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Latest hot headline. **Not**: **"EU leaders pledge to stabilize EU economy"** Variations thereof hit in the wee hours today, noting that the Globex high was put in at 5:25 a.m. So it jibes. This headline was misread as "news".

The Greek newspapers reported last Sunday night, **5/19**, that this bit, i.e., the undying support from the EU was already a done deal, would amount to lip service and would be announced at the 6/24 meeting. Right on schedule? You bet. Sweetening the pot, the EU is setting up a €billion fund to help Greece renovate its economy which I find to be the ultimate absurdity yet.

Surely you recall reference to that Greek article in this space on Monday. Panayotis Roumeliotis, a/k/a "Roomy". **He is the Greek rep to the IMF**. He said that there were 3 conditions and that 2 of them were already in the bag. So this morning's announcement … from the informed Greek perspective … **is a nonevent**. The other condition that is likewise in that same bag is the new MoU which I imagine will be alluded to shortly. That leaves the last requirement, the biggy, the passage by Parliament. But as you know, all the right buttons have been pushed. From local politicos claimin' that the cupboard is bare and nobody is gonna' get a paycheck … to Bambi throwin' the Greeks the stink eye by acknowledging the "significant" (indirect) damage to the US which would result from a Greek default.

Okay, so the €78 bil will get rammed thru Parliament some how. As the EU/IMF has opted to saddle Greece with half again the amount of their sovereign debt. So that they can drink themselves sober. Whatever.

So Greece borrowed a lotta' money from various investors, including banks. And the rush is now on to see that the banks get all that's comin' to 'em. In this whole messy process, we learned just how the credit ratings agencies feel about changing terms of a loan, right? Whether voluntary or not, when the debtor cannot satisfy the original terms, there is a default. And that's when all hell will break loose.

But our point this a.m. is a different one. Yes, Greece has a boatload of sovereign debt out there and the goal is to keep the financial system from feeling any pain. But the question is now raised as to how we should look at the **non-sovereign debt** that the Greek government has racked up. You know. ***The State owns many assets which are supplied by the private sector.*** Which we hear tell, have been stiffed mercilessly for a dog's age. Yet the only talk we hear is of the **official** sovereign debt. How about the debt that is owed on commercial invoices which are pilin' up like so many Autumn leaves, eh?

Well, the EU is aware that there are many members who stiff local suppliers; this is not just a Greek habit. And they have been rightly concerned about the knock-on effect to the economy, particularly when SMEs (small/medium enterprises) get bagged by the government. And they wanted it to stop. To that end, they drafted a series of measures which require 30 day payment and if not, then a late fee of 5% and recovery costs. Of course, over time, this was tweaked here and there.

You can go here to read excerpts: www.europeancontactgroup.eu/cms/news/51.docx
Click on "Payment Schedule"

Or just follow along here; this was put out in October of 2010 (red is mine; “Parliament” is the European Parliament.):

… “Ms Barbara Weiler stressed that Member States should not wait up to two years to put the new rules into effect, but begin transposing them into their national laws as of January 2011. …

For public-to-business payments the general deadline is 30 days. If the two parties wish to extend the payment period, this has to be "expressly agreed" and "objectively justified in the light of the particular nature or features of the contract". **Parliament fought hard to ensure that under no circumstances may the deadline for public authorities to pay a bill exceed 60 days.**

Member states may choose a payment deadline of up to 60 days for public entities providing healthcare. This is because of the special nature of bodies such as public hospitals, which are largely funded through reimbursements under social security systems.

Parliament pushed Council to accept a statutory interest rate on overdue payments of the reference rate plus at least 8%. The creditor is also entitled to obtain from the debtor, as a minimum, a fixed sum of € 40, as compensation for recovery costs.” …

Yes, these ground rules made it into the official EU Journal on 2/23/11. They went into force on 3/16/11. The members have until 3/16/2013 to incorporate them into domestic law, but as you see, are urged to shake a leg.

So what’s the point, you ask? Oh, a good one. I came across this article dated today: http://www.euractiv.com/en/euro-finance/greece-defaulting-cash-owed-companies-analysis-505906

Nutshell: It speaks directly to the directives on late payments, particularly from public entities to private businesses. And takes pains to remind us what constitutes a default. **That said, Greece (and other EU members) have been in default on contractual payments to private providers for quite some time.**

… “This is most stark in the health sector where the government is the biggest payer and has left creditors waiting more than two years for their cash. It has even bonds which are trading at 50% of their face value (due to fears of default on sovereign debt).

Me talkin’: Yep. Greece has been known to issue bonds (IOUs), €5 bil to be exact, non-interest-bearing of course with which it pays its health care suppliers. That is the reference here. And if you really want a dose of stupid, know that last year, they issued €1.15 bil of these IOUs to cover bills not paid by the Social Security Fund to the Hospitals. Since the government controls both the Fund and the Hospitals, I am at a loss to know which one got the IOU. But if you put a gun to my head, I’d say that the Fund issued an IOU to the Hospitals which in turn, likely could have used same to pay a private contractor, say, a 2-yr old bill for oxygen equipment. **Get me outta’ here. Now.**

… “This problem has ***existed for a couple of years***, with some estimating that the outstanding bill owed by Greek public hospitals is ***6.5 billion.***” … These numbers jibe because that if you add up the IOUs, we are close.

And if you need any more confirmation that this is indeed the story, then go to the Greek government’s website here: http://www.minfin.gr/portal/en/resource/contentObject/id/c0980b9b-564d-4a57-a65a-afc624db5033

And read point #2. Its' all about the hospital debt. <u>You can also learn in #3 that claimants who turn 'em in early for payment at the banks will get a 19% discount.</u>   <u>If that is not a Default, what is?</u> *Puh-leez.*

And then there's point #4. … "It is assumed that banks working together with international pharmaceutical companies will seek to redeem these bonds before maturity, thus converting their current business risk into Greek government bonds. Furthermore, according to Public Debt Management Agency and marketmakers of Greek government bonds, the above present values of these zero-coupon bonds are consistent with prevailing market yields." …

Hello? We all have out knickers twisted right now over a €12 bil tranche … and they owe €6.5 bil to suppliers of the Greek healthcare system? That's a boat load of QTips and alcohol swabs, wouldn't you say? SOS.

… "Greece is the worst offender when it comes to late payments**.** But it's not alone. Spain, Portugal, Italy, Cyprus and others are also chronically slow payers, routinely breaking the terms of contracts entered into by healthcare companies." …

The writer is Irish and goes on to say that Ireland and the northern States are pretty good payers by comparison. But that is not the point at the moment.

What has my attention is the fact that these deadbeats are **routinely breaking the terms of contracts on debts they owe to private entities. How about the economic damage that results when business cannot collect?**

How insane is this situation? How far gone are we mentally? The world is on the edge of its seat to see that Greece gets the money and avoids sovereign default. Meanwhile, they have been <u>***defaulting locally***</u> for a dog's age. How does this augur for economic recovery? Because you know that the money that Greece is gonna' get from the IMF/EU is gonna' go directly to the holders of its sovereign debt.

The EU insists that governments or its agencies pay the providers to the hospitals within 60 days. Since Greek has been in arrears for up to 2 years, that is over 600 days. *Hello? Anybody home? Obviously, not.*

Conclusion: Since the nationalized healthcare system is the largest client in that industry, if they don't pay, the ripple effect is super deadly. Eventually, the healthcare system will no longer be supplied. Do the extrapolation, please. (For the record, the Greek government has stated that the action they took by issuing the IOUs will prevent any healthcare interruptions or shortages.)   As for other industries that may be having trouble collecting from chronically delinquent governments, they at least have other outlets in the private sector, although across the board, there will be shrinkage. This augurs for less tax revenue and lost jobs for starters. Greece is definitely on the Road to Default. I'm takin' bets as to which Exit they're gonna' take. This is an absolute cesspool.

I tell you my head is spinnin'. Well now, it's your turn:

The SPR. I could spit. This is so bogus, I don't know where to begin.

So 27 countries have joined with us to release petroleum, eh? Well, for starters, we are half the offering. 30 mil bbls is a joke, < 2 day's supply. The SPR has 727 bbls. That is full storage capacity. Based on 2010 usage, that full capacity equates to 77 days of supply.

Cited: disruption in supply caused by Libya. Which means about 1.5 mil bbls per day of sweet.

What most are unaware, though, is how this works. It's a freakin' dog and pony show put on by the Department of Energy. And I'd like to stop right here, but plod on I must with more details on this sack of dead flies.

First of all, the SPR is meant for our national security and also TO FREAKIN' PROVIDE PETROLEUM FOR THE BENEFIT OF US PRODUCERS WHEN THERE ARE DISRUPTIONS THAT WILL NEGATIVELY IMPACT US CONSUMERS.

How do they usually handle this? Say there is a natural disaster. And some refinery needs to replace lost barrels. They petition the SPR for a loan.

Here's an example. Back in the summer of 2006, the Calcasieu Ship Channel which is critical in the Louisiana area, was closed. CITGO had an oil spill as I recall. And note: this Channel closes fairly regularly with dredging and pipe ruptures, so let's just say that the closure was not a shock back then.

What to do?

… "Secretary Bodman approved the loan of 500,000 barrels of West Hackberry sour crude oil to ConocoPhillips for its Westlake refinery. He also approved the loan of 250,000 barrels of West Hackberry sour crude to Citgo for its Lake Charles refinery.

Terms of the loans keep with President Bush's directive to defer SPR loan repayments until after the end of summer." …

Earlier that year, Total borrowed 871k bbls from the SPR owing to a barge accident in another channel in Texas. This one was called an "emergency loan". So they shook a leg and got the oil to Total in record time.

So I think you get the picture as to how they handle *the usual* supply disruptions. And if you're wondering how they pay back the loans, easy. They replace the barrels they borrowed.

BUT THEY DO HAVE ANOTHER WAY TO ADDRESS AN "ENERGY EMERGENCY" which is what the WH is pretending we are facing at the moment. I can't type another word, this is *so* twisted. SOS.

We have only run into this emergency thingy twice: Desert Storm and after Katrina. Yours truly was on board for both, so I remember how this went down. Know that we do this in conjunction with the International Energy Agency which musters up other countries to pledge to do the same. It's a big joke, trust me.

After Katrina, Bush told Bodman to trot out 30 mil bbls. We got bids for 11 mil bbls. (But had already "lent" out over 12 mil bbls prior to this upon "request" from some of the majors.) Crude had shot above $70 after the storm. And yes, it backed off about $10 bucks on the SPR story. By late January, though, it was right back up at the Katrina levels. And remained elevated for the ensuing 9 months or so.

During Desert Storm, Bush Senior told Watkins to trot out 33 mil bbls. But by the time the auction was held, there was really little need, so we reduced the offering by about half. The result was that 13 bidders took about 17 mil bbls. Big freakin' whoop.

Like I told you, it's a dog and pony show. The mix in the past has been ~half sweet/half sour. Bids are sealed. And awarded by the DOE upon receipt of letters of credit.

We will know just how tight or not the market really is IF THEY EVER LET US HAVE THE AUCTION DETAILS WHICH I DOUBT.

Based on what we have seen in the past, the auction should be announced for some time next week.

If they really wanna' know what is shakin' in the oil patch, they oughta' leave the damn SPR alone and send the CFTC in, guns blazin', to dismantle the petroleum derivatives markets. For starters. They'd have it at $50 bucks before lunchtime.

Knock yourselves out.

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