Troubled waters for Europe's ambitious wind-energy plans

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Workers missing, injured after BP oil-rig explosion

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THE WALL STREET JOURNAL.

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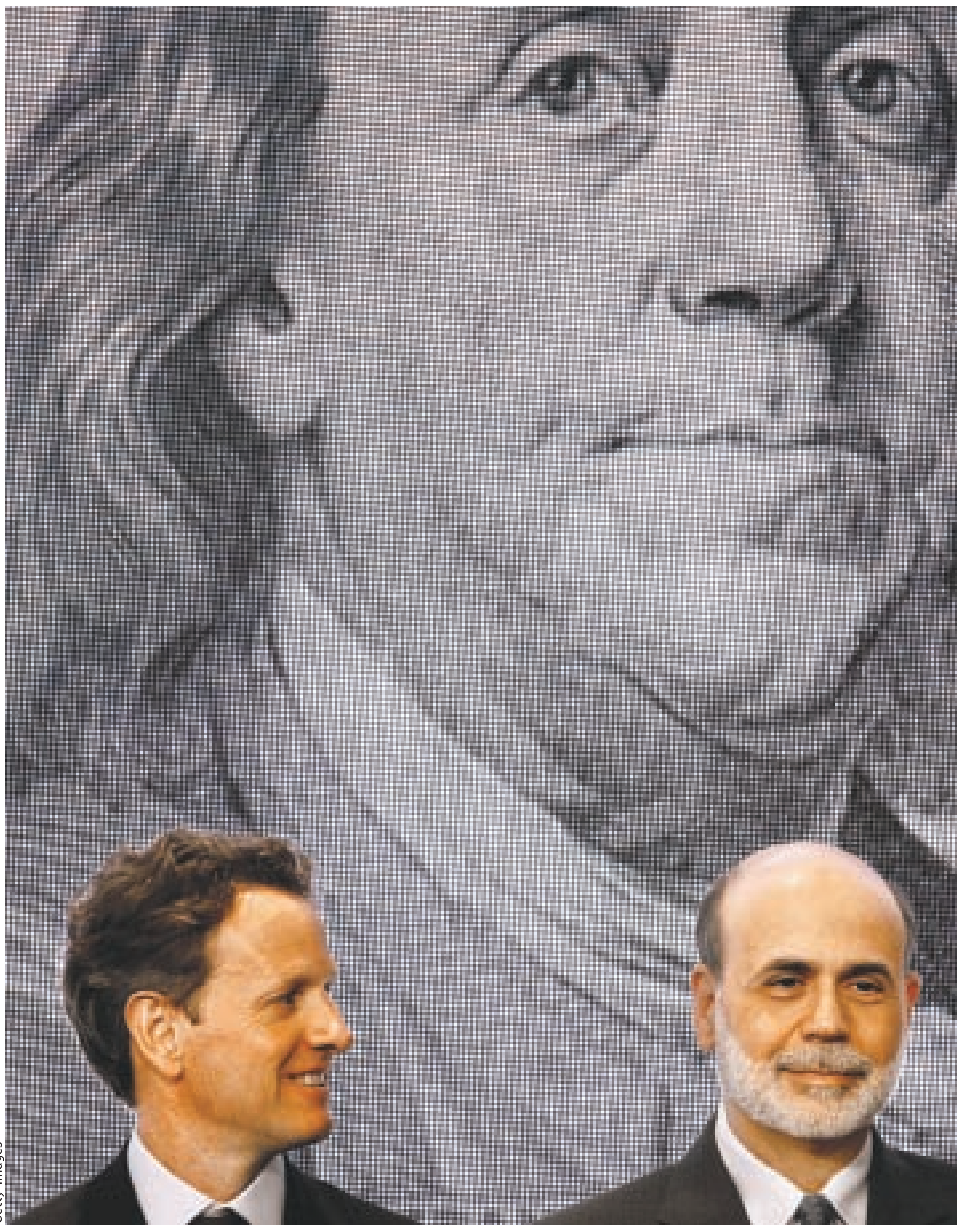
Money men: Two Bens and a Tim



Getty Images

U.S. Treasury Secretary Timothy Geithner, left, and Federal Reserve Chairman Ben Bernanke in front of the image of Benjamin Franklin on the new $100 note unveiled in Washington on Wednesday.

Possible snag in the SEC's Goldman case

BY GREGORY ZUCKERMAN AND SERENA NG

Testimony from Paolo Pellegrini, a former top executive at hedge-fund **Paulson & Co.**, could weaken the government's lawsuit against **Goldman Sachs Group** Inc.

Mr. Pellegrini told investigators from the Securities and Exchange Commission that he had informed **ACA Management** LLC that his firm was betting against a transaction that is now at the center of the lawsuit, according to a person familiar with the matter.

The testimony, in late 2008, could be harmful to the government's case against Goldman, which is accused of misleading ACA, the deal manager, about Paulson's bearish position on the deal.

Mr. Pellegrini and the Paulson team worked with both Goldman Sachs and ACA to structure the deal.

SEC spokesman John Nester said, "Our case is built on a thorough evidentiary record that includes testimony, documents, handwritten notes and emails that will be presented in court at the appropriate time."

Details of Mr. Pellegrini's testimony were reported Wednesday by CNBC.

The SEC in its complaint alleges that Goldman "misled ACA into believing" the Paulson firm "shared a long interest with CDO investors." Goldman has denied wrongdoing and is fighting the charges.

ACA Management, an asset-management company set up under the umbrella of bond insurer **ACA Financial Guaranty** Corp., earned fees for overseeing investment portfolios of mortgage securities, corporate loans and other credit assets. Goldman engaged the firm when Paulson approached it looking for a way to extend its bearish bet on the housing market, the SEC complaint alleges.

The CDO management business at ACA was headed by Laura Schwartz, a former Merrill Lynch investment banker who previously worked in divisions of the bank that originated securities backed by U.S. subprime loans and commercial mortgage debt.

Ms. Schwartz was a main point person in the discussions between ACA and Goldman and was at an early 2007 meeting with representatives of Paulson and Goldman, according to Goldman's responses to the SEC's "Wells" notice of possible civil charges, regarding the issue. After that meeting, Ms. Schwartz emailed a Goldman employee to ask for feedback on the meeting and said she wasn't clear about how Paulson wanted "to participate in the space," the Goldman papers said.

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The Quirk

Russian revolution: mad motorists protest with slow circuit of Moscow. **Page 29**

World Watch

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

Editorial & Opinion

A different way to celebrate Earth Day. **Page 12**

Airlines rush to move millions

Airlines around the world scrambled Wednesday to move millions of passengers grounded by a five-day ban on European flights due to a cloud of volcanic ash, and industry officials said the shutdown had cost them at least $1.7 billion and showed the need for more unified regulation.

By Daniel Michaels in New York, Sara Schaefer Muñoz in Madrid and Bruce Orwall in London

Note: Estimates start after Sunday
Source: Eurocontrol

Traffic at European airports reached 80% of its normal level on Wednesday after dropping as low as 20% on Sunday, according to Eurocontrol, which coordinates airspace across Europe. More than 100,000 flights have been canceled since European skies were closed starting April 15, marking the biggest disruption of global aviation since the terrorist attacks of Sept. 11, 2001.

The flight ban kept at least 9.5 million people from traveling, according to the Airports Council International Europe, a trade group in Brussels. Airlines said it could take at least a week to move those who still need to travel.

EU transportation ministers on Monday agreed to open most of Europe's airspace and close only zones deemed unsafe due to high concentrations of volcanic dust. Britain reopened its airspace late Tuesday. Restrictions remained Wednesday only over Finland and parts of northern Scotland, Eurocontrol said. The agency predicted that all scheduled European flights would take place on Thursday.

The Icelandic volcano that paralyzed flights continued to erupt Wednesday, but the ash plume rising above the crater reached only 2,000 meters, according to the Iceland Me-

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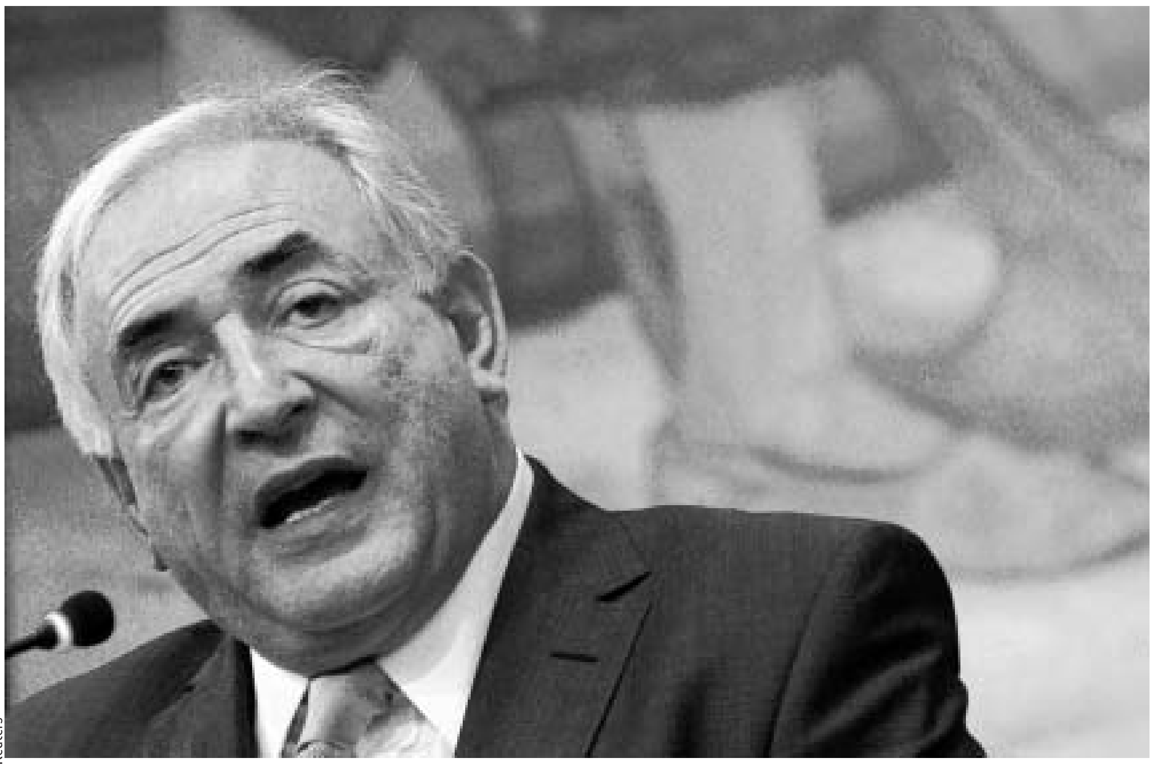
PAGE TWO

IMF bank-tax plan is no substitute for proper regulation of the sector

[Agenda]

By Simon Nixon



Reuters

The International Monetary Fund, led by Dominique Strauss-Kahn, has proposals for two new taxes affecting banks.

Banks have endured many bad weeks since the financial crisis began, but the past seven days have taken the global political backlash against the sector to new levels. Fresh from the U.S. Securities and Exchange Commission's charges against Goldman Sachs, which has inflicted huge reputational damage on the industry, comes the International Monetary Fund's proposals for two new taxes due to be debated at this month's G-20 meeting in Canada.

Credit Suisse estimates these taxes could knock up as much as 20% off the European banking sector's pretax profits. The news was enough to send bank shares sharply lower Tuesday.

Whether the G-20 can actually forge an international consensus around the taxes remains to be seen. Governments have historically found it nearly impossible to agree to common tax policies, even within blocs such as the European Union. Some G-20 members are known to be skeptical, including Canada, which is chairing this month's meeting. But with so many governments running vast deficits as a result of he cost of fighting the financial crisis, the political temptation to impose the taxes will be high.

Banks make an easy, popular target, even if banks are likely simply to pass the costs on to customers.

But while taxing the banks may be a legitimate way to raise revenue, the IMF is on weaker ground with its claim that its proposed taxes directly address weaknesses in the global financial system exposed by the crisis. It argues that its proposed Financial Stability Contribution (FSC) would charge banks for the cost of implicit government guarantees by levying a fee on their liabilities less their equity and insured deposits, similar to the Obama administrations proposed bank-liability tax. The IMF recommends the money raised goes into a fund to cover the cost of future bailouts. Aware such a fund could encourage banks to run bigger risks, the IMF says governments must also introduce special resolution regimes allowing regulators to seize and restructure failing banks.

The IMF is also proposing a Financial Activity Tax (FAT), which would tax bank profits and banker pay as a way of keeping a lid on bonus payments, or what the IMF calls "excessive rents." This would be similar to one-off taxes introduced this year by the U.K. and France in response to public outrage over this year's giant bank bonuses.

But these proposals address only the symptoms and not the cause of the financial crisis. The real challenge for policy makers is to eliminate altogether—or at least minimize as far as possible—the implicit government guarantees that fueled excessive risk-taking in the boom and reduce the systemic risks posed by the failure of large banks that have left taxpayers in this crisis saddled with such huge bills.

That can only be done by much higher capital requirements and radical structural reform. The IMF is right to point out that higher capital requirements are themselves a form of tax. Indeed, from a macroprudential point of view the two approaches may achieve similar outcomes. But taxes don't provide the same incentive for institutions to avoid excessive risk taking.

Ultimately, the only sure route to a safer financial system is to break up big banks, or at least force them to legally separate their businesses via living wills, introduce counter-cyclical capital requirements, and tighten up liquidity requirements. All these items are on the agenda in Basel and, if implemented, are likely to impose substantial costs on banks that the industry will also seek to pass on to its customers. The G-20 must balance its legitimate desire to force banks to contribute to the bill for repairing the damage caused by the financial crisis against the risk of overburdening them with too many extra costs.

The detailed negotiation of regulatory reform may lack the political impact of tough new taxes, but at least it reduces the likelihood of another financial crisis.

What's News

■ **Greece took** a further battering from financial markets as government officials began talks with the IMF and EU about conditions for aid to help the country escape from its debt crisis. Interest rates on Greek bonds rose above 8% and the euro fell. 7

■ **Russia will give** Ukraine a deep discount on the price of imported gas in exchange for an extension of the right to base its Black Sea Fleet on Ukrainian territory. 5

■ **Morgan Stanley reported** a first-quarter profit of $1.78 billion, easily topping estimates, as CEO Gorman began delivering on pledges. 19

■ **Fiat's CEO outlined plans** to spin off the auto maker's industrial-vehicles business, calling the conglomerate structure "outdated." 20, 32

■ **Northern Rock said** Chief Financial Officer David Jones has left the company after being drawn into an investigation by U.K. regulators. 7

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ONLINE TODAY

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The Source

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"When normality returns above the skies of Europe, the aftermath is going to run and run."

Steve McGrath on the financial struggle ahead for airports and airlines

Continuing coverage

As the U.K. party leaders meet for their second debate, follow the latest at **wsj.com/ukelection**

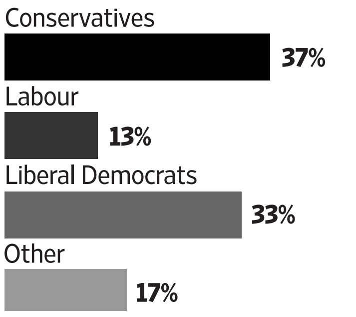
Question of the day

Vote: Should Goldman be suspended as a European financial policy adviser?

Vote online at **wsj.com/dailyquestion**

Previous results

Q: Who would you vote for in the U.K. election?



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NEWS


European Pressphoto Agency

Pope Benedict XVI speaks to faithful in Saint Peter's Square on Wednesday.

Pope reaffirms pledge

Benedict vows to fight sex abuse, as Irish bishop nears departure

By Stacy Meichtry

ROME—Pope Benedict XVI on Wednesday reaffirmed his pledge to fight sex abuse by priests as church officials in Ireland awaited the departure of a bishop who offered to resign over the scandal months ago.

Speaking to pilgrims gathered in St. Peter's Square, Pope Benedict recounted his meeting with sex-abuse victims in Malta on Sunday, which took place behind closed doors. "I shared with them their suffering, and emotionally prayed with them, assuring them of church action," Pope Benedict said in his first public remarks on the sex-abuse crisis that has shaken his papacy.

The pope's comments came a day before the Vatican is expected to announce that Bishop Jim Moriarty is stepping down as head of the Diocese of Kildare-Leighlin, near Dublin. Bishop Moriarty tendered his resignation to the pope in December, saying later that month that he failed to challenge "the prevailing culture" among Irish church officials of concealing widespread sex abuse from civil authorities.

The Vatican is expected to announce as early as Thursday that Pope Benedict has accepted Bishop Moriarty's resignation, said Rev. Michael Murphy, a spokesman for the Diocese of Kildare-Leighlin.

Father Murphy said the bishop's departure was "imminent," adding that the diocese was waiting for the final word from the Vatican. A Vatican spokesman declined to comment.

Pope Benedict has only recently begun to address the sex-abuse crisis after a month of public questions over his handling of sex-abuse cases as archbishop of Munich-Freising from 1977 to 1982 and subsequently as head of the Vatican's office in charge of defrocking priests.

A week ago, the pope delivered a homily to advisers inside the papal palace, calling on the church to "do penance" in the wake of "attacks" from church critics. During his visit to Malta, the Vatican said the pope told victims of sex abuse that he planned to "implement effective measures" to protect children from abusive priests.

Pope Benedict hasn't elaborated how he plans to crack down on sex abuse.

Over the past decade, the pope has defrocked abusive priests and personally apologized for the scandal. Critics of the pope have called on him to take swifter action and fire bishops with a record of covering up abuse.

Pope Benedict, however, has taken a more deliberative approach, taking weeks and sometimes months to weigh a decision.

In February, Bishop Moriarty issued a statement describing the December meeting with Pope Benedict and Vatican officials as "long and intense." Bishop Moriarty added that Vatican officials were "proceeding" with his resignation.

—Margherita Stancati contributed to this article.

EUROPE NEWS

In debate, cross hairs are on Clegg

Labour and Tory leaders expected to focus on Liberal Democrat dark horse, as polls show virtual three-way tie

By Joe Parkinson
And Alistair MacDonald

The leaders of Britain's three main political parties face off on foreign policy Thursday evening in the closely watched follow-up to a debate last week that turned the coming U.K. election on its head.

U.K. Election 2010
WSJ.com/UKElection

At the forefront of efforts from Conservative leader David Cameron and Labour Prime Minister Gordon Brown: Stop Liberal Democrat party leader Nick Clegg, whose performance last week made him a serious player in what was already the tightest election in almost 20 years.

Messrs. Brown and Cameron will likely focus on Liberal Democrat policies that are unlikely to get majority support in Britain, such as its support for joining the euro currency and a promise to cut the U.K.'s submarine-based nuclear arsenal.

Mr. Clegg took last Thursday's debate by storm by portraying himself as an antidote to the "old" parties that have passed Downing Street between them for the over half a century. Tory and Labour officials believe that won't work for long, and that his other major edge—that many Britons barely knew him—has been dulled.

Polls show continued strong support for the Liberal Democrats, with one Tuesday survey putting them in the lead and another showing them running narrowly second to the Conservatives. A poll by IPSOS Mori on Wednesday put the Tories and Liberal Democrats even at 32% and Labour on 28%, suggesting that no single party will win a majority of parliamentary seats on May 6.

But polling also indicates that many voters remain undecided following a deep economic recession and a political scandal over parliamentary expenses that undermined faith in politicians. Half of those in the IPSOS Mori poll said they may change their mind before voting, the highest level since the pollster started asking this in 1983; those who backed Liberal Democrats were most likely to say they may reconsider.

Thursday night is an opportunity for Mr. Cameron to revive his bid to regain power for Conservatives after 13 years in opposition, a campaign that started strong but has since stuttered. For Mr. Brown, it's a chance to play one of his aces as the international statesman who, for instance, brought the Group of 20 to London to remodel global financial architecture.

The three candidates will spar for 90 minutes in front of an audience of around 150 people in Bristol, southwest England. The debate's focus on foreign affairs will be a departure for a campaign so far dominated by the economy and a parliamentary expenses scandal.


Agence France-Presse/Getty Images
Conservative leader Cameron addressing students Wednesday near Plymouth, England, ahead of a closely watched debate.

Front and center will be the governing Labour Party's record on the increasingly unpopular war in Afghanistan, where 281 British soldiers have been killed since operations began in 2001. Pollsters say opposition attacks on the perceived inadequacy of military equipment could resonate with the public and further erode Mr. Brown's support.

While the Liberal Democrats attracted support in the 2005 election through their opposition to the Iraq war, all three parties have a similar message on Afghanistan, that the U.S.-led military surge and eventual outreach to moderate Taliban should be given chance to work.

European issues could prove a thorn in the side for Mr. Clegg, as the Liberal Democrats are the only party with a long-term commitment to joining the euro currency, a policy unpopular with most British voters. Foreign-policy experts say the biggest threat to Liberal Democrat poll gains is Mr. Clegg's pledge to cut spending on the U.K.'s submarine-based nuclear arsenal in a bid to bear down on the budget deficit.

"On nuclear weapons, both the Conservatives and Labour will say the Liberal Democrats...can't be trusted to deal with serious questions of security," said Robin Niblett, Director of Chatham House, a foreign policy think-tank.

Weak sterling poised to help U.K. economy

By Neil Shah

The U.K.'s weakening currency is poised to strengthen the country's economy, boosting exporters and setting the stage for a stronger recovery later this year or in early 2011.

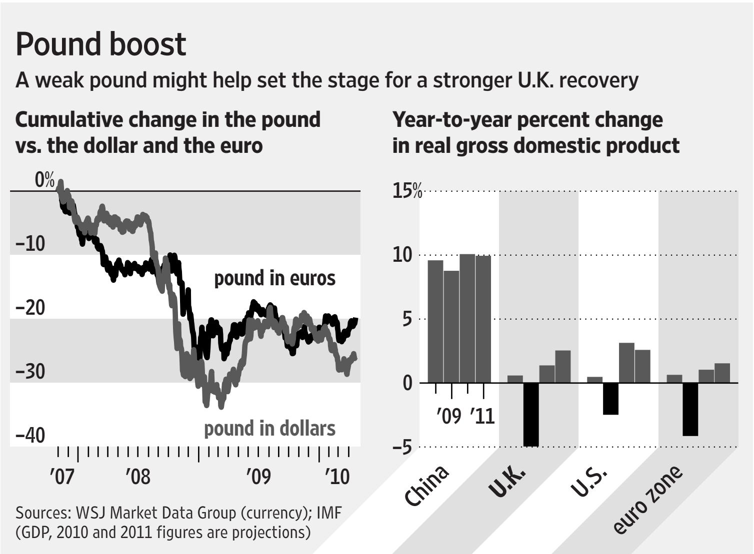
The U.K., which is struggling with sluggish growth and a huge budget deficit, has trailed many peers in recovering from the downturn. But a weaker pound, which makes exports more competitively priced, has manufacturers reporting higher export orders and export prospects in business surveys.

One benchmark comes Friday, when the government reports its initial assessment of first-quarter gross domestic product.

Government data show that exports are stabilizing. Britain's Office for National Statistics reported that in February, imports declined and exports rose at the fastest pace since 2003, driven by sales of chemicals.

While February's figures are artificially high given that the previous month's numbers were undermined by Britain's worst winter in decades, they still proved that the bad January figures were a blip and not a trend.

More importantly, the February data highlighted the rising demand from the U.S. and non-European regions—adding to hopes that a global rebound could lift Britain. Sales of British goods to members of the euro zone rose about 3% in February from January, the government reported, while sales to non-European Union members jumped 15%.



Sources: WSJ Market Data Group (currency); IMF (GDP, 2010 and 2011 figures are projections)

Similarly, in raising its forecasts for the global economy Wednesday, the International Monetary Fund predicted the U.K. economy will grow 2.5% next year, close to the U.S.'s 2.55%.

Ineos Group Ltd., a major U.K.-based chemical company, is feeling some of the benefits of returning trade and a weaker currency.

While the company does most of its business outside the U.K., limiting the effect of sterling's fluctuations, its U.K.-based businesses are benefiting "as products become more competitive," says spokesman Richard Longden.

Ineos is also "seeing very strong demand at the moment in some of our businesses, and ... sales to Asia are an important part of the growth," Mr. Longden adds.

Recent surveys by the Confederation of British Industry, which represents U.K. employers, also reflect optimism about overseas demand, though order books have yet to fill up. Among 499 manufacturers polled last month, 22% said export orders were above normal. The CBI releases its latest Industrial Trends survey on Thursday.

We're "quietly confident," says Lai Wah Co, head of economic analysis at the CBI. "There are signs that [the currency effect] will come through."

Despite the help from a decline in sterling, economists expect Friday's GDP report to show a weak reading of 0.4% growth—the same rate as in the fourth quarter of 2009, when Britain crawled out of its 18-month recession.

Most economists say it is just a matter of time: After a less-severe downturn in the early 1990s, Britain's economy took two full years to start seeing the benefits to trade of a weak currency. That timing dovetails with the current extended weakness of the pound.

In a recent forecast, accounting firm Ernst & Young predicted a weak economic recovery in Britain this year but said growth would tick up from 1% to 2.7% in 2011 and possibly 3% after that—driven mainly by surging exports to overseas markets.

Expectations for 2010 remain modest, with forecasts for growth of about 1%, compared with estimates of 3% growth in the U.S. Britain's next government also is likely to trim spending and raise taxes in a bid to get the deficit under control, which will create additional headwinds for the economy.

The Bank of England, for its part, is no longer pumping freshly created money into the economy, at least for now.

The economy has become an issue in national elections, scheduled for May 6. With consumers burdened by debt and the government grappling with a massive budget deficit, exports are increasingly seen as the key to recovery. To boost that sector of the economy, policy makers have quietly welcomed sterling's drop over the past two years.

The British pound has lost about a quarter of its value against the dollar and the euro since November 2007. It is now trading at $1.5412, and analysts expect the currency to end the year around $1.48.

While the pound has been weak for some time, it has yet to have a pronounced effect on exports. One reason has been persistent weakness in the euro zone, which accounts for 50% of U.K. exports. The U.S. takes about 15% of Britain's exports, while China, Hong Kong, Japan and Korea account for 7% of sales.

Also, Britain's manufacturing sector has contracted in recent decades and shifted from simple products such as oil and chemicals to specialized goods such as weapons and pharmaceuticals that make it harder to benefit from currency fluctuations.

Roughly 40% of U.K. exports are services. Smaller firms, meanwhile, may lack the financing and confidence to expand into new product lines that are more "price-sensitive."

Instead many may be playing it safe by using the weak currency simply to boost profits, rather than gain market share.

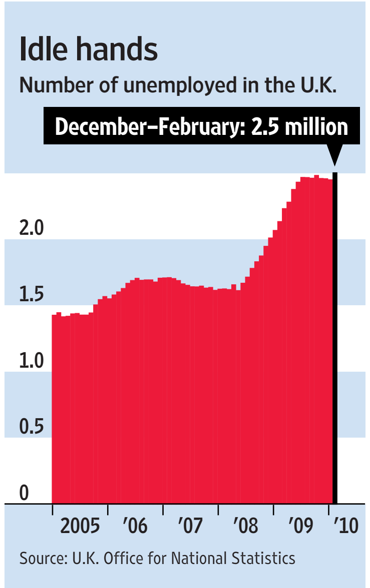
U.K. jobless claims fell again in March

By Nicholas Winning
And Ilona Billington

LONDON—The number of people in the U.K. claiming jobless benefits dropped more than expected in March, but overall unemployment rose above 2.5 million in the three months to February, its highest level for more than 15 years, official data showed Wednesday.

The data drew conflicting responses from the main parties ahead of the May 6 general elections. Opposition parties said the figures reflected the failure of Prime Minister Gordon Brown's economic policies, but the government said the data showed it must continue to support the labor market and the wider economy.

The Office for National Statistics said the number of people receiving the job seekers' allowance fell 32,900 in March to 1.54 million, the fourth decline in five months. The claimant-count rate eased 0.1 percentage point to 4.8%, the lowest since June 2009. February's drop in the claimant count was also revised to 40,100, the largest monthly fall in the measure since June 1997.



However, the wider International Labor Organization measure of unemployment rose 43,000 to 2.5 million in the three months to February from the three months to November, the highest level since the three months to December 1994. That increase pushed up the unemployment rate by 0.1 percentage point to 8%—the highest rate since the three months to September 1996.

The data will be hard for Mr. Brown to convert into political capital. His Labour Party lags behind the opposition Conservative Party in opinion polls and faces a further challenge from the smaller Liberal Democrat party in a campaign dominated by economic issues.

"These figures show that February was a tough month and we're not through the woods yet," said U.K. Works and Pensions Secretary Yvette Cooper. "We've got to keep supporting jobs, keep supporting the economy."

But opposition parties said the figures showed the fragility of the economy, with the Conservatives arguing that Labour's plan to increase the tax on payrolls would kill the recovery. "Headline unemployment has now hit its highest level for 16 years. ... I think what that shows is the failure of the government's policy," said Theresa May, Conservative spokeswoman for work and pensions.

The jobless data were released as U.K. Chancellor Alistair Darling, the Tories' finance spokesmen George Osborne and Liberal Democrat economic spokesman Vince Cable sparred on the U.K. budget deficit and tax policy in a televised debate.

Ahead of a second debate between their parties' leaders Thursday, Mr. Osborne said that if financial markets lose confidence in the U.K. government's ability to repay its debt, the International Monetary Fund would have to be called in to offer aid. He also warned that if the U.K. election resulted in a hung Parliament, it would raise the chances of the U.K. needing IMF financing.

Mr. Darling said Mr. Osborne's comments were "scaremongering" and accused the Conservative Party of making unfunded promises in its budget plan. The Liberal Democrats' Mr. Cable, meanwhile, stressed that the U.K. public sector faces an "age of austerity" as the government seeks to bear down on the bloated budget deficit.

In a separately issued statement, Mr. Cable said Wednesday's jobless data exposed the folly of Conservative plans to cut government spending. "Without a strong and concerted plan of action to support jobs and businesses, the fallout from the recession will be with us for years to come," he said in a note.

The U.K. economy grew 0.4% on a quarterly basis in the final three quarters of 2009 following six quarters of contraction. Economists expect the preliminary reading of first-quarter gross domestic product Friday to show a similar rate of expansion.

Minutes from the Bank of England's Monetary Policy Committee April meeting, published Wednesday, meanwhile, showed that members' concern about downside risks to the country's economic outlook eased. Members voted unanimously to keep bond purchases at £200 billion ($307.42 billion) and the key interest rate at 0.5%, but BOE officials again underscored the threat posed by the fragility of economic recovery in the euro zone—the destination for almost half of the U.K.'s exports. "There were continuing financial market concerns over sovereign creditworthiness across a number of countries, which highlighted the potential for new shocks to affect the recovery," the MPC said.

Despite these risks, the minutes noted a clearer recovery in output at the end of 2009, and said indicators pointed toward activity growth in the first half of 2010 "that was only a little below its historical average rate."

They again highlighted upside risks to inflation, which jumped to 3.4% in March from 3.0% in February. Investors' inflation expectations have been drifting up, although households' expectations have been relatively stable, the minutes noted. "Given that a period of above-target inflation was in prospect at a time when monetary policy was exceptionally accommodative, this was a source of concern to some members," the minutes said. "The committee would continue to monitor developments in inflation expectations closely."

—Joe Parkinson, Natasha Brereton and Paul Hannon contributed to this article.

European Pressphoto Agency

Russian President Dmitry Medvedev, left, and Ukrainian President Viktor Yanukovych after their talks in Kharkov, Ukraine.

Russia, Ukraine deal

Fleet lease extended in return for sharply lower natural-gas prices

By James Marson
and Jacob Gronholt-Pedersen

KIEV, Ukraine—Ukraine agreed Wednesday to extend the lease of Russia's Black Sea Fleet base in return for sharply lower natural-gas prices, a long-term trade-off that reasserts much of Moscow's influence over its former Soviet neighbor after years of tension.

The deal was the latest sign of Russia's determination to use its vast energy resources to try to restore dominance lost when the Soviet Union collapsed in 1991. It will allow Russia to keep a strategic military presence beyond its borders until 2043, a quarter-century beyond the end of its current lease for the naval base on Ukraine's Crimean peninsula.

Ukraine, hit hard by the global economic downturn, received a waiver of export taxes that will knock as much as 30% off the price of Russian gas over the next nine years, avoiding disputes that have often led to midwinter gas cutoffs.

The commitments were a clear sign that Ukrainian President Viktor Yanukovych, who took office two months ago, is moving the former Soviet republic closer to Moscow after years of rule by pro-Western leaders of Ukraine's Orange Revolution. Some of those politicians, now in opposition, condemned Mr. Yanukovych's concession on the naval base as a sellout of Ukraine's sovereignty.

Mr. Yanukovych and his Russian counterpart, Dmitry Medvedev, announced the accords after meeting in the Ukrainian city of Kharkiv. Mr. Medvedev told a joint news conference that the gas and base accords were linked.

"This was a step we have awaited for a long time," the Russian leader said of the base extension. In return, he said, "our Ukrainian partners will receive a discount in the price of gas."

Ukraine, a country of 46 million people wedged between Russia and the European Union, has struggled to balance its relations with the two since independence in 1991. Mr. Yanukovych's predecessor, Viktor Yuschenko, infuriated Moscow by trying to kick the fleet out of Ukraine, calling it a hostile presence.

Mr. Yanukovych, who has abandoned his predecessor's goal of bringing Ukraine into the North Atlantic Treaty Organization, now risks alienating a large part of his compatriots by allowing the fleet to stay.

Former Prime Minister Yulia Tymoshenko, who leads Ukraine's largest opposition party, said Mr. Yanukovych's decision violates a constitutional prohibition on foreign military bases in Ukraine—a ban that allows exceptions for temporary stationing of troops under terms of a lease.

'It's not just treason,' declared former Ukrainian Prime Minister Yulia Tymoshenko. 'It's the start of the systematic destruction of the independence of our state.'

"It's not just treason," she declared. "It's the start of the systematic destruction of the independence of our state."

Ukraine's Foreign Ministry issued a statement saying: "We do not regard the Black Sea Fleet as a source of threat to Ukraine's sovereignty and territorial integrity."

The base extension will have repercussions for other former Soviet republics. The fleet, consisting of about 40 combat vessels, provided maritime support for Russian ground forces during a brief war with Georgia in 2008 and sank a Georgian vessel carrying missile launchers.

Mr. Medvedev said the fleet's continued presence would provide "a greater, better guarantee for European security in the Black Sea basin."

The price Russia agreed to pay for that strategic advantage will amount to billions of dollars in export duties from which Ukraine will be exempted.

Ukraine has been paying $330 per 1,000 cubic meters of Russian gas under a 10-year agreement on a market-based pricing scheme signed last year.

Mr. Yanukovych called the accord an unsustainable burden on Ukraine's economy, which shrank 15% last year, and pledged during his election campaign to renegotiate it.

The new gas deal, signed Wednesday by Russian gas exporter OAO **Gazprom** and Ukraine's state energy firm Naftogaz, will waive export duties on 30 billion cubic meters of gas that Ukraine will buy this year and on 40 billion cubic meters that it will buy in subsequent years until 2019.

Gazprom said the discount will be 30% of the formula price but not more than $100 per 1,000 cubic meters. Dragon Capital, a Kiev-based investment bank, estimated that the price cut will save Ukraine about $1.5 billion this year.

That will allow the country's new government to adopt a budget for this year and secure renewed lending from the International Monetary Fund, officials said.

Deputy Prime Minister Serhiy Tihipko will head to Washington on Thursday to present an economic-growth plan to the IMF, which last year suspended a $16.4 billion loan program after large social-spending increases were passed into law.

Gazprom's chief executive, Alexei Miller, said the company's profits will be unaffected by the new arrangement. He also said that under the deal, Ukraine won't pay penalties if it buys less gas the agreed in the contract.

"This deal is a win for everyone," said Matthew Saegers, a Eurasian energy specialist at Cambridge Energy Research Associates. "Gazprom wins because it maintains its profitable position. Ukraine gets a reduction in price. And the Kremlin gets what it wants—to show that it's the deal maker and geopolitical master in this part of the world."

—Richard Boudreaux in Moscow contributed to this article.

EUROPE UNDER THE VOLCANO

Airlines rush to move millions as ban ends

Continued from first page
teorological Office. There was also evidence that magma from the volcano had started flowing as lava rather than skyrocketing into the atmosphere as ash.

Some airline-industry officials said the initial response of regulators across Europe was haphazard and created confusion for carriers and passengers, illustrating the urgency of implementing the European Union's "single sky" project, under which air traffic and oversight will be coordinated across the 27-country bloc. Airspace closures, flight movements and most aviation rules are now handled independently by national governments.

The International Air Transport Association, a global trade group, estimated the airspace closure cost airlines world-wide roughly $1.7 billion in lost revenue.

"This incident clearly shows the need for completion of the European single sky," said Ulrich Schulte-Strathaus, secretary-general of the Association of European Airlines in Brussels. Mr. Schulte-Strathaus said efforts by EU Transport Commissioner Siim Kallas and his team over the weekend that led to Monday's decision to reopen airspace showed the value of close EU cooperation on aviation regulation.

Mr. Kallas's spokeswoman said that if the new rules—planned for 2012—had already been in place, Monday's decision could have been taken on Friday, avoiding four days of disruptions and financial losses.

The European Commission has indicated it will press representatives from member countries who are negotiating the details of new rules to speed up their work. EU officials cautioned that reorganizing management of European skies will still be complex and expensive.

Unifying air-traffic control will complement a shift already under way to handle aircraft safety at the EU level, through the European Aviation Safety Agency. Linking control systems is proving more difficult because the networks are already overtaxed and labor unions representing air-traffic controllers have balked at the plan.

Some airline officials said European regulators overreacted by closing entire countries' airspace without analysis of the threat posed by dust from the eruption of an Icelandic volcano last week. Regulators have responded that existing rules, established globally by the United Nations' International Civil Aviation Organization more than a decade ago, gave them no choice but to ground planes.

Air-safety specialists say closing airspace was a prudent move because little was known about the effect of volcanic ash on jet airplanes and their engines. Since Saturday, regulators and aerospace companies including jet-engine maker **Rolls-Royce** PLC, **Boeing** Co. and the Airbus unit of **European Aeronautic Defence & Space** Co. have been racing to better understand the problem. Their recommendations on Monday led to the decision to resume flights.

U.S. Federal Aviation Administration Administrator Randy Babbitt said governments need to cooperate better during such crises. Speaking in New York, he said the FAA is waiting for Europe to take the lead on establishing a standard for future volcano situations, but the agency has offered its assistance. In principle, he added, "Planes simply don't fly in volcanic ash."

The International Air Transport Association, a global trade group, estimated the airspace closure cost airlines world-wide roughly $1.7 billion in lost revenue. European airlines, which were already laggards in the global aviation recovery and hardest hit by the grounding, lost almost €1 billion ($1.34 billion) in revenue, according to the Association of European Airlines. European airports lost an additional €250 million in revenue, Airports Council International Europe said.

The daily hit to operating profit at European carriers during the flight ban was at least €100 million, airlines and analysts said.

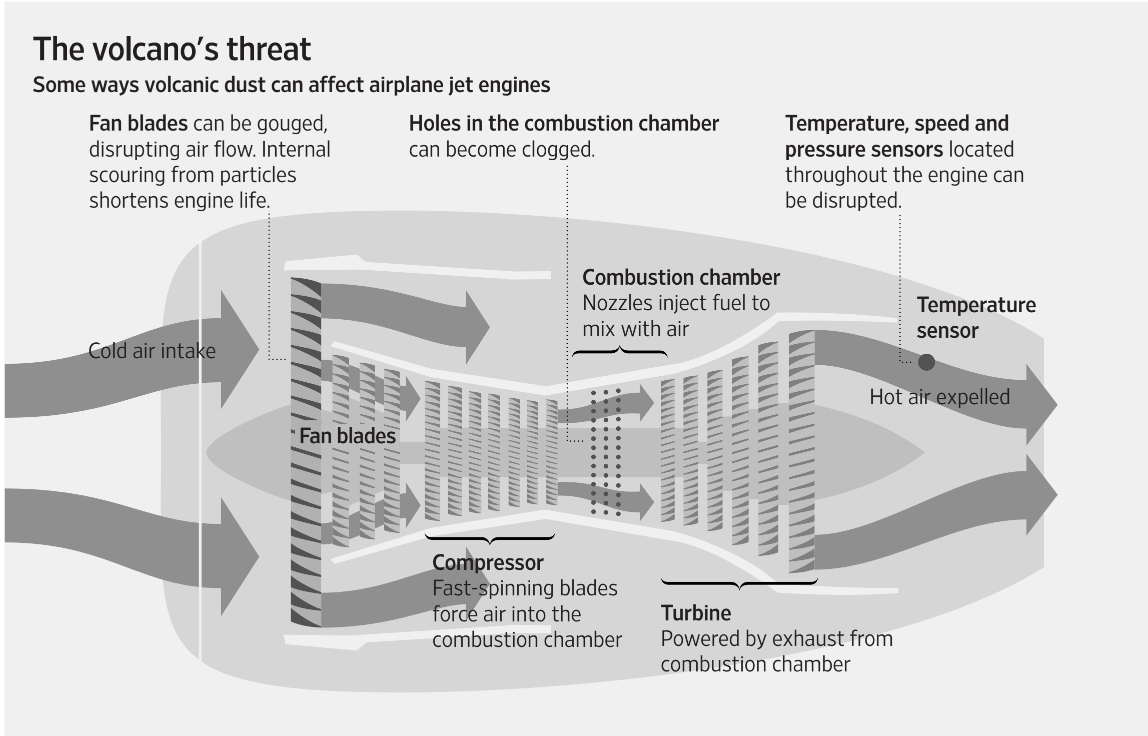
U.S. airlines lost more than $110 million in revenue, aviation consulting firm Boyd Group International estimated Wednesday. **Delta Air Lines** Inc., the largest U.S. carrier, estimated it had lost about $20 million from the closure. **AMR** Corp.'s American Airlines, the second-biggest carrier, said it had lost roughly $15 million.

With thousands of planes and staff out of place, airlines struggled to resume full operations. Since planes were flying very full before the grounding, finding seats proved challenging.

IATA on Wednesday urged regulators to relax airport restrictions on night flights and flight times so more planes could operate to reduce the passenger backlog.

Airlines added flights where possible as, across Europe, stranded passengers cleared out of crowded airports. In Madrid, Spanish carrier **Iberia Lineas Aereas de Espana** SA organized a flight to London at 4 a.m. Wednesday using a giant Airbus A340 jetliner with 350 seats, almost double the capacity of planes it normally flies on the route.

When it was clear late Tuesday that U.K. airspace would open, airline personnel roused passengers at 19 different hotels around Madrid and told them to get to the airport.



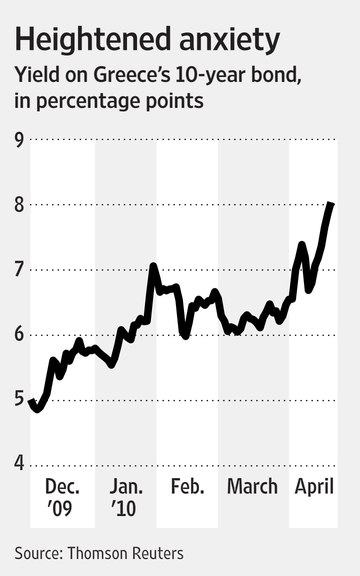

Agence France-Presse/Getty Images
A Virgin Atlantic jet prepares to land at Heathrow Airport on Wednesday.

At London's Heathrow Airport, the world's busiest international hub, so many people were stranded in recent days that the Salvation Army sent relief supplies to nearly 200 people by Tuesday night.

On Wednesday morning, Heathrow terminals were busy but not packed as passengers swapped war stories. At Terminal 3, airlines set up outdoor queues that herded confirmed passengers inside.

Kim McIntyre and her mother, Cynthia Beard, were desperate to return to the Baltimore area, four days after their scheduled departure. Lacking a computer or local mobile phone, they had camped in the terminal since the weekend, at one point arranging for an airport Internet café to be made free for people trying to rebook flights. They weren't alone: "It was Tent City," Ms. Beard said of the swelling crowd that slept in the terminals.

—Paul Sonne, Alessandro Torello and Christopher Hinton contributed to this article.



A man in central Athens walks past a shuttered restaurant bearing a 'For Sale' sign on its facade Wednesday, as officials gathered to discuss a possible aid package for the country.

Associated Press

Greek debt costs rise as talks begin

Interest rates on bonds surpass 8% and euro weakens, as IMF warns that Athens' troubles could spread elsewhere

By Stephen Fidler

Greece took a further battering from financial markets Wednesday as government officials began talks in Athens with the International Monetary Fund and the European Union over conditions for a package to help rescue the country from its debt crisis.

Interest rates on Greek bonds rose above 8%, the highest since Greece joined the euro in 2000, and the euro itself weakened.

Meanwhile, other bond markets around Europe displayed nervousness following a warning from the IMF that Greece's government-debt troubles could spread to other nations. Big budget deficits that have followed the economic slowdown and financial crisis promise a glut of government bonds in all major Western economies.

In a possible sign of bond-market jitters, Germany failed to sell all of a €3 billion ($4.03 billion) issue of 30-year bonds in an auction and Poland also failed to sell about $200 million in five-year bonds.

Euro-zone governments have promised to lend Greece up to €30 billion this year, while the IMF may chip in with up to €15 billion. Greece hasn't formally asked for the funds, but faces big debt repayments that may force it to.

Finance minister George Constantinou said talks with midlevel officials from the IMF, European Central Bank and European Commission could last for two weeks. A joint text could be agreed on by mid-May, and be activated quickly, he said. Greece must repay an €8.5 billion bond that matures May 19.

The joint text will spell out what the government has committed to do to secure the rescue package and is likely to specify conditions on how it should go about cutting its budget deficit in 2011 and 2012.

As the talks started, some German lawmakers threatened to delay Germany's expected €8.4 billion contribution to the package.

Germany's Otto Fricke, a member of the ruling coalition Free Democrat Party, said parliamentarians from the opposition Social Democrats had pledged they will try to delay approval.

"I hope they realize how dangerous these tactics are," Mr. Fricke said.

In what is expected to be less-fraught process, French Finance Minister Christine Lagarde presented a new budget law to activate the French contribution to Greece's rescue, which she said could be as much as €3.9 billion in 2010.

The IMF said Greece's troubles could represent a new phase of the global financial crisis. "In the near term, the main risk is that, if unchecked, market concerns about sovereign liquidity and solvency in Greece could turn into a full-blown sovereign-debt crisis, leading to some contagion," the IMF said in its World Economic Outlook published Wednesday.

The IMF said in its World Economic Outlook that Greece's troubles could represent a new phase of the global financial crisis, 'leading to some contagion.'

In a separate report Tuesday, the IMF said that Portugal, and to a lesser extent Spain and Italy, were likely to suffer most from Greece's debt problems. European banks are big holders of Greek debt and would also suffer knock-on effects if Greece couldn't pay its way.

The rise in Greek yields and the wariness in other European markets reflect a growing expectation among investors that even with the bailout, Greece would need some form of debt restructuring, in which debtholders could be forced to accept losses as they did in Latin America following the 1980s debt crisis.

Peter West, head of research at PAM Global Investments in London and a specialist in Latin American economies, said: "It's difficult to avoid the conclusion that they have an unsustainable debt burden and that with a fixed exchange rate, they can't grow out of it."

Stephen Jen of BlueGold Capital Management, a hedge fund in London, said in a research note this week that the market has begun to openly talk about a default by Greece and a loss, or haircut, of 30% on all outstanding debt.

"My guess is that the haircut will likely need to be bigger," Mr. Jen said.

One issue for bondholders is that if the IMF does lend, it immediately becomes a preferred creditor, meaning it will be paid in full before other bondholders. It isn't yet clear whether other euro-zone governments would demand preferred-creditor status too.

However, some analysts said they don't expect Greece would need to activate the package.

Sylvain Broyer, deputy chief economist for Natixis, a corporate and investment bank based in Paris, said 85% of Greece's external debt was held by financial institutions in other euro-zone countries, with German and French banks and insurance companies alone holding 40% of it.

Euro-zone banks holding Greek bonds could deposit them as collateral to obtain cheap funding from the European Central Bank. In effect, therefore, the ECB is already offering an implicit bailout for holders of Greek bonds, Mr. Broyer said.

He said Greek interest payments on government debt were high, but not compared with what it paid in the past. Interest costs were expected to rise to about 6% of GDP in 2011 from 4% in 2006. But in 2001 as it joined the euro, it paid 7%-8% and in 1955 it was as high as 11%.

Claudio Loser, a former chief of the IMF department dealing with Latin America, said that the IMF will analyze whether Greece's debt burden is sustainable or whether it will need restructuring. This analysis will look at variables such as debt-servicing costs as a percentage of government revenues as well as debt to GDP.

Greece's debt-to-GDP ratio, at 124% of GDP at the end of this year, would be one indicator that is flashing red.

But other measures such as the government's debt-servicing burden—how much interest it owes together with how much maturing debt is coming due—aren't so worrying, at just over 30% of government revenue for 2010.

—Patrick McGroarty and Natalie Boschat contributed to this article.

FSA probes Northern Rock finance chief

By Margot Patrick

LONDON—**Northern Rock** said Chief Financial Officer David Jones has left the company to focus on an "ongoing FSA investigation," a week after two former executives of the government-owned bank were fined and banned by the U.K. Financial Services Authority for making the bank's bad loan figures appear better than they were before its near collapse.

An FSA spokeswoman confirmed Mr. Jones is under investigation but said she couldn't comment on whether it was part of the same probe that led to the fines. Mr. Jones couldn't be reached to comment. He was still listed as an authorized person on the FSA register Wednesday afternoon.

The FSA last week said David Baker, Northern Rock's former deputy chief executive, and Richard Barclay, former managing credit director, had failed in their duties by leaving 1,917 mortgages out of the firm's bad loan calculations for 2006, about nine months before the bank's funding problems sparked the first run on a U.K. bank in more than 100 years. Mr. Baker was fined £504,000 ($774,700) and Mr. Barclay was ordered to pay £140,000.

Mr. Baker said he accepted the findings and had made an error of judgment by trying to handle the situation internally. A lawyer for Mr. Barclay declined to comment. The FSA said both men admitted their misconduct.

FSA comments that accompanied the actions ignited speculation in the U.K. press that Mr. Jones could be drawn into the probe, with the FSA saying in its judgment against Mr. Baker that Mr. Baker had "sought and obtained confirmation from a senior and suitably qualified colleague that the pending possessions cases had been appropriately accounted for in the bad debt provisions."

It went on to say that the colleague expressed the view there was no obligation to amend statements in Northern Rock's annual 2006 accounts that were about to be published. The FSA spokeswoman declined to comment on the statement Wednesday.

Former Northern Rock Chief Executive Officer Adam Applegarth isn't expected to be investigated, according to people familiar with the matter, and the bank hasn't been sanctioned.

In its findings last week, the FSA said that proper accounting of the extra bad loans would have increased by 50% the number of mortgages reported in arrears, or more than 90 days behind on payments, to 0.68% of Northern Rock's loan book in 2006, from the 0.42% that was reported. A Northern Rock spokeswoman declined to comment on the findings.

Northern Rock, which regularly lent borrowers up to 125% of a house's value, was hit hard by the financial crisis and became fully nationalized in February 2008, leaving its shareholders with nothing. At the end of 2009, 4.28% of its mortgages were in arrears, more than the national average of around 3.4%.

Northern Rock named Hugh Graham, head of its treasury operation, as interim chief financial officer.

Seeking consensus on Supreme Court vacancy

Reuters

President Barack Obama, third from right, discusses the Supreme Court vacancy left by the recent retirement of Justice John Paul Stevens with bipartisan members of the U.S. Senate in the Oval Office of the White House Wednesday.

Dispute delays pilot rules

By Andy Pasztor

Reducing pilot fatigue is a main goal of U.S. airline regulators. But new rules are being delayed by disagreement over whether the anticipated safety improvements would justify the cost to airlines.

When U.S. Federal Aviation Administration chief Randy Babbitt last summer launched a drive to update rules covering how many hours a day U.S. airline pilots can fly or remain on duty, the agency hoped to release draft regulations by the end of 2009. That date later slipped by several months.

But now, according to industry and government officials, the proposed changes are blocked by a dispute between the FAA and officials at the White House Office of Management and Budget.

Budget officials have told the FAA that its cost projections aren't justified by the anticipated safety benefits, according to people familiar with the details.

The FAA's proposals could cost carriers billions of extra dollars through the next decade. But if the agency scales back the proposal to reduce likely costs, pilot union groups have threatened to oppose the entire package.

The tussle has held up the FAA's proposed package for several weeks. And unless high-level administration officials break the logjam, these people said, public release could be delayed for many more months. By some estimates, devising a final rule could stretch well into next year.

An FAA spokeswoman said Wednesday that the proposed rules "are in administration coordination," but she declined to elaborate. Department of Transportation officials also have declined to provide details about the timetable. A White House spokesman didn't have any immediate comment.

The FAA wants to jettison outdated rules that set uniform limits on pilot work schedules, replacing them with more flexible rules based on scientific studies about what causes fatigue.

The proposals seek to limit flight hours and the length of duty days based on the time of day, internal body clocks of pilots and how many takeoffs and landings they are scheduled to perform in a 24-hour period.

Such changes, intended to bring U.S. requirements more in line with European cockpit-fatigue rules, would be particularly costly for commuter airlines that fly shorter routes and tend to give pilots more grueling schedules.

FAA regulators consider cockpit fatigue one of the most pressing safety hazards.

Pellegrini told ACA of short bet

Continued from first page

Ms. Schwartz, reached on her cellphone, didn't stay on the line. She no longer works for ACA. A representative for ACA Financial didn't comment.

Last fall, when Goldman responded to the SEC's Wells notice, the securities firm argued that whether ACA perceived Paulson to be the so-called equity investor in the CDO—and therefore having a "long" position—was "of no moment." ACA, Goldman has argued, was supposed to be an independent expert on selecting mortgage assets.

Goldman argued in documents it submitted to the SEC that Ms. Schwartz, who was deeply involved in selecting the assets for the Abacus deal, should have known from previous ACA-managed deals that hedge funds could have both long and short positions in a CDO. Goldman cited an ACA-managed CDO that closed in late 2006 whose equity investor was a hedge fund called **Magnetar Capital** that also took short positions in the same deal.

"Certainly, ACA could have questioned Paulson about its interests if the information was significant to it," Goldman's Wells response to the SEC said.

At ACA, Ms. Schwartz's roles included reviewing and approving securities that would be part of investment pools the firm oversaw. In presentations to investors, she often talked about her extensive experience analyzing residential mortgage-backed securities and ACA's expertise and ability to select mortgage securities, according to people familiar with the matter.

ACA Management managed CDOs put together by several Wall Street firms, including Bear Stearns Cos. (now part of **J.P. Morgan Chase** & Co.) and **UBS** AG, according to records reviewed by The Wall Street Journal. At the end of 2007, ACA Management was overseeing around $19 billion in CDOs, the bulk of them bundles of mortgage-backed or asset-backed securities.

Of about 30 CDOs managed by ACA, more than half were issued during 2006 and 2007, according to the company's financial statements.

Chicago professor finds many fault lines in crisis

[Capital]

By David Wessel

The left has figured out who to blame for the financial crisis: Greedy Wall Street bankers, especially at Goldman Sachs. The right has figured it out, too: It was government's fault, especially Fannie Mae and Freddie Mac.

Raghuram Rajan of the University of Chicago's Booth School of Business says it's more complicated: Fault lines along the tectonic plates of the global economy pushed big government and big finance to a financial earthquake.

One lesson from the crisis: When nine of 10 experts say everything is fine, the press should devote more than 10% of its coverage to those who say it isn't fine. I should have paid more attention to Mr. Rajan, who famously ruined a 2005 Federal Reserve celebration of Alan Greenspan's career by suggesting that big banks might be steering the world economy off the cliff. ("I felt like an early Christian who had wandered into a convention of half-starved lions," he says.)

Mr. Rajan, a Massachusetts Institute of Technology Ph.D., sees the crisis through an unusual lens. He spent his childhood in India, studied electrical engineering there and still advises its government.

He later did a few years as chief economist of the International Monetary Fund. More than most economists, he sees ways in which rich countries behave similarly to poorer ones and sees the roots of the crisis as global.

In a conversation a few days after the government pointed the finger of blame at Goldman Sachs, Mr. Rajan previewed arguments he'll make in a book ("Fault Lines: How Hidden Fractures Still Threaten the World Economy") to be published in July.

"We miss the point if we find a scapegoat in the financial sector. It was doing what so many people wanted. And not many people were asking questions," he says.

To him, this was a Greek tragedy in which traders and bankers, congressmen and subprime borrowers all played their parts until the drama reached the inevitably painful end. (Mr. Rajan plays Cassandra, of course.)

But just when you're about to cast him as a University of Chicago free-market stereotype, he surprises by identifying the widening gap between rich and poor as a big cause of the calamity.

The first Rajan fault line lies in the U.S. As incomes at the top soared, politicians responded to middle-class angst about stagnant wages and insecurity over jobs and health insurance. Since they couldn't easily raise incomes—Mr. Rajan is in the camp that sees better education as the only cure and that takes time—politicians of both parties gave constituents more to spend by fostering an explosion of credit, especially for housing.

This has happened before: Farmers' grievances led to a U.S. government-backed expansion of bank credit in the 1920s; India's state-owned banks pump credit into poor constituencies in election years. But one thing was different: "When easy money pushed by a deep pocketed government comes into contact with the profit motive of a sophisticated, amoral financial sector, a deep fault line develops," Mr. Rajan writes.

House prices shot up, banks borrowed cheaply and heavily to build leveraged mountains of ever more risky mortgage-linked securities.

The second fault line lies in the relentless exporting of many countries. Germany and Japan grew rich by exporting. They built agile export sectors that compete with the world's best, but shielded or strangled domestic industries such as banking and retailing. These industries are uncompetitive and inefficient, and charge high prices that discourage consumer spending.

China and others got to a similar place by a different route. Financial crises in the 1990s showed them the dangers of relying on money flowing from rich countries through local banks to finance factories, office towers and other investment.

So they switched strategies, borrowed less and turned to exporting more to fuel growth. This led them to hold down exchange rates (that makes exports more attractive to others). So doing meant building huge rainy day funds of U.S. dollars.

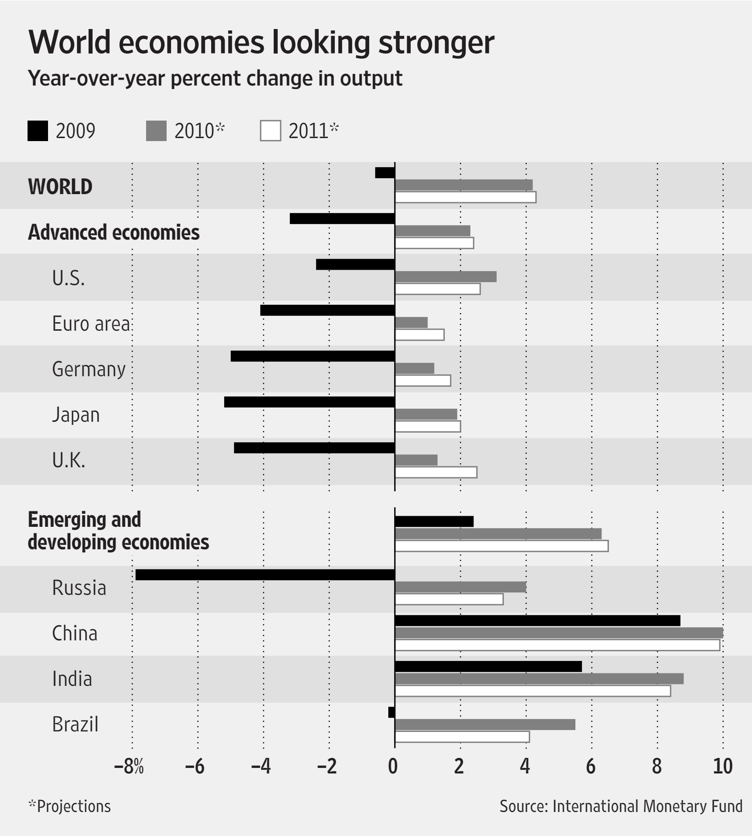
The result: A lot of money abroad looking for a place to go met a lot of demand for borrowing in U.S. A lot of foolish loans were made.

A third Rajan fault line spread the crisis. The U.S. approach to recession-fighting—unemployment insurance and the like—and its social safety net are geared for fast, quick recoveries of the past, not for jobless recoveries now the norm.

That puts pressure on Washington to do something: tax cuts, spending increases and very low interest rates. This leads big finance to assume, consciously or unconsciously, that the government will keep the money flowing and will step in if catastrophe occurs.

Compounded by hubris, envy, greed, short-sighted compensation schemes and follow-the-herd habits, these expectations that the government will save us all leads big finance to borrow cheaply and take ever bigger risks. No democratic government can let ordinary folk suffer when the harshness of the market brings the party to an end, as it inevitable does. Big finance exploits what Mr. Rajan calls this "government decency" and bets accordingly.

If he's right, changing the rules, incentives and innards of major economies to reduce the risks of repeating the recent crisis is *not* going to be easy.



IMF ties currencies to global growth

By Tom Barkley

WASHINGTON—The global economic recovery continues to strengthen, the International Monetary Fund said, but growth in the U.S. and wealthier nations in Europe may depend on a depreciation of their currencies compared to China and other developing countries.

As wealthy nations rein in stimulus spending, "demand may be weak and [as would] net exports," said the IMF's chief economist, Olivier Blanchard. "So this implies in general, an appreciation of emerging market currencies relative to advanced countries' currencies."

Mr. Blanchard had China specifically in mind. The IMF's semi-annual World Economic Outlook, repeated the IMF's view that the Chinese yuan is "substantially" undervalued. Mr. Blanchard said that allowing the yuan to strengthen would help Beijing shift to more domestic-led growth and reduce the chances that the economy would overheat. "An appreciation of the currency, appears highly desirable on its own," he said.

The IMF, U.S. and European nations have long been pressing China to revalue its currency, and Beijing has long resisted the move. But in recent weeks, the U.S. and China have given signals that a small revaluation may be in the works.

Overall, the IMF lifted its forecasts of global growth to 4.2% in 2010, up from the 3.9% projection given in January.

In 2011, the IMF expects growth of 4.3%—a bit slower than average global growth before the financial crisis hit hard in 2007. But the speed of the recovery varies greatly by region.

Developing countries are expected to grow at a 6.3% pace this year and 6.5% next year. As usual, the star performers are expected to be China with growth of 10% this year and 9.9% in 2011, and India, whose growth rates are expected to be 8.8% in 2010, followed by 8.4% next year.

That's a far more rapid clip than what the IMF terms "advanced economies"—essentially the U.S., Europe and Japan—which are projected to grow 2.3% in 2010 and 2.4% next year. In that group, the U.S. is expected to grow 3.1% in 2010 and 2.6% next year, while the 16 euro-zone nations are expected to struggle along at a 1% clip this year and 1.5% next year.

Japan is expected to grow 1.9% this year and 2% in 2011, the IMF said.

Greece's financial woes could damp the outlook for Europe in particular, the IMF said. "In the near term, a risk is that, if unchecked, market concerns about sovereign liquidity and solvency in Greece could turn into a full-blown and contagious sovereign debt crisis," the IMF said.

The fragility of the recovery in most advanced economies suggests that they should continue with already-planned fiscal stimulus measures this year. By next year, the IMF figures that recoveries could become self-sustaining so many countries could begin "significant" reduction in deficits, even as monetary policy remains easy.

The IMF didn't give specific advice about which countries should reduce fiscal stimulus next year—or how deeply.

But the IMF is clearly worried about rising debt levels choking off recoveries by boosting interest rates for governments, banks and other commercial borrowers.

Debt levels in advanced economies are projected to top 100% of gross domestic product in 2014 based on current policies, up 35 percentage points from before the crisis. Bringing that back down below 60% of GDP by 2030 would require budget cuts of eight percentage points of GDP by 2020, and maintaining that level for the next decade.

Withdrawing stimulus, would only accomplish a spending reduction of 1.5 percentage points of GDP. Thus, more drastic fiscal measures are needed, from cutting discretionary spending and broadening the tax base to tackling longer-term entitlement costs, the IMF said.

Credit crisis limits trade

Banks fail to keep up with importers' and exporters' finance needs

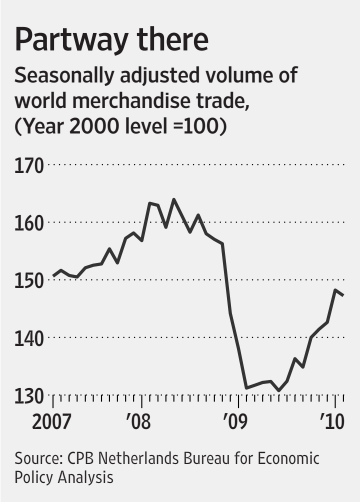
By Andrew Batson

Banks world-wide are still having problems meeting importers' and exporters' need for financing, a new survey by the International Chamber of Commerce shows, a sign that effects of the credit crisis could continue to constrain the recovery in global trade.

The Paris-based business organization, in a report to be published Thursday, documents continued strains in the supply of trade finance, the low-profile combination of credit lines and guarantees that underpins the $15 trillion annual flow of global trade. "Global trade has been very badly affected by the lack of availability of trade finance," Victor Fung, the chairman of the International Chamber of Commerce, said in an interview.

The chamber surveyed 161 banks in 75 countries about trade-finance business. Half the surveyed banks reported they had seen an increase in customer demand for trade finance in 2009, but 27% of those said they were unable to meet all that demand. Another 40% of banks said they cut their trade credit lines for companies last year, mostly because they now have to apply tighter standards to customers.

"We think that because banks have been affected by the crisis, they are pulling back their credit lines, and that has an ongoing and incremental effect on exporters and importers," said David Meynell, director of trade and risk services for Deutsche Bank and a member of the chamber's banking commission.



In recent months, world trade has been bouncing back from the depths it hit during the financial crisis, but remains well below pre-crisis levels. In January, the International Monetary Fund forecast that the volume of world trade in goods and services will grow 5.8% this year after shrinking 12.3% in 2009—a much more optimistic prognosis than a few months earlier.

Whether trade continues to recover ultimately depends on whether consumers around the world start buying more goods that are traded across borders, but the chamber says it wants to ensure there aren't barriers to such a rebound. "We've always feared the recovery would be slow," given the stresses on U.S. consumers, Mr. Fung said.

"Demand is the fundamental issue, but trade finance has got to be there to provide the environment. If we don't take care of it, it could be a huge inhibitor," said Mr. Fung, who as chairman of Hong Kong trading firm Li & Fung Group has been a longtime advocate of free trade.

As with other forms of bank credit in most of the developed world, access to trade finance has gotten somewhat better over the past year but isn't back to pre-crisis levels. Bank lending is still shrinking in the U.S. and Europe, though it has rebounded in China and some other Asian countries.

"Given that 80% to 90% of trade transactions involve some form of credit, insurance or guarantee, one can reasonably say that supply-side-driven shortages of trade finance have a potential to inflict further damages to international trade," Marc Auboin, a counselor at the World Trade Organization, wrote in a paper in December.

The problems have drawn global attention, with institutions such as the International Finance Corp. and Asian Development Bank working to fill gaps in the market.

Iran to begin war exercises and lobby U.N.

By Chip Cummins

DUBAI—Iran said Wednesday its Revolutionary Guard Corps would conduct large-scale air, land and sea exercises in the Persian Gulf and Gulf of Oman, apparently including the strategic Strait of Hormuz, at a time of heightened tensions between Tehran and the West over Iran's nuclear ambitions.

Iran has a history of saber-rattling under pressure. A U.S.-led push has been building steam at the United Nations for fresh economic sanctions against Tehran. Underscoring that threat, President Mahmoud Ahmadinejad and other Iranian officials have mounted what appears to be a public-diplomacy push to thwart the U.N. effort.

The Revolutionary Guard's deputy chief, Brig. Gen. Hossein Salami, said the five-day exercise would begin Thursday, according to Iran's IRIB news agency. He said the exercises were aimed at showing Iran's "strength, will and national resolve to defend independence and territorial integrity."

The Strait of Hormuz, a transit route for about 20% of the world's daily oil supply, is the passageway between Iran and Oman that connects the Persian Gulf and the Gulf of Oman. Iranian commanders have from time to time threatened to obstruct the strait in retaliation for any attack. Oil prices appeared little affected by the announcement.

The Iranian navy and Revolutionary Guard frequently patrol the Persian Gulf. But U.S. and other Western naval officials have long described the Guard's naval units as more erratic than Iran's regular navy. Analysts have worried that provocation from Guard units in the Gulf—which is also heavily patrolled by American and allied warships—could quickly escalate.

"It's the IRGC navy ... that will be more provocative in their maneuvers and in their potential interaction with shipping," said Theodore Karasik, director of research and development at the Dubai-based Institute for Near East & Gulf Military Analysis, a think tank.

The U.S. and many of its Western and Arab allies accuse Iran of pursuing nuclear weapons. Tehran says its program is peaceful.

U.S. President Barack Obama said late last month he hoped to have a sanctions deal within weeks, but talks among Security Council members have been slow, with China continuing to signal ambivalence toward new measures.

In recent days, President Mahmoud Ahmadinejad and other Iranian officials have floated anew a counterproposal to a U.N.-backed draft deal, hammered out last year, for providing nuclear fuel to Iran for use in a medical-research reactor. That deal would have seen Iran sending off the bulk of its lower-enriched nuclear fuel to be upgraded overseas and sent back to Iran.

Iranian negotiators helped draft the deal, but the country's leadership never backed it.

Ali Akbar Salehi, head of Iran's Atomic Energy Organization, said Wednesday that Foreign Minister Manouchehr Mottaki would be reaching out to U.N. Security Council members to discuss the U.S.-led sanctions effort. He said he will also be talking to officials in other countries about a fuel swap, Iranian media reported.

Associated Press

Indian Premier League Chairman Lalit Modi, center, arrives at Mumbai airport Tuesday. He has been subject to a dual investigation into his activities.

Cricket row ensnares mogul

Head of Indian Premier League Lalit Modi expected to face demand for his resignation

By Eric Bellman

MUMBAI—Lalit Modi, one of the most powerful men in cricket, faces an uncertain future at the head of the wildly successful league he launched, as the Indian government and the sport's authorities here seek to put a cap on a scandal that has turned the usually genteel sport into a political football.

In the past five years, Mr. Modi, 46 years old, has gone from being a little-known businessman to the chairman and commissioner of the hugely popular Indian Premier League. The IPL, the brainchild of Mr. Modi, was launched in 2008 and is worth billions of dollars in franchise fees, television sponsorships and ticket sales. It offers a short form of cricket—a roughly three-hour, television-friendly spectacle—that is hugely popular with both sports fans and advertisers.

But his dominance over the short-form version of the sport is being challenged. The Indian government's tax and financial investigation authorities, as well as the governing board of cricket in India, have begun wide-ranging inquiries into how the league has been run. Among the issues that are being investigated by the Board of Control of Cricket in India is whether Mr. Modi could have misappropriated Indian Premier League funds and avoided taxes, one BCCI official said.

Mr. Modi has repeatedly maintained he is innocent and deserves to be at the head of the league that he grew into a multibillion dollar business. Mr. Modi and one of his representatives didn't respond to requests for comment.

"We won't hesitate to take any action against anybody, anytime to protect the image of cricket and the BCCI," Rajiv Shukla, a senior member of the BCCI and a member of the IPL governing council, said Wednesday after meeting with Prime Minister Manmohan Singh.

The BCCI, which oversees the IPL and its governing council, is expected to ask Mr. Modi to resign or give up some of his functions at the head of the league when it meets April 26, the BCCI official said.

Officials from India's income tax department last week visited offices of the IPL in Mumbai and questioned Mr. Modi. The tax probe has been extended to other cities that are home to IPL teams, after Finance Minister Pranab Mukherjee ordered a probe into the sources and use of funds by franchisees of the league in case they involved possible tax evasion or breaches of government regulations.

The investigations into how the IPL is managed by Mr. Modi come after he set off a political firestorm this month by revealing through a Twitter post that a close friend of Shashi Tharoor, then a junior foreign affairs minister, had been given a stake in a new team from the city of Kochi in Kerala, Mr. Tharoor's home state. Mr. Tharoor who had given advice to the winning bidders, quit his post Sunday, saying he is innocent of any wrongdoing.

Using the connections and the capital of his family's **K.K. Modi Group**, a conglomerate, Mr. Modi took an interest in sports and media in the early '90s. He had the idea of creating a cricket league with different teams for different cities. Back then, India was as cricket crazy as it is today, but fans essentially had only the national team to root for.

The BCCI rejected his idea in the mid '90s, so he decided to try to change the sport starting at the state level. He became a member of the Punjab and Rajasthan cricket associations and started to build new connections from there. Along the way, he became close to Sharad Pawar, a powerful politician and then president of the BCCI.

The new league started in 2008 and each city franchise was snapped up by heads of business and Bollywood stars. Today the league has generated more than $4 billion in revenue. Mr. Modi's plan was to eventually make the league bigger than football and baseball.

"Our objective is to be the single largest sporting league in the world, and we have an opportunity to get there," Mr. Modi told The Wall Street Journal last month.

Now, however, he faces a sharp slump in support at the BCCI. Even Mr. Pawar is reported by local media to have begun distancing himself from his protégé. Mr. Pawar, who is also India's agriculture minister, couldn't be reached for comment.

—Arlene Chang, Vibhuti Agarwal and Jonathan Clegg contributed to this article.

Lower attendance forecast for World Cup

By Peter Wonacott

JOHANNESBURG—South Africa should expect about 110,000 fewer visitors for the World Cup than initially expected, a consulting firm said Wednesday, largely because of the poor distribution and high prices of football-match tickets in African countries.

"We expected a lot more people," said Gillian Saunders of Grant Thornton, the accounting and consulting concern that put together a range of economic projections related to this year's World Cup in South Africa. "I think there was a failure of distribution in Africa," she told reporters.

Compared with its estimate in 2008, Grant Thornton has revised down by 77% the number of African ticket holders it expects to visit South Africa for the World Cup, and the number of non-ticket holders from African countries is 15% lower than initial projections. Grant Thornton now expects some 373,000 total visitors, compared with the previous projection of 483,000.

With only 50 days before its start, the World Cup faces challenges drawing spectators—and delivering an economic dividend to its host country, South Africa. Belt-tightening is expected to reduce visitor numbers.

High crime rates also could deter some fans. As well, the volcanic ash that has caused havoc with air travel over Europe now looms over the World Cup.

Yet projected poor attendance from African countries would be a setback for the World Cup hosts. Football's governing body, FIFA, and South Africa's World Cup Organizing Committee heavily promoted the sporting event's debut on the continent, with the hope of attracting Africa's football-crazed fans. The fervor hasn't been reflected in ticket sales, Ms. Saunders says.

Critics say the event's organizers have overlooked the challenge of selling tickets in low-income African countries.

Rich Mkhondo, a spokesman for the World Cup organizing committee in South Africa, says officials are pleased with overall ticket sales.

Grant Thornton still expects a positive economic impact from South Africa hosting the World Cup.