination globale, il faut établir la stratégie macroéconomique en commençant par la réunion G-20 qui sera présidée par la Corée du Sud, l’année prochaine. Pour apporter la stabilité dans le marché, il faut revenir aux valeurs traditionnelles ; il faut honorer le travail dur, la responsabilité, l’intégrité et la justice.

* Prime Minister of Great Britain
** President of France

Abridged from an article that appeared in the Wall Street Journal, on December 09, 2009.
Mozambique is situated at Southern-eastern Africa, bordering the Mozambique Channel, between South Africa and Tanzania. Large-scale emigration by whites, economic dependence on South Africa, a severe drought, and a prolonged civil war hindered the country’s development. The ruling Front for the Liberation of Mozambique (FRELIMO) party formally abandoned socialist economic policy in 1989, and a new constitution the following year provided for multiparty elections and a free market economy. An UN-negotiated peace agreement between FRELIMO and rebel Mozambique National Resistance (RENAMO) forces ended the fighting in 1992. In December 2004, Mozambique underwent a delicate transition as Joaquim Chissano stepped down after 18 years in office. His newly elected successor, Armando Emilio Guebuza promised to continue the economic policies that have encouraged foreign investment.

Economy
At independence in 1975, Mozambique, a former Portuguese colony, was one of the world’s poorest countries. In 1987, the government embarked on a series of macroeconomic reforms designed to stabilise the economy. These steps, combined with donor assistance and with political stability since the multi-party elections in 1994, have led to dramatic improvements in the country’s growth rate. Inflation was reduced to single digits during the late 1990s although it returned to double digits in 2000-03.

Competition Evolution and Environment
The Government of Mozambique’s reform process started in 1987 with its Economic Rehabilitation Programme, renamed the Economic and Social Rehabilitation Programme, in 1989. The stated objective was to lay the foundation for a shift to a market-based economy. In recent years, privatisation and deregulation policies have been part of a major structural change from active industrial policy to a market economy.

Trade, widely recognised as an engine of growth and development, has been another important component of liberalisation. The Government of Mozambique moved from a system of managed trade toward a liberal regime with imports subject to ad-valorem tariffs. Mozambique’s reforms were intended to induce competitiveness, economic growth, and better living standards. Increased competition would benefit consumers by providing more choices, better quality, and lower prices. So far, results have been encouraging.

Mozambique’s privatisation programme, when measured on the basis of the moving of assets from the state into private hands, has also been successful. In 1994, there were 125 privatisations, and in 1995, 261. By mid-1999, more than 1,200 firms had been privatised with 87 of these considered large enterprises. The World Bank referred to Mozambique’s privatisation programme as ‘one of the largest in Africa’.

Competition Policy
There is no competition law in Mozambique. Mozambique’s present state of economic transition stands to gain considerably from encouraging market entry and investment. Accordingly, its competition policy should focus on forcefully challenging government’s anticompetitive behaviour; and horizontal proscriptions, especially price-fixing. Like Swaziland, Mozambique has sought the assistance of the Zambian Competition Commission to establish a competition law regime of its own.

The competition policy should aim to remove barriers to increased trade and move the country’s economy towards integration into the world economy. Cartels and monopolies cannot co-exist with trade and imports. But even a nationwide price-fixing cartel cannot undermine trade and integration without government barriers.

Mozambique has little tradition in antitrust: a limited jurisprudence in competition; a limited capacity to administer laws; little or no confidence in the legal system; no natural constituency for a competition agency; constrained budgets; little experience with competition; and limited human capital.

Eventually, July 2007 the Mozambican government approved a competition policy. A process for adopting the law was also initiated in 2008. UNCTAD and Zambian government have been assisting the Mozambican government to develop and implement the competition law of the country.

References
b) Global Competition Forum (www.globalcompetitionforum.org/africa.htm#Mozambique)
**Competition Law in India – A Toolkit**

India enacted its Competition Act in 2002 (amended in 2007) to deal with competition issues in a more liberalised economy. This law is a successor to the Monopolies and Restrictive Trade Practices Act, 1969. The Competition Commission of India (CCI) and the Competition Appellate Tribunal (CAT) are fully operational now.

This Toolkit is researched, compiled and customised in the Indian context, and is meant to provide a simple and concise handbook on various implementation issues surrounding the Competition Act 2002. It provides the definitions, characteristics of and ways to deal with the trade practices which are forbidden by the Competition Act 2002, which are relevant in the Indian market currently, with practical case studies which can help the readers understand the issues relating to competition in India.

*Suggested Contribution: Price: Rs 195/US$40*

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**Understanding the Basis for Compulsory Licensing for Public Health Reasons**

One possible way of ensuring improved access to an IPR-protected product is by granting a compulsory licence to other parties to produce the patented product under limited conditions. This briefing paper focuses on compulsory licensing for public health reasons. It discusses compulsory licensing, the various factors that are normally used to justify compulsory licensing and also discusses some examples in some select countries where compulsory licensing has been used for public health reasons.

*This Briefing Paper can be viewed at: http://www.cuts-ccier.org/pdf/Briefing_Paper09-Understanding_the_Basis_for_Compulsory_Licensing.pdf*

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**PolicyWatch**

The October-December 2009 issue of the CUTS newsletter PolicyWatch encapsulates the ‘Defining the Right Strategies for Sustainable Growth’ in its cover story which states that timely exploitation of latent renewable energy potential will bring unprecedented advance in India’s energy security along with creation of a green base for sustainable development. Enduring government strategies can harmonise economic growth and environment protection.

Special article by Madhav Mehra says that competition law in more a public policy challenge than a legal argument, and lawyers and judges dealing with it must both understand economics and show inventiveness to serve the cause of justice.

The newsletter captures an interesting article by Satvik Varma, which says that regulation can put down boundaries, but it’s moral intelligence that provides the load-bearing wall. Another article by Gaurav Tripathi analyses the impact of mobile phones on farmers which has huge potential to enable the small farmer to diversify from self-sustenance farming to higher income generating ventures like horticulture crops, animal husbandry and fish farming in paddy fields.

Besides, it carries regular sections on Infrastructure, Trade & Economics, Governance & Reforms, Corporate Governance, Expert Corner, Report Desk, Competition Insight etc.

*To access the newsletter online, please click on the following link: http://www.cuts-ccier.org/pw-index.htm*

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**Sources**


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