

On Friday April 24<sup>th</sup> yet another meeting took place of the Eurogroup of Finance Ministers, headed by Dutch Finance Minister Jeroen Dijsselbloem, and Greece's Finance Minister Varis Vanoufakis, this one in Riga, the capital of the Baltic Republic of Latvia. It ended badly with the Finance Ministers hurling abuse at Vanoufakis, calling him, among others, a time-waster, a gambler & an amateur, which prompted him, later that weekend, to tweet that he welcomed their "hatred". But the very next day the Greek government re-shuffled its bailout negotiating team, replacing him as its head with Euclid Tsakalotos (with The Guardian quoting an unnamed Eurozone official as saying that "The Greek government may [still] want to take the negotiations to the wire ... but does it know where the wire is?"). In the aftermath of all this, global stock markets soared & the London gold price jumped - *Tsakalotos is a Syriza Member of Parliament & a Rotterdam-born Oxford Ph.D., as well as the Deputy Foreign Minister for International Relations. While this move may in the short run be enough to secure the release of the next 7.2BN Euro bailout 'tranche' the Tsipras government desperately needs, it only temporarily papers over the cracks by giving the Greek face at the table a more beguiling appearance &, on the surface, more credibility. But in reality it's not unlike a re-arranging of the deck chairs on the Titanic; for the iceberg, in the form of Varoufakis, who has a 55% popular approval rating, & the Greek government's utter distaste for austerity, hasn't gone away : Varoufakis, even if no longer at the table, continue to have overall responsibility for the negotiations, Tsakalotos is just as much of a leftist as Varoufakis, the government as a whole remains just as opposed as ever to the idea of austerity, and the problem both parties will face in June in the next serious face-off will be just as dependent on a significant climb-down by the Tsipras government from its adamant anti-austerity stance (it is interesting in this context to note that, while in 1977 Greece's Debt-to-GDP ratio, at < 25%, was actually marginally below the average for the other countries that now make up the Eurozone, at least report, while the Eurozone average had increased almost 4x to 100%, that of Greece had grown over seven-fold to 175%).* .

John Baird, age 45, was a powerful & controversial member of Mike Harris' right wing Ontario government in the latter years of the last-, & the first couple of years of this-, century. In 2006 he switched the venue of his political activities to Ottawa and became a close ally, & the favourite political pitbull, of Prime Minister Harper, filling a number of major ministerial posts in his governments, culminating in his becoming Canada's Foreign Minister (*a job in which he gave the appearance of being both miscast & out-of-his-depth*). On February 3<sup>rd</sup> he resigned from his ministerial post & on March 16<sup>th</sup> from that as MP for the suburban Ottawa constituency he had represented in both Toronto & Ottawa for two decades. Since then he has been capitalizing with seemingly unseemly haste on this political antecedents; thus on March 28<sup>th</sup> he was named to the International Advisory Board of Barrick Gold (the world's largest-, but possibly also worst-managed major-, goldminer) that operates in baker's dozen of countries other than Canada, on April 5<sup>th</sup> an advisor to Richard Li, a son of Hongkong billionaire Li Ka-shing (father & son between them are worth close to US\$40BN) & on April 13<sup>th</sup> a Director of CP Rail.

In recent years the size of US corporate CEOs' remuneration has been in the limelight<sup>1</sup>. But what has received less media and/or public/shareholder attention has been corporate directors' stipends. Thus John Baird's as a CP Rail Director will be \$235,000 (which means he may get more on an hourly basis than its CEO), & recently it was made public that in 2014 Calgary

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<sup>1</sup> The average total remuneration of CEOs of major US corporations is about US\$5,500/hour, 331x that of their average employee (up from 42x in 1980 & 85x in 1990); the comparable ratio for their counterparts in Canada is 171x, in Switzerland 148x, in Germany 147x, in France 104x, in the UK 84x & in Japan 67x, none of them anywhere near the 12x 'cap' proposed in a recent Swiss referendum that failed.

University professor Jack Mintz, as a Director of Imperial Oil, Canada's 70%-owned Exxon subsidiary, had a honorarium of \$100,000 & a total compensation of \$267,500.

Next week will be make-or-break week for Binyamin Netanyahu's coalition-building mandate; for next Wednesday the two week extension to his original 28-day mandate will expire & President Rivlin must by law give someone else a 28-day mandate (with no 14-day extension option). And he seems to be having a tough time of it; for, while he has gotten the two parties of the religious right under the tent, his concessions to the two right wing religious parties, & the posts he promised them, have infuriated Naftali Bennett, & to a lesser extent Moshe Kahlon, and the ministerial posts that Avigdor Lieberman & Naftali insist on getting as the price of their joining the coalition, despite their parties' dismal performance in the elections, seem exorbitant and leave him little room to reward his fellow Likud part faithful with meaningful ministerial posts, especially he is now by law limited of having a Cabinet of only 18 members. And in light of the fact that he has apparently promised the two rightwing religious parties to reverse the law that lifted their Talmud-studying young men's exemption from military service, it was interesting to note that earlier this week three IDF MPs in a midnight raid arrested one such young man, albeit one with six children, for being AWOL & not having shown up for induction in the IDF despite numerous mailed notices to do so.

**GLEANINGS II - 612**  
**Monday April 30<sup>th</sup>, 2015**

**WHY IRAN IS STANDING BY ITS WEAKENED, AND EXPENSIVE, ALLY SYRIA**  
**(Christian Science Monitor, Nicholas Blandford)**

- Iran has been critical in keeping Syrian President Bashar al-Assad in power during four years of *civil war*, despatching thousands of soldiers & paramilitaries to bolster his flagging army, & billions of dollars to prop up its economy<sup>2</sup>. Still, his regime has been losing ground in the last month & now faces a crucial shortage of bodies to carry on the fight (which further increases its dependence on Iran, its close ally for the past 35 years). And while Tehran maintains Syria is extremely important to it & appears unwilling to consider anything but a military solution to dealing with the anti-Assad rebels, the question is *increasingly* how much longer it will be able to maintain that position in the face of continued sanctions & the growing animosity of-, & *greater cooperation between-*, the Sunni regimes in the region. According to Robert Ford, now a Senior Fellow at the Washington-based Middle East Institute but from 2010 to 2014 the US Ambassador to Syria, "It's not that the rebels will overwhelm the regime ... (*but that*) the war of attrition slowly slides against it."
- In four years of *civil war* the Syrian Army is estimated to have suffered losses of between 80,000 & 100,000 killed & wounded<sup>3</sup>, a punishing loss in manpower that has seriously affected its morale. In response Iran brought in Revolutionary Guard soldiers, Hezbollah fighters and Shiite paramilitaries from Iraq & Afghanistan, which, however, still wasn't enough to deal the rebels a finishing blow; according to a former anonymous Syrian official, it would take 200,000-300,000 Sunni fathers & mothers agreeing to have their sons risk their lives to keep *the Alawite* al-Assad in power. And recently the region's two

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<sup>2</sup> According to diplomatic sources in Beirut Iran has been spending US\$1BN-2BN a month supporting the Assad regime while according to the UN Envoy to Syria it has been US\$35BN/year.

<sup>3</sup> I.e. about half its regular army & 10+% of its total military establishment.

major Sunni powers, Saudi Arabia & Turkey, have been cooperating with Qatar & Jordan, and in March the former's King Salman & the latter's President Recep Tayyip Erdogan agreed on "the necessity of enhancing support for the Syrian opposition in a way that aimed to produce results.", which have been quick to materialize : in just this past month the Assad regime has lost control of the city of Idlib in the North-, & Bushra ash-Shoma in the South-, of the country, as well as of the Nabib border crossing point with Jordan, an Iranian-led offense in the Derma & Quneitra prtovinces has stalled in the face of tougher-than-expected rebel resistance, and a Hezbollah-led one in an area North of Damascus has been postponed.

*Tehran's interest is less in al-Assad per se than in keeping a land corridor to Hezbollah in Lebanon.*

### **EARNINGS : LESS THAN MEETS THE EYE (Leuthold Group, Doug Casey)**

- We don't agree with the praise heaped on the corporate sector for posting record earnings despite sluggish economic growth, & think earnings *growth* of the S&P 500 companies has been "abysmal". For during the 70 years from the earnings peak in the Third Quarter of 1937 to that in the Third Quarter of 2007, their reported earnings grew at an annualized rate of 6.3% (roughly equivalent to the nominal GDP growth rate during the period). But during the 78 months since September 2007 (which featured 19 months of recession & 59 months of economic expansion, a pretty normal distribution), and despite a historic shrinkage of the S&P 500 share base (due to share buybacks) and near-record profit margins, the S&P 500 12 months' trailing EPS is 24% below the level it would/should have been had it grown at the 6.3% annualized rate of the preceding 70 years.

*The opposite case is made by Jeremy Siegel, a Wharton Business School professor who maintains the market run-up since 2009 has been 'underwhelming' & that anyone who bails out of the stock market now is taking a (big?) risk, because the fact that the market has gone up a lot does not necessarily mean it is overvalued. But the writer, Doug Casey, is CIO of the Minneapolis, Minn.-based Leuthold Group (with AUM of US\$1+BN), & common sense suggests that the advice of someone who professionally lives & dies by the quality of his investment calls is more likely to prove meritorious than that of a tenured university professor with a guaranteed annual income & a defined benefit pension.*

### **U.S. ACCELERATES EFFORTS TO REACH TPP AGREEMENT (G&M, Marcel Sangsari)**

- Ahead of Prime Minister Abe's official visit on April 28<sup>th</sup>, the White House has been pulling out all the stops to secure from Congress "fast-track" trade promotion authority for the President (that would enable him to negotiate trade deals with foreign governments that Congress would only be able to approve or disapprove, but not amend). Thus on April 23<sup>rd</sup>, Secretary of State John Kerry went on record as saying that "In our era, economic and security realms are integrated ... Trade issues cannot be separated from larger questions about America's global leadership", thereby echoing views expressed earlier by Secretary of Defence Ashton Carter & by Michael Froman, the top US trade negotiator, and by the President himself, who recently declared that "If we do not help to shape the rules so that our businesses and our workers can compete in [Asian] markets, then China will set up rules that advantage Chinese workers and Chinese businesses."

*This is all about the Trans-Pacific-Partnership (TPP), a trade agreement five years in the making between 12 countries (Australia, Brunei, Canada<sup>4</sup>, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US & Vietnam) that account for 40% of global GDP (half of that attributable to the US) & seeks to counterbalance China's growing influence in the region<sup>5</sup>, and that President Obama sees as a cornerstone of his Asia "pivot" (a policy shift that, since its announcement in 2010 by then Secretary of State Hillary Clinton, has had little flesh put on its carcass).*

#### **DEAR CONGRESS : 'PRO-ISRAEL' IS NOT 'PRO-SETTLEMENT' (APN, Laura Friedman)**

- Congress has had a long record of refusing to affirmatively support Israel's policy of building settlements in the occupied territories, & Israel's settlements enterprise has been contrary to the policy of every US Administration, whether Republican or Democrat, since 1967. And it runs counter to Israel's self-interest; for settlements undermine its security, erode its position in the international community, & belie Israel's commitment to peace & the two-state solution (and if there is no two-state solution, Israel won't survive neither as a democracy or as a Jewish state).
- But incredibly as may now seem, today Congress is on its way to adopt legislation that would, for the first time in the 48 years since Israel took control of the West Bank, make it US law to support the settlements, as two nearly identical versions of a proposal by AIPAC to do just that have been attached to two major trade bills, the Trade Promotion Authority Bill & the Trade Facilitation and Trade Enforcement Bill. But even if passed, these bills will not protect Israel from pressure from Europe over the settlements; all they would achieve would be to further discredit US leadership & policy in the Middle East area, an arena in which even Israel's closest allies in Europe have run out of patience with various Israeli governments that talk about two states but act in ways that tell a different story.

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<sup>4</sup> Canada's involvement is still very much up in the air. For, while from the outset the idea was that **everything** would be on the table, Prime Minister Harper has been dug in on the position from the getgo that Canada's *consumer-unfriendly* dairy-, egg-, & poultry supply management system was not (for the sake of only a relatively small number of farmers, 15,000 countrywide in the case of dairy farmers alone?). But while he expected to have Tokyo in his corner & to be equally protective of its heavily subsidized farmers, Prime Minister Abe c.s. recently caved in to huge pressures to open up its farm sector, no matter how gradually.

<sup>5</sup> In response to which China has been organizing a rival Regional Comprehensive Economic Partnership (RCEP) with ten other Southeast Asian countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand & Vietnam), and more recently the Asian Infrastructure Investment Bank (to compete with the US-dominated World Bank & the Japan-dominated Asian Development Bank) which, to Washington's dismay, counts four of the G-7 members (Britain, France, Germany & Italy) among its founding member countries. Apart from the TPP initiative much of this might have been avoided if the US Congress had not stubbornly & foolishly refused all along to approve the 2010 IMF Quota & Governance Reform Package since it would, among, face reality by boosting the voting power of China (whose vote at presence has less weight than that of France & the UK, and less than one-quarter of that of the US)

## **U.S. INSTITUTES NEW RESTRICTIONS ON GLYPHOSATE (Reuters)**

- Glyphosate is the active ingredient in Monsanto's Roundup, the world's most widely used herbicide. But at least 14 weed species have developed glyphosate resistance<sup>6</sup>, affecting over 60MM acres of US farm land (*while only about 7% of the total farm land, it's more like 25% of prime farmland, where it is most likely to be used*). But the EPA has confirmed that it will start requiring farmers to have 'weed resistance management plans' for glyphosate, similar to those it brought in for a new herbicide recently introduced by Dow AgroSciences. This EPA initiative comes in the wake of a report by the WHO's Cancer Research Unit last month that noted, in contrast to the common wisdom that it was one of the safest herbicides in common use, that glyphosate is "probably carcinogenic to humans", & that traces thereof had been found in, among others, water, food, urine & breast milk, a finding contrary to that of a German government review thereof for the EU last year that concluded a link of glyphosate to cancer had not been established.

*Not surprisingly, Monsanto, that last year sold \$5BN-worth of Roundup (so it accounted for one-third of its total sales) even though its patent on it expired in 2000, maintains Roundup has repeatedly been proven 'safe' & blames "agenda-driven" groups for fueling false reports about glyphosate - the problem with government-, & corporate-, testing of product safety is that it typically is conducted over limited time frames whereas adverse side-effects of a product may only surface years, if not decades later.*

## **PRESSURE RISES ON JAPAN WITH FITCH DOWNGRADE (G&M, Brian Milner)**

- Rating agencies have long grown increasingly concerned about the level of Japan's national debt & investors have equally long been ignoring the warnings of those reminding them of the risk in JGBs (Japanese Government Bonds). Not that many years ago rated triple A by all three major rating agencies, Moody's last December cut its rating to A+, & on April 27<sup>th</sup>, on the eve of Prime Minister Shinzo Abe's visit to Washington, Fitch outdid Moody's by cutting its rating to A (*S&P still has it at AA-, albeit with a negative outlook. i.e. in the months ahead it can be expected to cut its rating as well*). So Fitch now deems its creditworthiness of a lesser quality than that of China & South Korea, and of Estonia or Slovakia, and to be on a par with Malta's. But the market met this news with a shrug, *likely in large part because the only buyer of JGB bonds these days is the BOJ.*
- Fitch's observation that "Japan's main sovereign credit and rating weakness is the high and rising level of government debt" was likely a gross understatement; for it expects Japan's National Debt-to-GDP ratio to be 244% by the end of this year, up from 227% two years earlier (vs. 177% for the No.2 in the National Debt-to-GDP sweepstakes, Greece).

*High National Debt-to-GDP ratios are now the order of the day. Thus while in 1930 that of the US was about 45%, today it is more than twice that (not counting the contingent liabilities embedded in its SS-, & Medicare/Medicaid-, systems). The same hold true for other developed countries like France (73% & 116%), Germany (66% & 85%), Ireland (29% & 126%), Portugal (76% & 147%), & Spain (42% & 103%). And it's worth keeping in mind that the seminal Kenneth Rogoff & Carmen Reinhart study a few years back of centuries of debt crises concluded that,*

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<sup>6</sup> Herbicide-resistant weeds impact yields negatively and make farming more difficult & expensive.

*once the National Debt-to-GDP ratio goes through 90%, it has an adverse effect on GDP trend growth rates.*