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Contagion fears spread

Beyond Greece | A downgrade on Portuguese bonds added to worries about euro-zone sovereign debt

	EUROPE Stoxx 600 index	GREECE ASE Composite index	ITALY FTSE MIB index	PORTUGAL PSI General index	SPAIN IBEX 35 price index	EURO Vs. dollar
Yesterday's close:	261.65	1696.68	22036.40	2494.56	10480.90	1.3184
Pct. change	-3.1%	-6%	-3.3%	-4.7%	-4.2%	-1.4%

Source: Thomson Reuters Datastream

By Marcus Walker And Stephen Fidler

Greece's credit crisis spread to Portugal after a pair of ratings downgrades on the two countries spooked investors, feeding a sell-off in markets across the globe while dashing Europe's hopes of containing the crisis.

Greece became the first euro zone member to have its credit rating cut to "junk" by Standard & Poor's, a move that will make it difficult for Greece to borrow and likely hamper its recovery. Portugal, which like Greece is struggling to bring its budget deficit under control, suffered a two-notch downgrade that left its investment-grade rating intact but raised further doubts about its outlook.

The euro hit a year-low against the dollar on the news, falling to $1.3222, from $1.3368 late Monday in New York. The pan-European Stoxx Europe 600 index tumbled 3.1%. Bond yields in Greece and some other euro-bloc nations soared, a sign of distress. The yield on Germany's 10-year benchmark fell to 2.99%, moving below 3% for the first time in more than a year, as investors opted for the safety of the euro-zone benchmark. Yields on U.S. Treasurys also dropped.

News of the downgrades comes as investors were already unnerved by signs that a €45 billion ($60 billion) aid package for Greece from the European Union and the International Monetary Fund will be delayed by political infighting in Germany.

European Central Bank President Jean Claude Trichet and IMF Managing Director Dominique Strauss-Kahn are expected to meet with German lawmakers on Wednesday and urge them to act quickly on the EU's aid package.

The shuttle diplomacy illustrates that the EU's previous efforts to calm markets by announcing plans for a rescue have fallen short. Euro-zone leaders are now discussing the possibility of holding a special summit in Brussels on May 10 to activate an aid package for Greece, a spokesman for the Spanish government told Reuters on Tuesday.

A major source of market jitters is the political wrangling over aid for Greece is Germany, which must provide about €8.4 billion of the EU's €30 billion in rescue loans. A solid majority of German voters oppose Chancellor Angela Merkel's commitment to come to Greece's rescue. A number of lawmakers in Ms. Merkel's own center-right coalition as well as opposition parties have also criticized the rescue plan.

Political debate in Germany over the Greek bailout has become particularly heated in recent days because the issue has blown up in the midst of a crucial regional election campaign that could influence the balance of power in Germany's national parliament.

That has led a number of German politicians to berate the government over its handling of the Greek crisis, playing to domestic opinion even in the face of criticism from other EU governments which have accused Germany of unsettling financial markets.

Germany is ultimately expected to contribute to the Greek rescue as EU leaders have agreed, despite the domestic political posturing in Berlin, analysts say.

The opposition Social Democrats have accused Ms. Merkel of being too ready to come to Greece's rescue, while even politicians in Ms. Merkel's center-right camp have complained about the bailout's potential cost for German taxpayers.

Conservative lawmaker Norbert Barthle said Tuesday that banks holding Greek government bonds should contribute to the rescue, rather than only the German state. Banks should forgive some of the money Greece owes them, Mr. Barthle says. Another conservative politician, Hans-Peter Friedrich, said Greece should drop out of the euro zone.

An opinion poll published on Tuesday showed 57% of Germans oppose the planned aid package for Greece, while only 33% support Berlin's pledge to contribute to the bailout.

Ms. Merkel has sought to appease domestic opponents of helping Greece by saying Greece will have to commit to extra budget cutting in coming years in return for aid. Germany's parliament will have to approve the aid package once the final terms have been negotiated.

The German government has invited ECB President Jean-Claude Trichet and IMF head Dominique Strauss-Kahn to visit Berlin Wednesday to brief German lawmakers on the rescue package as part of its efforts to convince Germany's parliament that the aid is necessary to protect the stability of Europe's single currency. Despite their com-

Please turn to page 5

U.S. Senate grills Goldman executives

Current and former **Goldman Sachs Group** Inc. executives Tuesday defended their activities in a highly volatile mortgage-securities market, telling a U.S. Senate panel they did nothing wrong despite deals that caused massive losses for clients invested in the risky mortgage loans.

Restaurants and bars in downtown Manhattan buzzed about Goldman's grilling. The firm's employees huddled around television sets, watching colleagues under fire.

Getty Images

Fabrice Tourre, of Goldman Sachs, before a U.S. Senate panel.

The executives sat before the Senate Permanent Committee on Investigations for hours responding to questions about how the company traded in the mortgage securities market as it was collapsing. Senate investigators say that, contrary to the firm's claims, Goldman Sachs had a clear strategy of shorting the collapsing mortgage market, and made $3.7 billion through the tactic.

"Goldman says these bets were just a reasonable hedge," said the panel's chairman, Carl Levin, a Michigan Democrat. "But internal documents show it was more than a reasonable hedge—it was what one top executive described as 'the big short.'"

Daniel Sparks, former head of Goldman's mortgages department, acknowledged a lot of people were harmed by the economic crisis. But he didn't go so far as to take responsibility for part of the downfall.

"Regret to me means something that you feel that you did wrong, and I don't have that," Mr. Sparks said. "We made mistakes in our business, which any business does, and we made some poor business decisions in hindsight."

In one of the day's key moments, 31-year-old Goldman trader Fabrice Tourre, who is accused of fraud by the Securities and Exchange Commission, categorically denied the charges in his first public appearance since the civil suit.

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U.K. vote and the euro-zone crisis

[Agenda]

By Iain Martin

When David Cameron demanded that Gordon Brown agree to the first-ever televised leaders debates in a British general election, he joked that he would pay for a taxi to take the prime minister to the television studios. He added, not very generously, that he would even offer to drive the taxi himself.

Back then, the Tory leader was desperate to take on Mr. Brown in a televised showdown because he presumed his superior debating skills and youthful style of presentation would make him the clear winner. On the strength of these encounters in the election campaign, his claim to power would be strengthened immeasurably. It hasn't quite worked out that way.

At the time when Mr. Cameron was demanding the debates and poking Mr. Brown with a stick, Nick Clegg's transport arrangements for these events weren't even mentioned. The leader of the third party seemed so insignificant that he could have taken the bus or walked for all Mr. Cameron cared.

Instead, it has been the Liberal Democrat leader who has zoomed past his rival leaders in this fascinating British general-election contest. Given his place on the platform for the first debate almost two weeks ago, his confident performance pushed his party's poll rating up around 10 percentage points higher. They haven't fallen back by much since.

It wasn't just the debates that did this. Cleverly mining a mix of discontent with the political class and concerns about the unfairness of the tax system, Mr. Clegg has presented himself to disillusioned floating voters as a fresh alternative to the two old parties.

Agence France-Presse/Getty Images

Conservative David Cameron (left) and Liberal Democrat Nick Clegg

One of those two parties, the Conservative Party, remains in the lead. But it is stuck down in the low 30s and nowhere near the 40% figure it recorded only recently and needs to achieve on polling day to be assured of a strong working majority.

Meanwhile, Labour seems completely dumbfounded by the turn that events have taken. The party is regularly polling in third place, and, unless it can motivate its core vote, is in its worst position in almost 30 years.

> The traditional British approach is built around two-party politics, with two distinct forces.

What was supposed to be an old-fashioned change election—in which the script dictates that a tired Labour/Conservative government hands off to a new Conservative/Labour government—has been turned into a proper three-way contest in large part by those TV debates.

In these circumstances, Mr. Cameron's decision to push for them, and not realize he was giving Mr. Clegg an opportunity, looks like one of the greatest mistakes in modern political history.

This is no longer an ordinary general election. It isn't just that the rise of a third party makes it more difficult for one of the two old parties to win this particular contest; it ushers in the possibility of permanent change.

If there is a hung Parliament and a widespread enough mood for electoral reform, then the first past the post voting system would probably go following a referendum. After that it would be hard to see a figure such as Margaret Thatcher ever getting to be prime minister again. Coalition builders, not crusaders, would be the order of the day for all time.

Many readers will regard this fixation on first past the post and one-party government as quixotic at best. Doesn't the rest of Europe, and much of the developed world, cope quite happily with proportional representation and coalitions? Indeed, it does.

But as in the U.S., the traditional British approach is built around two-party politics; with two distinct forces, which are actually internal coalitions of interests that unite around loosely defined and competing analyses of human nature and the role of the state.

Mr. Clegg the Liberal rejects this division—seeing some of the answers on the center-left and others on the center-right. He seeks to smash what he sees as restrictive practices and Europeanize Westminster. He may well succeed.

If he polls a high-enough share of the vote, secures a surge in seats, and wins proportional representation in a coalition deal, the old party system would be dead. It would be recast along more European lines, with all three parties fragmenting and being replaced with new forces as yet unnamed.

First, Mr. Clegg has to do well enough on polling day. And standing between now and May 6 is the last of the three leaders debates. On Thursday, the subject is the economy. In theory, this should be relatively straightforward for the Lib Dem leader. He will say, no doubt, that the two old parties have failed legacies of boom and bust. He will add, one suspects, that change is possible, and ill-defined fairness too, if only enough voters believe.

But Mr. Cameron has just been dealt a potential ace by the markets. It will be interesting to see if he realizes this and works out a way of playing it in a way that voters understand.

The worsening crisis in the euro zone has attracted very little attention in the general election, thus far. After all, the U.K. isn't a member.

However, the growing crisis is at root about large debts and the markets demanding that states start taking serious action. When Mr. Brown says that there is no imperative to makes cuts, Mr. Cameron can point to what is going on in the euro zone and say with some force that here is a clear warning from next door. Britain isn't yet in line for the ire of investors; it might be sooner than one thinks if action isn't taken this day.

Meanwhile, Mr. Clegg wants to join the euro—putting him in an interesting position Thursday night.

The Lib Dem leader—a former member of the Brussels federalist elite—is extremely close to achieving historic change at Westminster. But he isn't quite there yet. How ironic if his bandwagon was stopped by a resurgent Mr. Cameron pointing to the imploding euro.

What's News

■ **BP defended its handling** of the oil spill in the Gulf of Mexico, while documents showed it was one of several companies that opposed efforts to tighten safety procedures offshore. Separately, the oil giant said first-quarter earnings more than doubled to $6.1 billion. 9

■ **U.S. lawmakers seemed** unlikely to break a stalemate on financial-overhaul legislation ahead of a politically charged test vote. 22

■ **The EU outlined** measures to help support airlines and improve coordination following the chaos from volcanic ash that grounded flights. 8

■ **Deutsche Bank's earnings** rose 49%, helped by record profit at its corporate- and investment-banking unit and fewer write-downs. 25

■ **Ukraine's parliament** ratified a deal to extend the Russian Black Sea Fleet's lease in a raucous session marked by fistfights and thrown eggs. 6

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Real Time Brussels

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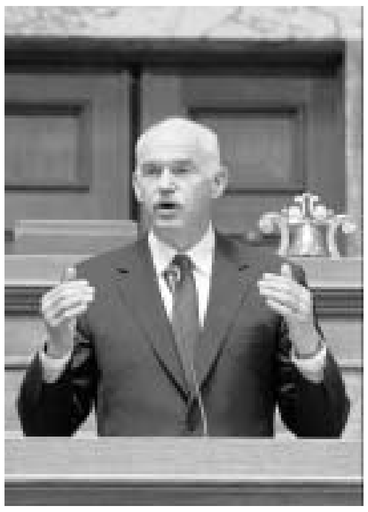
"Triple-A sovereign ratings may in the not-too-distant future be found only in the history books."

Citigroup's **Willem Buiter** says the end of top-rated sovereign credit is nigh

Continuing coverage



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Question of the day

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

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

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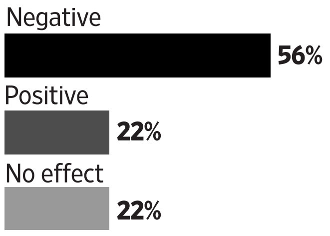

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NEWS

Pakistan defends football industry

By Tom Wright

A worker at a Forward Group factory in Sialkot, Pakistan stitches panels together for a traditional football..

SIALKOT, Pakistan—This is the city the football built, a global manufacturing hub in a nation starved for foreign capital and mired in terrorist violence.

Nike Inc., the official soccer ball supplier to Britain's Premier League, gets balls here. So does Denmark's **Select Sport** A/S, which sells to the Danish national league and clubs across Europe. The city exports 30 million balls a year, or about 70% of the global output of hand-stitched balls, and an estimated 40% of the total market.

This summer's World Cup is Sialkot's latest win. Germany's **Adidas Group**, licensed to sell the official World Cup ball, has contracted with a company here to produce the entire supply of mass-market hand-stitched replicas of the "Jabulani" World Cup ball.

But Sialkot's hand-stitched balls face competition from machine-made and machine-glued balls produced in China. Indeed, the balls used in actual World Cup matches this summer, made by hand in Sialkot in previous years, are being produced in China by machine.

A Sialkot-produced ball has 32 panels that are stitched together, while the Jabulani World Cup ball made in China for the matches has eight thermally bonded pieces. The Jabulani retails for about $150; the replica can sell for as little as $25.

Sialkot became a stitching center for soccer balls during the British colonial era. In the 1970s, European football makers, including Adidas, moved their production to the city to avoid rising labor costs at home. The city's workers, stitching balls by hand in dusty villages, made their first World Cup balls for the 1982 tournament in Spain.

Adidas contracted with Sialkot's **Forward Group** to make the replica World Cup balls. Forward Group expects to ship six million balls this year, up 40% from 2009.

But even with its Adidas contract, Forward Group faces big challenges. It has to run its own electric generators because of daily nationwide power shortages. The roads to Sialkot, in eastern Pakistan, are rutted. And foreign sports executives remain reluctant to visit because of the terrorism threat.

Adidas made the decision to switch to thermally bonded balls for the matches at the 2006 World Cup. The goal was to make the balls perform more consistently. With a hand-stitched ball the seams produce dead spots. Initially, Adidas made those balls in Thailand before switching production to China ahead of the 2010 competition.

In recent years, China has also taken over most of the production of World Cup promotional balls, a lucrative market of about 40 million little balls emblazoned with sponsors' logos, says Khurram Anwar Khawaja, a soccer-ball producer and former president of the Sialkot Chamber of Commerce and Industry.

Sialkot has also lost a big share of midprice mass-market balls to China, which began producing cheaper machine-stitched balls a decade ago.

Forward Group and the other makers here are determined to defend their turf. They have cut costs by automating many parts of ball production. Local businessmen joined together to build an international airport in 2008 after the government failed to do so.

Now, the football makers are planning to set up a research center to develop their own version of the latest thermal-bonding technology that Adidas is using for World Cup match balls, a process that involves fusing together patches of synthetic "leather" by machine.

Two years ago, Adidas transferred its proprietary technology to Forward Group, which has been making small amounts of thermal-bonded balls. Recently, the company successfully lobbied Adidas for permission to use the technology to produce balls for the UEFA Champions League final next month in Madrid, one of the biggest events on the global soccer calendar.

"It was hard to persuade Adidas to let us make this ball here," says Khawaja Masood Akhtar, Forward Group's chairman, who is trying to bring back the production of World Cup match balls to Sialkot. "We're 100% sure we can do it. Don't cry. Stand up and do the job."

Most producers here believe that for now, the hand-stitched market will continue to attract football clubs and other consumers seeking high-quality match and practice balls, especially because thermally bonded balls remain so expensive.

And there's no question that despite the challenge from China and the preference of most of Sialkot's three million inhabitants for cricket, the area's economy is still dominated by football.

A huge statue of a soccer ball graces the city's main traffic circle. The industry directly employs 70,000 people—many of them in village-based stitching centers—and accounts for about a fifth of Sialkot's $1.25 billion in exports.

But hand-stitched balls are increasingly unable to compete in the cheaper market segment. A machine in China can produce 36 balls a day, while a Sialkot worker makes an average of six balls by hand in the same period, Sialkot's exporters say.

By the end of the year, Mr. Akhtar says, he'll start making machine-stitched balls to compete with China for sales of cheaper balls.

Massimo Berruti/AgenceVU for the Wall Street Journal (2)

Engineers test handmade footballs at a Forward Sport's factory.

EUROPE'S DEBT CRISIS

Bloomberg News

Jean-Claude Trichet, president of the European Central Bank, spoke in New York on Monday. The ECB's balance sheet is at risk amid Greece's sovereign-debt crisis.

Greek crisis poses ECB risk

A default would cost the central bank, which holds sovereign debt as collateral for loans

By Brian Blackstone

FRANKFURT—The European Central Bank is struggling to limit the fallout from Greece's debt crisis on European financial institutions as it confronts a fresh problem closer to home: its own balance sheet.

Greek and other European banks likely have posted billions of euros in Greek government bonds and other securities as collateral for ECB loans. The central bank, which has largely replaced the private market as a source of funding for Greece, could face losses on its loan portfolio if Greek financial institutions fail and Athens defaults, analysts say.

That, in turn, could further dent confidence in the euro as well as investors' faith in the ECB's ability to manage the crisis.

"They need to protect their balance sheet" by demanding more collateral if necessary, "but the shock that this would send would amplify the pressure to the [Greek] banks," says Jacques Cailloux, an economist at Royal Bank of Scotland.

The ECB, which doesn't disclose how much Greek government debt it has accepted as collateral, has proved nimble in adjusting its rules in recent months. Many ECB watchers say it would find a way to keep credit flowing to Greek banks even if Athens edges closer to default, by further easing its collateral rules or going back to longer-term financing for banks.

Greek banks aren't the only ones at risk. French banks have nearly $80 billion in exposure to Greece, followed by Germany at $45 billion, according to the Bank for International Settlements. Within Germany, **Hypo Real Estate** has the largest exposure at €9.1 billion. **Commerzbank** holds €4.6 billion in Greek bonds, according to Germany's bank regulator, while public-sector banks known as Landesbanken hold billions of euros in Greek bonds.

Under ECB rules, if the collateral a bank posts for a loan loses value, the borrowing institution may be required to post more collateral. Such a demand by the ECB could exert even more stress on the weakest banks the ECB is trying to protect, however, raising questions as to whether it would take such a step in an extreme case.

The ECB faced this issue in 2008, when a subsidiary of Lehman Brothers and units of Icelandic Banks that had borrowed from the ECB defaulted. ECB claims on those banks totaled more than €10 billion ($13.4 billion), and it remains unclear how much of that the ECB will eventually recoup.

Investors are increasingly worried that even if Athens secures enough help from the EU and the International Monetary Fund to stay afloat for the next few months, some form of default and debt restructuring is inevitable due to a lethal mix of recession, social turmoil and lack of competitiveness.

Standard & Poor's cut Athens' debt rating again Tuesday, pushing it below the ECB's already relaxed investment-grade minimum, although its debt is still safe because other agencies are still above the threshold. S&P also cut Portugal's debt rating, which remains higher than Greece's but reflects the risk of contagion through Europe's periphery.

An ECB spokesman declined to comment about the bank's balance sheet beyond what it said last year about the Lehman and Iceland bank subsidiary defaults. ECB President Jean-Claude Trichet on Tuesday called a Greek default "out of the question."

The ECB's relaxed collateral rules, in place since the financial crisis intensified in 2008, have been a lifeline to Greek banks by allowing them to turn some of their government bond holdings—which have been increasingly shunned in the financial markets—into cheap ECB loans. Greek banks had about €68 billion in ECB funding at the end of March, about 14% to 15% of their total assets, according to Moody's.

"Effectively, there has been a shift away from market and interbank funding to ECB funding," says Constantinos Kypreos, lead analyst for Greek banks at Moody's Investors Service.

Many experts credit the ECB with preventing Greece's fiscal crisis from spreading to the entire European banking system. But the lifeline has its limits.

Unlike the ECB's €60 billion covered-bond purchase program, and much larger asset-purchase programs instituted at the height of the crisis by the Federal Reserve and Bank of England, the ECB doesn't remove government bonds and other troubled assets off bank balance sheets. "It's only a short-term fix, the risk stays on your balance sheet" Mr. Cailloux says.

Citigroup chief economist Willem Buiter, a former Bank of England official, still sees a risk for the ECB. As the value of Greek debt declines, so does its mark-to-market value as collateral posted at the ECB for loans. If the ECB asks for additional assets to make up the difference—in essence a margin call—then Greek banks could find themselves without sufficient backing to obtain ECB credit. If markets refuse to finance Greek debt, leaving Athens dependent on EU and IMF aid to perform its functions, then the ECB "could end up with large mark-to-market losses on its loan portfolio," Mr. Buiter wrote in a research note Tuesday.

According to the ECB, there was roughly €13 trillion in possible collateral in European financial markets last year. Eligible assets include asset-backed securities, corporate bonds, bank bonds, government securities and other securities. Of that, banks posted €2 trillion in collateral, double the peak in loans outstanding. The ECB is set to auction three-month loans Wednesday.

More than €200 billion in collateral put forward to the ECB last year was in the form of government bonds. The ECB doesn't provide a breakdown by country.

Default worries have intensified in recent days as European governments rush to come up with their €30 billion share of a joint EU and IMF aid package that would total €45 billion this year. Athens has to repay about €8.5 billion on May 19, which it doesn't have now. With yields on 10-year Greek debt approaching 10%, it appears highly unlikely that Greece would be able to issue new debt without having to pay ruinous interest rates.

Investors widely expect eurozone governments, including the largest donor, Germany, and the IMF to agree to terms with Greece by early May and make loans available soon after.

The ECB wasn't supposed to be in this situation so soon. On April 8, ECB President Trichet said the ECB would keep its relaxed collateral rules into 2011.

But in the past three weeks, concerns over insolvency and default "have leapfrogged" collateral eligibility as a top worry, says Marco Annunziata, chief economist at lender UniCredit Group.

Consumer confidence remains fragile

By Roman Kessler

FRANKFURT—Consumer confidence in the euro zone remains fragile amid high unemployment and plans for fiscal austerity, raising questions about whether households will contribute to the recovery, new data showed.

French consumption is one of the cornerstones of growth in the euro zone's economy, along with German export growth. But so far, French consumers aren't cooperating.

French consumer confidence for April dropped to minus 37 from minus 34 in March, data from national statistics office Insee showed.

Natacha Valla, European economist at Goldman Sachs in Paris, said any slip in retail consumption is "unfortunate" for the 330-million-person bloc at a time when the economic recovery is gaining pace.

"This pessimism is a particularly bad omen: household consumption has been weakening in the first quarter," Xerfi Chief Economist Alexander Law said. He added that nothing currently points to positive trends in French consumption for the remainder of the year.

French consumer confidence for April dropped to minus 37 from minus 34 in March. Any slip in retail consumption is 'unfortunate,' a Goldman Sachs economist says.

In Germany, the situation looked better. German market-research group GfK's forward-looking consumer-climate index for May rose unexpectedly to 3.8 points from an upwardly revised April reading of 3.4 points. "The signals for a recovery have become stronger," GfK said, and "consumers feel them more clearly, as reflected in their higher economic expectations."

However, Germans' willingness to make big-ticket purchases continued to decline in April.

In Italy, consumer sentiment brightened somewhat. Italian consumer confidence in April rose to 107.9 from 106.3 in March, state-funded think tank ISAE's monthly survey showed.

"Italian households are also expected to remain cautious given that Italy faces a prolonged period of austerity as the government addresses its excessively high public debt level," said economist Raj Badiani at IHS Global Insight.

Data on securities backed by assets such as car leases and mortgages suggest that consumers remain under pressure, though Fitch Ratings said on Tuesday that the figures show signs of stabilization in some countries after a rough patch.

Fitch is less optimistic about Greece and Italy, where the ratings agency reported more delinquencies and therefore a higher potential for defaults.

—Christopher Emsden in Rome and Geraldine Amiel in Paris contributed to this article.

EUROPE'S DEBT CRISIS

Spain says deficit plan is on track

Tax revenue rises as economy shows signs of stabilizing, but payments for unemployment insurance stoke concerns

By Jonathan House

MADRID—The Spanish government said its tax revenue has started to recover and its plans to cut its large budget deficit remain on track, but concern continued to rise over the country's large payments for unemployment insurance.

Amid mounting concerns that other highly indebted countries could face a Greece-style crisis, Spanish tax revenue rose 0.8% from a year earlier in the first quarter—its first rise in two years. The rise came after the government phased out tax breaks and as the economy showed signs of stabilizing.

At the same time, the rise in spending eased to 13% in the first quarter from 16% in the year-earlier period. The government had a first-quarter budget deficit—not including social security or regional administrations—of 0.85% of gross domestic product.

"The forecasts we have for public-sector accounts are being met," said Carlos Ocana, deputy finance minister for the budget.

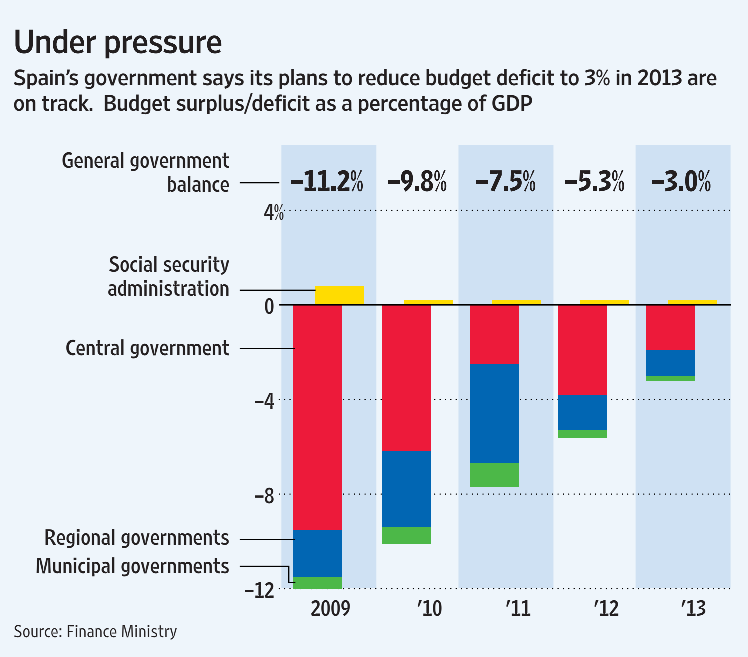
Spain is grappling with the collapse of a decadelong construction boom that has pushed its economy into a deep recession and its public-sector accounts deep into the red. It had a budget deficit equal to 11.2% of GDP in 2009; the European Union has given it until 2013 to lower that figure to its 3% limit.

Shaken by the extent of debt problems in Greece, investors are putting further pressure on big-deficit countries like Spain and Portugal to get their fiscal houses in order by selling off these countries' stocks and bonds. The sales—which make it more expensive for Spain's government, companies and households to get financing—have intensified in recent days after Greece started talks with officials from the EU and the International Monetary Fund over a bailout package.

Mr. Ocana said the government is following with "close attention" the contagion of Greece's financial problems and said he hoped a quick agreement on Greece's support package would calm markets.

He said Spain is pushing forward with its plans to slash its own budget deficit. He said the government will provide "in the coming weeks" additional details on its cost-cutting plans. He said the government also has to follow through with a promised labor-market overhaul and to present next month its proposed spending limit for 2011.

Separately, a leaked unemployment report from Spain's National Statistics Institute said the country's unemployment rate breached the 20% level in the first quarter, indicating that one of the government's biggest expenses—unemployment benefits—will continue rising.



Greek contagion fears spread across markets

Continued from first page

plaints, lawmakers in Berlin aren't expected to derail the rescue.

Negotiations between Greece, the EU and the IMF are due to be completed by May 2, allowing EU leaders and the IMF to vote on the plan on May 10, according to a German government paper addressed to Germany's parliament and shown to reporters Tuesday.

That timetable would allow Greece to receive loans before May 19, when the indebted country faces large debt repayments.

Portugal is a lesser concern for other euro-zone economies than Greece because it has less government debt.

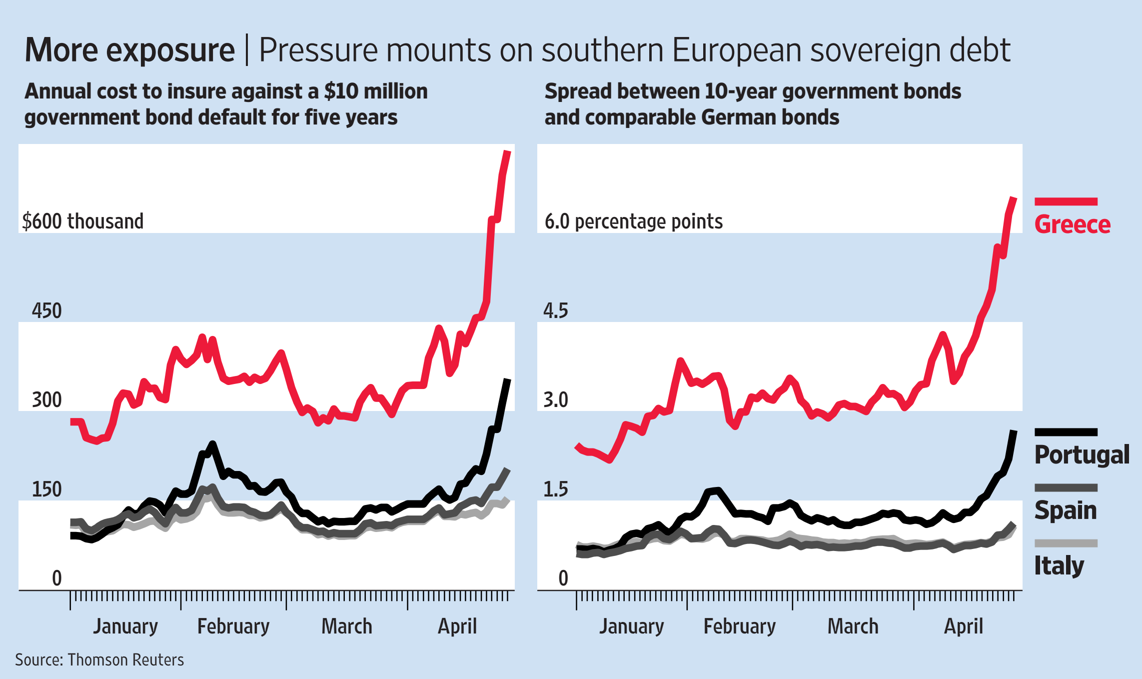
The Standard & Poor's report suggests the ratings agencies are now beginning to reflect concerns that have grown in financial markets over the last week—that the Greece bailout won't be enough to stave off a restructuring of Greece's government bond debt. The rating agency also released pessimistic forecasts for Greece's growth prospects, suggesting there will be no real growth in the economy for eight years from 2009.

Analysts said they expect other ratings agencies also to downgrade Greece, but not as sharply as S&P.

But the S&P downgrade increases Greece's difficulties in returning to the bond markets to raise money at low interest rates, because investors demand higher yields on bonds rated as junk. The difficulty of raising market finance increases the chances of a default or of further bailouts by euro-zone governments.

Portugal's downgrade was a sign that sovereign-debt concerns could transmit from one euro-zone economy to another. The downgrade triggered a sharp rise in Portuguese bond yields, but analysts said there were very few bonds traded at those levels. Portugal is a lesser concern for other euro-zone economies than Greece because it has less government debt, and smaller amounts of it are held by banks in the euro-zone. Analysts said about €90 billion ($120 billion) of Portugal's €125 billion of public debt is held abroad, compared with some €240 billion of Greek government debt, most of which is held by banks and insurance companies.

Portugal's budget deficit is the lowest of any country on the euro zone's vulnerable fringe, a group that also includes Ireland, Greece and Spain, at 9.4% of GDP. It was under the EU's 3% limit in 2008. Government spending comprised 51% of GDP last year. Its outstanding government debt, at €126 billion, is equal to 77% of GDP. By comparison, Greece has €273 billion in debt, 115% of its GDP.



One prominent economist Tuesday expressed surprise at the focus on euro-zone economies because, he said, other countries such as the U.S., UK, and Japan were laboring under equal or greater debt burdens. Willem Buiter, chief economist at Citigroup and a former member of the Monetary Policy Committee at the Bank of England, said a triple-A sovereign rating may soon be a thing of the past unless governments start tightening their belts very soon.

"Unless the U.S., the U.K., France, Japan (currently AA rated) and even Germany change course quite radically and sooner rather than later towards a sustained higher degree of fiscal tightening, there may not be a single AAA-rate sovereign left five years from now," he said in a research report.

Portugal's growth is by far the slowest in Europe's periphery over the last 10 years. It averaged just 0.8% growth per year from 2002 to 2008—well below Europe's average and significantly under Greece's nearly 4% average.

Like Greece, Portugal has a double-digit current account deficit—10% of GDP in 2009. Its unemployment rate is 10.3%; slightly above the euro zone average of 10%. Youth unemployment is 21%, which is also above the euro zone average.

Portugal's 0.6% annual inflation was less than half the euro zone's 1.4% average as of March.

—Brian Blackstone contributed to this article.

German vote has influence on crisis-relief efforts

By Marcus Walker

BERLIN—An election on May 9 in Germany's most populous state is complicating Europe's attempt to resolve the Greek debt crisis quickly.

The election in the state of North Rhine-Westphalia could shift the balance of power in German politics, hampering the domestic political goals of Chancellor Angela Merkel's center-right coalition.

Defeat in the regional poll could rob Ms. Merkel's conservative-led camp of its slim majority in Germany's upper house of parliament, where Germany's 16 states are represented. Such an outcome would make it significantly harder for the national government to achieve some of its main ambitions, including tax cuts and an overhaul of health-care funding.

Politicians from all parties, aware that a large majority of German voters oppose bailouts for other European Union countries, have taken to bashing Greece in recent days, with some lawmakers saying Greece should be forced to leave the euro and that Greece's creditors should bear the cost of a rescue. Such comments have helped unsettle financial markets in the past week.

The election campaign in North Rhine-Westphalia has centered on domestic issues such as jobs, education and the appeal of local candidates, and opinion pollsters say Greece hasn't been a major factor in the contest. That could change as controversy mounts about Ms. Merkel's pledge of aid for Greece.

Most Germans say they believe Greece is in trouble because of its own profligacy and that German taxpayers shouldn't pay the price—especially at a time when German authorities are strapped for cash to maintain roads, schools and other public services.

Ms. Merkel has been acutely aware of the potential for a voter backlash if she is seen as putting German taxpayers' money at risk, say aides to the chancellor.

Her Free Democrat partners are having particular difficulty in justifying aid for Greece to their supporters.

Reuters; Agence France-Presse/Getty Images: Associated Press

Parliament Speaker Lytvyn is defended from eggs thrown by opponents of Ukraine's plan to extend Russia's Black Sea Fleet lease; Kiev lawmakers, center, and protesters outside clashed over the deal.

Brawl marks Kiev's approval of fleet

Lawmakers throw eggs, narrowly approve new Russian naval-base lease; Yanukovych says famine wasn't genocide

By James Marson
And Richard Boudreaux

KIEV, Ukraine—In a raucous session marked by fistfights, smoke bombs and a volley of thrown eggs, Ukraine's parliament on Tuesday ratified an agreement to extend the Russian Black Sea Fleet's lease in a Ukrainian port until 2042.

The brawl bared the bitter divisions over resurgent Russian influence in this former Soviet republic under its new Moscow-friendly leadership. The agreement between the two countries' presidents won 236 votes in the 450-seat parliament, overturning the previous government's position that the Russians must leave when the current lease on their Black Sea naval base in Sevastopol expires in 2017.

Later, President Viktor Yanukovych reversed another cherished nationalist position in comments on a 1930s Stalin-era forced famine that killed millions of people, largely in Ukraine. Mr. Yanukovych said the famine shouldn't be considered genocide against Ukrainians, a designation sought by his predecessor, because it targeted its victims indiscriminately.

Mr. Yanukovych and his allies say the overtures to Moscow, which sees Ukraine as part of its sphere of influence, are paying off. The lease accord was announced last week as a trade-off that will give Ukraine's beleaguered economy billions of dollars in discounts on imported Russian gas.

"There is no alternative," Prime Minister Mykola Azarov said as parliament convened to vote on the fleet deal. "Ratification means a lower price for gas," he said, and that will enable Ukraine's government to adopt a budget for this year. "And the budget means agreement with the International Monetary Fund, the possibility of getting investments."

Russia's Black Sea Fleet, stationed since the 18th century on the Crimean peninsula in what is now Ukraine, is a looming reminder for Ukrainian nationalists of the Kremlin's continued influence since Ukraine gained independence in 1991. Opposition lawmakers unfurled large Ukrainian flags over their seats Tuesday along with a banner reading: "We will not allow Ukraine to be sold. No to treason!"

Two smoke bombs went off, filling the hall with a thick haze and setting off smoke alarms. One lawmaker suffered a concussion in the ensuing fisticuffs. Lawmakers covered their faces with handkerchiefs as they voted.

Parliament speaker Volodymyr Lytvyn announced the vote tally after taking shelter under two black umbrellas hoisted by aides to fend off a rain of eggs. Then, without debate, the lawmakers adopted the 2010 budget.

Thousands of protesters gathered outside the parliament building, and scuffles broke out with police. Former Prime Minister Yulia Tymoshenko, the main opposition leader, called the agreement "a black page in the history of Ukraine." She urged opposition parties to push for new parliamentary elections.

In Moscow, Russia's parliament ratified the base agreement Tuesday by a unanimous vote. A few lawmakers abstained, warning that nationalists could return to power in Ukraine and overturn the deal.

The agreement gives Ukraine a waiver on import duties for Russian gas until 2019, a discount of about 30% on its gas bills. Russian Prime Minister Vladimir Putin said Monday the waiver would cost the Russian treasury about $3 billion this year and $4 billion next year.

"For us it is not just a question of money but a question of cooperation with Ukraine," Mr. Putin said after a meeting with his Ukrainian counterpart. He said he had made an offer to merge the two countries' nuclear-energy sectors and discussed cooperation in aviation and shipbuilding.

Mr. Yanukovych was elected in February on a pledge to improve relations with Russia, which had been strained by attempts by his predecessor, Viktor Yushchenko, to take Ukraine into the North Atlantic Treaty Organization and diminish Moscow's influence. The new president has declared Ukraine a "nonbloc" state and ended moves toward the alliance.

He announced Ukraine's shift on the genocide question Tuesday while speaking on a range of issues in Strasbourg, France. Addressing the Council of Europe, he called the 1930s famine "a shared tragedy" of all people who were part of the Soviet Union.

Russia seeks WTO

By John W. Miller

Russia will revive its bid to join the World Trade Organization on its own rather than as part of a regional group, removing a major obstacle to membership for the largest country outside the bloc.

Moscow had been asking to join the WTO as part of a customs union with former Soviet republics Kazakhstan and Belarus. WTO officials said that would have been impossible, and the approach was seen as a ploy to avoid membership.

"Russia will formalize its membership on its own," Deputy Prime Minister Igor Shuvalov told reporters in Washington on Monday, according to the official ITAR-TASS news agency. "It will be good for everyone if Russia becomes a WTO member before we create a common market with Kazakhstan and Belarus."

The shift to solo pursuit of membership suggests leaders are changing their stance in the belief that belonging to the WTO would attract more foreign investment. "It would give foreign investors the reassurance that they can seek a remedy in a court of law if they're not treated right," Mr. Shuvalov told reporters in Brussels this month.

WTO staff in Geneva say Russia's change in position means it now has a chance of joining before the end of the year.

U.S. Undersecretary of State William Burns said recently that the U.S. would support a Russian WTO bid.

Russia is the only major economy outside the 153-member WTO. It first applied for accession in 1993.

Noriega arrives in France

By David Gauthier-Villars

PARIS—Manuel Noriega, the former leader of Panama who has spent the past two decades in a U.S. prison, landed in France on Tuesday to face another trial on charges of laundering drug money.

On his arrival from Miami, Fla., the 76-year-old was transferred to a Paris court where a judge ordered him kept in custody, pending trial.

Mr. Noriega denies the money-laundering charges. His French lawyers contested the conditions of his extradition to France, saying that, under several international conventions, Mr. Noriega should benefit from the judicial immunity granted to former heads of state.

His lawyers said they would appeal the decision to keep Mr. Noriega behind bars, saying their client has no intention of fleeing. They also raised the issue of Mr. Noriega's lodging while in detention, saying that since he had the status of a prisoner of war in the U.S., he should be treated "not like a prisoner but as well as a French general would."

France's Justice Ministry said a technical hearing was scheduled for May 12 to prepare for the trial, which could take place this summer.

Agence France-Presse/Getty Images

Gen. Manuel Noriega, shown in 1989

Mr. Noriega, who ruled Panama from 1981 to 1989, was found guilty of money laundering and condemned to 10 years in prison by a French court in 1999. But he didn't attend the 1999 trial because he was serving a 40-year prison sentence in the U.S. resulting from a 1992 conviction in Miami federal court on charges of racketeering, money laundering and drug dealing.

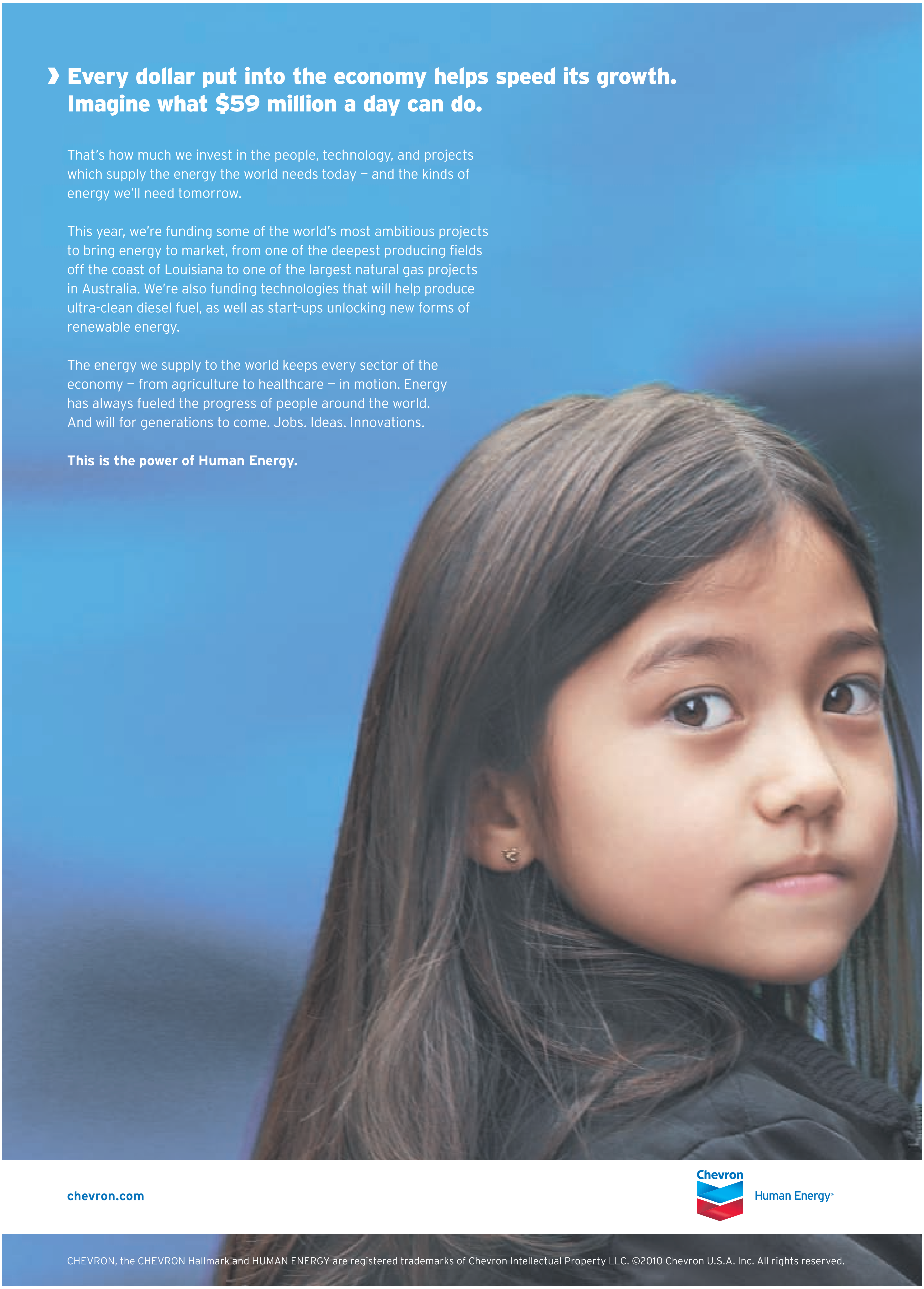
Mr. Noriega's time in prison was reduced for good behavior, and a U.S. federal judge in Miami ruled that the former Panama leader could be extradited to France.

France wants to try Mr. Noriega again, this time in his presence.

In their 1999 verdict, French judges said Mr. Noriega had amassed millions of dollars in French bank accounts. Investigating magistrates had traced the origin of some of the funds to Colombian drug cartels. Mr. Noriega, who has denied the money-laundering charges, has said funds found on his accounts were payments made by the U.S. Central Intelligence Agency and inheritances from relatives.

When he rose to power in the early 1980s, Mr. Noriega was seen as a close ally of the U.S. and of Western efforts to contain Soviet Union influence in Latin America.

During his tenure, the U.S. grew concerned that Panama was becoming a financial and logistic hub for drug trafficking between Colombia's cocaine producers and American consumers. In December 1989, following an order by then-President George H.W. Bush, U.S. troops invaded Panama, toppled Mr. Noriega and took him to the U.S.


❯ Every dollar put into the economy helps speed its growth.
Imagine what $59 million a day can do.
That's how much we invest in the people, technology, and projects which supply the energy the world needs today – and the kinds of energy we'll need tomorrow.
This year, we're funding some of the world's most ambitious projects to bring energy to market, from one of the deepest producing fields off the coast of Louisiana to one of the largest natural gas projects in Australia. We're also funding technologies that will help produce ultra-clean diesel fuel, as well as start-ups unlocking new forms of renewable energy.
The energy we supply to the world keeps every sector of the economy – from agriculture to healthcare – in motion. Energy has always fueled the progress of people around the world. And will for generations to come. Jobs. Ideas. Innovations.
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Getty Images

David Cameron, left, is questioned about the Tories' policy on education facilities for disabled children Tuesday in London.

U.K. parties are urged to detail spending cuts

By Laurence Norman
And Natasha Brereton

LONDON—A leading economic think tank on Tuesday criticized the U.K.'s three main political parties for a lack of candor in spelling out huge spending cuts they have pledged to deliver.

U.K. Election 2010
WSJ.com/UKElection

The Institute for Fiscal Studies said the main parties will need to find spending cuts of between £42.7 billion and £59.4 billion ($66 billion to $91.8 billion) over the next five years to meet their deficit-reduction targets following the May 6 general elections.

"For the voters to be able to make an informed choice in this election, the parties need to explain clearly how they would go about" sorting out the public finances, said IFS Director Robert Chote. "Unfortunately, they have not."

The parties' plans to cut the deficit have played a central role in the election campaign. The U.K.'s deficit was about 12% of gross domestic product in the year ended in early April.

Labour has pledged to halve the deficit over four years and has criticized the Conservative Party's plan to cut the deficit faster and further, saying it would risk the fragile economic recovery.

The Conservatives plan to eliminate the bulk of the structural deficit by 2015, while the Liberal Democrats aim to halve the structural deficit over the next four years.

The IFS said Labour's manifesto shows the party needs to find annual savings of £47 billion by the year ending in early April 2015. The corresponding figure for the Conservatives is £59.4 billion, as it has pledged to place less emphasis on tax increases to balance the books. The Liberal Democrats would need to find £42.7 billion in annual spending cuts by 2014-15, the IFS said.

Factoring in various protected spending areas that Labour and the Conservatives have outlined, that means double-digit spending cuts for unprotected government departments over the coming years.

The Liberal Democrats have given the most detail on proposed spending cuts, the IFS said, but all three main parties have yet to explain where most of these cuts would fall.

"There are large gaps in all three of their plans," said IFS economist Gemma Tetlow.

Labour has detailed only around 13% of the party's planned savings; the Conservatives have spelled out 17.7% of their savings; and the Liberal Democrats have accounted for 25.9% of their cuts, the IFS said.

The IFS doesn't count billions of pounds in promised public-sector efficiency savings promised by each of the parties as detailed savings.

The spending cuts required from Labour and the Liberal Democrats would be the largest needed by any U.K. government since the 1970s, the think tank said. The Conservative cuts would need to be the deepest in any five-year period since World War II.

Both the Conservatives and Labour would need to implement further tax increases to meet their deficit-reduction goals, the IFS said. Labour may need to impose £7 billion in extra duties in 2015 and 2016, the IFS said. The Conservatives would need to introduce £3 billion in tax increases, the institute said.

The Conservatives denied their plans required a tax increase.

Under all three parties, the ratio of net debt to GDP will remain above 70% in 2013-14 and is unlikely to fall below 40% of GDP for at least 20 years, regardless of who wins the May 6 general election, the IFS said.

The institute's calculations were released as Labour and the Conservatives sparred over the impact of a hung Parliament, where no party commands a parliamentary majority.

The Tories have warned that could result in "economic paralysis" and force another election within a year.

A YouGov poll for the Sun, released late Tuesday, put Labour back in second place, showing the Conservatives with 33%, Labour with 29% and the Liberal Democrats with 28%. A ComRes poll Tuesday night gave the Conservatives 33% of the vote, the Liberal Democrats 29%, and Labour 29%.

"I think that markets have pretty well discounted" whatever the result might be, Business Secretary Peter Mandelson, who is co-chairing Labour's election campaign, said Tuesday. Investors know that in "our system," whatever the outcome, there will "sensible, stable ... grown-up politics," he added.

The head of one of the U.K.'s main business-lobby groups also played down Conservative claims that a hung Parliament would necessarily lead to economic devastation, saying a coalition government could work well if properly handled.

"I don't think it's as simple as saying that hung Parliament and coalition is automatically bad," said Miles Templeman, the director-general of the Institute of Directors. "It's how it's done and the decisive way that government or whatever form it takes acts."

Views on the impact of a hung Parliament on sterling are divided, with some analysts seeing it as a source of potential currency weakness.

Defying those concerns, sterling has climbed in recent weeks, just as the risk of an inconclusive election result has risen, suggesting that investors may be warming to the idea.

Analysts at Swiss bank UBS AG—one of the biggest players in the currency market—warned Monday that the greater worry is if "any party wins an outright majority and cuts the budget too quickly while the U.K. economy is fragile."

It suggested instead that a coalition government could be positive for the currency in the long term.

"The pound may fall initially if the U.K. election results in a hung Parliament. But we think sterling weakness here would be short-lived. All three political parties are committed to cutting the U.K.'s record budget deficit," the bank said.

—Katie Martin contributed to this article.

EU proposes steps to aid its airlines

By Carolyn Henson
And Daniel Michaels

BRUSSELS—The European Commission outlined a series of measures to help support airlines and improve coordination following the chaos from a cloud of volcanic ash that grounded more than 100,000 flights, stranded millions of passengers and caused airlines to lose billions of euros in revenue.

Representatives of European airlines and airports, who criticized how the crisis was handled as it unfolded, welcomed the commission's proposals.

EU Transport Commissioner Siim Kallas estimated that the crisis, which shut airspace across much of Northern and Central Europe for six days starting April 15, had cost airlines world-wide between €1.5 billion and €2.5 billion ($2 billion and $2.7 billion).

The exceptional circumstances may justify some government support to airlines to help them cope with losses they incurred as a direct result of the crisis, Mr. Kallas said. Any aid would be granted by EU member states, not the EU itself. The 27-country bloc generally prohibits state aid to companies.

Mr. Kallas cautioned that support could be granted only based on "uniform criteria established at the European level" and set out by the commission, the EU's executive arm. The commission will soon issue a clear set of guidelines on this matter, he said.

"But state aid is not a miracle," Mr. Kallas said. "There is not a sack of money waiting for a crisis."

The commission is proposing to allow governments to make loans and guarantees to airlines at market conditions to alleviate cashflow problems following the disruption, Mr. Kallas said.

Other short-term measures that airlines have requested, and which the EU is likely to endorse, include waiving restrictions on night operations at airports so carriers can bring stranded passengers home; a relaxation of scheduling rules on takeoffs and landings to give airlines more operational flexibility; and temporary deferral of air-traffic charges to help ease cash-flow pressures on airlines.

For the longer term, European officials will develop new systems to handle future volcanic eruptions or other disruptions, Mr. Kallas said.

The commission is also proposing to accelerate its work on integrating European air-traffic control through a long-running project known as the Single European Sky.

Mr. Kallas said that the Single Sky "would not have solved the problem, but would have enabled a more nimble approach."

The EU will separately propose new global rules for airlines and air-traffic controllers to deal with volcanic eruptions. The proposal will be presented in September to a general meeting of the International Civil Aviation Organization, an arm of the United Nations.

ICAO's current rules, developed after eruptions in the 1980s, tell carriers to completely avoid clouds of volcanic dust or ash. They were the main reason European governments completely closed their airspace.

Ulrich Schulte-Strathaus, secretary-general of the Association of European Airlines, said the task force led by Mr. Kallas and two other EU commissioners had in "a remarkably short time frame" come up with sound analysis of how the grounding's impact should be handled and a similar crisis could be avoided in the future.

Mr. Schulte-Strathaus said EU airlines wouldn't seek state aid, but shouldn't be left completely responsible for the financial consequences of government decisions to close airspace.

Olivier Jankovec, director-general of the Airports Council International Europe, another trade group, said the commission's proposal "could constitute a feasible European aviation-relief plan" and praised its swift preparation.

The commission's proposals will be discussed and potentially approved by EU transport ministers at a special meeting on Tuesday.

Mr. Kallas worked with EU competition commissioner Joaquin Almunia and with Olli Rehm, commissioner for economic and financial affairs, to ensure that the response fit within EU rules on state aid and economic policies.

Airlines had argued that flight restrictions imposed after the eruption of the volcano under Iceland's Eyjafjallajokull glacier were too severe for the risk posed by the ash cloud it created.

Carriers also criticized the lack of coordination on the crisis. Air authorities in individual countries took differing decisions on closing and opening national airspace, often based on identical data.

Mr. Kallas also said that EU passenger-rights rules—which say airlines must pay for meals, drinks and hotels for stranded passengers—must be enforced across the region.

—Peppi Kiviniemi contributed to this article.

Reuters

EU Transport Commissioner Siim Kallas addresses a news conference Tuesday..

U.S. NEWS

BP opposed stricter safety rules

Oil giant argued in September that added regulation was unnecessary; rig disaster overshadows strong earnings

By Guy Chazan
And Ben Casselman


Associated Press

Oil is seen near the coast of Louisiana from a leaking pipeline that resulted from last week's rig collapse.

As **BP** PLC defended its handling of the oil spill in the Gulf of Mexico, documents show it argued against new, stricter safety rules proposed last year by the U.S. agency that oversees offshore drilling.

The British oil giant was one of several companies that wrote to the U.S. Minerals Management Service this past September saying additional regulation of the oil industry was unnecessary. In a letter, BP said the current voluntary system of safety procedures was adequate.

BP said Tuesday that the scale of its emergency response to the crude spill was unprecedented in the history of the oil industry. "All accidents are avoidable and when they occur you are judged by how you respond," BP's chief executive, Tony Hayward, told reporters.

BP said the scale of its emergency response to the recent crude spill is unprecedented in the history of the oil industry.

The oil spill was caused after a **Transocean** Ltd. rig that drilled a well for BP in the Gulf of Mexico southeast of Louisiana caught fire and sank last week. Eleven crew members are still missing and presumed dead in what is being seen as the worst such accident in the Gulf in more than 25 years.

Mr. Hayward said BP was working "extremely aggressively" to contain the spill. "Our approach is to massively over-respond," he added.

But he admitted that the incident had overshadowed BP's strong first-quarter results. The company's profit for the latest quarter more than doubled to $6.1 billion from a year earlier, on the back of higher oil prices and better operational performance.

Replacement cost profit, which strips out gains related to rises in the value of inventories, was $5.6 billion, up from $2.39 billion a year earlier.

The well, 5,000 feet, or about 1,500 meters, below the surface of the ocean, is leaking about 1,000 barrels of oil a day and scientists from the National Oceanic and Atmospheric Administration believe it could reach land by the weekend, threatening an environmental disaster on the Gulf Coast. BP says the oil spill is stable and had moved farther away from the coastline over the past 24 hours.

As BP touted the scale of the cleanup, documents showed that it was one of several companies that opposed efforts to tighten up safety procedures offshore. Last year, the MMS studied more than 1,400 offshore incidents that led to 41 deaths and hundreds of injuries between 2001 and 2007. Many of them, the MMS found, were linked to factors such as communications failures, a lack of written procedures and the failure of supervisors to enforce existing rules, and proposed mandatory requirements to reduce the number of incidents. That would have replaced a system under which many safety procedures were voluntary.

In a letter published on the U.S. government Web site Regulations.gov, Richard Morrison, BP's vice president for Gulf of Mexico production, wrote that while BP "is supportive of companies having a system in place to reduce risk, accidents, injuries and spills, we are not supportive of the extensive, prescriptive regulations as proposed in this rule."

He added: "We believe the industry's current safety and environmental statistics demonstrate that the voluntary programs...have been and continue to be very successful."

Mr. Morrison noted that BP had already adopted policies that complied with the MMS's proposed new rules. But he challenged the need for companies to file regular audits of their safety programs with the agency, saying that would be "an administrative burden."

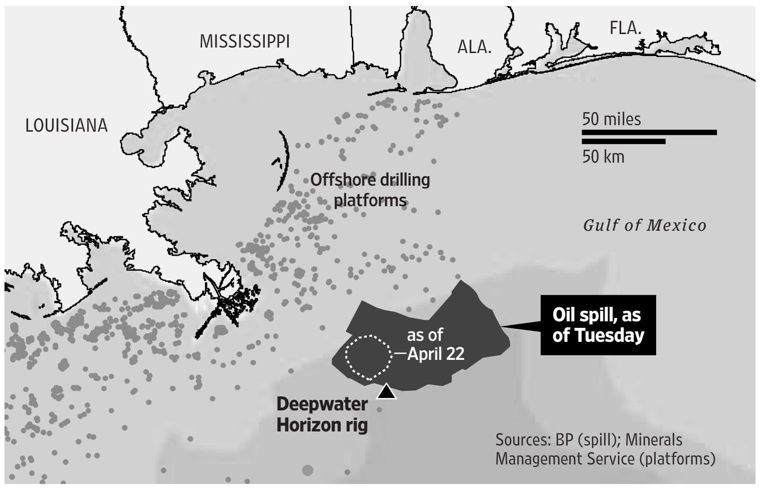
Other companies and trade groups also wrote letters objecting to the rule. Many argued that regulators underestimated the cost of implementing the new requirements, because they didn't take into account the cost of bringing subcontractors into compliance.

BP has been in crisis mode for days as it mobilizes to stop the oil leak and limit the reputational fallout from the disaster. Mr. Hayward has spent four days in the Gulf Coast region and was in Washington, D.C., Tuesday to meet federal authorities.

As part of their initial response, BP and Transocean sent five remote-control robots to the seabed to try to activate equipment that is supposed to shut off the flow of oil from the well. That operation has so far failed.

BP is now planning to cover the well with a large umbrella-like canopy. But that will take as many as four weeks to install.

BP also has moved another Transocean rig to the site to drill a relief well, that would bypass and close off the flow of oil from the original well. But that could take two to three months, and cost $100 million to drill—by far the most expensive element of the cleanup operation.



Meanwhile, on the ocean surface, BP has sent 32 ships to deal with the spill and has five planes in the air, including two C-130 Hercules transport planes, to spray chemical dispersants on the slick.

Home prices fell for fifth straight month

By Sudeep Reddy

Home prices in the U.S. dipped for the fifth-straight month in February as many markets remained under pressure from foreclosures and high inventories.

Meanwhile, consumer confidence rose in April to its highest level since the financial crisis struck in September 2008.

The S&P/Case-Shiller index tracking home prices across 20 metropolitan areas fell 0.9% during the month from January, as all but one city—San Diego—posted declines. Compared with a year earlier, however, prices rose nationwide for the first time since December 2006.

Still, 11 out of 20 cities included in the index posted annual declines, underscoring the wide variation in housing conditions across markets.

After picking up last spring, home prices nationwide appear to be bouncing around without large swings, said David Blitzer, chairman of the Standard & Poor's Index Committee. "The good news is we don't seem to have a continuing housing bust," he said. "The bad news is we don't seem to have an incredible price recovery."

Sales from December to February tend to be the weakest of the year as a result of winter weather, so analysts expect improvement in the data in coming months. A federal tax credit of up to $8,000, which applies to contracts signed by Friday that close by June 30, is drawing home buyers into the market. That should limit any price drops during the spring months.

The summer months also tend to be strong for home sales. But that could be offset by the tax credit's expiration, which is likely pulling sales ahead as home buyers rush to meet the deadline.

Home prices face numerous risks in the months ahead that analysts say could push prices down by as much as 5%. Foreclosures continue to rise as homeowners walk away from properties that have lost value. At the same time, high unemployment is leading more households into default as they miss mortgage payments. That is pushing inventories up just as key government support—to draw buyers—expires.

According to the Case-Shiller data, average U.S. home prices in February were near their levels of the second half of 2003. The 20-city index was down 30.3% from its mid-2006 peak to February.

The 20-city index rose 0.6% from a year earlier. San Francisco posted the strongest gain, at 11.9%, followed by San Diego at 7.6% and Los Angeles at 5.3%. But areas hit hard by the housing downturn posted sharp declines. Las Vegas fell 14.6%, followed by 6% in Tampa, Fla.

Nineteen of 20 metro areas fell in February from a month earlier, while 14 have now fallen for at least four-straight months. Twelve areas dropped at least 1% on a monthly basis. Six cities—Charlotte, N.C., Las Vegas, New York, Portland, Ore., Seattle and Tampa—showed prices dropping to their lowest point since home prices peaked three to four years ago in those areas.

Meanwhile, the Conference Board's consumer-confidence index rose to 57.9 in April from 52.3 a month earlier, marking its highest point since the financial crisis hit in 2008. Consumers' current assessment of the economy improved, while their expectations for the months ahead rose markedly. The stronger consumer sentiment appeared to be driven by recent improvement in the labor market.

A separate gauge of consumer sentiment from the University of Michigan remains weak, leading some economists to cast doubt on the latest improvement. The Conference Board's gauge "leaves confidence only at the high end of the uninspiring range it has occupied since the end of last year," ING economist Rob Carnell said in a note to clients.

U.S. NEWS

Getty Images

CIA Director Leon Panetta, above in February, released a five-year plan Monday.

Technology is central to CIA's strategic plan

BY SIOBHAN GORMAN

The CIA announced a five-year strategic plan that would invest heavily in new technologies to combat nontraditional threats such as cyber attacks from overseas and gain better intelligence on rogue states.

The plan also provides for quickly "surging" large numbers of Central Intelligence Agency officers to hot spots, such as Pakistan's tribal areas or East Africa. Past agency plans haven't provided for such war-time demands.

The moves reflect an effort to bolster agency operations and analysis without causing too much disruption, CIA veterans said. Although historically there has been tension between the CIA and the Pentagon, this plan aligns the two agencies' priorities, the veterans said.

However, at an agency that has had five directors in the past six years, it might be difficult for CIA Director Leon Panetta to ensure follow-through on a long-term initiative. "How much of it can you get done in the time you really have?" said Mark Lowenthal, a former senior CIA official. "We've had so much instability at the top."

Mr. Panetta has also drawn up plans to capture or kill al Qaeda members and other militants who flee the tribal areas of Pakistan to escape the agency's drones. Drone strikes have killed hundreds of militants since Mr. Panetta took over the agency, counterterrorism officials said. And he has ordered the agency to step up operations in East Africa as concerns have escalated about terrorist activity in Somalia and Yemen, its neighbor across the Gulf of Aden.

Mr. Panetta released his five-year plan in remarks to agency employees. "We govern either by leadership or by crisis," he said. "That's why we're taking a hard look at future challenges, and what we want our agency to look like five years from now."

Technology is a central component of the director's plan. Mr. Panetta wants to better use technology to help spies work undercover in roles where they have no public association with the U.S. government. Technology can, for example, make it easier for an operative to create more credible covers. Officials said the agency would boost the technology budget by tens of millions of dollars.

The improved capabilities would also help analysts manage the growing volumes of data the agency is collecting. One example: creating Google-like news alerts to ensure that CIA analysts get immediate updates when the agency learns of new data relevant to their work.

The plan also seeks to better merge the work of analysts and spies in the field. That's important because the CIA has more officers in Afghanistan than it ever had in Iraq and the number of officers deployed to a war zone is the agency's largest since Vietnam, officials said. Hundreds of officers served at the height of the Iraq war.

In an important cultural shift, the CIA plans to establish hubs around the world to support field operations—an activity that has largely been managed out of the agency's Langley, Va., headquarters in the past. Should a major event such as a terrorist bombing or political meltdown occur, the agency plans to reduce bureaucratic hurdles so officers could mobilize immediately. The agency might also need to shift a significant number of officers to quickly address a cyber attack. Mr. Panetta plans to build up a cadre of officers that could quickly respond to such attacks.

His proposals also build on earlier efforts to expand the agency's language capacity by tripling the number of analysts who are proficient in foreign languages and doubling the number of clandestine officers with proficiency. The CIA in recent years has placed a premium on mission-critical languages such as Arabic.

While lack of language ability is a problem best addressed by the American education system, Mr. Lowenthal gave the plan good marks overall. "It shows Panetta is trying to push the agency forward, while not being disruptive and being respectful of its traditions," he said.

CIA veteran Ronald Marks said the initiative would promote more discipline at the agency by laying out specific actions to be taken, and the emphasis on building up the skills and capabilities of the agency's officers may also help wean CIA off its post-9-11 dependency on contractors.