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WORLD NEWS 10

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Europe relaxes flight bans

European air-safety authorities Monday agreed to relax flight bans caused by a cloud of volcanic ash, prompting airlines to announce resumed flights as soon as Tuesday and offering hope that the worst had passed in the world's biggest closure of airspace since 2001.

The agreement will divide

By Daniel Michaels in New York, Matthew Dalton in Brussels and Andy Pasztor in Los Angeles

EU airspace into three zones based on ash concentrations in the atmosphere and allow progressively more flights, officials said.

EU Transport Commissioner Siim Kallas stressed the easing of the flight ban won't endanger passengers, although some pilots urged greater caution. "There will not be any compromise on safety," Mr. Kallas said.

The shift came after airlines increased criticism of European aviation authorities for being overly cautious. Since Iceland's Eyjafjallajökull volcano started erupting violently Thursday, spewing a cloud of fine but potentially dangerous dust high into the atmosphere, national aviation authorities have closed air space across most of northern and central Europe.

More than 75,000 flights have been canceled and over

eight million passengers have been dislocated. On Monday, the volcano shifted from emitting ash to lava, lowering the ash cloud's altitude and its threat to aviation.

A senior European aviation official predicted that European air traffic would rise between 10% and 15% each day over the next two days. Still, aviation officials warned it could take several days for airline operations to return to normal and it remained unclear how much airspace will remain restricted.

Aviation officials said if eruptions continued to decline, European air space could be ash-free by Wednesday night. But if winds change or more eruptions occur, the situation could quickly deteriorate again.

Under the new approach, European aviation authorities will establish a "limited" no-fly zone surrounded by a buffer area. Airlines will be allowed to fly outside the zone.

Carriers including British Airways PLC, Air France-KLM SA and Dubai's Emirates quickly announced that they would restart flights.

In deciding whether to fly, carriers will be supported by scientific data on weather and volcanic ash as well as safety assessments from flights conducted with oversight from European aviation authorities, according to Eurocontrol, an umbrella agency that coordinates air traffic across 38 Eu-

ropean countries.

"A low concentration of ashes is not necessarily a safety risk," said Bo Redeborn, director of network design at Eurocontrol.

The impact of volcanic ash on jet engines hasn't been extensively studied. Moreover, the current eruption is different from many previous incidents because the Icelandic volcano is beneath a glacier. The interaction of heat and ice atomized the magma into much finer particles than is typical, and created a steam cloud that sent the ash higher than usual into the air.

Volcanic ash can clog external sensors and damage jetliner fan blades. In higher concentrations, it can block the tiny holes in turbine blades and jet combustion chambers through which air and fuel pass, potentially snuffing out an engine.

Concerns about flight safety were increased by reports that engines of a Finnish F-18 Hornet and an F-16 fighter jet operated by an unidentified country in the North Atlantic Treaty Organization had been damaged by flying close to the ash cloud. The Finnish aircraft had been flying Friday in Lapland but details of the F-16 incident couldn't immediately be learned. A spokesman for the U.S. Air Force said no U.S. aircraft had been damaged by the ash.

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A passenger waits at Rome's Fiumicino airport Monday as airspace to the north remained closed.

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The Quirk



Rock superstar fights plans to slaughter 1,000 badgers in May cull. Page 29

World Watch

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

Editorial & Opinion

The Ifo Institute's president on how to save the euro. Page 12

Goldman braces up after shock

By JOE BEL BRUNO

NEW YORK—Goldman Sachs Group Inc. Chief Executive Lloyd C. Blankfein said the firestorm over civil fraud charges leveled by the Securities and Exchange Commission is "certainly uncomfortable" but urged employees to remain focused in the coming weeks.

Mr. Blankfein, in his first comments since regulators charged the bank, said in a voicemail sent to employees world-wide that the firm will "act diligently to address the complaint with facts."

Analysts are expected to confront Mr. Blankfein about the SEC complaint when the company reports quarterly earnings Tuesday.

He is also scheduled to testify before the Senate's Permanent Subcommittee on

Investigations next week.

Goldman issued two statements Friday vowing to "vigorously" defend itself against allegations that it failed to properly disclose to investors in a 2007 collateralized-debt obligation that the hedge fund Paulson & Co. helped select the mortgage collateral for the CDO. At the time, Paulson was betting the CDO would lose value.

Goldman officials said they knew as far back as August 2008 that regulators were examining mortgage securities created by the firm but were stunned by the fraud suit lodged against it, with most having learned about it from news reports.

Firms typically get a chance to settle such suits, but not in this case, Goldman said. The Wall Street giant said it was alerted to the

probe in the summer of 2008 and was warned that it might face a suit in July 2009. It said it then responded in detail to the SEC's inquiry in September but heard nothing back from the government until Friday's unveiling of the civil suit. The SEC usually notifies firms ahead of a lawsuit as a courtesy to give them a chance for a last-ditch settlement or to prepare for the public fallout.

The move showed a combative streak from the SEC, which has been under mounting pressure after letting slip through its fingers early probes into the Ponzi scheme of Bernard Madoff and the alleged fraud of Texas financier R. Allen Stanford.

The case, SEC v. Goldman Sachs & Co. and Fabrice Tourre, sets the stage for
Please turn to page 8

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PAGE TWO

Amid volcanic ash, rises Nick Clegg

[Agenda]

BY IAIN MARTIN



If you had predicted a week ago that Britain would be covered in a cloud of ash from a volcano; that air travel in most of Europe would be at a standstill; and that the third party Liberal Democrats would be in the lead in opinion polls ahead of the U.K. general election on May 6, you would have attracted some funny looks.

Even the Liberal Democrats seem a little bemused by what has happened to their ratings since leader Nick Clegg won the U.K.'s historic first-ever televised election debate Thursday. There is said by various parts of the media to be "Cleggmania" in the country, particularly among young voters, although as yet the scenes don't really compare with the footage of The Beatles being chased around by their fans.

The opinion-poll findings are extraordinary, however. On Monday YouGov, one of the most respected pollsters, put the Lib Dems in first place on 33% (+4), with the Tories falling to second on 32% (-1) and Labour in a fairly distant third position in terms of the popular vote on 26% (-4). Thanks to the vagaries of the U.K.'s first past-the-post electoral system such a result would make the Conservatives narrowly the largest party with 251 seats in the House of Commons, compared with Labour on 230 and the Lib Dems with only 137 seats. For an overall majority a party requires 326 seats.

It is little more than a week since the Tories were touching 40% and the Lib Dems were back in the low-20% range. Then most discussion was around whether David Cameron would be prime minister with an overall majority or fall just short. As things stand, he will be lucky to end up as prime minister at all. And even then at the head of a precarious



There is said by various parts of the media to be 'Cleggmania' in the country.

coalition with partners who demand he changes the voting system to reflect their interests and not his.

If Mr. Clegg continues his progress (which is a big if), there is the possibility of the old two-party system being blown apart, electoral reform redrawing the map, a new era of almost permanent coalition government, and a consequent realignment of the old party classifications.

Mr. Clegg presented himself in the debate last week as the only leader who wanted to do things differently.

What is going on? What happened?

The first answer is that Mr. Clegg has capitalized rather brilliantly on an antipolitics mood that has been looking for an outlet since the infamous parliamentary expenses scandal of last year. Mr. Cameron had assumed he would be the automatic beneficiary of the voters desire for change. He pushed for the leaders debates thinking they would allow him to look statesmanlike and finish off Mr. Brown.

Instead, Mr. Clegg dashed through and presented himself in the debate last week as the only

leader who wanted to do things differently, casting Mr. Cameron and the prime minister, Gordon Brown, as two sides of the same coin. They represented, he said, the old Westminster duopoly that he meant to smash.

But this is about more than that and Mr. Clegg's one good television performance. The debate accelerated Mr. Clegg's ascent, but in retrospect it was clear he was already off the launch pad and climbing.

It seems the surge toward the Lib Dems was under way before the debate. "They had already started to get through with their claim that they and not Cameron represented real change," said one Conservative MP. Others concurred.

The big messages central to the Liberal Democrat pitch seem to have gotten through, too.

Not the detail of every policy, of course not, but their simple and endlessly repeated claim that they represent fairness. One might ask: Which politician claims to stand for unfairness? In the minds of a good many voters (after the financial crisis, the recession and the expenses scandal) the answer is: the two old parties.

And so, Mr. Clegg's plan to raise income-tax thresholds to £10,000 has been very popular, even if it is questionable how it would be paid for. It would also be accompanied by a ream of "soak the rich" policies. But Vince

Cable, the Lib Dem treasury spokesman, has made himself popular in recent years, partly by talking repeatedly about a fairer tax system and hitting the banks.

In contrast, the Conservatives message seems diffuse. In this campaign Mr. Cameron keeps talking of what he terms the "Big Society," in which nonstate activity replaces the excesses of big government. But it doesn't appear to be connecting with an electorate that might rightly ask what it means in practical terms to them. On pocket-book issues such as taxation, the Tories look also to have neither many specific policies that might be attractive nor sufficiently clear big, guiding principles about what creates wealth and growth.

From this perilous position, Mr. Cameron is attempting to fight back. He says that Mr. Clegg will only let back in Labour and that his party, the Tories, are the real agents of change. But if this wasn't believed sufficiently before Mr. Clegg's rise, it is unclear why voters will change their minds and believe it now.

Will Mr. Clegg's rise last? He has to maintain his momentum in the polls, or a media narrative will quickly emerge that he has peaked too early. Mr. Clegg's policies are certainly about to come under greater scrutiny; starting with his policy not to replace Trident, Britain's nuclear deterrent. He has suggested he might opt for an alternative missile system, or he might not, but no more than that. This is a vulnerability.

But this insurgency isn't really about fine policy detail. It is a rebellion against the two-party system and the notion of old politics. It is about a mood, about sentiment.

What is most worrying for Mr. Cameron in such circumstances is that there is very little he can say or do as long as it lasts. It may endure to polling day and cost him the premiership. Or it could drift away and be revealed as the product of a temporary excitement, like so much dust from a volcano.

What's News

■ **Citigroup reported** its strongest results in nearly three years, saying the fallout from the financial crisis and the bank's strategic repositioning are settling. First-quarter profit jumped to \$4.43 billion. 17, 32

■ **Hedge-fund manager** Gerard Griffin is winding down his once \$2.75 billion fund and joining London-based firm GLG Partners. 17

■ **Greece may need** financial assistance of up to \$107.92 billion to avoid default, Bundesbank President Weber told German lawmakers. 23

■ **Toyota will pay** a \$16.4 million fine to settle claims it hid potentially dangerous defects from U.S. regulators. The auto maker also will recall Lexus GX 460 SUVs to fix stability-control software. 18

■ **New European retail rules** will allow firms to restrict their brand-name goods to Web retailers that also have brick-and-mortar stores. 20

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Iain Martin on Politics

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"For a brief period, a figure personifies a mood and no amount of cross-examination can shift it."

Iain Martin on Nick Clegg's sudden rise in popularity ahead of the U.K. election



Continuing coverage



Follow developments on the European flight ban and track closures and delays at europe.wsj.com

Question of the day

Vote and discuss: If given the chance, would you fly in Europe now even with a threat of volcanic ash?

Vote online at wsj.com/dailyquestion

Previous results

Q: Will charges against Goldman lead to more regulation in the U.S.?

Yes

86%

No

14%

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EUROPE UNDER THE VOLCANO

U.K. to rescue the stranded by ship

Three naval vessels are deployed to bring home Britons across Europe after volcano plume grounds most flights

By Sara Schaefer Muñoz

MADRID—The U.K. on Monday said it sent three British Navy warships to rescue British citizens stranded across Europe after a cloud of volcanic ash grounded most European flights for a fifth consecutive day.

The U.K. said it deployed the HMS Albion, an assault ship, to pick up U.K. military service personnel in Santander who were on their way back from a tour in Afghanistan.

Two other ships, the aircraft carrier HMS Ark Royal and another assault ship, the HMS Ocean, were deployed to the English Channel as part of a recovery operation.

Even though airspace is expected to open in parts of Europe Tuesday, people familiar with the matter said the ships will remain ready to move on to a port city in Spain, or another port in Western Europe, by Wednesday, to pick up some of the estimated tens of thousands of Brit-

ish vacationers and business travelers trying to get home.

Prime Minister Gordon Brown was conferring with Spanish officials to determine the feasibility of making Spain a destination point for U.K. citizens stranded at airports around the world; passengers could arrive by air to Spain and travel to the U.K. overland or by sea.

Spanish airspace has been less affected than other areas of Europe by the ash cloud.

U.K. defense and consular officials have yet to determine which citizens will be transported, though those with health problems will likely be given priority, said one person close to the matter.

U.K. officials urged citizens to contact the embassy of the country where they are staying. However, help lines posted on many embassies' Web sites, and the phone lines of the embassies themselves, were busy, or asked the caller to try again, during most of Monday.

The ships are large naval vessels

but can accommodate only a fraction of the U.K. nationals believed to be stuck in Europe.

The Albion's priority is military personnel, said a spokeswoman for the U.K. Ministry of Defence, while the Ocean and Ark Royal together could take around 1,000 passengers—though possibly more for a short trip, said people familiar with the matter.

Passengers would be subject to military-like conditions, with bunks, shared bathrooms and meal rotations in the mess hall, one of these people said.

The plans were being considered even as the U.K.'s transport secretary said that British airspace could open as soon as Tuesday.

The announcement of a U.K. naval rescue from a coastal city in Spain or elsewhere was met with skepticism by some, in light of the national election next month that could unseat Prime Minister Gordon Brown's government.

"People are scattered all over



Agence France-Press/Getty Images

British tourists in Santander, Spain, wait to board a ferry to the U.K. Monday.

Europe, and the hard part is just getting to a city on the coast at the moment," said Jim Young, a brewery executive from outside Glasgow, who spent the past four days trying

to arrange travel home from Southern Spain for his wife and 15-year-old daughter. "It just happens to be a news story that is helpful in election run-up."



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EUROPE UNDER THE VOLCANO



Courtesy of Paul Robinson

Paul Robinson drove nine hours each way to rescue his dog, Pen, who was stranded at Frankfurt Airport.

Pet peeves for owners

Flight delays strand animals; a nine-hour drive to retrieve a dog

BY PAUL SONNE

Rain and fog swept into the Slovenian capital of Ljubljana at 4:30 a.m. Saturday as Paul Robinson, an architecture professor, set out on a rescue mission across the Austrian Alps.

The goal of the nine-hour drive: To retrieve Mr. Robinson's dog, Pen, from the aftermath of Iceland's volcanic ash cloud. Since Thursday, the volcano has paralyzed air travel not just for people, but also their cargo-class pet companions, sometimes traveling without their owners. Among the stranded global menagerie are horses, snakes, geckos and turtles.

Mr. Robinson's statuesque red-and-white basenji dog was holed up in the Animal Lounge of Germany's Frankfurt Airport. The dog—named Pen for his deeply pensive nature—was marooned when he was scheduled to change planes on his journey from Orlando, Fla., to Venice. Pen's connecting flight never made it into the air once the ash from the volcano, located under the Eyjafjallajökull (ay-yah-FYAH'-tlah-yer-kuh-duhl) glacier in Iceland, began to paralyze air traffic.

Mr. Robinson, 52 years old, who is studying architecture in Slovenia on leave from the University of Florida, had driven to Venice to pick up Pen on Friday morning, only to find that his companion had been waylaid. Certain that Pen wasn't eating—the 2½-year-old has been known to reject food—Mr. Robinson returned to Slovenia, then set out across the Alps on Saturday.

"He's helpless. An animal is completely at the whim of everyone else," Mr. Robinson explained by phone Monday. "My worry was for his physical condition. You're never completely aware of where he is or what's going on."

It has been a harrowing few days for animal road warriors. On long-haul journeys, dogs and other pets sometimes travel on different flights than their owners—allowing the pets to be exercised on layovers while owners prepare for their arrival. That is why some pet owners wound up in different places than their companions.

Across the globe, pet moving companies and airports are accommodating animals whose flights have been canceled and whose owners are far flung.

"I've been in business 33 years, and I've not seen anything like this before," says Walter Woolf, a veterinarian who runs Tampa, Fla.-based Air Animal Inc., which planned

Pen's trip. On Monday, he said he also had a dog named Trilly and a cat named Bertie held up in the U.K. on their way to the U.S.

In Frankfurt, the Animal Lounge has about 20 dogs and a few cats, according to a spokesman for Lufthansa Cargo AG, which operates the facility. "We have one turtle, a gecko and a couple of snakes," he said, noting that the gecko and turtle weren't particularly demanding on the staff. All have been there since Thursday, he said.

Frankfurt also wound up with two horses heading for New York City. "We transported them to the countryside so they could roam around," the Lufthansa spokesman said. "They will fly once we have clearance."

Pet shippers have lost precious time and money during the disruption caused by the volcano.

Meanwhile, eight puppies in transit from Sydney, Australia, to Barbados found themselves held up at the Animal Reception Centre, located in London's Heathrow Airport and run by the City of London Corp. Susie Perry, a manager at the facility, said there were 20 to 30 animals stranded in total. She considered that lucky, given that the airport had a shipment of a few hundred tropical fish that went through the facility on Thursday.

The Animal Reception Centre at Heathrow was perfectly prepared to look after the stranded animals, Ms. Perry says. The facility handles millions of fish every year, scores of amphibians and reptiles, as well as quite a few horses. She recalled seeing a couple of sea lions travel through in recent weeks, in addition to some snow leopards, wolves and a young rhino. She also remembered a shipment of 500 chameleons.

"We are set up to cope," she said. "But we are quite lucky that we didn't have anything like that on Thursday."

The disruption caused by the volcano has come at a bad time for pet shippers. Many have seen their shipment numbers drop by 50% to 60% in the past year, as companies stop paying to relocate employees' families abroad, said Sally Smith, the owner of Johnsonburg, N.J.-based Airborne Animals LLC.

Pet shippers have lost precious time and money during the disruption,

often having to refile lengthy health certificates that sometimes must be completed within hours of a pet's takeoff. Many have stranded animals in their midst, biding time until it is safe to fly.

Pavel Kliment, the owner of Animal Transport Worldwide, a Czech pet moving company, found himself huddled up with a massive Irish Wolfhound stranded in Prague. "I think it's one of the biggest dogs in the world," Mr. Kliment said. "I think he's enjoying spring in the Czech Republic." He hopes the dog will get on a Thursday flight to Orlando to meet his owner, who had departed beforehand.

Mr. Kliment isn't alone. "I've got two Jack Russells for New Zealand, a German Shepherd for Jamaica and a Yorkshire Terrier for Columbus, Ohio," says Andy Wylie, the owner of Pinehawk Kennels and Livestock Shippers in Suffolk, England. Bill Richmond, the owner of Whitelea Skydogs in Matlock, England, has one stranded dog destined for Nairobi and another headed to Stockholm, while Mike Parish, the owner of Colchester, England-based Par Air, said he had about 20 dogs and cats, many destined for Australia, New Zealand and the U.S.

Kay Wissenbach, general manager of Frankfurt-based G.K. Airfreight Service, said his company was stymied trying to ship a lion from Germany to another European country, which he declined to identify because of confidentiality agreements with the zoo. "It's a big disaster," he says, noting that there were dogs, cats and reptiles that needed to fly out but couldn't because of the ban. "Many military dogs are here, rescue dogs, private dogs and zoo animals of course."

Nancy Harper-Mulvaney, co-owner of Roswell, Ga.-based Pet Air Carrier LLC, she was keeping a pair of Great Danes that were thwarted on their way from Montgomery, Ala., to Finland and scrambling to redo paperwork.

In Frankfurt, Mr. Robinson was reunited with Pen on Saturday afternoon, he found his friend "quite thin"—"like a hyena during a summer drought in the African Savannah kind of thin." That night, he put Pen in the front seat of his Fiat and cruised back to Ljubljana in the slow lane of the Autobahn.

Both are taking the journey in stride. "We all have adventures doing things for the people we love, the animals we love—you just take the risk and go," Mr. Robinson said. "I fly all over the world, and it's OK if he does too."

Travel operators cite volcano losses

BY JAVIER ESPINOZA

Tour and travel operators in Europe are suffering mounting losses as continuing eruptions of an Icelandic volcano ground travelers, and they say uncertainty poses a serious threat to the industry, according to umbrella organizations that represent hundreds of small and large operators across Europe.

"This is an unparalleled situation for the travel industry," said Derek Moore, chairman of the London-based Association of Independent Tour Operators, which represents 140 members and serves one million passengers a year from places like Australia, the U.S., South Africa and the U.K. "Events are still unfolding."

One big tour operator made its pain clear Monday. TUI Travel PLC in the U.K. said it had approximately 100,000 customers who were due to have returned home from vacations as of Sunday but haven't been able to do so. The company—which has provided accommodation, transport and assistance to stranded travelers and given refunds to those who wish to cancel in advance—estimated its financial impact so far at around £20 million (\$30.6 million), with costs running around £5 million to £6 million a day.

Smaller companies are being affected as well. Paul Bondsfield, a spokesman with Explore Worldwide, a tour operator with 760 stranded travelers, said it is losing up to £30,000 a day, mainly as a result of covering its clients' accommodation and meal costs.

Some travel operators in Europe are swallowing most of the costs involved in trying to bring people back home. The European Union's package travel regulations are meant in part to protect consumers booking package holidays. But in the U.K., for example, they haven't been tested in court, and operators' legal

liabilities remain a gray area.

"There is scope for companies to say that they have fulfilled their obligations in terms of providing travelers with accommodation, but that they are not responsible for hotel expenses or meals while they are waiting for flights to resume," said Claire Ingleby, a legal expert on travel regulations with Leeds-based MB Law. Ultimately, she said, companies face no clear-cut legal obligations to pay for expenses if a person is stranded. "This is an exceptional circumstance that nobody can control," she said.

Tour operators' responsibility to clients isn't clear, but many say they have spent heavily to provide food and lodging to stranded travelers.

Some companies are covering all the costs. Noel Josephides, founder of London-based independent travel agent Sunvil Holidays, which serves about 25,000 passengers a year, said his company is paying in full to get his customers back to their home countries "no matter what the legal niceties are."

"We take the view that people have booked with us and that it is our responsibility not to leave them stranded," Mr. Josephides said. "I think this is the view of most big operators. We are not going to wait to sort out any legal issues. I would rather it costs me X thousands of pounds now rather than having that problem later on."

Explore's Mr. Bondsfield said the eventual financial impact was hard to predict. "Everything is up in the air," he said.

Grounded | Flights taking place in European airspace



Thomson Airways aircraft are pictured at Manchester Airport

Friday, April 16: 11,659

Same day previous week: 28,597

Saturday, April 17: 4,886

Same day previous week: 22,653

Sunday, April 18: 5,000 (approximate)

Same day previous week: 24,965

Monday, April 19: 8,000-9,000 (expected)

Same day previous week: 28,126

Source: Eurocontrol Photo: Agence France-Presse/Getty Images

EUROPE UNDER THE VOLCANO

Burning cash | Estimated daily costs to airlines from canceled flights and passenger accommodation



Flight ban imperils perishable goods

Traders in niche market scramble to find new delivery routes amid shipping delays; African flowers are clipped

By JOHN W. MILLER

Traders of goods transported by plane, a niche market including green beans, microchips and roses, are scrambling to reorganize supply chains to cope with Europe's flight ban. They are booking trucks, trains and barges between Northern Europe and airports that remain open further south, an extra step that will delay shipments and could raise prices of products from salmon to flowers.

African farmers, European fresh-produce importers and flower traders from Kenya to the Netherlands are those most threatened by the shutdown in air traffic that began Thursday. Most pharmaceutical and technology firms said they had built up large enough inventories not to have to worry for now. Most importantly, their goods aren't perishable, and so can be stocked for long periods without damage.

The uncertainty illustrates the vulnerability of air-freight transport and those who depend on it. Air-freight volumes have grown in recent years as passenger airlines have increased the space they make available in cargo holds. Recent numbers are unavailable, but total tonnage of air freight shipped into and out of the 16 euro-zone countries increased

to 9.8 million tons in 2008 from 3.1 million tons in 2000, according to Eurostat, the EU's statistical agency. By comparison, trade involving trucks amounted to more than 500 million tons in 2008.

Less than 3% in value of all merchandise traded across oceans travels by air. Most fish, fruit and vegetables, including staples such as bananas and oranges, still move inside refrigerated container ships. The Port of Rotterdam handles more goods tonnage in one day than Schiphol Airport in Amsterdam does in a year.

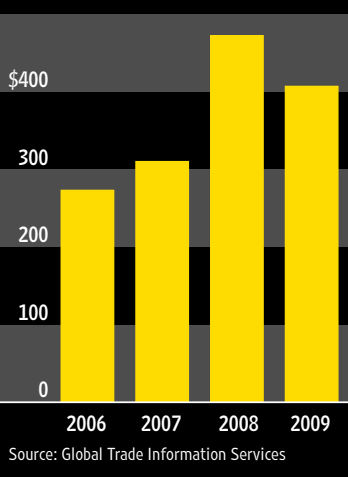
"Fewer than 1% of our products are air freighted," said a spokesman for U.K. supermarket giant **Tesco PLC**, echoing other U.K.-based supermarkets. "Those that are include products such as orchids, chilies and some exotic fruit."

For companies whose goods aren't perishable, such as pharmaceutical and technology firms, the flight ban isn't an immediate concern. **Sanofi-Aventis SA**, the large French drug company, said it mostly uses ships and trucks to transport its medicines. Less than 1% of its global drug volume is delivered by air, Bernard Amoury, vice president of supply chain, said in a phone interview. The company's warehouses world-wide usually have one to two

Blooming flower

Kenya's exports of flowers, mostly to Europe, has boomed in recent years, although it fell off last year because of the financial crisis and a drop in prices.

Kenyan flower exports, in millions



months' supply for each drug, he said.

Most electronic products from Asia are shipped by sea, but mobile handsets and chips are shipped by air. Taiwan's **Nanya Technology Corp.**, a maker of dynamic random

access memory chips widely used in personal computers, said its shipments haven't yet been affected because the company has a facility in the Netherlands from which it can supply European customers.

However, **Samsung Electronics Co.**, the world's biggest memory-chip maker and the world's second-largest supplier of cellphones by volume behind **Nokia Corp.**, said the company can manage with inventories on hand only until Wednesday. "But as mobile handsets and semiconductors account for a bigger flight portion to Europe, if this volcano problem lasts longer than expected, it would have a direct impact on Samsung's chip and cellphone exports," said spokesman James Chung.

The effect on Africa's burgeoning farm-export sector could be devastating. **Vegpro Ltd.**, a Nairobi-based flower and vegetable producer that flies almost all its production to Europe, says it has closed since Thursday. "We usually ship 50 tons a day but since Thursday, it's been harvest and dump, harvest and dump," says General Manager Angus Douglas-Hamilton. Several thousand of the company's 7,000 employees have been told to stay home, he says.

Mr. Douglas-Hamilton has been busy organizing flights to Southern

Europe and trucks from Spain and Italy to customers in the U.K., France and elsewhere. "We've never seen anything like this," he says.

Kenya exports 82% of its flowers and produce to the EU, said Stephen Mbithi, chief executive of the Fresh Produce Exporters Association of Kenya. Since Thursday, the flowers and vegetables have been piling up in stores at about 1,000 metric tons per day, with a value of about \$3 million per day, said Mr. Mbithi. Over the weekend, growers laid off 5,000 temporary workers who had been hired to help harvest the products. Those flowers and vegetables have been left in the fields and won't be fresh enough to ship, Mr. Mbithi said.

On Monday, two cargo flights were able to land in southern Spain, where Mr. Mbithi said the flowers and produce would be trucked into Northern Europe. Another landed in Amsterdam, allowing Kenyan companies to unload at least some of their wares and stave off some losses. With about seven or eight flights, Mr. Mbithi said business could get back to normal—as long as the ash doesn't drift into Spanish airspace.

—Paul Sonne, Sarah Childress and Jeanne Whalen contributed to this article.

Europe relaxes restrictions

Continued from first page

Capt. Georg Fongern, an executive vice president of the International Federation of Air Line Pilots' Associations, said additional data collection and analysis by regulators and engine makers is essential before making a decision to fly in affected areas. Until those data are assembled, it would be "better to stay on the ground," he said.

Since Saturday, European airlines including Air France, KLM and British Airways have been flying jetliners without passengers and inspecting them for damage. All of the carriers said they found no problems.

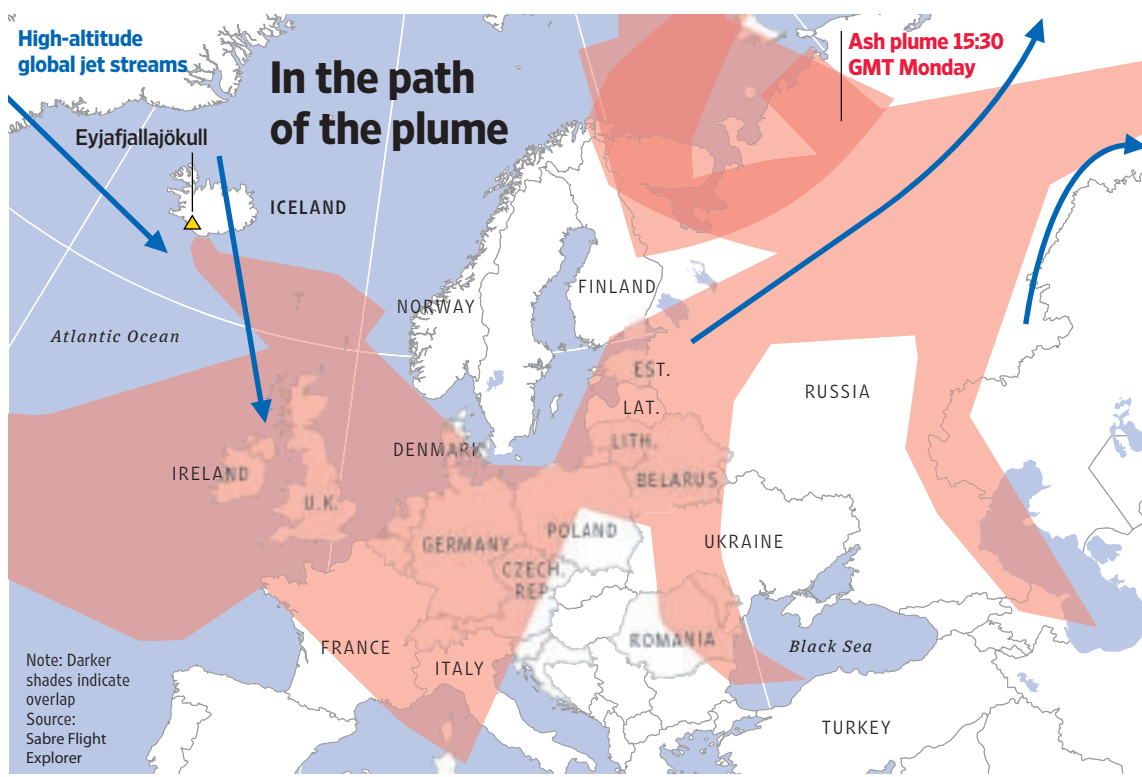
European plane maker Airbus said on Monday that it was conducting two flights in which a specially equipped A380 superjumbo jet and a slightly smaller A340-600 flew from Toulouse, France, where Airbus is based, to test atmospheric conditions.

During the flights, crews were slated to observe the planes and their engines' performance. On return, the planes will be thoroughly inspected and results passed to aviation authorities.

"Obviously, the entire industry wants to find a solution as soon as possible and see aircraft flying again in the European skies," said Tom Enders, chief executive of Airbus, a unit of **European Aeronautic Defence & Space Co.**

British Airways said on Monday that it is losing about £15 million to £20 million (\$23 million to \$31 million) a day due to the closure. The carrier said it plans to resume some flights into and out of London's airports Tuesday evening, but cautioned that this would be "subject to the full and permanent opening of airspace."

—Stephen Fidler in Brussels and Steve McGrath in London contributed to this article.



EUROPE NEWS



Conservative leader David Cameron answers questions on a visit to a school in Brighton, England, on Monday.

U.K. parties in close race

Brown says he sees 'common ground' with Liberal Democrats

BY JOE PARKINSON
AND LAURENCE NORMAN

LONDON—British Prime Minister Gordon Brown kept his aim on the opposition Conservative Party on Monday while stressing common ground with the surging opposition Liberal Democrats, as the likelihood that the May 6 election will result in a hung parliament increases, according to opinion polls.



Launching a strong attack on Conservative economic policies, which he said could quickly put the U.K. back into recession, Mr. Brown told a news conference that "there is common ground between Liberal Democrats and us."

The prime minister's comments come after a poll by YouGov on Sunday showed the Liberal Democrats, buoyed by a strong performance by leader Nick Clegg in Thursday's pre-election debate, had leapfrogged both Mr. Brown's Labour Party and the Conservatives to move into first place.

However, a poll Monday placed the Conservatives back in the lead, albeit narrowly. An ICM poll for the Guardian newspaper put the Conservatives at 33%, the Liberal Democrats at 30% and Labour at 28%.

If the Liberal Democrats main-

tain that level of support, it would make very likely a hung parliament, where no party enjoys a majority. That scenario has for weeks put pressure on the pound, because many investors feel a minority government would make it harder to force through the tough spending cuts needed to tackle the U.K.'s deficit.

The British currency has moved steadily lower against the euro, dollar and yen since Thursday's leadership debate.

"We remain doubtful that a hung parliament would lead to credible and sustained early fiscal consolidation, hence leaving both sterling and gilts vulnerable," said Citigroup Inc.'s U.K. economist Michael Saunders.

On Monday, Conservative leader David Cameron echoed that fear, stressing that a hung parliament would lead to political indecisiveness and uncertainty, complicating the effort to cut the U.K.'s bloated budget deficit.

"We've got serious problems with our deficit. Are we going to stop that with some sort of indecisive result and a lot of haggling and negotiation?" the Conservative leader said during a campaign speech in London.

Mr. Brown, flanked by Chancellor of the Exchequer Alistair Darling and Business Secretary Peter Mandelson, sidestepped questions on how a hung parliament could affect financial market confidence in the U.K. economy.

However, Mr. Brown and his Labour colleagues said Conservative

Treasury chief George Osborne's plan to set an emergency budget within 50 days of taking office and order increased efficiency savings could lead to thousands of job losses in the public sector and dent consumer confidence—putting the economy at risk of falling back into recession.

"George Osborne wants people to believe that you can remove £6 billion [\$9.2 billion] from the economy this year and that this will not set back the recovery," said Lord Mandelson.

By maintaining the attack on the Conservatives but bypassing the Liberal Democrats, Labour hope to keep in play the large number of key seats where the race is a straight Labour-Conservative fight, aides said.

The aides say that by keeping up with the Conservatives in those seats, Labour will be able to win back former supporters leaning toward the Liberal Democrats as election day approaches by making the argument that voting Liberal Democrat would make a Conservative government more likely.

Liberal Democrat leader Nick Clegg, at a campaign event in Wales, refused to be drawn on talk of a hung parliament, saying he wants to be "the next prime minister."

"There's a fluidity in this election that perhaps we haven't seen in a generation," Mr. Clegg said. "The old anchors, the old patterns are breaking down."

—Katie Martin
and Ilona Billington
contributed to this article.

Not-so-toxic assets provide some support in Italy

[Letter from Turin]

BY CHIARA VASARRI
AND CHRISTOPHER EMSDEN

Back in 2007, at the height of the credit and housing boom, Turin Mayor Sergio Chiamparino bought an apartment for his son, opting for a fixed-rate mortgage. The global financial crisis then took an axe to house prices and prompted officials to push interest rates to record lows. The upshot is that he is overpaying for the loan.

But when it comes to municipal finance, he pursued the opposite approach. Between 2001 and 2006, as the city took out loans for Winter Olympics facilities and other projects, Turin signed some derivative contracts which swapped higher fixed interest rates for lower variable ones.

Turin, a city in northern Italy, was hardly alone. Local Italian governments took out €35 billion in derivatives, from 2002 until they were banned from doing so in 2008, covering around a third of all their debt with interest rates swaps. That has sparked fear of villages being unable to pay for trash removal, or a spate of California-like defaults.

It has also triggered judicial action. Last month, a court in Milan ordered four investment banks—all of them foreign, although the employees involved included the children of some illustrious Italian political families—to stand trial in relation to alleged fraud in the sale of similar derivatives to Italy's financial capital. The banks have all denied any wrongdoing.

But Mr. Chiamparino, whose city has struggled to absorb the steady decline in local jobs offered by Fiat SpA, is in no mood to demonize the world of finance. Unlike the mortgage wager, his bets now are proving sound.

"We are not losing any sleep over derivatives," he said in an interview, adding that Turin booked around €8 million in profits from closing out some of the most volatile derivative contracts last year.

Turin, which has municipal debt of around €3.1 billion, has 18 interest-rate swaps outstanding—covering about a third of the total debt—and these had an implicit mark-to-market loss of €125 million at the end of last year.

But that figure is theoretical. The contracts last until 2037, and were designed to insure against volatile blows to municipal cash flow, said budget commissioner,



Turin Mayor Sergio Chiamparino

Gianguido Passoni.

In other words, the €125 million figure—which amounts to a 12% of the insured debt—is a theoretical loss on contracts that aren't due. While the amount represents a loss, its far less dramatic when the lengthy maturities of the contracts are considered.

With interest rates low, it's likely many of the suspect Italian derivatives are performing quite nicely of late, according to experts like Mario Ristuccia, chief prosecutor of Italy's Audit Court. A surge in interest rates could prove damaging, but with the euro-zone economy sputtering, unemployment above 10% and Italy's sovereign balance sheet holding up relatively well in the crisis, that doesn't look like an imminent risk.

Mr. Chiamparino says the real problem with derivative contracts is that many public officials lack the competence to use them properly, or worse, may be drawn by the short-term political appeal of up-front cash payments that some of the swap contracts can be designed to offer.

Yet derivatives, especially interest-rate swaps, aren't in and of themselves so exotic.

Plus, without them, what can a local government do?

Mr. Chiamparino notes that, since the financial crisis began, Turin has been relying on bank loans to fund special projects such as a waste disposal facility the city is developing.

Another option he has explored are convertible bonds, basically a debt instrument linked to semi-privatized utilities that can be switched to equity if the cash outlay is too much. That's arguably an even more speculative tool, and he said he shelved the idea because stock market prices fell during the crisis.

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Luger's death was accident, report says

BY REED ALBERGOTTI

The international federation that governs the sport of luge issued its final report on the accident that killed a Georgian luger at the Vancouver Olympics, placing blame on the luger himself and on a "complex series of interrelated events" that led to the fatal crash.

The Feb. 12 accident sent Nodar Kumaritashvili flying off the track at more than 80 miles an hour into a

metal beam.

The report said Mr. Kumaritashvili made a series of mistakes that caused his sled to pivot into a wall. Normally, the report says, slamming into a wall causes a sled to snap or to careen back and forth off the barriers. The report says traffic police who investigated the accident discovered that Mr. Kumaritashvili's sled hit the wall at such "an exceptional angle" that it essentially became a spring, launching him into

the air.

"That's just stupid," said Duncan Kennedy, development coach for the United States Luge Association, of the spring theory. Mr. Kennedy said the real problem was that nobody thought of raising the wall where Mr. Kumaritashvili flew off the course. Safety problems at turn 16, where Mr. Kumaritashvili died, were "a little more of a known factor than everyone let on," Mr. Kennedy said.

The International Luge Federa-

tion declined to comment beyond the report. However, the report says the wall had already been raised and lengthened to stop athletes from flying off under "normal crash situations." The reason the wall wasn't high enough to stop Mr. Kumaritashvili from exiting the track were the "unpredictable dynamics" of that crash, the report says.

David Kumaritashvili, the luger's father, said he didn't accept that his son was at fault.

U.S. NEWS

Democrats still waiting for big health-bill bounce

[Capital Journal]

BY GERALD F. SEIB



Four weeks to the day after President Barack Obama signed a historic health overhaul into law, Democrats haven't enjoyed much of a political bounce as a result.

The question is: Does that really matter yet? When the president sat in a crowded White House East Room to sign the health-care act of 2010, friends and foes alike agreed that something momentous was happening. They also agreed that the debate wasn't over. Simply putting the law into effect will take years. Meanwhile, Republicans promptly began talking about trying to repeal it—an idea more quixotic than realistic, but one that has kept the pot simmering.

For their part, Democrats were eager to see at least some political dividends. They hoped their party's base would be energized by the accomplishment. More than that, they calculated that, with the ugliness of the immediate argument ending, the health bill would look better to a wide swath of voters.

So far, though, it's hard to find that in the public reaction. A series of polls taken in the past two weeks have Mr. Obama's job approval at an average of 48.3%, about one percentage point higher than when he signed the bill, according to an aggregation by Realclearpolitics.com.

The public's view of the Democrat-controlled Congress that passed the legislation has ticked up a bit, though that merely moves it from abysmally low to very low. The Realclearpolitics job-approval average for Congress has risen to 22.8% from 17.4% on the day the bill was signed.

Perhaps most discouraging for Democrats, they may have slid backward a bit on the key question of whether people intend to vote Democratic or Republican in this fall's midterm elections. Just after the health bill's signing, the Gallup survey had the two parties tied on that question. Last week, it put Republicans up by four points.

To be sure, one recent reading was more upbeat for Democrats. A poll by Opinion Research Corp. for CNN last week showed Democrats moving ahead by four percentage points among registered voters on which party they would choose this November, while Mr. Obama's job-approval rating held steady at 51%.

So maybe the numbers are starting to move. Still, all major polls show more Americans registering disapproval than approval of the new health plan, by varying degrees.

Of course, to even raise the question of what Democrats have gained politically after just one month's time is, to some extent, to engage in one of Washington's most unappealing practices: the search for instant political

gratification. Washington has been trying for several decades to pass a meaningful health-care overhaul, so it's logical to think some time will have to pass before the dust really settles.

For those tempted to reach conclusions now about health care's political impact, Democratic pollster Peter Hart has a warning: "Do not jump out too quickly. The limb might get sawed off" behind you.

Mr. Hart, who conducts the Wall Street Journal/NBC News survey along with Republican Bill McInturff, says one political sign to watch for is whether Democrats, who had been showing distinct signs of apathy, start registering higher interest in the midterm election in weeks ahead.

And second, it will be important to watch whether the share of voters identifying themselves as Democrats ticks up in coming months. Voters in the center have tended to identify themselves more with Republicans lately but are fully capable of tacking back.

Similarly, David Axelrod, Mr. Obama's chief White House political strategist, argues that "nobody anticipated that simply by dint of passing [a health bill], the dynamic would change." He adds: "The country was divided on it and is still divided on it, because the program hasn't been implemented yet."

That will change, he says, as "significant features" of the legislation—such as additional drug coverage for older people and insurance changes that will prevent companies from denying coverage to children with pre-existing conditions—kick in as the year unfolds.

It's also possible that the numbers haven't moved much for the Democrats because Mr. Obama shifted from health-bill signing not into a period of extended salesmanship, but rather onto a series of other issues. He moved on to a strategic-arms reduction agreement with Russia, to an international summit on nuclear security, and to the mushrooming fight over new regulations on Wall Street. The fight over financial regulation, in particular, looks to be a more winning issue politically for Democrats.

Still, all that has left some Democrats grumbling that the president needs to circle back to health and spend time trying to persuade more Americans that the program is a good thing for them.

A more ominous possible explanation for Democrats is that they passed a health bill precisely as Americans were losing their faith that the government knows how to deal with such complex issues.

A broad survey by the Pew Research Center, released this week, concludes that, except for Wall Street regulation, "there is less of an appetite for government solutions to the nation's problems...than there was when Barack Obama first took office."

That, above all, may be the perception Mr. Obama needs to address if Democrats are to get a big dividend on their investment in health care.

Fed to keep rates low

High joblessness, slow inflation shape policy; flexibility a worry

BY JON HILSENDRATH AND PHIL IZZO

Federal Reserve officials are likely to end their policy meeting later this month by reiterating that they expect to keep interest rates low for "an extended period"—despite uneasiness among some policy makers that the words limit the U.S. central bank's flexibility as the economy improves.

It is expected that central-bank officials will use speeches and interviews to emphasize that their commitment to hold rates near zero depends largely on how the economy behaves.

More-robust consumer spending has made policy makers more confident that a sustainable recovery has taken hold. With unemployment still high, inflation slowing and stable expectations for future inflation, top officials now see little urgent need to start signaling they are near raising rates. But if the outlook shifts, they say their stance will move.

Private economists surveyed by The Wall Street Journal have pushed back their expectations for the moment that the Fed might start raising rates. On average, 56 analysts who responded to survey questions in early April said they didn't expect the Fed to move until November; two months ago, the economists were predicting September. On average, they believe the federal-funds rate, an overnight bank-lending rate that the Fed is now holding at about 0.20%, will rise to 0.75% by December, a bit more than futures markets anticipate.

For the Fed, managing expectations is a delicate task, influenced greatly by the words it chooses. Since March 2009, the Fed has said in each post-meeting statement that it expected the economy's performance to justify keeping short-term rates near zero for "an extended period." The phrase was chosen to encourage investors to buy long-term bonds, which would keep long-term interest rates low, by signaling the Fed wouldn't move for a long time.

Officials now want to make sure the phrase doesn't handcuff them. Some policy makers have become frustrated that the statement is sometimes interpreted as an ironclad commitment to keep rates low for at least an additional six months. But dropping the closely watched words is unappealing, because it could be misinterpreted as a signal that a rate increase is imminent. So officials are looking for ways to underscore that their plans

Parsing a sentence

From Fed statement of March 16:

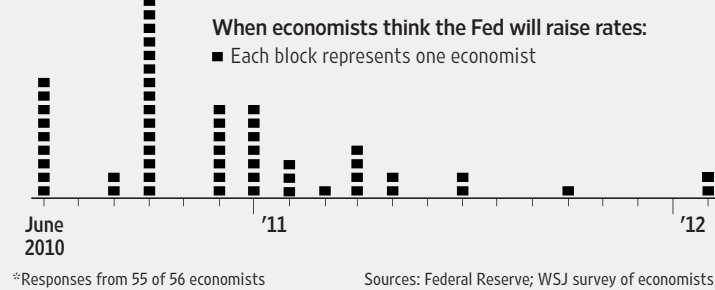
The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

What it means:

It depends on how the economy performs

Near zero

At least a few more months, but the time isn't defined



are conditional.

"Everything depends on how the economy performs," James Bullard, president of the Federal Reserve Bank of St. Louis, said in New York on Thursday. Speaking more broadly last week about how the Fed's exit from easy money policies will unfold, Fed governor Daniel Tarullo said, "it seems to me neither necessary nor advisable to decide upon a single game plan that will be announced in advance and rigidly implemented after a decision is made to raise rates."

Charles Evans, president of the Federal Reserve Bank of Chicago, who has equated the "extended period" phrase to about six months, sought to emphasize the flexibility in an interview Thursday. "Extended period, it is a guideline. It is not an ironclad agreement," he said, adding, "it will be quite some time before we need to make an adjustment" to policy.

Mr. Evans and several other officials have been struck by how much inflation has slowed in recent months.

The last consumer-price index showed that prices outside the volatile food and energy sectors contracted at a 0.2% annual rate in the first quarter, though commodity-price pressures have held up broader measures of inflation.

The 56 economists surveyed by The Wall Street Journal, not all of

whom answer every question, were split over near-term inflation risks: 23 economists said accelerating inflation was a bigger risk in the next year and 23 said slowing inflation was the bigger risk. Over the next five years, though, 45 among 52 said the risks of accelerating inflation outweigh the risks of slowing inflation.

"The Fed dropped the funds rate to near zero due to a fast and sharp decline in economy. Having avoided a 1930s-type scenario, is a 0% policy rate still justified?" said Joseph Carson of AllianceBernstein. "We criticize banks for offering teaser rates to buy homes, but the Fed is offering a teaser rate for the entire economy."

On average, the economists expect the U.S. unemployment rate, currently at 9.7%, to fall only slightly, to 9.3% by December, another reason for the Fed to stand pat. "The Fed doesn't want to start raising rates when you haven't got really solid employment momentum," said economist Kurt Karl of Swiss Re. The forecasts anticipate the U.S. will add around 1.9 million jobs over the next 12 months, a small fraction of the more than eight million jobs lost during the recession.

The economists, on average, expect the U.S. economy to expand at about a 3% annual rate in each of the four quarters of this year.

Bombing remembered

Associated Press

OKLAHOMA CITY—Survivors and family members of the 168 people who died in the bombing of the Oklahoma City federal building gathered Monday to commemorate the 15th anniversary of the attack.

Hundreds of people attended the ceremony at the Oklahoma City National Memorial to remember those killed in the April 19, 1995, explosion. More than 600 others were injured in the attack at the Alfred P. Murrah Federal Building.

Before the ceremony—which

started shortly before 9:02 a.m., the time the bombing occurred—bells tolled in Oklahoma City's downtown and some family members visited the site of the federal building razed in the attack, where chairs to honor the bombing victims now stand.

Oklahoma City Mayor Mick Cornett said the day of the bombing is recalled with reverence, "not because we can't forget but because we choose to remember."

Timothy McVeigh was convicted on federal murder charges for the Oklahoma City bombing and executed in 2001.

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U.S. NEWS

Goldman case hinges on 'material'

Regulator and company will tangle on which data were relevant for investors to make an informed decision

The Securities and Exchange Commission's civil case against **Goldman Sachs Group Inc.** largely comes down to a single word central to securities law: material.

By Ashby Jones,
Kara Scannell
And Susanne Craig

Goldman will be judged on whether the information it failed to tell its clients was material, meaning important or relevant, something a buyer would want to know before buying.

The SEC says Goldman had a duty to tell two customers betting on mortgage-related securities that hedge fund **Paulson & Co.** helped to select some of the mortgages in the product, and that Paulson was betting the mortgage market would collapse.

So far, Goldman isn't contesting that participants may not have known about Paulson's involvement.

In a written response to the SEC dated in September, Goldman argued that the facts about Paulson weren't material. In the response, reviewed by *The Wall Street Journal*, Goldman asserted that hedge-fund manager John Paulson, today a famed figure on Wall Street, was nearly unknown when the securities were sold in early 2007, and participants were unlikely to have cared about his role.

Goldman also said in its response that its clients got the material information needed, including the types of mortgages going into the securities.

Both sides are expected to come out swinging. A successful outcome for the SEC would help to repair its image, damaged for missing the signs pointing to the financial crisis and to Bernard Madoff's fraud.

The SEC's chairman, Mary Schapiro took office early last year vowing to crack down on wrongdoers, including those involved in the financial crisis. She brought in a former federal prosecutor as her chief of enforcement, and they reorganized the agency to pursue more cases involving complex financial products. The official, Robert Khuzami, came from Deutsche Bank where he was general counsel for the bank's U.S. operations. A SEC spokesman says he hasn't worked on any Deutsche Bank matters. Goldman, meanwhile, has its reputation at stake, and money should it lose work as a result of any taint from the charges.

Some securities lawyers not involved in the case said the SEC's 22-page complaint offered strong evi-



Ex-Bear Stearns fund manager Ralph Cioffi and his wife in 2008.

Mixed bag

U.S. authorities have a mixed record so far in cases connected to the financial crisis.

Settled

February 2010: Bank of America agrees to pay \$150 million in a civil settlement with the Securities and Exchange Commission, resolving claims the bank should have disclosed billions in losses at **Merrill Lynch** before the acquisition. Federal Judge Jed S. Rakoff, who rejected an earlier proposed settlement, reluctantly signs off on the deal.

February 2010: Money manager State Street agrees to pay back \$313 million to investors misled about their exposure to subprime mortgages, in a settlement with the SEC.

Pending

December 2009: The SEC files civil charges against three former executives at the now defunct New Century Financial, which was at one time the nation's third-largest subprime mortgage lender. The three are accused of overstating profit to hide a financial condition; they deny the charges.

June 2009: SEC charges Countrywide Financial cofounder Angelo Mozilo with fraud, saying he warned internally about "toxic" mortgages while misleading investors with optimistic statements. Mr. Mozilo denies the civil charges and says the SEC took statements out of context. Countrywide was once the nation's largest mortgage lender before hitting trouble and being acquired by BofA.

Defeated

February 2010: Federal judge throws out SEC claims against a brokerage that worked with Bernard Madoff. Judge calls case against **Cohmad Securities** "speculative and flimsy."

November 2009: Two former Bear Stearns hedge-fund managers, including Ralph Cioffi, are acquitted of securities fraud in criminal case. Justice Department had accused the two of misleading investors with overly optimistic statements. The SEC case is still slated to move forward.

dence that Goldman should have disclosed information about Paulson. The complaint says Goldman sought out an independent mortgage-analysis firm, ACA Management LLC, and told participants that ACA was responsible for designing the product.

James Cox, a securities-law expert and professor at Duke University Law School, said that suggested Goldman knew Paulson's participation was relevant and it needed an outside firm to give the deal a veneer of credibility. "That strikes me as plain and simple laundering of the deal," says Mr. Cox. "To me, it

goes directly to the materiality of the omission."

Peter Huang, a securities law professor at Temple University, agreed. "If you were buying something, you should care about the fact that the person who was picking the things you were buying was actually betting against them," he said. "That's the part that wasn't disclosed."

Goldman's defense rests on putting the word "material" in context. The firm is likely to argue, as it did in its September response, that it's unfair to use hindsight about the mortgage market's collapse in judg-

ing what was material in 2007. Other lawyers not involved in the case noted that those buying the securities were sophisticated institutional investors presumably able to size up a product's worth and should be judged by a different disclosure standard.

"This isn't mom and pop getting taken advantage of," said Peter Henning, a professor at Wayne State University Law School and a former SEC enforcement lawyer. These clients "might not have known about Paulson, but they had to have known that these securities were extremely risky. To say these prod-

ucts were toxic waste is an insult to toxic waste."

Goldman's product, a "synthetic CDO" called Abacus 2007-AC1, was linked to the performance of certain mortgages. Some experts emphasize that such CDO offerings typically require at least two types of players: one who thinks the product will do well and another who takes a "short position," or bets that the product will fare badly.

"In these types of transactions, the buyer rarely knows who the seller is," said Matthew Farley, a securities lawyer at Drinker Biddle & Reath LLP in New York. "The buyers weren't privy to Paulson's point of view, but so what? Does that fact relieve the buyer from performing its own analysis?"

James Cohen, a law professor at Fordham University, said Goldman had a duty to go the extra mile on disclosure because it had clients on both sides of the deal. "Fundamentally you have a duty which arises out of a conflict and the conflict is what makes it smell," he said. "You see Goldman on too many sides of this transaction."

The SEC also alleges Goldman misled ACA into thinking Paulson took a "long" position on the product—that is, betting that it would succeed. Goldman is likely to argue, as it did in September, that the evidence the SEC relies on to support the allegation—two emails sent by Goldman—were ambiguous and insufficient to support the claim.

And the SEC further alleges that Goldman misrepresented in a term sheet that ACA had selected the portfolio, wrongly leaving out any mention of Paulson. In its September response, Goldman disputed this characterization, saying that ACA had selected the portfolio with help from Paulson, but that it was under no duty to mention Paulson's advice.

While Goldman says it will fight the charges, lawyers and legal experts are split on whether the case will ultimately settle or go to trial.

Some uninvolved lawyers said the specter of a jury verdict could ultimately drive Goldman to the bargaining table, partly because a finding of liability could spur or move along suits filed by private investors.

Neither side is likely to budge easily. "The SEC is basically saying, 'You didn't put your customers' interest first,' and that's a big allegation," said Mr. Perino, who expects a spirited fight.

"If it pans out, it's a severe blow to Goldman and its reputation."

—Fawn Johnson
contributed to this article.

Goldman's Blankfein urges firm to stay focused

Continued from first page
what could become the signature lawsuit from the financial-crisis era. It comes at a time when the Obama administration is trying to move through Congress a bill to overhaul financial regulations in the wake of the crisis—legislation that would likely affect the regulation of products used in the Goldman deal.

Mr. Tourre, the Goldman employee at the center of the lawsuit against the firm, has decided to take personal time off, a person familiar

with the matter said Monday. Mr. Tourre hasn't publicly responded to the SEC allegation that he was the main person responsible for structuring the deal. He remains an executive director at Goldman.

The SEC is also investigating whether other mortgage deals arranged by some of Wall Street's biggest firms may have crossed the line into misleading investors. Among the firms that created mortgage deals that soon went sour were **Deutsche Bank AG**, **UBS AG** and

Merrill Lynch & Co., now owned by **Bank of America Corp.** It isn't known what deals the SEC is investigating.

Goldman said it fully disclosed the investments and didn't need to reveal the Paulson connection.

"The core of the SEC's case is the allegation that one employee misled two professional investors by failing to disclose the role of another market participant in a transaction," Mr. Blankfein said in the voicemail to Goldman's staff. "Importantly, we

had assumed risk in the deal and we lost money, just like the other two long investors."

The SEC suit centers on a deal Goldman structured by the name of Abacus. In early 2007, Goldman was helping Paulson & Co. design the CDO, which was built out of a set of risky mortgage assets that the hedge fund and founder John Paulson helped select. Paulson & Co. then placed a "short" bet that mortgages contained in the Abacus CDO would fall in value.

The SEC said Goldman should have disclosed Paulson & Co.'s involvement in creating the portfolio and its bearish bet. In its complaint, the SEC alleged that Goldman misled investors by telling them the portfolio was selected by another party when the firm knew Paulson & Co. played a role. The portfolio quickly lost value and delivered huge returns for the hedge fund.

—Susanne Craig, Kara Scannell
and Gregory Zuckerman
contributed to this article.

WORLD NEWS

Chronology of a revolution | The Philippine New People's Army



Associated Press

1969: The New People's Army, the armed wing of the Communist Party of the Philippines, begins armed struggle to create a Maoist state. The conflict has since claimed around 40,000 lives.

1972: President Ferdinand Marcos declares martial law after accusing the NPA of bombing a political meeting in Manila.

Early 1980s: NPA's strength increases to 25,000 guerrillas, its peak level.

1989: NPA claims responsibility for the murder of U.S. Army Col. James Rowe, who was part of a U.S. military assistance program to the Philippines.

1992: NPA ends a series of brutal internal purges that claimed thousands of lives.

2002: U.S. declares the NPA a foreign terrorist organization; European Union follows in 2005.

2007: President Gloria Macapagal Arroyo offers an amnesty for NPA members.

2008: NPA members dress as Philippine drug agents to raid a prison and free several comrades.

2009: Philippine authorities say NPA numbers are down to between 6,000 and 8,000 guerrillas.

February 2010: Philippine military arrests 43 people in Morong whom it accuses of being NPA members. Lawyers for the detainees say they are part of a community medical mission.

Elections crackdown

Philippines human-rights concerns heightened over military action

By JAMES HOOKWAY

MORONG, Philippines—The Philippine army's battle to break a decades-old Maoist insurgency is leading to increased military activity as the country gears up for May elections, triggering concerns that the crackdown is undermining the U.S. ally's fragile democracy.

The Philippine military, one of the Pentagon's primary partners in the Southeast Asian antiterror campaign, has enlisted private militias, and is arresting labor leaders and rural activists, as it steps up its push against the Maoist New People's Army and other insurgent groups that hope to carve out a Muslim state in the south of the predominantly Roman Catholic country.

Starting in 2006, President Gloria Macapagal Arroyo has instructed the military to end the world's longest-running Communist insurgency before term limits force her from office in June. Swathes of the Philippine countryside have grown heavily militarized, both by the army and by government-backed militias deputized to help pin back the NPA and Muslim rebels, such as the Islamist Abu Sayyaf terrorist group and the Moro Islamic Liberation Front.

Concerns about the influence of private armies were sharpened in November after a militia in the south of the country ambushed and massacred 57 people, including political rivals, passersby and dozens of journalists. Local politician Andal Ampatuan Sr., and 195 of his followers and family members, face multiple murder charges in relation to the killings.

Manila-based human-rights group Karapatan says Philippine army soldiers or government-supported militias have summarily executed more than 1,000 suspected rebels and activists since 2001. The army says the number is far lower, but doesn't specify the figure.

The United Nations' special rapporteur on extrajudicial executions, Philip Alston, who has studied the killings in the Philippines, says the

army is "in denial" about the extent of the problem and sometimes offers only circumstantial evidence that leftist groups are fronts for the NPA. Defense officials didn't respond to requests to comment on Mr. Alston's position.

Several hard-left politicians with links to the revolutionary movement, such as congressman and senatorial candidate Satur Ocampo, are running in the May 10 vote, and security officials fear their influence is growing.

Several hard-left politicians with links to the revolutionary movement are running in the May 10 vote and officials fear their influence is growing.

Independent analysts say however, that Philippine Communists, while they are trying to gain a voice in the mainstream politics, are a long way from developing high levels of popular support. Mr. Ocampo was jailed for 12 years for being a suspected Communist sympathizer during the dictatorship of late President Ferdinand Marcos, though never charged with a specific crime. Now 70 years old, he still is struggling to shake off the army's accusations that he is working with the rebels.

"Governments led by President Corazon Aquino onwards have called on the militant forces to join mainstream politics, and we've done that," Mr. Ocampo says. "But the military is trying to prevent this. This is the big conflict: The civilian government has allowed the armed forces to intervene in the political process."

Mrs. Arroyo, who came to power in 2001 after the military ousted then-President Joseph Estrada, didn't respond to requests to comment.

Early on the morning of Feb. 6

here in Morong, a dusty town a two-hour drive from Manila, soldiers arrested 43 people in what the army hailed as one of the biggest successes in its campaign against the NPA. Prosecutors have charged all 43 with illegal possession of explosives or holding illegal weapons.

Lawyers for all 43 of the detainees say they are innocent. All have been denied bail, and it is unclear when their trials will begin.

Two of the group are doctors. The families of 62-year-old Alexis Montes and Merry Mia-Clamor, 34, say they were conducting a medical training course for community health workers—not presiding over a secret bomb-making academy, as the military alleges.

Family members are shocked by the allegations. Dr. Montes's wife, Eveline Montes, says the military told her that her husband was part of an NPA assassination squad.

"I just can't accept it," she says. "We're from a medical family: Our eldest son is a doctor, another is a dentist and our youngest has just qualified as a physical therapist."

Melicia Velmonte, a consultant at the Philippine General Hospital in Manila and the owner of the property where the detainees were arrested, says she didn't see any sign of explosives when she delivered a lecture there on how to treat infections on Feb. 5, the day before the 43 people were arrested.

"If I saw any explosives they would have been out of there, believe me," she says.

The Philippines' independent Commission on Human Rights has called on army leaders to justify the arrests and answer allegations that some of the detainees were tortured.

The army denies that anybody was tortured, and says it has decided to award medals to two soldiers involved in the arrests.

"We have to recognize this feat because we are serious in our mission of defeating the Communist insurgency by June 2010," army spokesman Lt. Col. Romeo Brawner says.

Iraqi court orders Baghdad recount

By BEN LANDO AND MARGARET COKER

BAGHDAD—An Iraqi court ordered a recount of votes cast in Baghdad in the March 7 parliamentary election, a decision that could add turmoil to the post-poll political jostling to form a government.

The order was made in response to complaints by Prime Minister Nouri al-Maliki's political bloc. Mr. Maliki has been battling for political survival since preliminary results showed his bloc narrowly losing to former Prime Minister Ayad Allawi. Mr. Allawi's Iraqiya alliance won 91 seats to Mr. Maliki's State of Law coalition's 89 seats.

It is unclear which political group stands the most to gain from a recount of Baghdad's more than 2.5 million votes. The capital, the most populous of Iraq's provinces, accounts for approximately one-fifth of the seats in the 325-member parliament. Mr. Maliki's alliance won the most seats in Baghdad in the original tally.

State of Law officials said they expected a recount to favor their candidates. "I think by this decision ... the political map will change to a large extent," said Walid Al Hilili, a member of Mr. Maliki's Dawa Party and a parliamentarian from State of Law. Officials from Iraqiya didn't return phone calls or emails seeking comment on the panel's recount decision.

U.S. and other international observers declared the vote free and fair, but State of Law and other political parties submitted 325 complaints to the judicial panel responsible for verifying election results.

Tariq Harb, the attorney representing State of Law before the panel, said that the panel rebuffed his arguments for a full nationwide recount. However, the panel did accept his arguments that the vote counting in Baghdad was flawed enough for a manual review of the ballots cast there.

Mr. Maliki, who campaigned on a law-and-order platform but saw his popularity wane in of a rash of deadly bombings around the capital, received a boost Monday with the announcement that the two top leaders of al Qaeda in Iraq had been killed by Iraqi forces.

The close election race, followed by a slow, opaque vote count, raised

tensions as the country's Shiite political elite face the prospect of losing the lock on power they gained after the toppling of Saddam Hussein in 2003. Mr. Allawi's alliance includes Sunnis and secular Shiites.

Since the vote, Iraqiya and State of Law have been courting smaller political blocs and parties in attempts to cobble together the majority of seats necessary to form a coalition government. A ruling by Iraq's Supreme Court last month gives the largest parliamentary alliance, rather than the largest vote winner in the election, the right to form the next government.

The quest to build a coalition government goes beyond simple mathematics. It also hinges to some extent on the perception of smaller parties siding with the winner of the ballot. If Mr. Allawi loses his edge in the seat totals due to the recount, it will likely decrease his ability to attract smaller groups.

The Kurdistan Alliance, which finished fourth in the preliminary vote tallies, has said that the judicial panel rejected its calls for a recount in two other provinces, Kirkuk and Ninevah. These northern areas are places where Mr. Allawi's bloc polled strongly.

Mr. Harb said he expected the Baghdad recount to take about one week. When these results are known, the judicial panel is expected to ratify the final vote counts, he said.

Once past that procedural hurdle, the quest to build a majority coalition still looms. Political leaders expect this task will still take weeks if not months, extending the political uncertainty and possibly increasing complications for U.S. efforts to prepare the drawdown of forces across the country this summer.

U.S. Gen. Ray Odierno, America's top commander in Iraq, said Sunday that U.S. plans to end combat operations and withdraw troops were on schedule.

Another issue that could affect Mr. Allawi's political future is a ruling, expected this week, that could disqualify candidates based on their former affiliation to Saddam Hussein's Baath Party.

Some 500 candidates had been disqualified from participating in the polls, including many prominent members of Iraqiya. A new challenge targets more Iraqiya members.



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WORLD NEWS

Iraqi forces kill 2 insurgency leaders

Operation gets top officials in al Qaeda in Iraq militant group, responsible for bombings throughout the country

By YOCHI J. DREAZEN

WASHINGTON — Iraqi security forces have killed the two top leaders of al Qaeda in Iraq, the militant group responsible for a string of bloody recent bombings throughout the country.

Gen. Raymond Odierno, the top American general in Iraq, said the killings of Abu Ayyub al-Masri, the operational leader of al Qaeda in Iraq, and Abu Omar al-Baghdadi, the group's spiritual leader, were "potentially the most significant blow to al Qaeda in Iraq since the beginning of the insurgency."

One American soldier was killed in the Sunday morning assault when his helicopter crashed during fighting near the northern Iraqi city of Tikrit.

In a written release, the U.S. military said the two militants were killed in Iraqi-led joint operations against an al Qaeda in Iraq hideout near Tikrit. The militants were "killed after engaging the security team," the American release said.

An assistant to Mr. Masri was killed, along with one of Mr. al-Baghdadi's sons.

The statement said American forces played a supporting role in the Iraqi effort to find, track and kill the militants.

The deaths are the biggest blow in several years to al Qaeda in Iraq's operations and represent a significant victory for Iraq's security



Iraq's Prime Minister Nouri al-Maliki holds images of a man the Iraqi government says is al Qaeda in Iraq leader Abu Ayyub al-Masri at a news conference Monday.

forces.

Still, it is far from clear that the deaths will incapacitate the group or prevent it from mounting ad-

ditional attacks.

In June 2006, American special operations forces killed Abu Musab al-Zarqawi, Mr. Masri's predecessor

as head of al Qaeda in Iraq.

Violence declined for a brief period, but the group was able to mount large-scale attacks almost

immediately. More Iraqis have been killed in terrorist bombings after Mr. Zarqawi's death than had been killed before it.

Japan premier slips again in polls

By YUKA HAYASHI

TOKYO—Half a year after winning a historic landslide election ushering in a new ruling party, Japanese Prime Minister Yukio Hatoyama now has the backing of just one-quarter of the public, as his erratic handling of the relocation of a controversial U.S. military base and other issues have led many voters to question his leadership.

A poll conducted by the Asahi Shimbun daily over the weekend showed the support rating for Mr. Hatoyama's cabinet has fallen to a low of 25%, compared with 32% in March—and with 71% at the time of its inauguration in September, amid high hopes that he could shake up the government after ousting the long-ruling Liberal Democratic Party from power.

Moreover, 51% of the 2,083 respondents said Mr. Hatoyama should step down if he fails to resolve the dispute over where to move U.S. Marines from the Futenma air station, located in a crowded urban area in Okinawa island, by his self-imposed deadline of May 31.

A survey by the Mainichi Shimbun, another daily, also showed support for the cabinet tumbled to 33% from 43% a month ago.

The newspapers don't disclose margins of error for their surveys.

The latest poll results will likely give ammunition to some lawmakers within Mr. Hatoyama's ruling Democratic Party of Japan seeking a new leader before key national elections in July. One of Mr. Hatoyama's own cabinet members—National Policy Minister Yoshito Sengoku—created

a stir Friday when he said Japan could call a double election of both the lower and upper houses of parliament if Mr. Hatoyama steps down before the planned upper house votes in July.

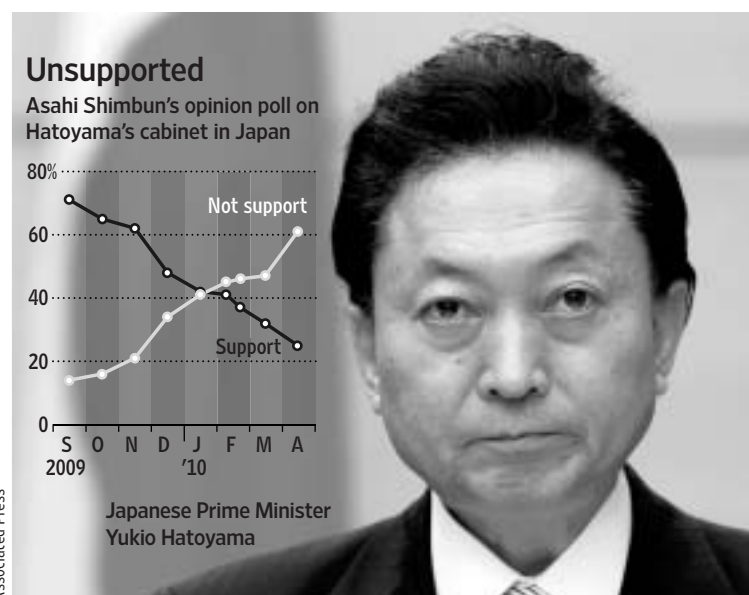
Mr. Hatoyama has his defenders. "There is absolutely no need to talk about his resignation," Chief Cabinet Secretary Hirofumi Hirano told reporters Monday. "The voters gave us a mandate, and the prime minister continues to conduct policies according to that mandate."

For Japanese voters, Mr. Hatoyama's anemic poll ratings are nothing new. He has room to fall before becoming the least-popular national leader of recent years. According to Asahi, support for Mr. Hatoyama's predecessor, Taro Aso, was at 14% in early 2009, and another LDP premier, Yorihiko Mori, was at 9% in 2001.

Mr. Hatoyama, however, was expected to usher in a new era of politics. Instead, his approval rating has been declining steadily since his party's election, due in part to political-funds scandals involving him and Ichiro Ozawa, the DPJ's influential secretary-general.

The slide has been accelerated in recent weeks as the resolution of the Okinawa-base issue seemed to grow remote as a result of what many see as problems of Mr. Hatoyama's own making. H

aving promised during last year's election campaign to move the Futenma facilities outside of Okinawa, Mr. Hatoyama has tried to find a new site satisfactory to both the U.S. and to the local community. But he has already missed two of his own deadlines.



Mr. Hatoyama has set the end of May as his final deadline, but it looks increasingly difficult for him to act by then.

The government has identified Tokunoshima, a small island between Okinawa and Japan's southern main island of Kyushu, as a possible alternative site. That has only emboldened local opposition there.

On Sunday, some 15,000 people participated in a rally against the plan, according to the organizers of the event.

"I was impressed by the energy of the local people gathered there," Prime Minister Hatoyama told reporters Monday. "I will closely study how they feel as I continue to think seriously about the Futenma relocation.

Japanese media have harshly

criticized Mr. Hatoyama. After the prime minister's trip to the nuclear summit in Washington last week resulted in just 10 minutes of face time with President Barack Obama, apparently with little progress on the base issue, the mass-circulation Yomiuri Shimbun called Mr. Hatoyama "thoughtless and light weight" in a front-page article titled "Futenma, A Maze with No Way Out."

A Washington Post columnist described Japan's "hapless and increasingly loopy" prime minister as the "biggest loser" of the nuclear summit, a line widely picked up in the Japanese press.

That article caused an angry Mr. Hirano, the chief cabinet secretary, to call the American writer "rude" at a news conference.

Korean leader honors crew of sunken ship

By EVAN RAMSTAD

SEOUL—President Lee Myung-bak went on national television Monday to pay a tearful tribute to the sailors who died in the sinking of a naval ship last month, and vowed to bring every detail of the episode to light.

Wearing a black suit and black tie, Mr. Lee read the names of each of the 46 sailors who died in last month's incident. He paused at times to wipe tears from his face with a handkerchief. "I can almost picture the ship's final moment," he said. "With concerns about your homeland and family, you must have encouraged one another to the very last moment saying, 'You first, you have to live.'"

The patrol ship Cheonan was split in two by an explosion of as-yet unknown origin on the night of March 26 in the Yellow Sea near the disputed maritime boundary with North Korea. Mr. Lee used the speech to repeat his pledge that the military and government will undertake an objective, thorough investigation. The prospect of North Korean involvement has put the country on edge and sparked political finger-pointing.

In his tribute, Mr. Lee briefly touched on the little-stated but well-understood reason why the Cheonan was where it was: that Korea is divided in two. The ten-minute speech marked another emotional moment as South Koreans deals with one of the country's worst peacetime military disasters.