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### The Greek bailout comes with a political price



The euro-zone bailout plan for Greece has calmed bond markets but eroded Germans' support for Angela Merkel, seen here in Washington. **Articles on pages 6 and 32**

## Tories promise to protect rating

BY LAURENCE NORMAN

LONDON—Britain's opposition Conservative Party laid out its policy platform Tuesday, promising to protect the country's triple-A credit rating and to move political authority away from central government.

Seeking to regain power after 13 years in opposition in an election due May 6, party leader David Cameron acknowledged the need for tough public-spending decisions as the country grapples with a hefty debt. But in a message that sought to match the Conservatives' traditional dislike of an overly muscular state with more centrist concerns about social cohesion, Mr. Cameron's key pitch was to urge people to participate in politics and get involved in their local communities to generate change from the ground upward.

"Together we can get rid of our debts, get the economy moving, mend our broken society—even make politics and politicians work better," said Mr. Cameron, in front of several hundred party activists in south London. "We seek your active participation—every day, in every way—in the run-  
*Please turn to page 4*

# Morgan Stanley fund faces \$5.4 billion loss

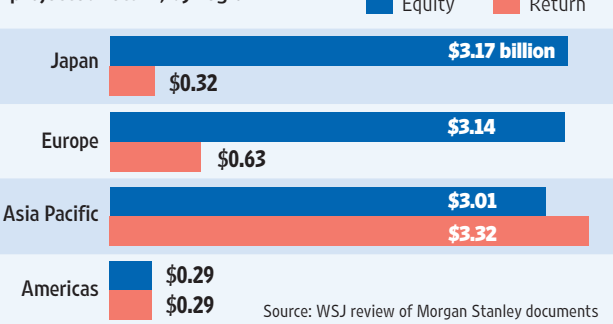
BY ANTON TROIANOVSKI AND LINGLING WEI

Morgan Stanley has told investors in its \$8.8 billion real-estate fund that it may lose nearly two-thirds of its money from bum property investments, according to fund documents reviewed by The Wall Street Journal.

That would likely make it the biggest dollar loss—\$5.4 billion—in the history of private-equity real-estate investing. Over the past 20 years, Morgan Stanley's real-estate unit was one of the biggest buyers of property around the world, doing some \$174 billion in deals since 1991, mostly with money raised from pension funds, college endowments and foreign investors. The losses come from investments in the European

### Bogged down

Total equity invested and committed by MSREF VI and projected return, by region



Central Bank's Frankfurt headquarters, a big development project in Tokyo and InterContinental hotels across Europe, among others.

The loss also represents a huge challenge for the firm as it tries to resuscitate its Mor-

gan Stanley Real Estate Funds business, known as MSREF. The firm has moved to shore up MSREF management by reinstating Owen Thomas, the executive credited for developing MSREF into an industry leader, as head of the real-

estate business. Mr. Thomas left that post after a promotion in 2005. It also has brought in an outsider, real-estate-debt veteran John Klopp, to lead its property business in the Americas.

The soured investments made by the \$8.8 billion fund, MSREF VI International, continue to be a distraction for Morgan Stanley as it tries to extricate the fund from complex deals around the world. In many cases, the company can't walk away from foundering investments because the fund made billions of dollars in guarantees. Morgan Stanley now is negotiating with lenders to reduce the fund's obligations on the money it borrowed, its interest payments, renovation costs and other expenses.

Adding to the difficulties,

the economic downturn and big real-estate losses have rattled some of MSREF's core investors, causing a challenging fund-raising environment.

In the summer of 2008, Morgan Stanley officials said they hoped to raise \$10 billion for a new fund, MSREF VII Global. But it hasn't been easy. For example, the public-employee pension fund in Contra Costa County, Calif., made a tentative \$75 million commitment to MSREF VII in 2008, but in February 2009, rescinded it after its chief investment officer wrote a memorandum citing uncertainty over Morgan Stanley's future and its real-estate business in particular.

Morgan Stanley ended up settling for about half of its initial fund-raising target for  
*Please turn to page 22*

### The Quirk



The legacy of the American Black Panther can be found in Africa. **Page 29**

### World Watch

A comprehensive rundown of news from around the world. **Pages 30-31**

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Two-hundred-forty billion reasons for Greece to restructure. **Page 13**

Bahrain BD 150 - Egypt \$175 (CIV)  
Jordan JD 2 - Kuwait KD 1 - Oman OR 2  
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## PAGE TWO

# Building a future with sturdy BRICs

## [ Agenda ]

BY PATIENCE WHEATCROFT



Goldman Sachs's Jim O'Neil takes the credit for labeling the emerging-markets giants as the BRICs, and he continues to espouse this cause. Amid the gloom enveloping so much analysis, he finds reasons for constant optimism.

His latest good cheer comes in the shape of China's March trade figures. The first monthly deficit in six years may be an aberration, for the country hasn't put the brakes on exporting, but, points out Mr. O'Neil, just look at the scale of the imports.

For that single month, imports, at \$119.4 billion, were up \$47.5 billion compared with a year earlier. During the first quarter as a whole, imports at \$301.7 billion had leapt by \$118.4 billion from the previous year.

While politicians get vexed about the strength of the yuan and try to goad China into letting its currency appreciate, Mr. O'Neil prefers to concentrate on the good news: If Chinese imports continue to grow at this rate for the entire year, the effect will be as significant as if another Indonesia, Sweden or Turkey had burst onto the trading scene.

Optimists such as Mr. O'Neil see China and the other BRICs—Brazil, Russia and India—as the force that could help pull the West out of its doldrums. But, while that could be a welcome spin off of the growing strength of that country, China's ambitions lack any element of altruism.

As if to underline that message, this week has seen China Petroleum & Chemical Corp. paying \$4.65 billion for a stake in the Syncrude Canada oil-sands project. A month earlier, Chinese oil-exploration company Cnooc paid more than \$3 billion for a stake in a major Argentinian oil-exploration company. China is



Indian Prime Minister Manmohan Singh, left, Brazil's President Luiz Inacio Lula da Silva, centre, and Japan's Premier Yukio Hatoyama in Washington Tuesday.

now amassing energy assets at a phenomenal rate, in Africa as well as the Americas, where it no longer seems to be coming up against the protectionist objections that prevented its planned takeover of Unocal Corp. back in 2005.

## The growing strength of the BRICs represents a massive change in the balance of power in the world

Despite the posturing over tariffs that continues between the U.S. and China, perhaps there is a tacit acceptance in Washington of the importance of retaining China as a welcoming market for U.S. imports.

This week, U.S. President Barack Obama has been welcoming BRIC leaders, along with more than 40 others, to his nuclear summit. Russia's president, Dmitry Medvedev, took the opportunity to call on the BRICs to work together, not merely to use their influence in security matters but more widely, for instance, in financial matters.

That will now be on the agenda for the BRIC summit to be held shortly in Brasilia. Tensions

between the four countries are many, but their growing strength represents a massive change in the balance of power in the world.

The contrast between the BRICs and the PIIGS (Portugal, Ireland, Italy, Greece and Spain) is a painful one for Europe to confront.

Yet given the recent happenings in Greece and the potential for similar—if not so extreme—events in other European countries, there is no escaping the fact that the map of global influence now looks very different.

Western politicians are understandably reluctant to confront this fact. It is one thing to point to the economic challenge posed by the merging markets, and cite it as a reason why investment in education and science has to be improved if the West is to compete. It is an entirely different matter to admit to a shrinking presence in the world's power league.

It is certainly not something that is likely to be given much of an airing during the U.K.'s election campaign.

In fact, any discussion of foreign policy during the run up to May 6 might well sound, to that legendary Martian who just happened to drop in on the conversation, as if Britain was still

running an empire. And yet one of the most interesting exchanges that might take place would be to draw out the three main parties in the coming weeks on how they see Britain's role on the international stage.

Tomorrow sees the first of three televised debates between the leaders of the Conservative, Labour and Liberal Democrat parties. This import from the U.S. is a novel feature of the 2010 general election, and no one knows how influential it will turn out to be in determining the outcome.

The main thrust is likely to be on how to deal with the massive deficit in the national finances, but the truth is nothing that has been heard from the three parties so far goes anywhere near addressing the real scale of the pain that will have to be taken if a debt that is on course to reach £1.4 trillion is to be brought under control.

The specter of Greece, now in what looks to be only a temporary respite from default, should be enough to persuade responsible leaders that saving a few billion pounds here or there is simply not enough. But to talk about drastic moves such as slashing the defence budget to something commensurate with the status of a country that is no longer a world power may be judged a recipe for vote losing.

Equally, talk of slashing public-sector pay and pensions, now a burden the country can simply no longer afford, isn't going to persuade the swathes of electors who work in the public sector to give their support.

And the five million people in Britain who subsist on benefits, virtually the same number that did so when Labour came to power, aren't likely to vote for the party that promises to force them into work, even though some two-thirds are estimated to be capable of earning.

Once the election is over, though, such tough choices will have to be on the agenda whichever party wins.

## What's News

■ **The U.K.'s FSA penalized** two former senior executives at nationalized British lender Northern Rock for misreporting the bank's financial data. It was the latest in a flurry of assaults by the regulator on alleged misconduct. 17

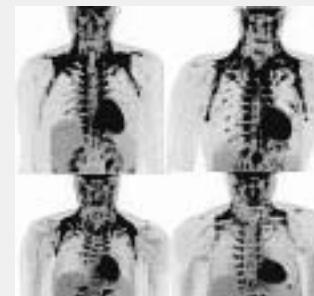
■ **Forty-seven heads** of government closed a summit on nuclear security with a communiqué that pledged to lock down hundreds of thousands of tons of weapons-usable nuclear fuel by 2014. 9

■ **Greece saw strong demand** for its latest debt auction but was forced to pay a hefty interest rate, while yields on longer-term bonds jumped. 6

■ **China's President Hu told** Obama that Beijing wants to adjust its currency policy and increase imports from the U.S., but on its own terms. 9

■ **Consumer Reports** magazine issued a rare "don't buy" warning for an SUV made by Toyota's Lexus division, citing safety concerns. 21

## Inside



Good fat that keeps us warm and carries away the calories. 27



How a French football con artist nearly made a team in Bulgaria. 28

## ONLINE TODAY

### Most read in Europe



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3. Investors Wary of Greek Sale
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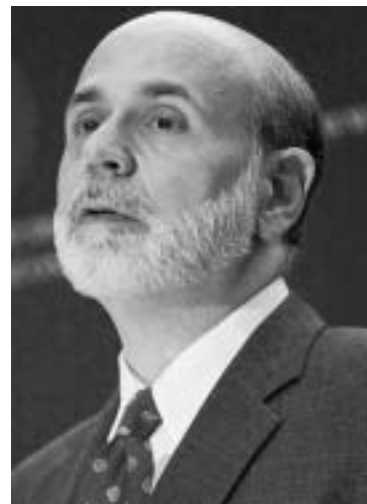
[blogs.wsj.com/source](http://blogs.wsj.com/source)

“The Greek government has a long way to go before it is able to borrow at rates it can afford.”

**Paul Hannon** on the long road ahead for Greece in solving its problems



### Continuing coverage



Get the latest economic news, including coverage of Bernanke's testimony, at [wsj.com/economy](http://wsj.com/economy)

### Question of the day

**Vote and discuss: Who would you vote for in the U.K. general election?**

Vote online at [wsj.com/dailyquestion](http://wsj.com/dailyquestion)

Plus, see Iain Martin's guide to the election and get more news and analysis at [wsj.com/ukelection](http://wsj.com/ukelection)

### Previous results

**Q: Has the Vatican done enough to respond to sexual abuse cases?**

Yes

25%

No

75%

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NEWS

# China's diamond sales grow

By JOHN W. MILLER

ANTWERP, Belgium—This city's diamond district is recovering some of the shine it lost during the financial crisis by cashing in on a hungry new customer: China.

Exports of polished diamonds from Europe's diamond capital to China, including Hong Kong, increased 55% to \$737 million in the first three months of 2010, the Antwerp World Diamond Centre said Tuesday.

That makes China, for the first time, the biggest buyer of diamonds from Antwerp, knocking the U.S., traditionally its largest customer, into second place.

The booming Chinese market, fueled by the world's fastest-growing middle class, is proving a strong antidote to slipping sales in more established markets like the U.S. and Europe. A recent report by consultants KPMG forecasts China will become the world's largest diamond market next year.

In the latest quarter, the U.S. purchased \$694.7 million of polished diamonds from Antwerp sell-

ers in the first quarter of 2010, and Israel, in third place, bought \$273.9 million. Other former top destinations, such as Japan, Switzerland and Dubai, have dropped in the standings.

Antwerp's diamond polishers, sellers and traders have been suffering narrowing margins as mining companies have cut back production at a time when retail prices have been falling. They have also seen a lot of cutting and polishing work being outsourced to India, which then sells the stones more cheaply.

The Antwerp diamond industry is fragmented among 1,800 companies with combined sales of \$45 billion a year. As the labor-intensive business of cutting the stones has shifted to developing countries, Belgian diamond firms have increasingly focused on the trading, marketing and final polishing of diamonds. They typically buy stones from mining firms such as **De Beers** and **BHP Billiton**. "Antwerp is reasonably well situated to compete in China because it has the infrastructure already set up as a trading hub," says Des Kilelea, a London-

based diamond analyst for RBC Capital Markets.

But the Belgian city faces tough competition from other diamond powerhouses. India sold \$6.6 billion and Israel sold \$2.2 billion of diamonds to China last year.

The AWDC, the Antwerp industry's organizing body, Tuesday unveiled a full-scale effort to expand in China. Banks, cutters, traders and polishers who work here say they are courting Chinese diplomats, giving prizes to Chinese jewelry designers and spending millions on trade fairs in China.

"We have a lot of competition, so we must position ourselves to attack in China and win in China," said Mickey Weinstock, an Antwerp diamond seller who says his company's \$50 million of annual sales are now almost all to retailers in China.

In June, the AWDC will finalize a joint venture with the Shanghai Diamond Exchange. The Belgians will provide advice and consulting on the business in exchange for more access to the Chinese market, said Freddy Hanard, CEO of the AWDC.

Last year, the Antwerp High Dia-

mond Council gave 12 of the 30 finalist places in its jewelry-design competition to Chinese designers.

The Antwerp-based International Gemological Institute, which trains gemologists—the experts who analyze, grade and price diamonds—is expanding its staff in China to 200 in the next few years from five, says Chief Operating Officer Deborah Pienica. "We're seeing that the new generations in China are less conservative and ready to spend money on diamonds," she says.

Belgian diamond dealers say they are attending as many trade fairs as possible. The AWDC 18 months ago tapped Mr. Weinstock to set up a wing of the Belgian pavilion at the World Expo in Shanghai, which runs from May to October and is expecting 70 million visitors.

A stand staffed by 45 will show off several million dollars of the flashiest stones cut in Antwerp.

These efforts are meant to help jewelers like Jean-Claude Muller, CEO of **S.Muller & Sons**. He already sells \$25 million of diamonds, half his annual take, in China but would like to sell more.



Customers shop for diamond rings at a jewelry store in Beijing earlier this year.

### Gem demand

China became the world's biggest buyer of polished diamonds from Belgium in first quarter 2010

Values, in millions

China*	\$737
U.S.	695
Israel	274
Switzerland	237
UAE	140
India	139
U.K.	66
France	56
Italy	55

\*Includes Hong Kong  
Source: Antwerp World Diamond Centre  
Photo: Associated Press



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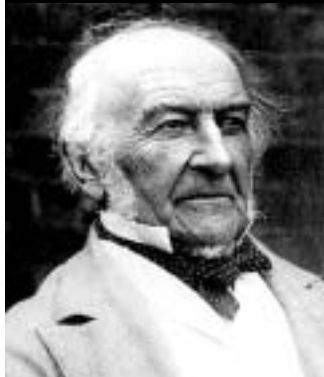
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## EUROPE NEWS

## Uncivil discourse | British politics has a long tradition of verbal brutality



William Gladstone



Benjamin Disraeli



James Callaghan



Margaret Thatcher



William Hague



Tony Blair

Press Association (6)

"If [William] Gladstone fell into the Thames, that would be a misfortune; and if anybody pulled him out, that I suppose would be a calamity." - Victorian-era Prime Minister Benjamin Disraeli on being asked the difference between calamity and misfortune.

After being called a "one man band" by Labour leader James Callaghan, then-opposition leader Margaret Thatcher returned, "is that not one more man than the government have got?"

"In more than 20 years in politics, he has betrayed every cause he believed in, contradicted every statement he has made, broken every promise he has given and breached every agreement that he has entered into." - Opposition leader William Hague on Prime Minister Tony Blair in 2000.

# U.K. debate will turn down the heat

First U.S.-style televised exchange among candidates will be a far cry from raucous Prime Minister's Questions

BY ALISTAIR MACDONALD

LONDON—Dave Hibbert relished the prospect of a good political brawl last Wednesday as he waited outside Parliament to witness Prime Minister's Questions, the rowdy weekly event in which British politicians pummel the prime minister with questions that are range from insightful to downright mean.

"There should be fisticuffs," said Mr. Hibbert, a retired engineer from Southampton, nodding in the direction of the debating chamber, whose 150-spot gallery is a hot ticket. Awhile later, he got what he wanted. "Look at them now," said Nick Clegg, the leader of the opposition Liberal Democrats, jabbing a finger at Prime Minister Gordon Brown. "You failed. It's over. It's time to go."

But PMQs, as the weekly debate is known, has gone on hiatus as Britain sprints toward a May 6 general election. In its place, the U.K. this week will for the first time import U.S.-style election debates—complete with carefully negotiated rules, questions selected by

senior journalists, along with the presence of consultants and phalanxes of spin doctors. The first debate—featuring Mr. Brown, Mr. Clegg and Conservative Party leader David Cameron—is scheduled for Thursday night.

The candidates are even bringing in American handlers to help prepare. Mr. Cameron has hired Squier Knapp Dunn Communications—a Washington-based Democratic-leaning political consultancy. Mr. Brown will limber up through role play—a common feature of U.S. debate prep. Alastair Campbell, Tony Blair's former press secretary, will play Mr. Cameron.

The move comes at a moment when the U.S. and the U.K. are casting envious glances at each other when it comes to political debate. In the U.S., there is a groundswell to mimic PMQs and reinject reality into a political process that is tightly stage managed; in Britain, it is about adding civil debate to a political arena that habitually operates in full-on attack mode.

Politicians agree that much is at

stake for the leaders. The election race is tight, polling has been volatile and given the novelty of the event, large audiences are expected. Many observers believe Mr. Cameron has the most to lose given his party heads the polls and as a noted public speaker he has greater space to disappoint than Mr. Brown, whose PMQ performances are decent but not considered expert, or Mr. Clegg, who as leader of the country's third party is getting unprecedented exposure.

Prime Minister's Questions is a rough and tumble affair, with sharp-tongued politicians savaging each other while MPs hoot openly and derisively at opponents. These weekly sessions have seen Mr. Brown compared, in the same sentence, to both Soviet dictator Stalin and the bug-eyed British comedy character Mr. Bean. He has been accused of having "neither courage nor convictions" and speaking "desperate rubbish" while concocting "disingenuous" and "feeble plans."

This kind of political blood sport has attracted a solid U.S. fan base.

Polina Diaz, an 18-year-old college student in Florida, counts PMQs—seen on C-Span—among a list of TV favorites.

"It just shows up the dull, prepared, self-important monologues you get" in the U.S., said Ms. Diaz.

Consequently, in the U.S., there is a movement to copy Britain's PMQs. In January, President Barack Obama engaged in a robust 90-minute exchange during a visit to the rival House Republicans retreat.

In Arizona, Republican Jonathan Paton has introduced a bill in the state Senate that would subject the state's governor to public questions twice a month. Mr. Paton, who is now running for the House of Representatives, says he has sometimes sat with pen and paper taking debating tips from PMQs.

To some in the British political establishment, the rowdy reputation is nothing about which to be proud. "Members [of Parliament] come down to Westminster to set the Thames on fire, they want to get heard," says Betty Boothroyd, who as the House of Commons' speaker

refereed the joust for eight years. "I don't think anybody learns anything from Prime Minister's Questions."

Alan Beith, a Liberal Democrat MP, has at times been approached by autograph seekers who recognized him from C-Span. But Sir Alan finds PMQs "a puerile shouting match, little better than a schoolyard" and finds himself pleading with Americans that there is "more to British politics."

It took Iain Duncan Smith nearly a year to get the hang of this "nerve-racking event" as the U.K.'s Conservative Party leader from 2001 to 2003. "If you hesitate for a micro-second, then someone will fill the hesitation, and if that gets people laughing then it is just a downwards spiral into the bedlam and cockpit, with everyone hurling abuse," he said.

Still, American fascination with PMQs bemuses Britons. Mr. Duncan Smith was once approached by a fellow hotel guest in Washington and asked if he was Iain Duncan Smith. "I recognize you from Prime Minister's Questions. I love that show."

## British trade deficit narrows

BY JOE PARKINSON

LONDON—Britain's trade deficit narrowed more than expected in February, hitting its lowest level for almost four years as exports rose at their fastest pace since 2003.

The news continued a series of data releases over the past few weeks in which the U.K. economy has turned out to be stronger than many people thought.

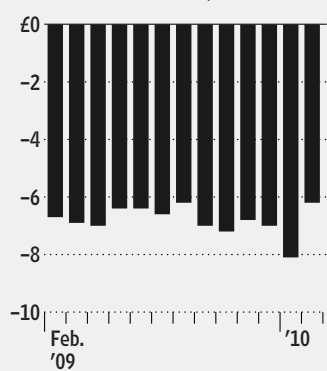
The Office for National Statistics said the U.K. global goods deficit narrowed to £6.2 billion (\$9.5 billion) in February from an upwardly revised £8.1 billion in January. That marked the smallest goods deficit since the £5.9 billion reported in June 2006.

Economists were expecting the deficit to shrink to £7.3 billion in February, with support from the weaker pound, according to a Dow Jones Newswires survey last week. January's deficit was revised up from an originally reported £8 billion.

"Finally some good news on U.K. trade," said Capital Economics in a research note. "The improvement

### Deficit declining

The U.K. goods trade deficit in February narrowed to its lowest level since June 2006, in billions



Source: Office for National Statistics

fits with the recent rises of survey measures of export orders." The data showed exports rose 9.5% to £21.3 billion in February, the sharp monthly rise since January 2003.

That rise was driven by sales of chemicals, which increased at a re-

cord monthly amount of £625 million. U.K. imports edged down 0.1% to £27.5 billion.

The ONS said it couldn't comment on the extent to which weaker sterling and signs of an economic recovery in key overseas markets had lifted exports.

Bank of England Gov. Mervyn King has said that he expects a pickup in net trade to come through in due course, but that it would be a big help to the U.K. if the euro-zone economy were growing faster.

The ONS said the deficit in trade in goods with non-European Union countries also narrowed more than expected to £3.3 billion in February from a revised £4.7 billion in January. Economists had expected a £3.9 billion non-EU goods deficit.

The U.K. trade deficit in goods and services narrowed to £2.1 billion in February from a revised £3.9 billion in January, marking the smallest deficit since August. The surplus in services trade also shrank to £4.1 billion from £4.2 billion in January.

—Natasha Brereton contributed to this article.

## Tories vow to protect rating

Continued from first page

The 118-page manifesto contained little economic policy, promising fiscal rectitude while offering a range of tax cuts that have drawn fire from Prime Minister Gordon Brown's Labour party. The manifesto promised to "safeguard Britain's credit rating with a credible plan to eliminate the bulk of the structural deficit" over the next five years, and said Conservative fiscal policies will aim to "keep interest rates lower for longer."

However, the Conservatives, who lead national polls as the election campaign enters its second week, repeated their pledge to reverse most of the government's planned increase in payroll taxes.

The Conservatives also retained their promises to cut corporate tax, freeze local council tax for two years, give married couples a tax-break, and scrap inheritance tax on the first £1 million (\$1.5 million) of value on properties.

The Conservatives retained their pledge to increase spending on the

health service and overseas aid in coming years. But there was no promise in the manifesto not to raise the income or value-added tax.

The Conservatives said the plans are carefully crafted. But Mr. Brown's Labour Party said the Conservatives are trying to deceive voters. "The Tories haven't changed. They want to offer unfunded promises today and hide the bill until" after the election, said British Treasury Chief Alistair Darling.

Much of the manifesto was focused on bolstering local communities' power over policing, school management planning and the delivery of services. Mr. Cameron's said that after 13 years of "big government" under Labour, it was time to trim the central state and unleash a "big society" where the public helped drive change.

Mr. Brown said Tuesday the Conservative plans added up to telling people "you are on your own" during tough economic times.

—Joe Parkinson and Ainsley Thomson contributed to this article.

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## EUROPE NEWS

# Greece still sees demand for debt

News isn't all good as investors remain wary

BY BRIAN BLACKSTONE  
AND EMESE BARTHA

Greece saw strong demand for its latest debt auction but was forced to pay a hefty interest rate while yields on longer-term bonds jumped again, a sign that investors remain wary about Athens' solvency.

Greece's debt agency sold €780 million (\$1.06 billion) apiece of the six- and 12-month Treasury bills at yields of 4.55% and 4.85%, respectively.

Analysts say the auction wasn't necessarily a good gauge of foreign demand. Greek banks tend to be heavy bidders at such auctions, while foreign investors prefer longer-term maturities, and the 10-year bond yield climbed Tuesday to 6.86%.

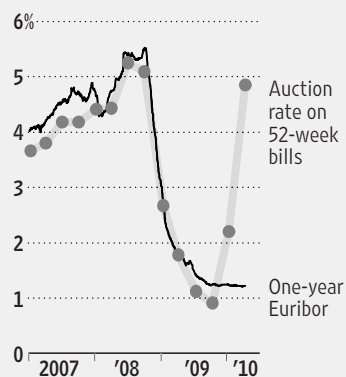
Finance ministries agreed on bailout terms Sunday, with the euro zone providing up to €30 billion in loans at about 5% interest, which is well below what Greece must pay in the markets. The International Monetary Fund could chip in as much as €15 billion more at even lower rates.

With the ink barely dry on that package, investors fret about how quickly European governments, already in uncharted waters, can get money together if needed, introducing a new uncertainty.

"No euro-zone government can lend without going to parliament," a process that could potentially take weeks after aid is officially requested unless "the house is on fire," said Erik Nielsen, economist at Goldman Sachs.

## Paying a premium

Greece's borrowing rate on its 52-week bills is more than double what it was in January and is well above one benchmark.



Source: Greece's ministry of finance

Germany, which would be the biggest lender, is still trying to determine whether it can grant the aid without seeking parliamentary approval. Given that aid to Greece is such a controversial issue, Chancellor Angela Merkel may feel compelled to consult parliament, even if she can legally avoid that step, for political reasons.

In France, the second-largest lender, the government makes decisions on foreign loans, though tradition calls for parliament's opinion. "In the past, we have demonstrated that this can be secured in less than a week," Christine Lagarde, France's finance minister, said Tuesday.

In Italy, extending a loan to



Produce vendors and growers gather Tuesday near the Finance Ministry in Athens to protest proposed new taxes.

Greece would require the government of Prime Minister Silvio Berlusconi to issue a decree, which would go into effect immediately. At a later stage, the decree would have to be approved by Italy's Parliament. Italian government officials said securing lawmakers' approval shouldn't be a problem because Mr. Berlusconi has a strong majority.

The Dutch parliament will debate the bailout measure Thursday and would both have to approve the bailout and pass a supplementary budget bill to distribute funds. "The last word is for the parliament," a Dutch finance-ministry spokesman said.

A spokesman for the Belgian finance ministry said the authorization procedure for the bailout wasn't clear. The Greece situation is "exceptional," he said. "There's nothing prescribed."

Greece has enough cash to pay

an €8.2 billion bond due on April 20, investors say. The next key date is May 19, when €8.7 billion is due. Greece is counting on a roadshow at the end of this month to generate demand from U.S. investors. "I'm not sure there is enough demand in the U.S. and Asia" to raise the needed funds, said Luca Cazzulani, deputy head of fixed-income strategy at UniCredit Bank.

If that's the case and spreads remain elevated—Greek 10-year bond yields were about 3.70 percentage points higher than safer German equivalents Tuesday—then Athens could ask its euro-zone peers to pull the trigger by the end of April and give parliaments enough time to release the funds, analysts say.

In addition to high interest rates, Greece faces recession risk and a period of very low inflation or even deflation to make its economy competitive again. The mix is poisonous

for government revenues that depend on income and value-added taxes. The euro firmed slightly after the Tuesday's T-bill sale but swiftly fell below Monday's closing levels, reflecting those worries.

"They have managed to get all the euro nations together, their reputation is damaged anyways, I think at this point it would make sense" to tap the aid package, Mr. Cazzulani said.

Euro-zone policy makers say they hope the aid package will mark the beginning of the end of the Greek financial crisis, and reassure investors that they don't need to fear similar problems in other members of the currency area.

"We are effectively forging something new. Let's hope we never need it again," Ms. Lagarde said.

—Nick Skrekas, Charles Forelle and David Pearson contributed to this article.

## Greece aid promise poses political risk for Merkel

BY MARCUS WALKER

BERLIN—Europe's ever-louder promises of help for Greece may have calmed financial markets for now, but they pose a problem for German Chancellor Angela Merkel, who faces growing criticism at home as her resistance to a Greek bailout softens.

Ms. Merkel's center-right coalition will be tested in crucial regional elections on May 9 that could wipe out its thin majority in Germany's upper house of parliament, making it harder for the government to pass its major economic policies into law.

Loaning taxpayer money to Greece at a time when German au-

thorities are strapped for cash to maintain schools and roads at home could potentially add to broader voter dissatisfaction with the performance of the ruling coalition, political analysts say.

So far the election campaign in North Rhine-Westphalia, Germany's most populous state, has centered on domestic issues including jobs, education and the appeal and flaws of local candidates. Opinion pollsters say Greece isn't playing a major role. But the center-right, which is lagging in polls, can't afford extra controversy, analysts say.

"If Greece is bailed out shortly before the election, it could lead to an awkward debate for Merkel, with voters questioning why there's money for Greece but not for them," says Gero Neugebauer, a political scientist at Berlin's Free University.

Ms. Merkel's conservative Christian Democrats and their junior coalition partners, the pro-business Free Democrats, who hold a governing majority in North Rhine-Westphalia, are lagging in opinion polls.

Without a late surge, the region's conservatives may have to form a new ruling pact with the left-leaning Greens or Social Democrats. Such a state government could not be counted upon to support Ms. Merkel's legislative proposals at federal level, where Germany's 16 states vote on financially significant laws in the upper house of parliament.

That would make it considerably harder for Ms. Merkel's government to pass either the €16 billion (\$22 billion) in tax cuts that it has promised, or an overhaul of health insurance to control costs that it is considering, say analysts. The challenge of cutting Germany's budget deficit would also grow more complicated.

Sunday's announcement of details of a Greek bailout by euro-zone finance ministers is already leading to grumbling in Germany, where critics see the relatively generous terms of the package as a climb-down by Ms. Merkel.

### Under the euro zone's rescue formula, Germany would supply about €8.4 billion of the Greece loans.

In an editorial on Tuesday headlined "The Big Cheat," the daily Frankfurter Allgemeine said it was a lie that Germany wasn't subsidizing Greece.

Greece says it doesn't presently need to use the rescue package, made up of €30 billion in loans from euro-zone governments and up to €15 billion from the International Monetary Fund.

German media have pointed out that under the euro zone's rescue formula, Germany would have to

supply about €8.4 billion of the loans for Greece—equivalent to more than €100 for every person in Germany.

Ms. Merkel's spokesman Christoph Steegmans likened the package to "a fire extinguisher hanging on the wall" that won't necessarily be needed. German officials continue to insist the onus is on Greece to fix its deficit through austerity measures. Many economist and investors believe that won't be enough.

The chancellor's stance on a bailout has slowly shifted over recent months. Initially she prevented the EU from giving Greece more than verbal support, even as German officials quietly formulated contingency plans.

As late as last month, Ms. Merkel fought off demands from other EU governments to reveal the rescue plan. The difficulty of selling aid for Greece to skeptical German voters was a factor in Ms. Merkel's hard line, senior German officials said.

Ms. Merkel's spokesman denied the regional election has influenced her stance on Greece, saying financial necessity, not politics, would determine the timing of any aid.

As her hopes faded that political statements would be enough to reassure markets, Ms. Merkel shifted tack and pushed the rest of Europe into accepting a role for the International Monetary Fund in any bailout. Germany still resisted announcing details of aid, and insisted Greece

wouldn't get loans at subsidized interest rates.

A turning point came last week amid signs that Greek banks were having trouble raising funds from markets.

On Sunday Germany agreed that Greece could borrow €30 billion from fellow euro-zone countries at an interest rate of around 5%, well below the current 7% yields on its bonds.

A spokesman for Ms. Merkel says the euro-zone charge reflects an average market rate over a period of time before market jitters drove up Greece's borrowing costs excessively. Some lawmakers in Ms. Merkel's own coalition aren't convinced.

"An interest rate of 5% is in the end, of course, a subsidy," Frank Schaeffler, a Free Democrat legislator, said on Tuesday. Ms. Schaeffler says Greece should leave the euro.

The Social Democrats' general secretary Andrea Nahles this week said the government's quest to delay help for Greece until after the election in North Rhine-Westphalia has failed.

Christian Democrat lawmaker Norbert Barthle defended the government, saying a Greek debt default would be far more damaging financially for Germany, and that the rescue loans could turn out to be profitable for German taxpayers.

—Andrea Thomas contributed to this article.

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EUROPE NEWS

# Kaczynski to be buried next to kings

Poland's unity over dead president fractures, as opponents criticize plans to inter him in Krakow's Wawel Castle

By MARCIN SOBZYK

WARSAW—Poland's late president Lech Kaczynski is to be buried alongside the nation's most revered kings and generals, in a decision Tuesday that fractured the national unity surrounding the death of leader who in his lifetime was controversial.

Mr. Kaczynski and his wife, Maria Kaczynska, will be buried Sunday at Wawel Castle in Krakow, southern Poland, and will rest with "heroes," Krakow's Cardinal Stanislaw Dziwisz said Tuesday. The couple died Saturday in a plane crash along with 94 others.

The White House said Tuesday that President Barack Obama will attend Sunday's funeral, "to express the depth of our condolences to our important and trusted ally and our support for the Polish people, on behalf of the American people."

Mr. and Mrs. Kaczynski will join nine of Poland's kings and several military leaders entombed at Wawel Castle's Cathedral. They will be laid in a crypt next to the tomb of Marshall Jozef Pilsudski, Cardinal Dziwisz said. Although a dictator, Marshall Pilsudski is a giant of modern Polish history. He is widely considered to have secured Poland's independence in 1918, after more than a century of partition by Russia, Prussia and Habsburg Austria. He is also held responsible for defeating the Bolshevik Red Army.

"Is he really worthy of the Kings?" read a banner held up by a few dozen protesters, who gathered outside the castle Tuesday evening to protest Mr. Kaczynski's burial at Wawel.

Tuesday's decision, made by the president's family, came as Russian investigators said they had found a third black box from the Tupolev-154 that crashed Saturday in western Russia. The plane was carrying



Jaroslaw Kaczynski, brother of the late president, at a memorial service at the parliament building in Warsaw Tuesday.

a large Polish delegation as it attempted to land in dense fog at Smolensk airport in Western Russia.

Usually, aircraft carry only two black boxes and it wasn't immediately clear what function the Polish-made third box served. So far, investigators have focused on pilot error as the cause of the crash.

"The president, who died a heroic death when flying to Katyn to pay homage to the martyrs, and his wife will get a dignified place for their eternal rest," said Cardinal Dziwisz. "The final decision is that the most dignified place is Wawel, where he can rest together with those who have achieved so much for our fatherland—kings, heroes, commanders."

Though announced by the government representative and Krakow mayor in the morning, it wasn't until evening that the decision was confirmed. A spokeswoman for the presidential chancellery declined to comment on the reason for the delay, but the choice of resting place was instantly controversial.

"It is damaging to the memory of the late president to forcefully try to make him look like the father of the nation... he wasn't," said Jan Hartman, professor of ethics at the Jagiellon University in Krakow, adding that the decision looked "political." Mr. Kaczynski is from Gdansk, on Poland's northern coast.

Presidential elections, which had been due in the fall, must be held by

June in the wake of the president's death. Mr. Kaczynski had planned to run again, but was trailing in opinion polls. It isn't yet clear who his political party, Law and Justice, will choose to succeed him as a candidate. One possibility is the late president's identical twin brother and former prime minister, Jaroslaw Kaczynski.

Political commentators who opposed President Kaczynski while he was alive, but have avoided making any comments that could be seen as negative since his death, attacked the choice of Wawel. A Facebook group launched Tuesday, called "No to Kaczynski at Wawel," had 8,000 members by evening.

"A dispute is unavoidable," said

Daniel Passent, a commentator for the left-leaning weekly Polityka, because Mr. Kaczynski had been a divisive figure until his death.

Krakow was Poland's capital until the end of the 16th century and the cathedral of the royal Wawel Castle. Among those buried in the Cathedral are Sigismund the Old, who ruled Poland for more than four decades in its 16th-century Golden Age, and Jan Sobieski, famous for his victory over the Turks in the 1683 Battle of Vienna. The most recent figure buried in the castle's Cathedral is Gen. Wladyslaw Sikorski, Poland's World War II leader in exile. He died in a plane crash off Gibraltar in 1943.

President Kaczynski was an active member of the Solidarity movement that helped to topple Poland's communist regime. He was elected president in 2005, ruling for two years alongside his twin brother, until Jaroslaw Kaczynski's government collapsed. Since then Lech Kaczynski had ruled in an uneasy cohabitation with political opponents. The twins' anticorruption platform was popular, but the zeal with which they pursued their conservative agenda drew passionate opposition.

Cardinal Dziwisz, who said the choice of Wawel Castle came as a surprise to him, urged respect for the family's decision.

"I trust the entire society, especially of Krakow, will accept this decision," he said. "A heroic death shouldn't divide us. Divisions don't serve anyone, especially in those circumstances."

Also on Tuesday, the casket of first lady Maria Kaczynska was flown back to Warsaw from Moscow. As for her husband, crowds gathered along the route to pay their respects and threw flowers on the hearse carrying her coffin.

—Marc Champion contributed to this article.

## Woman who ignited Solidarity

[ Remembrances ]

By ELIZABETH WILLIAMSON

The plane crash that killed much of Poland's top leadership Saturday also took the life of Anna Walentynowicz, a Gdansk shipyard worker whose firing in 1980 ignited Poland's pro-democracy Solidarity movement.

She was a firebrand whose refusal to compromise was crucial in the workers' triumph over the communist regime. But Ms. Walentynowicz, who died at age 80, had a difficult time adjusting to life in the democratic Poland she helped to create.

A crane operator with a grade-school education, her vocal advocacy for a free union earned her a reputation among plant managers as a charismatic troublemaker. She was fired on trumped-up charges in 1980, a move that galvanized her co-workers and brought long-simmering unrest to boiling point. Some wanted her to lead the strike, but she backed electrician



Anna Walentynowicz died in crash.

Lech Walesa, 14 years her junior, saying the strike committee's leader should be a man.

Mr. Walesa bargained with the government, Ms. Walentynowicz buoyed workers inside the barricaded yard. She delivered a message of fight and hope to the throngs beyond its gates, where a list of 21 demands, scrawled on plywood, was topped by workers'

call for a free trade union—Solidarity. An exhausted Mr. Walesa wanted to drop a demand that all political prisoners be freed; Ms. Walentynowicz disagreed, delivering a fiery speech that won the day.

That helped to foster a deep rift between the two figures, who struggled for power in the union. They bickered even during a 1981 audience with Pope John Paul II, who admonished them both.

Mr. Walesa went on to become president of Poland in 1990, and a Nobel Peace Prize laureate. Ms. Walentynowicz slipped into obscurity, living on her meager shipyard pension in a tiny Gdansk apartment adorned with religious iconography and photos of Solidarity's glory days. Her public writings were bitter, accusatory and sometimes anti-Semitic.

The election to the presidency of Lech Kaczynski, an ardent nationalist like herself, provided Ms. Walentynowicz with official respect and renewed visibility. In 2006 Mr. Kaczynski awarded her the Order of the White Eagle, Poland's highest official honor.

**INDIA**  
**Invitation for presentation on O&M strategy for Chennai Metro Rail**

Chennai Metro Rail Limited (CMRL) is a company jointly owned by the Government of India and the State Government of Tamil Nadu. Procurement activities for the implementation of the 45 km, Chennai Metro Rail Project costing over US\$3 Billion are underway. Funding for the project is from the two Governments and through a Japanese ODA loan. Further details about the project are available at [www.chennaiemtorail.gov.in](http://www.chennaiemtorail.gov.in). CMRL is in the process of assessing options and finalizing its operations and maintenance strategy. Among the options being considered are:

1. In-house operation and maintenance through its own staff.
2. Outsourcing various O&M functions to various contractors.
3. Outsourcing the entire O&M functions to one or two O&M companies; this may involve two operators sharing one depot.

CMRL invites companies with experience in operation and maintenance (O&M) of Metro Rail / similar systems interested in handling the O&M of the Chennai Metro to present their credentials and ideas at a meeting being organized at Chennai on **3rd and 4th May 2010**. Subject to time available, each company will be allowed a brief presentation for 5 to 10 minutes. Companies unable to participate in person may also send their credentials by mail. Any expenditure in this regard shall be borne by the participants. For details including venue etc. please contact:

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## U.S. NEWS

# Top union leader said to be resigning

*Stern's exit from SEIU would cause big realignment of power in organized labor; timing of move remains uncertain*

BY KRIS MAHER

Andy Stern, president of the Service Employees International Union and one of the most prominent and powerful labor leaders in the U.S., is expected to resign his position with the union, according to an internal union email and one of the union's board members.

Mr. Stern's departure would cause a major realignment of the balance of power within organized labor, from labor-management relations to Washington lobbying efforts. It's not clear when an official announcement of his resignation will come or when it would take effect.

He has been credited with making the 1.8 million member SEIU one of the fastest-growing and most politically powerful unions. It spent more than \$65 million in 2008 to help elect Barack Obama and Democratic majorities in Congress.

A member of SEIU's executive board said he received a phone call from SEIU's second-highest-ranking officer, Anna Burger, asking for his support as she sought to succeed Mr. Stern.

"He is resigning. They haven't given an exact date," said the board member.

The board member said that Mary Kay Henry, an SEIU executive vice president who oversees the union's long-term-care division, is



SEIU President Andy Stern speaks during a union rally outside the offices of Goldman Sachs in Washington last year.

also seeking to lead the union. "Right now it looks like it's between Anna Burger and Mary Kay Henry," he said.

Mr. Stern didn't return a phone call seeking comment. Ms. Burger, Ms. Henry and an SEIU spokes-

woman couldn't be reached.

On Monday, Diane Sosne, president of an SEIU local in Washington state, sent an email to some SEIU staff that read, "Last night I received confirmation that Andy Stern is resigning as president of SEIU. He

has not yet made a public announcement; we will share the details as we become aware of them."

The email was first reported by the Politico Web site.

Ms. Sosne didn't return an email message, and her office didn't re-

turn a call.

Mr. Stern is well known among the business community for directing aggressive campaigns against companies in the janitorial and health-care sectors aimed at getting companies to remain neutral during union-organizing drives.

Mr. Stern angered some in the labor movement when he pulled his union and several others out of the AFL-CIO in 2005, splitting the labor movement in half.

He and other leaders, including James Hoffa of the International Brotherhood of Teamsters, went on to form the rival Change to Win federation.

But the federation failed to gather momentum, and its executive director recently left.

Another union in the group, Unite Here, recent pulled out and rejoined the AFL-CIO in the midst of a long fight with SEIU over organizing in the hotel sector.

Over the past two years, Mr. Stern has been engaged in several internal union battles with California locals representing long-term nursing and other workers that were merged together, as part of the union's strategy of creating mega-locals focused by sector.

"There will be quite an internal battle as to who succeeds him. There will be a lot of knives out there," an official with another union said.

## IEA warns on oil prices

BY SPENCER SWARTZ

LONDON—The International Energy Agency warned that rising oil prices, which have been flirting with 18-month highs, could squeeze economic recovery in the U.S. and other industrialized nations.

The Paris-based agency said that there was plenty of oil around to satiate increasing demand, but it added that higher crude prices could "stall [rich nations'] economic recovery or render it more 'oil-less' than we currently envisage."

U.S. oil prices have eased off the \$87 a barrel level hit last week but are still above the \$70-to-\$80 range that has persisted for months and gave a semblance of stability to global energy markets. U.S. oil prices, which have risen largely on economic optimism, traded Tuesday midday on Nymex at \$83.10, down \$1.24, a barrel.

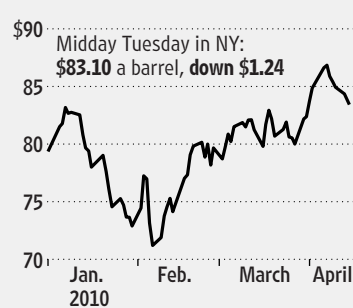
The IEA, which tracks oil industry trends on behalf of its mostly industrialized-nation members, raised its 2010 global oil-demand forecast by 30,000 barrels a day—a slight amount—due to rising consumption in China and Saudi Arabia. World oil demand this year is seen growing 1.7 million barrels a day to 86.6 million barrels a day, which would be the highest level on record, according to IEA data.

Some analysts say that growth forecast is too optimistic, adding it is based heavily on government spending programs that will eventually be taken away—possibly starting later this year—and gives short shrift to lingering debt problems that weigh on energy consumption.

Such issues have contributed to oil inventories in the U.S. increasing in the past 10 straight weeks. Gasoline

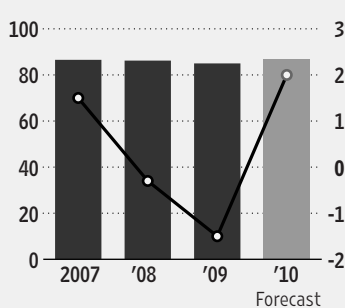
### Rising price, rising demand

Crude-oil futures, Daily settlement price on the continuous front-month contract



Sources: Thomson Reuters via WSJ Market Data Group (oil price), IEA (oil demand)

Global oil demand, In million barrels per day (left) and change from previous year (right)



line stocks in the U.S., the world's biggest energy consumer, also hover at a 17-year peak. Still, the prevailing oil-market perception is that healthy economic activity in emerging markets like China will eventually run down the more-than-ample spare production capacity currently held in Organization of Petroleum Exporting Countries.

That view is padded by the popular belief that output from non-OPEC producers like Norway will register little growth after this year as aging oil fields yield fewer barrels. With that in mind, financial investors like hedge funds have remained active participants in the world oil trade this year. Hedge funds and others buy into investment tools such as exchange traded funds, or ETFs, which give them direct or indirect financial stakes in the movement of oil prices.

China consumes just half the amount of crude as the U.S. but is the single biggest growth driver, ac-

counting for more than one-third of the annual increase in world oil consumption. The IEA said it expects China this year to burn about 9.1 million barrels a day, up 90,000 barrels a day from its previous forecast.

Yet, there is currently plenty of crude to meet that demand, at least over the next year or so.

OPEC sits on the highest level of spare pumping capacity in a decade at more than six million barrels a day, with most of that held by Saudi Arabia.

Still, U.S. drivers face gasoline prices that may average close to \$3 a gallon this summer, or 20% more than in 2009, due to the higher oil prices, the U.S. Energy Information Administration forecast this week.

But the IEA said such a high gasoline price may lead to consumers driving fewer miles and, ultimately, perpetuate the high stockpiles of unused oil and gasoline in the U.S. That could act as a brake on further increases in oil prices.

## Trade deficit widens as confidence index falls

BY SUDEEP REDDY

The U.S. trade deficit widened in February as an improving economy led consumers to buy more clothes, electronics and other goods from abroad.

A rise in imports—as firms restocked inventories with goods from abroad—outweighed a small uptick in exports, which still reached their highest level since October 2008, the Commerce Department said. That sent the deficit to \$39.7 billion from \$37 billion in January.

### A measure of small-business confidence fell in March due to weak sales and continued economic uncertainty.

The worsening gap lowered estimates for overall U.S. economic growth in the first quarter by as much as half a percentage point. Many economists now expect growth to register at an inflation-adjusted annual rate of about 2.5%.

Separately, a measure of small-business confidence fell in March due to weak sales and continued uncertainty about the economy. The National Federation of Independent Business index of optimism among small businesses fell 1.2 points in March to 86.8.

"The March reading is very low and headed in the wrong direction," said Bill Dunkelberg, the group's chief economist. "Something isn't sitting well with small-business owners. Poor sales and uncertainty

continue to overwhelm any other good news about the economy."

The increases in both imports and exports, though at a slower pace than in the second half of last year, underscored how improving economic conditions around the world continued to boost trade activity.

U.S. exports rose 0.2% as improvement in sales of semiconductors and auto products helped offset declines in aircraft sales and agricultural goods.

Imports rose 1.7% in part due to higher oil prices, along with U.S. purchases of a range of consumer goods and services. Imports of autos and food slipped.

"Higher oil prices and a slowly improving economy are leading to more and more money flowing out of the U.S. economy into other countries," said Joel Naroff of Naroff Economic Advisors.

While the U.S. trade deficit widened, the gap with China fell in February to its lowest since March 2009. Imports from China fell 7.2% to \$23.4 billion, the lowest since last May. Exports to China dropped slightly to \$6.9 billion.

However, U.S. trade deficits with other major trading partners widened. The deficit with Japan widened to \$4.30 billion from \$3.35 billion. The trade gap with the euro area rose to \$4.28 billion from \$2.94 billion.

Separately, import prices rose 0.7% in March due to higher oil prices. But non-petroleum prices posted their first monthly decline since July 2009, contributing to a continued deceleration in underlying inflation in the U.S.



## U.S. NEWS



Associated Press

U.S. President Barack Obama, delivering opening remarks Tuesday, said, 'Two decades after the end of the Cold War, we face a cruel irony of history ... the risk of nuclear attack has gone up.'

# Leaders pledge to secure nuclear fuel

*Summit highlights global threat, but final communiqué steps back from concrete measures, avoids thorniest issues*

By JONATHAN WEISMAN

WASHINGTON—Forty-seven heads of government closed out a global summit on nuclear security with a final communiqué that pledged to lock down hundreds of thousands of tons of weapons-usable nuclear fuel by 2014, and set a 2012 summit in South Korea to measure progress.

But the leaders stepped back from concrete plans to secure prescribed amounts of nuclear material or convert nuclear reactors that use highly enriched uranium to less-dangerous fuel. Instead, they said they would work together "as appropriate" and would make such conversions "where technically and economically feasible," according to the final documents.

The first-of-its-kind summit here succeeded in raising the issue of unsecured uranium and plutonium to a new level, arms-control advocates said. World leaders jointly recognized the threat of nuclear terrorism as "one of the most challenging threats to international security."

It may also bolster President Barack Obama's standing as he presses for sanctions against Iran and to

fortify the battered nuclear Non-Proliferation Treaty at the United Nations next month. In that sense, this is a first step down a difficult road, halting the spread of nuclear weapons to states like Iran and stopping the production of nuclear-weapons materials among competing nuclear allies, such as Pakistan and India.

Some critics say the summit came up short in securing solid commitments for the disposal of weapons-grade uranium and plutonium. It avoided the thorniest issues of nuclear proliferation and didn't attempt to advance Mr. Obama's call for an international treaty banning the production of new highly enriched uranium and plutonium.

Ken Luongo, a former Energy Department official and now president of the Partnership for Global Security, said the summit identified what needed to be done without holding anyone responsible for doing it.

"It's pretty thin soup," said Ivan Oelrich, vice president of the Federation of American Scientists and a member of the Fissile Materials Working Group, a nongovernmental group promoting nuclear security.

Still, the two-day summit ap-

pears to have served the purpose Mr. Obama wanted, setting the stage for larger nuclear confrontations in the weeks to come.

"Two decades after the end of the Cold War, we face a cruel irony of history—the risk of a nuclear confrontation between nations has gone down, but the risk of nuclear attack has gone up," Mr. Obama said in opening the working session Tuesday.

The president hoped that the signing last week of a new strategic arms reduction treaty with Russia and this week's summit would strengthen his hand at the United Nations.

By the end of the month, the Obama administration wants to lay out a package of sanctions at the U.N. Security Council aimed at Iran and its nuclear program. In May, the U.N. will convene the first review of the Non-Proliferation Treaty in five years. Mr. Obama wants to add stronger provisions to punish countries such as North Korea that back out of the NPT after advancing their nuclear-weapons programs in secret. He also wants to isolate Iran.

The summit and the U.S.-Russian treaty will allow Mr. Obama to say

the nuclear superpowers have been doing their part under the treaty to move toward nuclear disarmament, administration officials say.

Vice President Joe Biden has been quietly talking to the heads of nonaligned countries during the summit to make sure they don't side with Tehran when its U.N. delegation tries to upset nuclear talks by protesting that the U.S. has been more of a problem than a solution to the world's nuclear ills, said Daryl Kimball, executive director of the Arms Control Association in Washington.

Russian President Dmitry Medvedev advanced Mr. Obama's cause Tuesday by announcing the imminent closure of a Cold War-era reactor in the formerly secret Siberian city of Zheleznogorsk. The ADE-2 reactor has been producing weapons-grade plutonium for nearly 52 years.

Canada, the U.S. and Mexico also agreed on Tuesday to convert a research reactor in Mexico from highly enriched uranium fuel to low-enriched uranium.

Earlier Tuesday, Chinese President Hu Jintao called for "effective" measures to secure nuclear materials and facilities, but didn't address

international efforts to curb Iran's nuclear program.

Mr. Hu, in a speech at the summit, said he viewed nuclear security as a "growing concern" adding that "the potential threat of nuclear terrorism cannot be neglected."

Also on Tuesday, U.S. Secretary of State Hillary Clinton and Russian Foreign Minister Sergey Lavrov reaffirmed a 2000 agreement that the two countries would permanently destroy at least 34 metric tons each of weapons-grade plutonium.

The U.S. is building a new facility at the Savannah River Plant in South Carolina that should begin burning the plutonium by 2018.

Sixty-eight metric tons is a drop in the bucket, Mr. Luongo said. The world holds some 500 metric tons of plutonium; 92 of it in the U.S. and 190 in Russia.

But he lauded the week's efforts, especially the setting of a new conference in two years.

"It's a little like being in school," he said. "The only thing that makes people nervous is having to deliver your homework, and that's what South Korea is all about."

—Min Zeng and Henry J. Pulizzi contributed to this article.

# Chinese leader reassured Obama on yuan

By SHEN HONG AND AARON BACK

BEIJING—Chinese President Hu Jintao indicated to U.S. President Barack Obama that Beijing remains committed to gradually changing its currency policy and helping to increase imports from the U.S., according to a report Tuesday by the state-run Xinhua news agency.

Mr. Hu's reassurance, at a face-to-face meeting with the U.S. president on Monday, indicated an effort at conciliation and cooperation on

an issue that has been a source of tension between the two nations.

Mr. Hu also signaled Beijing's displeasure at demands from Washington and elsewhere that China let its currency's value rise—telling Mr. Obama that any changes to China's exchange-rate policies would be based on the country's own economic needs.

China also announced Tuesday that it had imposed duties on imports from the U.S. and Russia of a type of steel used in the power sec-

tor, showing it will continue to defend its interests on trade matters.

In recent weeks, the Obama administration has been trying to give China time to move on its own on the currency, engaging in behind-the-scenes negotiations with Chinese leaders but refraining from tough talk.

Warming relations and a surprise visit to Beijing last week by U.S. Treasury Secretary Timothy Geithner set off a wave of speculation that China could be preparing

to change its currency policy sooner rather than later.

Mr. Hu was in Washington this week for a nuclear-security summit hosted by Mr. Obama. He told Mr. Obama that while China is looking to revamp the way it sets the value of the yuan, it "won't push forward the reform under external pressure," according to a Xinhua report.

Mr. Hu's signal of determination that China wouldn't bow to pressure and the comments in Beijing on Tuesday will likely reinforce the

general belief among analysts that while a sudden, large jump in the value of the yuan against the U.S. dollar is unlikely, China is probably willing to allow its currency to gradually climb upwards in the coming months.

Asian Development Bank China Director Robert Withol said Tuesday that the economy is recovering, it would be "in China's interest, and also in the interest of the economies of the region, to gradually shift to greater exchange-rate flexibility."

## WORLD NEWS

# Kyrgyz ex-leader offers to go

Ousted President Bakiyev and opponents begin to set down terms for him to leave country

By ALAN CULLISON  
AND KADYR TOKTOGULOV

BISHKEK, Kyrgyzstan—Kyrgyzstan's ousted president and his opponents appeared to back off from confrontation that threatened to split the country on regional lines, and have begun setting out terms under which he can leave the country.

The exit of President Kurmanbek Bakiyev would be a relief to the U.S., whose main interest in Kyrgyzstan has been continued use of a military base that has been a hub for ferrying troops and supplies into Afghanistan. The provisional government plans to let the U.S. extend its lease on the base by a year when the term expires in July.

The obstacle to getting Mr. Bakiyev out of the country is his family, which Mr. Bakiyev wants to take with him but who leaders of the new government hold responsible for killings and corruption during his reign.

With an eye toward elections, leaders say the public wants someone to be held responsible for the casualties inflicted in Mr. Bakiyev's overthrow, which at last counted 83 killed and more than 500 injured.

But the provisional government in Bishkek is beginning to worry that Mr. Bakiyev, who is holed up with a handful of supporters in his native village in the country's south, could be a management problem and undermine their rule. "His stay in Kyrgyzstan is posing a problem for the nation's future," said Roza Otunbayeva, leader of the provisional government in Bishkek. "It's becoming increasingly difficult to guarantee his security as people are demanding to bring him to justice."

In the past two days, Mr. Bakiyev has held rallies that have drawn a few thousand locals and dared the government to try to arrest him. The demonstrations appeared to be part of an effort to drive a bargain with the government. On Tuesday he issued a statement saying he was ready to resign "if my family and I are guaranteed full security."

Mr. Bakiyev's request for safe passage for himself as well as his relatives presents a muddle for the new leaders in Bishkek, who have vowed a quick round of elections to legitimize their government. So far the government has offered Mr. Bak-



Kyrgyzstan's deposed president, Kurmanbek Bakiyev, prepares for a news conference at his family home, in Teyit.

iyev security guarantees, but refused to promise anything for his family.

The opposition would like to prosecute one of Mr. Bakiyev's brothers, who they say terrorized and murdered opponents while head of the Kyrgyz security services, and his son, who they say looted state-run companies after he was appointed economic czar.

One of the leaders of the opposition, Omurbek Tekebayev, told a gathering of civic leaders in Bishkek that he would like to see parliamentary elections in a few months, although other leaders have said they won't be held until late summer.

"As far as I know, Bakiyev is ready to resign with pleasure in return for a permission to leave the country," Mr. Tekebayev said, but he added that "by guaranteeing immunity, we will lose peoples' trust."

In an interview, Mr. Tekebayev suggested that the standoff with Mr. Bakiyev could drag on for another week, since the provisional government is in no mood to compromise with him. He said Mr. Bakiyev "is demanding certain guarantees that we cannot provide for now...and soon he will give in."

But leaders of the provisional

government have suggested that some international mediation might help them come to an agreement.

If some international powers, such as the U.S. and the European Union, clamor for the government to let Mr. Bakiyev go, that might provide some leaders with the political cover to make the move.

Special envoys from the EU and the Organization for Security and Cooperation in Europe have already arrived in Bishkek, and Wednesday U.S. Assistant Secretary of State Robert O. Blake arrives for talks with the provisional government.

Edil Baisalov, chief of staff for Ms. Otunbayeva, the government leader, stressed the new leadership is "not in direct negotiations with Bakiyev and never intended to be... we do not need anything from him." But he said several international organizations "are suggesting some steps be taken toward stabilization of the situation and creating conditions for democratic development."

It isn't clear how much of a role the U.S. can play in resolving the standoff since many of the new leaders in Bishkek are miffed with the U.S. for its close engagement with Mr. Bakiyev and his son, Maksim, whom he had groomed as suc-

cessor. The U.S. has kept close relations to ensure Mr. Bakiyev didn't follow through on threats to close a key military base near Bishkek that has been crucial to ferrying troops and supplies into Afghanistan.

Mr. Bakiyev's continued presence in Kyrgyzstan and his refusal to resign has forced the U.S. to prolong an awkward balancing act in which it has continued to call Mr. Bakiyev the president, while acknowledging that the new leaders hold power.

Before leaving Washington, Mr. Blake told reporters, "There are some within the provisional government who would like to have [Bakiyev] arrested, but there are some others who are pragmatists who would like to perhaps see if there's a way to get him out of the country." Mr. Blake said that the U.S. has taken no official position on the matter, but "we think that this needs to be managed by the Kyrgyz themselves in accordance with the Kyrgyz constitution."

The Kyrgyz constitution grants former presidents immunity from criminal prosecution. Mr. Bakiyev's predecessor, Askar Akayev, fled the country in 2005 after an uprising, and has lived since then under such immunity outside Moscow.

## Thai protesters vow to return to the streets

By JAMES HOOKWAY

BANGKOK—Thailand's antigovernment Red Shirt protesters vowed to launch another massive street protest on Wednesday aimed at toppling beleaguered Prime Minister Abhisit Vejjajiva, while Thailand's foreign minister told an academic seminar in the U.S. that Thailand needs to provide more of a voice for its large rural population, and suggested playing down the role of the country's revered monarchy—a taboo topic here.

Protest leaders said Tuesday they plan to stage the latest in a month-long series of rallies outside the headquarters of the army's 11th infantry regiment in Bangkok, where Mr. Abhisit has set up a temporary office to evade the tens of thousands of protesters still blockading two key sites in the center of the Thai capital. Rally leaders have rebuffed government offers to speed up a timeframe for new elections to resolve the stand-off, which triggered violent clashes that killed 21 people on Saturday, saying only an immediate dissolution of parliament would be enough to satisfy them.

The government's latest offer for early elections came early Tuesday, when Deputy Prime Minister Suthep Thaugsuban said Mr. Abhisit's administration would be willing to call new elections sooner than its previous offer of year's end. Mr. Suthep's gambit largely fell on deaf ears. Many protesters were focused on raucously celebrating the traditional three-day Thai New Year water festival that began Tuesday by spraying themselves and passers-by with high-powered water guns.

Protest leaders such as Nattawut Saikua, meanwhile, concentrated on maximizing their advantage after the weekend's bloodshed, which prompted a Army chief Anupong Paochinda Monday to suggest that early elections might be the best way to solve the impasse. Mr. Nattawut described Wednesday's planned march at the army camp as "an offensive mobilization" and said Red Shirt protesters might try to get Mr. Abhisit charged for murder for the rally deaths.

The protests are widening a stark divide in Thailand between supporters of populist former leader Thaksin Shinawatra, who was ousted in a military coup four years ago, and opponents who feared that his free-spending, authoritarian ways threatened the primacy of country's traditional ruling elites in the armed forces, the aristocracy and bureaucracy. The Red Shirt protesters include many of Mr. Thaksin's supporters. They want immediate elections to reset Thailand's democracy and enable a pro-Thaksin party to form a new government.

Foreign Minister Kasit Piromya addressed protesters' concerns at an academic seminar at the Johns Hopkins School of Advanced International Studies in Washington on Monday, saying Thailand needs to find a way to involve farm laborers, factory workers and other groups more fully in developing a more resilient democracy.

Describing Thailand's periodic bouts of street politics as "messy," Mr. Kasit said that nonetheless "it is a process that we have to go through, and I think we should be brave enough to go through all of this and to talk about even the taboo subject of the monarchy."

# U.S. worries about Afghan deaths

By YOCHI J. DREAZEN

U.S. Defense Secretary Robert Gates said civilian casualties in Afghanistan were posing a strategic challenge to the military's success there.

An incident Monday in which U.S. forces opened fire on a passenger bus, killing four Afghan civilians, contributed to mounting American concern that civilian deaths are leading Afghans to turn against the U.S.-led coalition and shift their support to the Taliban.

Mr. Gates said Gen. Stanley McChrystal, who commands all coalition forces in Afghanistan, believes continued Afghan casualties at the hands of American and North Atlan-

tic Treaty Organization forces imperiled the entire war effort.

"[Gen. McChrystal's] view is that the civilian casualty question is a strategic question in Afghanistan," Mr. Gates told reporters traveling on a military plane en route to Latin America. "He thinks that is one of the biggest risks to the success of our strategy."

Gen. McChrystal has tried to reduce the number of civilian deaths by implementing strict new guidelines restricting the use of air power and other heavy weaponry in populated areas and making it more difficult for NATO commanders to authorize night raids and forced searches of Afghan homes.

The United Nations said earlier

this year that the number of Afghan deaths at the hands of U.S. and NATO forces had declined considerably, suggesting that Gen. McChrystal's rules were having an impact.

But the problem hasn't gone away. Early Monday, U.S. forces operating near the southern Afghan city of Kandahar shot at a passenger bus, killing four Afghan civilians. In mid-February, a disputed Special Operations raid in Gardez resulted in the deaths of five Afghans, including two pregnant women.

NATO and the Afghan government opened formal investigations into the Feb. 12 assault on Gardez after local villagers accused American forces of trying to cover up the incident by removing bullet casings

and tampering with the scene of the shootings.

Mr. Gates said he had been told that the allegations of a coverup were "questionable," but said U.S. and NATO commanders would punish any troops who were found to have violated battlefield guidelines designed to minimize civilian casualties.

Mr. Gates also had harsh words for WikiLeaks, a whistle-blower Web site that last week released military video footage of U.S. pilots killing a pair of Reuters journalists in Baghdad several years ago.

Mr. Gates said the video was misleading because it failed to show the events that took place immediately before the U.S. strikes.