REPORT ON BUSINESS

The Globe and Mail

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Fiat Chrysler tuning up Renault bid to win French backing

LAURENCE FROST PARIS

Fiat Chrysler is discussing a Renault special dividend and stronger job guarantees in a bid to persuade the French government to back its proposed merger between the car makers, sources close to the discussions said.

The improved offer, if formalized and accepted, would also see the combined company's operations headquartered in France and the French state granted a seat on its board, two people with knowledge of the matter said on Sunday.

FCA spokeswoman Shawn Morgan declined to comment. The French government, Renault's biggest shareholder with a 15 per cent stake, also declined to comment. A Renault spokesman did not return calls and messages seeking comment.

Italian-American FCA is engaged in intensive discussions with Renault and the French government over the US$35-billion merger proposal it pitched last Monday to create the world's third-biggest car maker.

The concessions being discussed are not definitive and depend on other aspects of an emerging compromise deal, both sources cautioned.

They nonetheless increase the chances that the merger plan will be approved by Renault's board, on which the French state has two seats. The board meets again on Tuesday.

Some analysts and French industry leaders had voiced doubts about the five-billion euros (US$5.6-billion) in claimed cost and investment savings, and whether the proposal represents a fair deal for Renault shareholders.

A Renault dividend would improve the valuation in their favour, balancing a 2.5-billion euro (US$2.7-billion) proposed dividend to FCA shareholders. The sources did not elaborate on the potential size of a Renault payout.

FIAT CHRYSLER, B7

ENTREPRENEURSHIP

Market update

Mariam Nouser, founder of apparel and beauty brand Infinitely Classic, is one of many young Muslim women who are using the traditional Ramadan and Eid bazaars to launch businesses that appeal to a younger generation B3

TIJANA MARTIN/THE GLOBE AND MAIL

Ottawa says LNG exports to Asia will earn Paris accord credits

BRENT JANG VANCOUVER

Ottawa wants to use a provision in the Paris climate accord in hopes of gaining emissions credits toward meeting Canada's targets by helping to reduce air pollution in Asia.

Under the 2015 Paris agreement to which Canada is a signatory, a section called Article 6 could clear the way for bilateral side deals to give Canada credit for planned exports of liquefied natural gas (LNG) to Asia, Natural Resources Minister Amarjeet Sohi said in an interview in Vancouver. LNG is considered a cleaner energy source than coal, which is widely used in Asia to generate electricity.

Ottawa's position clashes with environmentalists who feel Canada should meet its climate-change targets entirely through domestic measures, rather than through global trade. The friction over the proper approach to address climate change comes at a time when the federal Liberal government faces criticism for failing to meet its emissions targets under the accord.

"We see the potential of LNG development in Canada as a source of well-paying, middle-class jobs here in our country," Mr. Sohi said. "But also we see the role it can play in reducing emissions globally, particularly allowing countries such as China and others to get off coal-fired electricity."

By contrast, environmentalists say Canada should adhere to the Paris agreement's country-specific targets for decreasing carbon emissions, and LNG should not be considered a global solution to combat climate change. "LNG is the wrong path to pursue," BC Green Party Leader Andrew Weaver said this spring. Critics of LNG say it should be up to industrialized countries in particular to each reduce emissions within their borders through what are called nationally determined contributions.

EMISSIONS, B7

Cogeco calls on CRTC to choose 'middle ground' in battle between national carriers and resellers

CHRISTINE DOBBY
TELECOM REPORTER

As Canada's telecom regulator considers new ways to promote competition in the wireless market, **Cogeco Communications Inc.** is pitching a "middle-ground" model to help it crack into the industry.

For more than a year, the Montreal-based cable company has harboured ambitions to sell cellular service to its television and internet customers in Ontario and Quebec, but has said it needs regulatory support to do it.

The Canadian Radio-television and Telecommunications Commission (CRTC) will hold a public hearing next year to consider the state of the wireless industry and has said its preliminary view is that Canada's large national carriers – Rogers Communications Inc., BCE Inc. and Telus Corp. – should be forced to sell network access to smaller companies without their own networks.

Those companies, which are known in the industry as mobile virtual network operators (MVNOs), are wireless resellers. The matter will be a major topic of discussion at a Toronto telecom conference this week.

Cogeco is urging the CRTC to endorse a "hybrid MVNO" model that would only allow companies with existing telecom infrastructure to access the national wireless networks and resell the service to their own customers.

Shaw Communications Inc., which owns regional wireless carrier Freedom Mobile, has argued that any form of support for MVNOs would hurt it and other regional players, such as Quebecor's Videotron and Eastlink in Atlantic Canada, companies that already offer an alternative to the Big Three.

WIRELESS, B6

Signs of hope in Greece, 10 years after economic collapse

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ATHENS
EUROPEAN BUREAU CHIEF

In a quiet Athens suburb, comfortably distant from the capital's gritty centre, a tiny piece of the Greek economy is humming along rather nicely. It's adding employees, a rarity in any industry in Greece, which has yet to recover from the decade-long shock that shrunk the size of its economy by a quarter.

Spitogatos.gr is the top property search site in Greece and Cyprus and is expanding into nearby countries. Its cheery office, complete with pet dog and espresso machines, is full of young Greeks – 55 at last count – tapping away at computers as listings flood in. At any one time, Spitogatos, which means "house cat" in Greek, has 360,000 properties on offer.

In 2009, the company was one of the first Greek digital businesses to raise startup capital from a venture capital fund. But only months after the cheque landed for €750,000 ($1.13-million), Greece went into full-blown crisis.

The economy collapsed, youth unemployment soared to more than 50 per cent and the first of three international bail-outs, designed to prevent Greece from going officially insolvent and crashing out of the eurozone, was rushed into place.

Spitogatos's owners feared their business would not survive, even though they were convinced the company had a winning platform that could be exported pretty much anywhere. "In 2012, for the first time, I had to fire someone," says co-founder, CEO and part-owner Dimitris Melachroinos, a 40-year-old Athenian with a corporate finance background. "Our clients were having a hard time and we were running out of cash."

REGULY, B6

COMPANIES

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TED S. WARREN/THE ASSOCIATED PRESS

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RAFAL GERSZAK/THE GLOBE AND MAIL

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Reguly: Bank of Greece expects modest growth similar to last year

FROM B1

They decided to tough it out and funnelled their spare euros into an aggressive marketing campaign. The business stabilized, then began to grow as desperate Greeks listed their properties, many of them at absurdly low prices. In 2014, Spitogatos caught the eye of the owners of Immobiliare.it, Italy's best-known property search site, which bought a majority stake.

Together, Immobiliare and Spitogatos are acting as industry consolidators, with the Greek side of the business responsible for expanding north into the Balkans and into the eastern Mediterranean. "We want to create the biggest property-search company in Europe," Mr. Melachroinos says.

Spitogatos is both smart and lucky. It's smart because it was well ahead of the competition in realizing that property ads would migrate en masse from newspapers to digital sites, with all their customer-friendly filters and photos. It was lucky to have survived the brutal Greek recession – depression, actually – and to have attracted Immobiliare as a partner.

But Spitogatos stands out because it is a rarity – a confident Greek company in expansion mode with the potential for international success. Greece is coming back to life, to be sure. But growth is modest, the economy remains fundamentally uncompetitive and many companies are struggling to remain intact, let alone grow. The banks, weighed down with bad loans, are still in rough shape more than a decade after the global financial crisis.

The official figures suggest Greece is well on the way to repairing itself, leaving no-growth Italy as the sick man of Europe. In 2018, gross domestic product was up 1.9 per cent, up from 1.4 per cent in the previous year. That's not bad, but the figure was revised down from the Bank of Greece's initial estimate of 2.2 per cent. This year, the bank expects similar growth to last year's – modest, in other words.

Countries that crash hard sometimes shoot back to life almost as quickly – the so-called V-shaped recovery. That's not happening in Greece. At current growth rates, a decade will pass before the country gets back to its precrisis GDP level. If growth rates do not improve, Greece's enormous debt-to-GDP ratio – at 181 per cent, the highest in Europe – stands little chance of going into reverse.

At the same time, the unemployment rate, while well off its crisis levels, is still atrociously high. According to Elstat, the Greek statistics agency, unemployment stood at 18.5 per cent in February – three times the EU average; the youth jobless rate was 38.8 per cent.

Why is Greece not bouncing back quickly? Economists and business executives say the problem is two-fold: A banking crisis that is still in full swing, and economic reforms that are not as deep as advertised.

The latter has done Prime Minister Alexis Tsipras no favours. His radical-left Syriza party got trounced in May 26's European Union elections, placing a distant second to the conservative New Democracy party. In response, Mr. Tsipras called a snap election for fear that Syriza's losses would be greater if he were to wait until October, when the poll was originally to be held.

On the stock market, Greece's banks have had a stellar year. But the investor optimism seems misplaced, in good part because official plans to lighten their burden of non-performing loans (NPLs) have yet to be approved by the European Central Bank and its bank oversight arm, the Single Supervisory Mechanism. At the end of 2018, some 47 per cent of Greek bank loans – equivalent to €82-billion ($124-billion) – were classified as NPLs.

Banks loaded to the rafters with NPLs don't rush to make loans to businesses, big or small. Until the NPLs are reduced by, say, half, Greek growth will be highly constrained. "What we have is a credit-less recovery," says Dimitris Malliaropoulos, chief economist at the Bank of Greece. "Credit-less recoveries tend to be weaker than normal recoveries. The banking sector is not ready to supply the necessary credit to households and businesses."

The Bank of Greece has two plans to help the banks. The first would see the Hellenic Financial Stability Fund, the bank industry's clean-up fund, use government guarantees to back the safest bundles of loans, all the better to flog them to investors.

The second, more ambitious plan, would see the banks' deferred tax credits, which were granted to the banks to offset losses taken in the restructuring of Greek government debt in 2012, transferred to a special purpose vehicle (SPV). The tax credits are an asset and would be used to back the sale of bonds that would be used to raise money to buy about half of the NPLs. The banks were hoping that the SPV program would achieve liftoff this year, but with a Greek election coming in late June or early July and upheaval at the ECB – the hunt is on for a successor to President Mario Draghi, who steps down in October – all bets are off.

The wider economy needs as much repair as the banks do. There is no doubt that Greece is more competitive than it was a decade ago. Harsh austerity measures imposed by the "Troika" (the ECB, the European Commission and the International Monetary Fund) improved wage competitiveness by a quarter and Greek exports, in real terms, have climbed by about 70 per cent, well outpacing the euro zone rise.

But many other measures of competitiveness – taxation, ease of doing business, public administration efficiency, public investment, barriers to entry in many businesses – remain abysmal. For instance, public investment fell by €1.4-billion ($2.1-billion) in 2017, evidently to free up budget space to give bonuses to pensioners and civil servants. The problem with one-off, politically motivated payments is that they deliver a short boost to the economy. Public investment in infrastructure provides a permanent boost to competitiveness.

Miranda Xafa, a Greek economist who is a senior fellow at the Centre for International Governance Innovation and a former IMF representative to Greece, says the country needs to elect a truly reformist government or face long-term stagnation as the population ages. "We went from an acute crisis to a chronic one," she says. "The long-standing problems in the Greek economy remain unresolved."

At Spitogatos, Mr. Melachroinos is counting on international expansion, not a sustained revival in the Greek economy, to keep his business rolling. "Yes, the economy is improving," he says. "But we'll never get back to 2008 levels again. That era was unreal."

GREEK ECONOMY AT A GLANCE

Population:
10,761,523 (July 2018 est.)

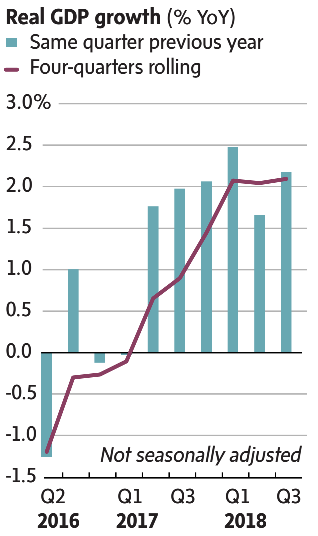
GDP per capita:
US$27,800 (2017 est.)

Labour force:
4.769 million (2017 est.)

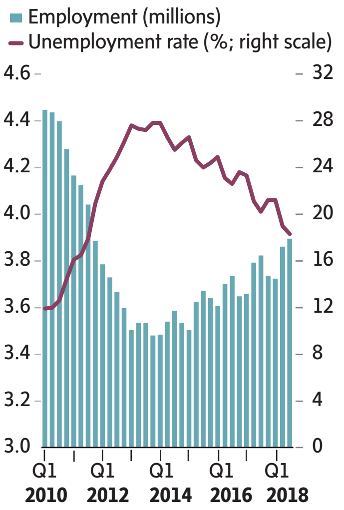
Labour force by occupation (2015):

Agriculture	12.6%
Industry	15%
Services	**72.4%**

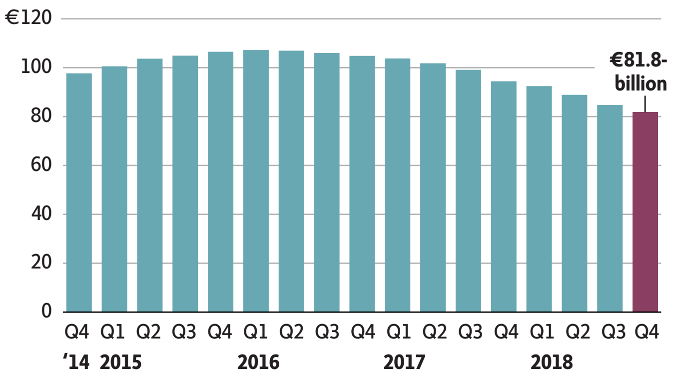
Real GDP growth (% YoY)



Jobs



Non-Performing Loans (NPLs) held by Greek banks
In billions of euros



JOHN SOPINSKI/THE GLOBE AND MAIL, SOURCE: CIA WORLD FACTBOOK; INTERNATIONAL MONETARY FUND; BANK OF GREECE

IMD WORLD COMPETITIVENESS RANKING, 2019
One year change*

2019	Country	2018	Chg.
1	Singapore	3	+2
2	Hong Kong**	2	-
3	U.S.	1	-2
4	Switzerland	5	+1
5	UAE	7	+2
6	Netherlands	4	-2
7	Ireland	12	+5
8	Denmark	6	-2
9	Sweden	9	-
10	Qatar	14	+4
13	**Canada**	**10**	**-3**
14	China	13	-1
17	Germany	15	-2
23	Britain	20	-3
30	Japan	25	-5
31	France	28	-3
44	Italy	42	-2
45	Russia	45	-
58	**Greece**	**57**	**-1**

*Ranking out of 63 countries
** Special Administrative Region
JOHN SOPINSKI/THE GLOBE AND MAIL
SOURCE: IMD

TARIFF AND CLIMATE ISSUES TAKE A TOLL ON CANADA'S SOFTWOOD LUMBER INDUSTRY

Canada's softwood lumber industry is struggling as it faces down two of the biggest challenges facing the country – trade disputes and climate change.

In British Columbia, where the industry is concentrated, companies have been cutting back shifts and closing mills as a lack of log supplies and low prices bite, with more closings expected to come.

"It's not a happy situation right now if you're in the lumber business," said Russ Taylor, managing director at Forest Economic Advisors Canada.

The impact of high log costs in the province – brought on by a lack of supply from the lingering pine beetle outbreak and back-to-back record wildlife seasons – was tempered last year by record high lumber prices.

But prices plunged last fall to usher in a wave of temporary mill shutdowns in B.C., and a second wave has been playing out in recent weeks as prices fail to recover.

Earlier this week Interfor announced it would cut back on operations for June, joining in the temporary curtailments already rolled out by Canfor and West Fraser.

Tolko said in mid-May it would shut down its Quesnel, B.C., mill altogether at a loss of 150 jobs and a shift at its Kelowna, B.C. mill for another 90 jobs gone.

BMO analyst Mark Wilde calculates that the combined cuts add up to about 500 million board feet, or some 0.8 per cent of North American lumber production, which he said is wholly inadequate to deal with the lack of raw log supply and the "very ugly" market.

"It is a bit like medics treating battlefield wounds with Band-Aids. They won't stanch the bleeding in a horrible market," he said in a note.

THE CANADIAN PRESS

Wireless: Analyst says 'gloves came off' last year

FROM B1

Consumer groups support the idea of resellers, saying studies show Canadians pay more for wireless service than residents of other developed countries and that new competitors could lead to lower prices. The Big Three are opposed to it, arguing that forced access for resellers will undermine investments they have made and inhibit the rollout of 5G networks, the next generation of wireless technology.

Luc Noiseux, chief technology and strategy officer of Cogeco, said in an interview last week that his company tried to find a "middle ground" between the "pure-MVNO and pro-consumers view and the need to sustain investment in telecom infrastructure."

"We tried to articulate a proposal that would break the logjam between polarized views on the issue," Mr. Noiseux said. Cogeco spent about $30-million on wireless airwaves (known as spectrum) last year, but has maintained it will enter the wireless market only if it makes financial sense and has long lobbied for regulatory changes to help it.

Paul McAleese, president of wireless at Shaw, says that Cogeco could have invested more in spectrum and built its own network to support cell services. "There's been ample opportunity for players to get into the market, participate in the spectrum auction, and build out facilities just as ourselves and other regional players have done," he said in an interview, referencing Cogeco's decision not to bid in a public auction earlier this year for low-frequency spectrum licences. (Cogeco has said the licence areas in that auction were too large, making it too expensive for smaller players who want to serve only limited geographies to bid.)

"I don't think we need a solution that solves just one opportunist's dilemma," Mr. McAleese said of Cogeco, adding: "MVNOs are not the way to wireless affordability for Canadians. This is just not the way to get this done. … MVNOs are going to disproportionately weaken regional players and those players are the only catalyst for competition in this market."

In a January report, Veritas Investment Research analyst Desmond Lau called 2018 "the year the gloves came off" for Canada's wireless market. He wrote that in May, 2017, the Big Three charged an average of $31.10 a month for one gigabyte of wireless data. By November, 2018, that had dropped to $10.38 a GB. Mr. McAleese said that decline shows current policies are working. "That's solely attributable to the work of the regional players and primarily attributable to Freedom."

For his part, Mr. Lau said he does not believe Freedom Mobile was the only factor driving increased competition and lower prices for data. He wrote that as more people now own smartphones (which rely on more expensive data plans than devices used just to sent text messages and make phone calls), there is less room for growth and the Big Three started fighting each other harder for subscribers.

But still, he said, Freedom began gaining a larger share of the market for a couple of reasons. First, the company made several network upgrades in 2018, leading to improved reliability. And toward the end of 2017, it launched its "Big Gig" plans with larger data buckets, spurring the Big Three to dramatically cut their own prices for a week around the holiday shopping season and to continue regular promotions throughout 2018.