

Letters

West needs to engage with all rogue states

From Mr Steve Utterwulge.

Sir, Michael Holman is right in arguing that western governments should swallow their pride and re-engage in Zimbabwe with Robert Mugabe ("Zimbabwe needs the west to engage Mugabe", August 21). The fact is, the west should engage with most countries for which foreign policy of the past few years – in some case decades – has not borne fruit and has at times been counter-productive.

The likes of Zimbabwe and Burma should indeed be part of the new

"Hillary Doctrine" which calls for engagement – with a stick – with rogue regimes. While North Korea, Syria and Iran deserve full attention, it is essential not to let minor showcase countries run by dictators off the hook from serious negotiations.

Isolationism has proved counter-productive in the case of Burma and Zimbabwe, and has isolated the wrong elements: the UN and Aung San Suu Kyi in Burma and Morgan Tsvangirai and the MDC in Zimbabwe.

As we know from Hillary Clinton's comments in Bangkok a month ago, Burma is strengthening its nuclear ties with North Korea. Zimbabwe is indirectly destabilising its neighbours with hundreds of thousands of refugees.

A quick, effective and sustained change of course is needed if the west wants to keep some leverage in future negotiations.

Steve Utterwulge,
Vice President,
Search for Common Ground,
Washington, DC, US

Bumbling from 'hedge or die' approach to 'buy and hope' model

From Mr Kim Burgess-Driver.

Sir, Rupert Macey-Dare (Letters, August 21) suggests that requiring estimates of fair value to be driven by market prices of similar assets, rather than pure model-derived prices, runs counter to the widely accepted use of the Black Scholes model for determining the fair value of other instruments. I disagree, for a number of reasons.

For a start, the Black Scholes model does not tell us the fair value of an option. Combined with the market prices of the relevant instruments and under certain assumptions, it tells us: first, how such an option may be combined with a hedge so that there is no uncertainty in the value of the aggregate portfolio at any future date, whatever the outcome; and second the composition and therefore fair value today of that hedge, which implicitly tells us the cost of creating such an option if our strategy is to hedge, take no risk and earn the appropriate fixed return on our investment.

This allows market participants to buy or sell an option without at any time knowing the option value itself. The value of that particular element of the portfolio depends on the outcome, and nobody has a clue, whatever they may claim. Only the cost of hedging is known.

Participants may expect the market price of an option to be close to the model-implied cost of hedging, given the possibility of arbitrage, but that is not assured and depends critically on the continued ability of institutions to hedge with instruments having clearly defined market prices, with confidence and in large amounts.

If that were to change, the market price would be the price someone would pay, and that would be based on their guess of the outcome, not on a model which (by then redundantly) described how they could hedge. And the only objective fair value would then be market prices. And that, I would suggest, is the situation pertaining to most of the assets under discussion.

In short, the use of the Black Scholes framework for managing risk within a hedged derivatives portfolio, or for determining fair value within a market where such hedging predominates, cannot be compared to the use of an econometric-type model to justify the values of mostly

Russia remains a signatory of the Energy Charter Treaty

From Dr Andrey Konoplyanik.

Sir, Emmanuel Gaillard (Letters, August 18), commenting on Russia, the Energy Charter Treaty and the Yukos case, begins by saying that "Vladimir Putin . . . announced in July that Russia will withdraw from the Energy Charter Treaty". Based on this (his own) statement, repeated several times, Prof Gaillard makes a number of strongly worded political accusations against my country. I would like to make a few comments in this regard.

First, on July 30 Prime Minister Putin signed Government Ordinance N 1055-r that Russia is to terminate provisional application of the ECT, based on its Article 45 (3-a) (by stating its intention not to become an ECT contracting party). Prof

Gaillard is a lawyer and he understands the difference between "withdrawing from the treaty" and "terminating its provisional application". As a result of Russia's decision my country will stay as a signatory to the ECT but now with a different status.

Second, as known, Prof Gaillard is the lead counsel for the majority shareholders of the former Yukos oil company. After reading his comments one might think that he is just seeking more publicity for the Yukos case by doing what is more common for a politician to do rather than a lawyer: by prejudging a court decision with statements on Russia's "discriminatory and illegal expropriation" of Yukos assets which is as yet unproven by the

international tribunal. I personally regret that my country took the decision to terminate the ECT provisional application – this will just make it more difficult to improve further the unique Energy Charter process and will work to the competitive disadvantage of my country. But I think it is improper and counter-productive to mix professional legal, economic and/or financial debate with political speculation and accusations.

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Deputy Secretary General, Energy Charter Secretariat, Brussels 2002-08

Let Tawney have the last word with sound medieval economic thought

From Miss B.A. Panvel.

Sir, R.H. Tawney put it more succinctly than John Ruskin ("Ruskin offers a moral code on just rewards", FT.com, August 21).

In addition to the sound medieval thinking on just price and the prohibition of usury in *Religion and the Rise of Capitalism*, he notes: "The most fundamental difference between medieval and modern economic thought consists . . . in the fact that, whereas the latter normally refers to economic expediency, however it may be interpreted, for the

justification of any particular action, policy, or system of organisation, the former starts from the position that there is a moral authority to which considerations of economic expediency must be subordinated."

"The bugbear is the man who uses, or even creates, a temporary shortage, the man who makes money out of the turn of the market, the man who, as Wyclif says, *must* be wicked, or he could not have been poor yesterday and rich today."

B.A. Panvel
Shirley, Birmingham, UK

The infamy that is Lockerbie justice

From Mr Jack Shelton.

Sir, Two predictions. First, "Lockerbie Justice" will become a phrase Americans long remember

the credibility of future international tribunals any time soon in the US.

The rumours that the deal was cut to firm up British opportunities for



Third Division for Lionel Messi?

No more La Liga for Barcelona