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Greece selloff reveals doubts over EU rescue

Greece's financials woes began to envelop the country's private-sector banks Thursday, sending its credit and equity markets tumbling and putting further pressure on the European Union to make good on a promise to engineer a rescue together with the International Monetary Fund.

By Charles Forelle in Brussels and Marcus Walker in Berlin

Greek government bonds have slid for days, in defiance of European Union hopes that a vague promise for joint EU-IMF aid would defuse the crisis. But Thursday's dramatic jolts indicated that a critical threshold of confidence had been breached.

"The problem is metastasizing from a purely fiscal issue," said Stephen Jen of the London hedge fund BlueGold Capital Management.

Investors fretted that Greek banks may be losing access to critical short-term funding from capital markets. Bank stocks slumped 6% in Athens, dragging down the broader market 3%. In a sign of crisis's vicious-cycle nature, the bank worries helped to sink the price of Greek government debt, which means the interest rate Greece must pay to attract borrowers was knocked higher.

The euro slumped early in the day, though it rose after Jean-Claude Trichet, the European Central Bank president, said Greece wouldn't default.

Investors are far more pessimistic. For the seventh straight session, Greek 10-year bonds lost ground against the benchmark German issue. More alarmingly, in a sign Greece may have difficulty finding money in the nearer term, investors drove the interest rate of the Greek two-year bond to 7.45% Thursday—6.51 percentage points more that what Germany pays. That gap was 5.68 percentage points just a day earlier. The yield on Greece's 10-year bond reached its highest level since the introduction of the euro.

"This is clearly a sign that the Greek authorities have reached the end of the line and need to make a phone call to the IMF," BNP Paribas analysts wrote in a note Thursday morning.

Rattling investors on Thursday were concerns that the country's banks, which have been one of the few bright spots in Greece's financial infrastructure, could be facing liquidity problems.

Greece's government said Wednesday that the country's four biggest banks have asked to tap €17 billion ($23 billion) in unused liquidity measures from Greece's banking-sector support scheme, mostly consisting of state guarantees for banks' bonds.

The announcement sparked fears that Greek banks may be running short of collateral needed to borrow funds from the ECB. If that happens, Greece's government might have to prop up the country's banks with additional injections of funds—a step that would add to the government's own funding woes.

Jon Levy, an analyst at New York-based consultancy Eurasia Group, says banking-sector concerns "could prompt the Greek government to seek an IMF arrangement more rapidly" than it intended to.

But other analysts say it's

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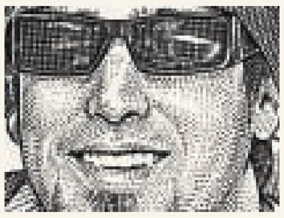
■ Speculators aren't alone in skepticism over Greece 14

Obama and Medvedev sign nuclear treaty

Agence France-Presse/Getty Images

President Barack Obama and Russian leader Dmitry Medvedev sign the new nuclear-arms-reduction treaty at Prague Castle Thursday, with Mr Obama promising further cuts. **Article on page 5.**

The Quirk



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Dangerous Iran vs. nuclear Iran. **Page 13**

U.S. stores show signs of life amid caution in Europe

U.S. retailers Thursday reported strong sales for March, providing more indications that American consumers are spending again—even amid cautious signals in Europe.

From luxury-apparel stores to discounters, retailers surpassed bullish analyst expectations. Department stores, which suffered some of the biggest declines in same-store sales last year, saw 12.3% growth in March, the best gain by any of the retail categories Thomson Reuters tracks. Discounters were still strong, posting a 10% rise in same-store sales for March. For all retailers reporting, same-store sales rose 9.1%.

"We're on a path back here, but that does not mean we might not slip in the months during the remaining part of this year," said Madison Riley, managing director of North America retail for **Kurt Salmon Associates.**

Luxury retailer **Saks** Inc., whose same-store sales rose 12.7% in March, ahead of analysts' projections for a 5% gain, pointed to strength in its regular stores and lower-priced outlets. Discount giant **Target** Corp. cited "particular strength" in apparel, and expressed confidence by saying first-quarter earnings per share should be at least 10 cents above Wall Street's view of 74 cents. (Rival **Wal-Mart Stores** Inc., the biggest retailer in the world, doesn't report monthly sales.)

The two notable disappointments were apparel retailer **Abercrombie & Fitch** Co. and department store **J.C. Penney**, which posted smaller-than-expected gains.

Meanwhile, Swedish-based fashion retailer **Hennes & Mauritz AB**, which has a heavy presence in the U.S., said net profit for the quarter ended Feb. 28 rose a better-than-expected 45%, and March sales were sharply up.

"There is increased traffic in our stores," H&M Chief Executive Karl-Johan Persson said in an interview. "It looks like private consumption is gaining steam in a lot of our markets."

In the U.K., retailer **Marks & Spencer Group** PLC Thursday lifted profit guidance and said sales growth accelerated in the fourth quarter, but Executive Chairman Sir Stuart Rose said he expected consumer spending to be "pretty flat" this year as a new government decides on potential tax increases.

European data out Thursday added more caution, showing consumers in Europe remain wary. Retail sales in the 16 countries that use the euro fell at their fastest pace in 13 months from January to February and were 1.1% lower in February from a year before. The slowdown comes a day after fourth-quarter euro-zone gross domestic product figures were revised lower.

PAGE TWO

Too big to fail...or to succeed for long?

[Agenda]

By Patience Wheatcroft

There is something of the show trial about the inquisition currently under way in Washington. Given the background to the Financial Crisis Inquiry Commission, a predisposition to finding bankers and regulators guilty is inevitable, if not necessarily productive.

Robert Rubin and Charles Prince hardly put up a fight. The two former Citigroup luminaries weren't well placed, their bank having survived only by virtue of massive government bailouts. They went through the ritual apologies, now almost as familiar from Western bankers as they are in Japan (although without the suicides), and they did their best to justify their shortcomings by arguing that there were very few people who had seen the looming financial disaster.

More interestingly, though, they explained that neither of them knew about the presence on their books of a fast-ticking time bomb of $43 billion of mortgage-backed securities until it began to explode in September 2007. Mr. Rubin was a director of the bank and continues to argue, unpersuasively, that his role was merely advisory, but Mr. Prince was the chief executive and chairman. Shouldn't he have been aware of a $43 billion bet his traders had placed?

Step back, though, and look at the business he was trying (and, we now know, failing) to run. The assets of Citi were $1.2 trillion when he took over as CEO in 2003. By September 2007, they had grown to $2.3 trillion. The group employed 327,000 people world-wide. The man at the top was under pressure to see investors and clients, regulators and politicians. Then there were the other boards, both commercial and pro bono, which also made

Agence France-Presse/Getty Images

Chief Executive Officer Sir Fred Goodwin of the Royal Bank of Scotland

demands on him. So even if he had got round to understanding what a collateralized debt obligation was, could he have been expected to know that there were $43 billion of them on Citi's books and that he should be very fearful about it?

As Mr. Prince pointed out Thursday to the commission, he had weekly meetings with his risk officers, who were, he said, the

The difficulties that come with maintaining a grip on such a big business should not be underestimated

best in the business. After the fate that befell Citi, that description of them must be in some doubt. But it is easy to imagine those meetings were brief and formulaic and didn't get bogged down in trifling matters such as $43 billion.

Questioned about the sheer scale of the business, Mr. Prince insisted Thursday that: "I personally do not think that Citi was too big to manage."

Perhaps a different individual would have proved him correct but the difficulties that come with maintaining a grip on such a big and complicated business should not be underestimated. Even the mighty Wal-Mart, for instance, had to cope with sales of just $405 billion during the past financial year. And retailing is a relatively simple business.

In the U.K., where bank directors have been subjected to similar angry grilling by politicians, Sir Fred Goodwin was given a rather tougher time than Mr. Prince. The sums are on a lesser scale, but the implosion of the bank he ran, Royal Bank of Scotland, no less dramatic.

As the new owner of the business, the British government, unravels the RBS mess, those close to the situation are left convinced that the banker once known as "Fred the Shred" couldn't have been aware of the extraordinarily hazardous deals the bank was doing. But then he was running a business with a balance sheet of just under £2 trillion, significantly more than the U.K.'s GDP.

Small isn't always beautiful, and those now running successful universal banks argue that their customers want and benefit from the wide scope of their operations. Nevertheless, as regulators continue to debate the future of banking, and how to cope with the concept of "too big to fail," there is at least scope for shareholders to ponder whether there is also an issue of "too big to succeed for long."

There are checks and balances that can be put in place and that clearly failed to operate in some banks. Strong, independent, boards of non-executives are among them. This seems to have been absent at RBS and if other directors at Citi shared Mr. Rubin's view that he was only there to offer advice, then that business too was clearly lacking what a board should provide.

But when a business reaches the scale that $43 billion "may sound like chump change" as one of the inquisitors put it Thursday, then the risks of that money being mishandled, without the chief executive having the slightest idea, can be high. In theory, having good people throughout the business and tight risk procedures should guard against things going wrong. In practice, there is at least room for doubt.

There now seems widespread agreement among regulators, with the pragmatic support of the banks, about the need for higher capital ratios and stricter leverage requirements. Discussion continues over "living wills" that would enable the winding up of failed banks and whether there is merit in a return to narrow banking, separate from investment banking. A debate about smaller banking might be appropriate.

A rosy picture at M&S

As Sir Stuart Rose prepares to hand over the chief executive's job at Marks & Spencer, he has made the task a little harder for his chosen successor. The sales performance that Sir Stuart reported Thursday was more upbeat than the market had dared expect, the only negatives being from outposts such as Greece, where sales, not surprisingly, are looking a bit depressed.

The shares slipped back a little though, indicating a degree of skepticism about whether the good news will last or is due to one-off factors.

Marc Bolland, who has left Morrisons, the supermarket operator, to join M&S, may face the unedifying prospect of seeing growth stutter as he tries to impose a clearer vision on the company.

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■ **Kyrgyzstan's opposition** said it formed a caretaker government and would keep open a U.S. base vital to the supply of troops in Afghanistan, but Bishkek remained tense and the deposed president refused to resign. 9

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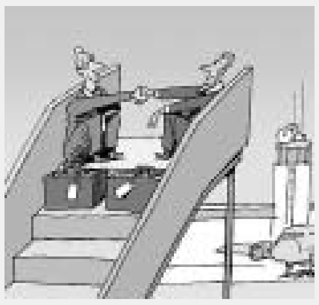

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The Source

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"For the financial world, the violent transfer of power will pass just as quickly as the spring floods."

William Mauldin on the sudden revolt that deposed leaders in Kyrgyzstan

Continuing coverage

See updates from Greece as concerns about the nation's solvency mount at **wsj.com/greekdebt**

Question of the day

Vote and discuss: Should the U.S. say it won't use nuclear weapons first?

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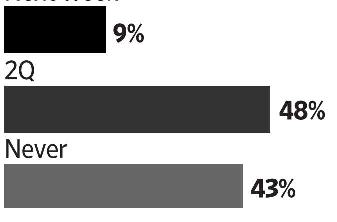

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NEWS

Reuters

Actors and horses perform the chariot-race scene from 'Ben Hur Live' for the cameras during a preview from the show at the O2 arena, in east London this past September.

Mr. Abraham, your chariot awaits

A theatrical spectacle, 'Ben Hur Live' encountered a rough road before wheels fell off the production company

By Javier Espinoza

LONDON—It was supposed to be a biblical spectacle that would last a generation; instead it was a monumental failure. **Art Concerts** GmbH, the company behind the first live production of the epic film "Ben Hur," has filed for bankruptcy protection.

The Berg, Germany, production company started a European tour of "Ben Hur Live" this past September and generated enough publicity to keep the show going for a few months. But following serious liquidity problems, poor reviews and dwindling ticket sales in some venues, the company canceled several shows at London's O_2 arena in January and indefinitely postponed appearances due later in the spring in Vienna and Gelsenkirchen, Germany.

"Due to an external file of bankruptcy, Art Concerts GmbH, producer and promoter of the show can't guarantee the realization of the performances," the company said on its Web site earlier this year.

Associated Press

German actor Sebastian Thrun, left, who played Judah Ben Hur, performed in the premiere of the stage extravaganza.

News of the German bankruptcy filing, however, was no surprise to many of the company's former employees who said problems bringing the show to life started from day one in London this past autumn.

"Ben Hur Live" featured 400 actors, acrobats and dancers, 46 horses, two donkeys, five falcons, two eagles, a pair of vultures, 120 doves and five chariots.

Art Concerts founder Franz Abraham, 46 years old, galloped through five European countries, from the U.K. to Hungary, since the show's debut, but his gigantic spectacle became impossible to sustain due to lack of funds.

The odds were against him from the start. Animal-rights activists protested outside the O_2 arena in London on Sept. 17, the night before the premiere. On opening night, all the doves went missing, along with the animal trainer, who ended up ringing from the south of France saying he was lost. (He arrived before the end of the show.)

Although he said he had about 80 investors to fund the $14 million production, Mr. Abraham, a few days before the premiere, was €200,000 short of cash and was struggling to pay his bills. He obtained a late loan from an investor, whom he didn't name, after a game of tennis.

Theater critics didn't help either. The Guardian newspaper in London described Mr. Abraham's own special genre, known as "monutainment," as being over the top, saying: "This theatrical [spectacle] promises horses, tons of sand and a huge cast and crew—but less is always more in the theater." The Daily Telegraph, another London paper, panned the show as "nothing but a crudely pirated copy of the film."

Based on the 1880 novel "Ben-Hur: A Tale of the Christ" by Lew Wallace, the show is about the life of the Jewish prince Judah Ben-Hur, who is unfairly condemned for an alleged assassination attempt on the Roman governor. Two early Hollywood films were released 1907 and 1925. Another remake in 1959 starring Charlton Heston was a blockbuster, winning 11 Academy Awards, including Best Picture. Mr. Abraham first saw that version as a 13 year old in 1977.

The live production wasn't as successful. Bad reviews and ever-growing financial problems dogged the production through its tour. These setbacks frustrated Mr. Abraham's plans to go to the U.S. and Australia, former employees say.

The show had 400 actors, acrobats and dancers, 46 horses, 2 donkeys, 5 falcons, 2 eagles, a pair of vultures, 120 doves and 5 chariots

"He was struggling all the time," recalls a former employee who was familiar with the planning and organization of every show. "Staff were getting paid very late. Sometimes they waited weeks...even months. But in the end, he got the money to pay salaries and expenses."

"It was a problem of liquidity and not of profitability, let alone quality," Mr. Abraham says. "This was never possible to finance 100%, and I was always depending on ticket sales, investors and so on."

Kuehne + Nagel KG, a Hamburg, Germany, transport company hired by Mr. Abraham to move the production's expensive equipment, horses and donkeys, wanted its money upfront. When the production ran out of cash as it left Stuttgart, Kuehne + Nagel refused to move the equipment. The moving company wouldn't comment on dealings with Mr. Abraham.

Around this time, the German magazine Focus ran an article saying Art Concerts was nearly bankrupt. Both Mr. Abraham and his former employees insist that wasn't true then. It was also around this time that Mr. Abraham was in talks with banks, which he wouldn't name, to negotiate more funds: roughly around €2 million. The funding never materialized.

The magazine "wrote us to death. From that day onward my life changed like never before," Mr. Abraham says. "It was a cold murderer campaign, and then suddenly all of the money sources die."

Mr. Abraham, who says he invested $2.2 million of his own money to produce the show, was quick to dismiss the claims of an imminent bankruptcy filing. He published a response on his company's Web site and informed his investors and staff that this simply wasn't true. But his words failed to calm nervous investors.

According to another employee who worked for Mr. Abraham until the very last minute, "people were not really prepared to pay money for expensive tickets....The project came at the worst time possible although he had started working on it before the financial crisis hit."

But Mr. Abraham dismisses this. Tickets ran about €60 each, but he says most shows were selling well except for the one in Stuttgart, where the productions were taking place on weekdays.

This isn't the first time Mr. Abraham, a former race-car driver has faced setbacks. In his early 20s, his face was completely disfigured in a crash. At the age of 13, he saw his father, another driver, die in a race.

Mr. Abraham, who has been dubbed the Mad Bavarian, has encountered tough financial times before. At one point he was left with a €250,000 debt after promoting an experimental music event in his hometown of Munich as sponsors pulled out.

But he does have experience running monumental shows. In 1995, he produced a large-scale staging of "Carmina Burana," a 1937 cantata that sets to music mischievous monastic poems from the Middle Ages. The show has been seen by more than 1.5 million people world-wide.

More than 120,000 opera lovers saw his spectacular staging of Verdi's "Aida," which premiered in 2006 in Monterrey, Mexico.

And there's yet another twist to this gargantuan tale. The impresario has been holding talks with investors to bring "Ben Hur" back to life.

Mr. Abraham says he is in advanced negotiations with two German investors that will give him €3 million to carry on with the show. "'Ben Hur Live' will not be a lost production," Mr. Abraham says.

The show must go on.

EUROPE NEWS

ECB will revamp its collateral plan

By Christopher Emsden

FRANKFURT—European Central Bank President Jean-Claude Trichet said Thursday the central bank will revamp its collateral plan, in a move widely seen as a way to prevent Greek government debt from being excluded from the ECB's core operations.

The decision will allow instruments rated investment-grade to be used at the ECB's refinancing window, although with a graded haircut system that penalizes weaker credits. The revamp was designed to improve the ECB's own risk management, Mr. Trichet said at a news conference following the central bank's monetary-policy meeting.

The ECB will conduct an "overall review" of its collateral framework in July, Mr. Trichet added.

The new plan, which goes into effect in 2011, will apply particularly to debt securities rated below A-minus, which have been subject to a 5% discount. Some instruments that have been used in the past two years will no longer be eligible, Mr. Trichet said, noting that unregulated debt assets won't be able to be tendered in refinancing operations, nor will subordinated debt nor a slew of bonds denominated in currencies other than euros.

The plan won't change haircut levels for government debt instruments rated A-minus and above, nor will it "imply an undue decrease in the collateral available" to the ECB's counterparties in the euro-zone banking system, the ECB said. The new rules "harden slightly" the current collateral policy, he said.

The latest plan wasn't designed to help Greece, Mr. Trichet said, insisting that it merely "prolongs" measures taken after the credit crisis began in 2008.

Goldman Sachs analyst Erik Nielsen said it may even hurt Greece, because the country's lower ratings status makes it the most subject to higher haircuts.

The ECB president also said the central bank's benchmark policy interest rate, which was left unchanged at 1% earlier in the day, "remains appropriate" given the prospects for only "moderate" economic growth in the euro area.

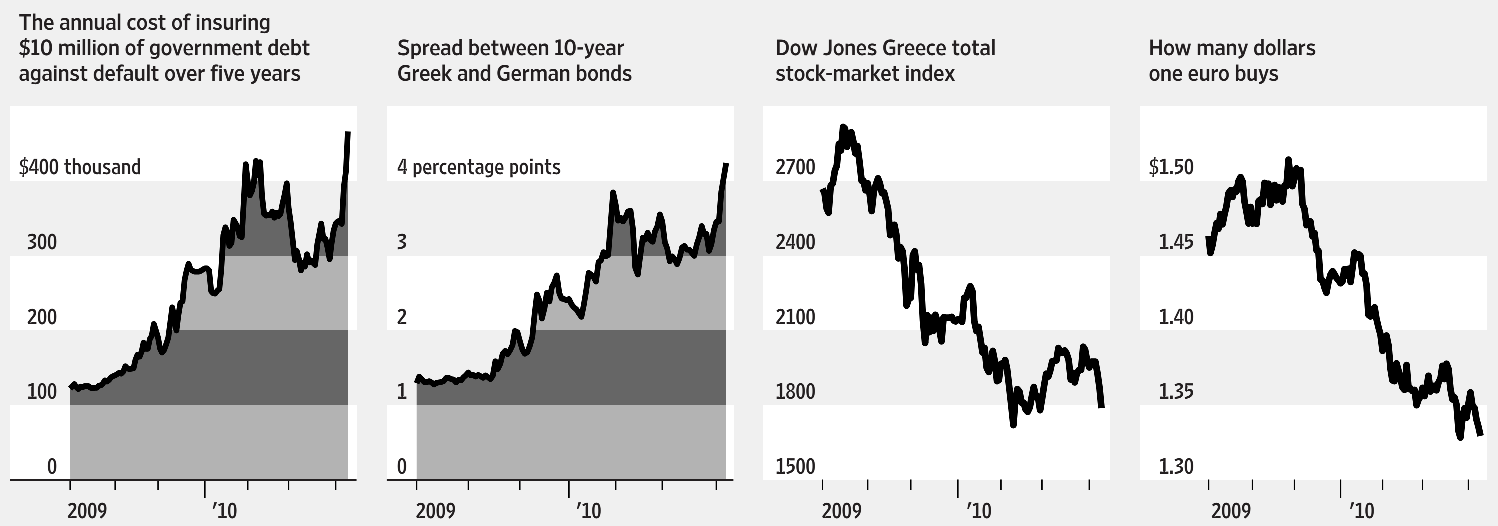
Low inflation rates will support household purchasing power, but weak labor markets are damping consumption and low industrial production make business investment weak for now, Mr. Trichet said.

The ECB's mandate and contribution to the euro-zone economy is price stability, which is a necessary if insufficient condition for economic growth and expanding employment, Mr. Trichet said. "Strong structural reforms" and better fiscal policy from governments will have to perform the rest of the policy agenda, he said.

Bloomberg News

Jean-Claude Trichet: 'default is not an issue for Greece.'

The bills mount | Greece will struggle to cover its mounting debt costs on its own.



Sources: CMA DataVision (debt); Thomson Reuters (bond spread); WSJ Market Data Group (stock-market index, dollar/euro rates)

Under pressure

Major Greek banks assets, in billions, end of 2009

Source: WSJ research

Greek selloff shows doubts over EU rescue efforts

Continued from first page

unclear how serious or threatening Greek banks' liquidity problems are so far.

The Greek state guarantees would allow banks to use up to €14 billion of their own bonds as collateral with the ECB. The banks haven't carried out such a transaction so far, but rather have prepared the option as a "safety net," according to Greek banking officials. The government could issue bonds to cover the remaining €3 billion.

Extra ECB funds could help Greek banks to compensate for their steady loss of access to international repo markets, in which banks raise funds on a short-term basis from other banks.

The repo market has "almost gummed up" for Greek lenders, according to an Athens banking official.

However, the problem isn't new—Greek banks have had only irregular access to repo markets for months, another bank official said.

Greek bankers and regulators say the banks have enough access to liquidity through the ECB.

ECB President Trichet offered a mix of verbal and concrete support Thursday for Greece and its banks. A Greek default "is not an issue," he said at his monthly press conference. He also confirmed the ECB would maintain its relaxed collateral rules into next year, removing a source of uncertainty for Greek banks that rely heavily on Greek government bonds as backing for cheap ECB loans.

Beyond the banks, markets remain uncertain what would happen if Greece falters.

There is little clarity on when the EU would come in to help. Doubts on that front have hammered Greek bonds for days. April is a crucial month—Greece has a sequence of treasury bills maturing beginning next week, and then an €8 billion bond the week after—but Greek officials insist they have enough cash to pay those bills.

May is another matter. The biggest redemption that month comes on May 19, for €8.5 billion. Greece is all but certain to have to borrow—or seek aid—before then.

EU leaders agreed last month in a much-touted statement of support to provide loans, alongside the IMF, if "market financing is insufficient." The statement didn't further define the criteria. Also left undecided are the terms of any loans.

The hope was that the statement would reassure investors that something would be done to prevent them from losing money in a Greek default. That, in turn, would bring down the amount of interest Greece has to pay to attract investors, EU officials hoped.

But Greek yields, a reflection of the risk investors associate with its debt, have remained stubbornly high.

"EU leaders can try to convince markets that just having a mechanism in place will be enough," says Fabian Zuleeg, chief economist of the European Policy Centre, a think tank in Brussels. "I'm finding it increasingly unlikely that the markets will believe it."

What comes next is an open question. Actually dispensing aid to Greece would require approval of all euro-zone leaders, which means German Chancellor Angela Merkel, reluctant to bail out a free-spending peer, has an effective veto. EU officials remain wide apart on what should trigger a bailout.

An EU diplomat said Thursday that some nations favor giving Greece aid just on the grounds that current interest rates in the market are too high.

German officials insist Greece must actually try and fail to raise money on capital markets before applying for EU help.

Despite the danger signs flashing red in the financial markets, many investors find it hard to believe that the EU will let Greece fail.

"Greece is part of the EU, and the Europeans have a huge imperative to sort this out," said Jon Taylor at Principal Global Investors in London. "It took 30-some years to get where they are now, and they're not going to let a country that represents 2.5% of the EU's economic output to derail the project."

Mr. Taylor said he was buying short-term Greek debt on Wednesday when prices plunged.

Even if Greece gets a loan package from the IMF and euro-zone governments, its debt crisis doesn't end there. A potential package of €20 billion to €30 billion would get Greece through only the next few months.

Its overall debt pile, at 113% of GDP and rising, would remain difficult to tame—especially since Greece's austerity measures are pushing its economy deeper into recession, which makes balancing the budget harder still.

"An aid package would only give Greece a bit of breathing space," says David Mackie, economist at J.P. Morgan. Greece's debt problem will be solved only if the country either implements austerity measures for long enough to cut its overall debts, or else sits down with its creditors and agrees on a debt restructuring plan.

Such a restructuring would involve bondholders agreeing to cut the amount Greece owes them, as a way of avoiding a unilateral debt default that could inflict still-greater losses on bondholders. However, a restructuring "wouldn't be a panacea," says Mr. Mackie: Greece would still need to borrow fresh funds every year to cover its deficits and could soon find itself in a similar crisis.

"A debt restructuring would be a disaster," says Yannis Stournaras, director of the Foundation for Economic and Industrial Research, an Athens think tank. Borrowing costs for Greece's government and companies would be significantly higher for years to come after such a step, as investors demanded an even-higher risk premium for lending to Greece. "A restructuring would bring a short-term benefit but a heavy long-term cost," Mr. Stournaras says.

Ultimately Greece may have no alternative to years of painful budget cuts, even though they may prevent an economic recovery.

—Michael Wilson, Nina Koeppen, Brian Blackstone, Alkman Granitsas and Adam Cohen contributed to this article.

EUROPE NEWS

European Pressphoto Agency

Russian President Dmitry Medvedev, left, with Czech President Vaclav Klaus and U.S. President Barack Obama in Prague Thursday for the arms treaty's signing.

U.S., Russia sign arms treaty

After Prague ceremony, Obama administration officials shift focus to Senate ratification

By Jonathan Weisman And Peter Spiegel

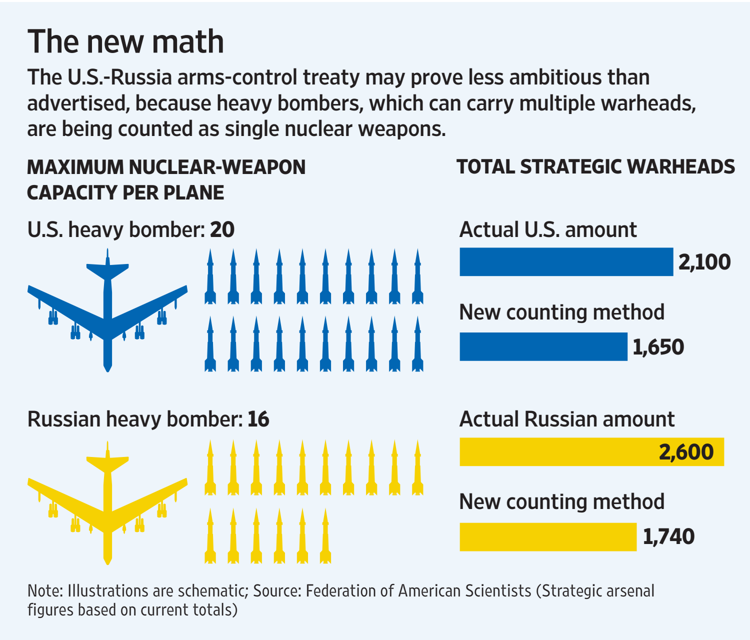
PRAGUE—Senior Obama administration officials began manning the phones while the ink was drying on a new nuclear-arms-reduction treaty between the U.S. and Russia, in an attempt to clear the accord's next hurdle: U.S. Senate ratification.

Briefings for Senate aides Thursday included a morning session in the White House situation room for key Senate staffers, with senior administration officials videoconferenced in from Prague, where U.S. President Barack Obama and Russian president Dmitry Medvedev on Thursday signed a successor to the 1991 Strategic Arms Reduction Treaty.

But Senate ratification, which requires a two-thirds majority, is likely to take months and could run into the same partisan roadblocks that have hindered other White House initiatives, particularly as mid-term Congressional elections approach.

The two presidents signed the treaty side by side, seated at an inlaid wooden desk in Prague Castle, inside a rococo ballroom adorned with gold leaf, dramatic friezes and imposing, gilt chandeliers.

The signing ceremony came nearly a year to the day after President Barack Obama appeared in Prague's Castle Square to lay out his vision of a world without nuclear weapons.



"It is just one step on a longer journey," Mr. Obama said after the signing. "As I said last year in Prague, this treaty will set the stage for further cuts."

The treaty caps the number of deployed nuclear warheads at 1,550 a side, a 30% reduction from the 2,200 limit agreed to in the Moscow Treaty of 2002. Intercontinental missiles, submarines and heavy bombers would be limited to 700 a side, less than half the number agreed to in the 1991 treaty, the last comprehensive and verifiable arms accord.

But because of quirks in counting warheads aboard heavy bombers, the actual number of nuclear weapons could be considerably higher in seven years, when the treaty is fully in force.

The White House has already attempted to avoid party-line divisions by repeatedly emphasizing that strategic-arms-control treaties have historically been bipartisan affairs, including the Moscow Treaty, which passed 95 to 0.

Passage requires the support of eight Republican senators, assuming all 59 Democrats and Independents support the treaty.

As part of that effort, the administration has courted and won the tentative support of a high-profile Senate Republican on foreign policy, Indiana Sen. Richard Lugar. The ranking member of the Foreign Affairs committee, Sen. Lugar last week said he wanted to "work quickly to achieve ratification."

But Senate aides on both sides of the aisle said Sen. Lugar's ability to win over the seven additional Republicans needed to gain passage remains unclear, given the party's increasingly conservative makeup.

"I just don't think that Lugar is the voice on national-security issues in the party the way that he once was," said a Senate aide who works on foreign-policy issues.

To hedge its bets, the administration appears to be targeting the Senate Republican leader, Kentucky Sen. Mitch McConnell, as a potential vote who could ensure the Senate battle doesn't devolve into partisanship.

On Friday, just a day after leaving Prague, Secretary of State Hillary Clinton is scheduled to travel to Kentucky, to deliver a major address at the University of Louisville's McConnell Center, which Sen. McConnell established 20 years ago.

Both nations also discuss Iran sanctions

By Jonathan Weisman

PRAGUE—The presidents of the U.S. and Russia, meeting here to sign a major arms-control treaty Thursday, also began negotiating a specific package of sanctions against Iran that U.S. President Barack Obama confidently predicted would win United Nations passage this spring.

But in extensive private talks, Russian President Dmitry Medvedev laid out clear limits on what Russia would accept in punishing Iran for its nuclear program. A senior Kremlin aide all but ruled out one of the most potent weapons that hawks in the U.S. want to include in any international sanctions: gasoline and other refined petroleum products.

"A total embargo on deliveries on refined oil products to Iran would mean a slap, a blow, a huge shock for the whole society and the whole population," said Sergei Ryabkov, Russia's deputy foreign minister. "These types of things that shock the fundaments of a society or country are something that we definitely are not prepared to consider."

The intense negotiations, which took up much of Mr. Obama's 85-minute private session with Mr. Medvedev, underscored how intertwined the array of nuclear talks are with U.S. efforts to isolate Iran. Messrs. Obama and Medvedev came to the Czech Republic's capital to sign the most significant arms-control treaty in nearly two decades, hailing what both called a new chapter of cooperation between the nations.

But before the ink was dry, both men were moving to the next step: sanctions on Iran. Mr. Obama said "ramped up negotiations" in New York would move the sanctions forward "in the coming weeks."

His Russian counterpart was circumspect in the depths of punishment he would accept, and with a veto at the U.N. Security Council, Mr. Medvedev carries weight.

Euro-zone retail sales tumbled in February

By Ilona Billington

LONDON—Retail sales in the 16 countries that use the euro fell at their fastest pace in 13 months in February, as consumers continued to rein in spending amid a slow economic recovery, the European Union's statistics agency Eurostat reported Thursday.

Sales volumes in the common-currency area fell 0.6% in February from January, the largest decline since December 2008, and were 1.1% lower from the comparable month a year earlier.

The data were weaker than expected. Economists surveyed by Dow Jones Newswires last week estimated that February sales would be unchanged on the month and down 0.7% on the year.

In January, retail sales declined 0.2% on a month-to-month basis and 0.6% year-to-year. Those figures were revised from the originally reported 0.3% month-to-month drop and 1.3% annual decline.

"Although the worst of the labor-market downturn seems behind, many people remain worried about the possibility of losing their job," said Martin Van Vliet, European economist for ING Bank NV. "What is more, consumers seem to be getting increasingly concerned about the income implications of future fiscal tightening, especially those in the fiscally beleaguered Southern economies."

Spending on food, drinks and tobacco slumped by a record 1.6% in February from January.

The data highlight these concerns as consumers are displaying a thriftier attitude.

Spending on food, drinks and tobacco slumped a record 1.6% in February from January. On the year, sales of food, drink and tobacco fell 3.1%, the fastest pace of decline in 11 months.

Sales of nonfood items rose 0.2% on the month in February and were 0.7% higher on the year.

The slowdown in sales comes a day after fourth-quarter euro-zone gross domestic product figures were revised lower.

The figures showed the economy stagnated in the final months of 2009, and also suggested the region will struggle to post a significant pickup in the first three months of 2010.

According to recent purchasing managers' indexes, companies across the euro zone have been struggling to pass on rising input costs to consumers.

The further decline in sales highlights consumers' more careful mood.

The European Central Bank on Thursday announced interest rates will be kept at 1%, where they have been since May 2009.

In the 27-member European Union, sales were unchanged in February from January, and fell 0.7% on the year.

EUROPE NEWS

Pledge on cuts becomes key issue

The U.K.'s two major parties argue over the numbers for a Conservative plan to avoid a tax increase with savings

By Laurence Norman

LONDON—U.K. Prime Minister Gordon Brown renewed his attack Thursday on the Conservative Party's pledge to reverse the planned rise in National Insurance tax.

U.K. Election 2010

Mr. Brown said the opposition's promise to fund the tax cut through extra savings is a "deception," with "flimsy" evidence showing where the additional savings will come from.

"What the people of our country need to ask themselves is this: Do you really want to gamble your economic future on the back-of-an-envelope set of calculations like this?" said Mr. Brown, speaking alongside Business Secretary Peter Mandelson and Chancellor of the Exchequer Alistair Darling.

Mr. Brown added, however, that the Labour Party has "no quarrel" with business leaders despite their support for the Conservative tax pledge, describing his government as "pro-business and enterprise."


European Pressphoto Agency

Gordon Brown, left, with Peter Mandelson, center, and Alistair Darling, at a news conference on Thursday.

Conservative leader David Cameron hit back. "You've got some of Britain's biggest and most successful business leaders saying ... that the threat to the recovery is not costs savings and cutting out waste, the threat to the recovery is Labour's job tax," he said at a news conference.

"Now to save £6 billion ($9.2 billion) in a year when you look at issues like procurement, when you look at issues like recruitment, when you look at your energy and electricity bills and everything else that the government has, that is not a challenging target," he said.

Meanwhile, Mr. Cameron launched his party's plans for a National Citizen Service, which aims to get all 16-year-old volunteering for community service. The scheme, was backed Thursday by veteran actor Michael Caine.

In his prebudget report in December, Mr. Darling said he would raise the National Insurance tax on employers and employees from April 2011 to fund real-term increases in spending on schools, hospitals and policing.

To reverse the tax, the Conservatives have pledged to make an extra £12 billion in additional savings on top of the £15 billion in savings the government promised for the next 12 months. Around half of the Conservative savings would be used to cover the revenue lost from not pursuing the tax increase.

The Labour Party's decision to enter into a complex argument over their accounting plans made political sense, said Steven Fielding, director of the center of British politics at Nottingham University.

"Economic competence is the key battleground given the state of the economy after the recession. Labour couldn't write this one off," said Prof. Fielding.

Mr. Darling insisted the Conservatives should give details of their proposed savings, while Lord Mandelson said Peter Gershon—a former government adviser who helped to draft the Conservative plans—should come out and defend the extra savings program.

The Conservative Party's promise to reverse the planned National Insurance increase seemed to give their campaign momentum, with the party's lead in some opinion polls doubling to 10 points last week.

However, a YouGov poll in the Sun newspaper released late Wednesday, showed that Labour was back within five points of the Conservatives.

U.K. economic data ease recession fears

By Nicholas Winning

LONDON—The British economy improved more than expected recently, easing concerns about a double-dip recession and fueling hopes that it will strengthen ahead of general elections on May 6.

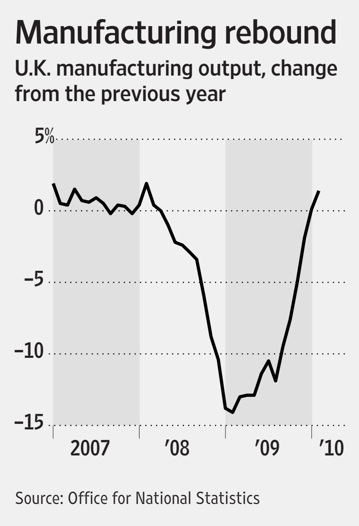
U.K. manufacturing output rebounded in February from a year earlier, rising 1.4%—the sharpest increase in two years. British mortgage lender Halifax said property prices gained 1.1% in March—the strongest annual gain since December 2007.

And the National Institute of Economic and Social Research added to the optimism, estimating that the economy grew 0.4% in the first quarter from the last three months of 2009.

"The U.K. looks on course to broadly maintain the 0.4% quarter-on-quarter pace of expansion seen in [the fourth quarter of] 2009—though hopefully the composition of the Q1 data will be better," said Ross Walker, an economist at the Royal Bank of Scotland.

The U.K. election—called on Tuesday—promises to be one of the closest in almost 20 years. Much of the debate has focused on the strength of the economy, with the opposition Conservative Party leading in the polls over the governing Labour Party of Prime Minister Gordon Brown.

Official figures on gross domestic product in the first quarter could give the government a boost if they are in line with early estimates. The



first calculations of economic growth by the Office for National Statistics have tended to be weaker than indicated by surveys and other data, although subsequently revised higher.

The U.K. returned to growth in the fourth quarter of last year after six consecutive quarterly contractions, but the credit crunch and ensuing recession have severely weakened the economy.

With the outlook still uncertain, the Bank of England voted to keep policy steady at its meeting Thursday, with its next move likely to hinge on the future government's fiscal plans.

—Natasha Brereton and Ilona Billington contributed to this article.

Cash-strapped government has no choice but to do less

[Capital Journal]

By Gerald F. Seib

In Los Angeles this week, the mayor proposed closing most city offices for two days a week. In Colorado Springs, private donations and bake sales are being used to keep parks and pools open. In Maryland, the state is considering furloughing state workers for the second year in a row.

Welcome to the era of government doing less for its citizens. The wave is beginning at the state and local level, where it's rolling ahead in large measure because of a fiscal crunch brought on by the deep recession.

But there's little reason to think it will stop with states and cities, and ample reason to think it will continue even after the recession fades. The U.S. federal government is headed in the same direction, as Federal Reserve Chairman Ben Bernanke warned Wednesday.

In a speech in Dallas, Mr. Bernanke bluntly noted that two giant fiscal waves were headed for the federal government, one atop the other. First comes the big deficit caused by the economic downturn. That will be followed immediately by ballooning costs for baby-boom retirees drawing Social Security and Medicare funds. "To avoid large and unsustainable budget deficits, the nation will ultimately have to choose among higher taxes, modifications to entitlement programs such as Social Security and Medicare, less spending on everything else from education to defense, or some combination of the above," Mr. Bernanke said.

Everybody who's really thought about this problem knows the answer inevitably will be "some combination of the above." This is the reality of the 21st century, and as a consequence the country faces some big decisions about the size and shape of government in the years ahead.

These questions aren't so much ideological ones—is government good or bad?—as practical ones: What government services really are essential, and how much beyond them can the country afford?

This is new terrain. For most of the last century, as America grew and prospered, its citizens have happily grown accustomed to the government—federal, state and local combined—providing steadily more services: better roads, more aid to colleges and universities, research labs and health benefits for a wider circle of citizens.

This has been true through political regimes of both parties, and despite rhetoric to the contrary. Lyndon Johnson provided guns for Vietnam as well as more butter for citizens as home. Ronald Reagan talked about cutting the size of government, but never really did. Bill Clinton said the era of big government was over, but it wasn't really. George W. Bush was a conservative who pushed through a giant new drug benefit for senior citizens and steady increases in other domestic spending.

And within the last year, of course, President Barack Obama has overseen a government overhaul of the health system, a federal lifeline that saved General Motors and a rescue of the nation's biggest financial institutions.

Most of this has happened because the U.S. was prosperous enough to finance more government services, and because Americans like them, even when they claim they don't. Red states such as Texas and Alaska have been happy to take in massive inflows of federal dollars, even while pretending they hate federal intrusions.

Now, the fiscal reality has changed, not just because of the recession but because of demographic and structural changes, and years of avoiding hard decisions. Choices that have been avoided are going to have to be made, starting now at the state and local level.

In theory, of course, lots of Americans will say they actually want the government to do less. In a Wall Street Journal/NBC News poll, earlier this year, Americans said by 59% to 35% that the government was doing too much to solve national problems, and should leave more things to businesses and individuals.

But it is one thing to say government should do less, and another thing when services actually are cut. When the state of Virginia last year decided to cope with its budget problems in part by closing rest stops on highways, there was an uproar. A new conservative governor has just reopened them.

And we are all familiar by now with the stories of people who proclaim that the government should stay out of health care, but shouldn't touch their Medicare coverage, which is, of course, the biggest of all government health programs. Nor do people often recognize what government is doing in the background of their daily lives; those who travel to tea-party rallies to protest government spending get there on roads a government has paved.

The choice isn't between active or passive government; government can be active through regulation while spending less, or passive while still doling out big buckets of benefits. The question is what's possible after the government's fiscal house is put in order.

The first step in doing that should be a commission President Obama has launched to deal with the federal deficit; the commission is about to start working. Both parties are participating, but doing so only warily. That commission, though, could be the first step toward a sane transition to a new era of government in America.

Write to Gerald F. Seib at jerry.seib@wsj.com

Agence France-Presse/Getty Images

Unemployed Americans line up to speak with prospective employers at the Los Angeles Career Fair on March 23.

Jobless claims increase

Unexpected weekly rise to 460,000 is partly tied to Easter holiday

By Sarah N. Lynch
And Darrell A. Hughes

The number of workers filing new claims for jobless benefits rose unexpectedly last week, an increase due in part to the Easter holiday and other seasonal factors.

The Labor Department said in its weekly report Thursday that initial claims for jobless benefits increased 18,000 to 460,000 for the week ended April 3. The previous week's level was revised upward to 442,000 from 439,000.

A Labor Department economist said seasonal factors partly affected the report, such as the Easter holiday and celebration of Cesar Chavez Day in California, a state big enough to move the national numbers. Easter occurs at a different time each year, potentially leading to inaccuracies in the seasonal factors used in the calculations.

The four-week moving average, which aims to smooth volatility in the data to gauge underlying trend, rose 2,250 to 450,250 for the week ending April 3. In a more positive sign, however, total claims lasting more than one week fell to their lowest levels since Dec. 13, 2008.

The latest increase in jobless claims comes the week after the Labor Department reported that nonfarm payrolls rose by 162,000 in March, the fastest pace in three years. MFR Inc. Chief Economist Joshua Shapiro wrote in a note to clients that the claims data may call into question now whether nonfarm payrolls are truly "poised to begin sustained gains."

While claims are far below their peak in March 2009, when they reached above the 650,000 mark, analysts say they must fall to around 400,000 to be consistent with a stable market.

Michael Feroli, the chief U.S. economist for J.P. Morgan, said the claims were "clearly a disappointment," but cautioned against interpreting them too negatively since the Good Friday week is "notoriously difficult to seasonally adjust for."

In the Labor Department's Thursday report, the number of continuing claims—those drawn by workers for more than one week—for the week ended March 27 fell 131,000 to 4.55 million from the preceding week's revised level of 4.68 million.

Qatari smoker upsets flight

By Evan Perez

WASHINGTON—Qatar's U.S. ambassador cautioned against a rush to judgment after a Qatari embassy official allegedly was found smoking in a U.S. jetliner's bathroom, causing a scare and sending two F-16 fighter jets scrambling to intercept the plane.

No explosives were found on the United Airlines flight Wednesday from Washington to Denver. U.S. officials said Federal Bureau of Investigation agents and Transportation Security Administration investigators interviewed and released the man, identified as Mohammed Al-Madadi.

Confusion surrounded Mr. Madadi's initial detention on the flight, which landed safely with 157 passengers and six crew at Denver International Airport. Mr. Madadi appeared to be smoking a pipe in the bathroom and putting it out on his shoe, which triggered a series of misunderstandings, U.S. officials said. The air marshal on the flight detained Mr. Madadi out of fear that he may have been trying to light his shoe on fire, these officials said.

"This diplomat was traveling to Denver on official embassy business on my instructions, and he was certainly not engaged in any threatening activity," Qatar's U.S. ambassador, Ali Bin Fahad Al-Hajri, said in a statement. "The facts will reveal that this was a mistake, and we urge all concerned parties to avoid reckless judgments or speculation."

The Qatar embassy retained a New York public-relations firm to respond to inquires about the incident. A spokeswoman at the firm said she couldn't confirm any details of what occurred on the flight but that the "embassy is working with authorities. No lives were ever at risk."

The embassy's claim that Mr. Madadi was a diplomat on official business throws into doubt whether the U.S. will bring charges against him. Smoking on a flight in the U.S. is a federal offense that carries a civil fine, but federal authorities also have the option to bring charges related to disrupting a flight. State and Justice Department officials will decide whether Mr. Madadi's diplomatic immunity blocks the possibility of charges.

The incident stoked fears that arose on Christmas Day when a Nigerian man allegedly attempted to blow up a Northwest Airlines flight near Detroit with a bomb sewn in his underwear.

John Cornelio, a spokesman for the North American Aerospace Command, or NORAD, said the two F-16 fighter jets were dispatched from Buckley Air Force Base near Denver to intercept the flight. The jets met the aircraft at 6:45 p.m. local time Wednesday, Mr. Cornelio said, and escorted it into Denver.

United said, "The crew of United flight 663 asked that the plane be met by law enforcement officials after landing safely at [Denver] at 7 p.m. local time. We are cooperating fully with the investigation."

The Qatari spokeswoman said Mr. Madadi is a third secretary at the embassy. On his profile on the LinkedIn social-networking site, Mr. Madadi listed his title as a database administrator at the Ministry of Foreign Affairs at the embassy. He studied at George Washington University, where he earned his master's degree of science in information systems technology in 2008.

"All steps are being taken to ensure the safety of the traveling public," the TSA said in a statement.

U.S. NEWS

Peter McCollough for The Wall Street Journal

Crowds at the Powell Street subway station in San Francisco help the city's top economist to judge how much sales-tax revenue to expect.

Oddball data offer clues

Experts get a read on the economy from unconventional gauges

By Cari Tuna

SAN FRANCISCO—When the city's top economist needs a rough prediction of sales tax revenues, he watches the number of subway passengers emerging from the Powell Street Station on Saturdays.

Ted Egan, chief economist in the San Francisco Controller's Office, said he could wait six months for California to release the detailed sales-tax data he needs for city revenue projections. But it's quicker to look at passenger tallies from the station closest to the Union Square shopping district, which generates roughly 10% of the city's sales-tax revenue. The Bay Area Rapid Transit District releases the data within three days, he said: "Why should I have to wait?"

Mr. Egan is among a growing number of economists and urban planners who scour for economic clues in unconventional urban data—oddball measures of how people are moving, spending and working.

Broadway ticket sales are a favorite indicator for the chief economist of the New York City Economic Development Corp., Francesco Brindisi. He says they are a good gauge of city tourism.

In Jacksonville, Fla., community planner Ben Warner keeps tabs on calls to the city's 2-1-1 hotline for social services. Since late 2008, he has seen spikes in calls for help with food, housing, utilities payments and suicide prevention. It is "direct, real-time monitoring of the economic and social situation," he said.

At an economic briefing at San Francisco City Hall last month for officials and industry experts, Mr. Egan flashed slides of traditional indicators, along with the number of customers at parking garages near Union Square and average rents for one-bedroom apartments advertised on Craigslist.

Mr. Egan's parking and rent indicators bottomed out last year and are beginning to trend upward, suggesting the local economy isn't getting much worse. "It's not an exact science," he said. But when it comes to data, he said, "more is almost always better than less."

And there is always more. Mr. Egan said he would like to build software to monitor Craigslist prices for furniture, concert tickets, haircuts and other goods and services to measure changes in local prices. The online classified-ads site, he said, would give a quicker and more detailed read than the bimonthly data from the Labor Department.

Advancing technology is changing the makeup of the economy, Mr. Egan said, so "you never know where the green shoots are going to come from."

The focus by economic prognosticators on urban data follows a history of people looking to nontraditional signs of impending boom or bust. For instance, some economists consider cardboard-box production an indicator of economic activity.

But the newest offbeat indicators, made possible by improving systems for collecting and disseminating data, are painting even timelier and more geographically specific pictures of economic forces, economists say.

"Information-technology is allowing the city's economy to speak to us in lots of different ways," Mr. Egan said. "We just need to find new ways of listening."

One rich repository of predictive data is Web searches, said Hal Varian, Google Inc.'s chief economist. Jumps in such queries as "unemployment office" and "jobs" can help predict increases in initial jobless claims, he said. Other search terms, he added, can anticipate traditional data on travel behavior and sales of cars and homes.

Some economists warn that urban data often are newer and more volatile than traditional indicators, making them harder to incorporate into analysis and forecasts. "I'll look at it, but I discount it very, very significantly," says Mark Zandi, chief economist at Moody's Analytics.

But sometimes, new indicators are more reliable than conventional ones, said Edward Leamer, an economist at the University of California, Los Angeles. He swears by diesel fuel sales, for example.

UCLA's Anderson School of Management recently teamed up with Ceridian Corp., a payments and payroll company, to collect data on diesel purchases by truckers nationwide. The data anticipate increases in U.S. industrial production and gross domestic product, said Mr. Leamer, director of the school's economic-forecasting group.

Mr. Leamer discovered that truckers' diesel purchases on Interstate Highway 5 from California to Oregon, a major timber-trucking route, are a leading indicator of construction employment in California. Diesel sales on Interstate Highway 80 from Sacramento to Salt Lake City, a trucking route for the San Francisco Bay area's manufactured goods, can help predict California's manufacturing employment, he said.

If only he had the diesel-fuel data in the first half of 2008, when major government-issued indicators failed to hint at the U.S. economy's impending downward spiral. At the time, Mr. Leamer said, UCLA forecasters chose not to announce a recession because GDP was still growing and the Bureau of Labor Statistics was reporting relatively mild job losses.

Bad call. The government later revised the GDP and jobs data downward, and the National Bureau of Economic Research concluded that the recession started in December 2007. The jobs data are unreliable because they are based on sample surveys and don't adequately capture company openings and closings, Mr. Leamer said in hindsight.

When the UCLA economists reviewed the fuel-purchases data late last year, they saw diesel buying had peaked in mid-2007, indicating that fewer goods were being made and moved across the country in the months after. "Had we been aware of that data in 2008," Mr. Leamer said, "we would have made a different call."

Rescue efforts hit setback at mine

By Kris Maher
And Siobhan Hughes

MONTCOAL, W.Va.—High levels of explosive gases forced rescue workers to evacuate the **Massey Energy** Co. mine where four miners are missing and 25 died in an explosion earlier this week, but rescue teams hoped to re-enter the mine by Thursday night.

The company and federal and state mine safety officials plan to complete drilling of a second bore hole into the mine to continue lowering the concentration of explosive gases.

Officials said rescue teams had traveled more than four miles and gotten to within about 150 meters of one of two refuge chambers that remain to be checked, but weren't able to see whether the inflatable chamber had been deployed.

"They were not able to get a visual," said Chris Adkins, chief operating officer of Massey. "This is still a rescue mission. There are still chambers" to be examined.

Ensuring safe conditions in the mine has required drilling more than 335 meters down into the mine and moving heavy machinery on the surface above the mine in a step-by-step and time-consuming process.

Most recently, the rescue operation has focused on completing a second bore hole to speed up the venting of methane, carbon monoxide and hydrogen to keep those gases below explosive levels. If those efforts fail, officials will pump nitrogen into a section of the mine with problematic gas readings in order to lessen the risk of an explosion.

Six rescue teams are being kept on the mine site and could re-enter by about 8 p.m. Thursday. Mr. Adkins said the rescue teams, which are made up of miners from Massey and other companies, were "very angry" that they had been called out of the mine.

"You can imagine hauling equipment for a long time and then having to double it back," Mr. Adkins said. "They're running on adrenaline right now. They're very tired," he said of the rescue team members.

Kevin Stricklin, an administrator for the Mine Safety and Health Administration, said the increase in gas levels could have been caused by a drop in barometric pressure as a weather front begins to move into the area. A more ominous possibility, he said, was that a part of the mine could be smoldering and releasing gases as a result of Monday's explosion.

Another complication in clearing the air from one bore hole already completed is that the section of the mine where miners were cutting coal, known as the coal face, doesn't have any exit point to the outside.

Mr. Stricklin compared clearing the air in this part of the mine to blowing into a soda bottle. "There's no place for the air to go," he said.

Gov. Joe Manchin said that safety officials and family members weren't giving up hope and that there was still a possibility that the four missing miners could have reached one of the refuge chambers that have enough food, water and oxygen to sustain them. But he was still cautious about raising hopes.

"It's a long shot," Mr. Manchin said. "Everyone has been up front about that, because this was a horrible blast. If anyone's alive in the mine, they're in that chamber."

Mr. Manchin said a rotating group of between 50 and 100 family members of the missing miners have been gathered at a location near the mine since the accident anxiously awaiting news of the miners' fate.

Hundreds of people came together for a vigil Wednesday night. They carried candles and walked quietly through Whitesville, a town down the river from the Upper Big Bend mine. Many of them wore Performance uniforms and expressed hope that the missing miners would be found alive.

"As long as there's breath, there's hope," said Melissa Roop, whose husband works for Massey at a surface coal mine. "I believe that they're going to come out."

She said she didn't blame Massey for the explosion. "Accidents happen," she said. Ms. Roop knew Jason Atkins, one of the miners who has been reported as dead.

MSHA appointed a team of investigators to look into the blast. The team includes safety officials from outside the district normally responsible for enforcement at the Upper Big Branch mine. The mine has a history of citations involving the ventilation of methane, which is found naturally in coal seams.

On Tuesday, Massey CEO Don Blankenship denied that the mine had a poor safety record that should have prompted different procedures. "The safety record in the past three months had been really, really good," Mr. Blankenship said. "The last couple of years it had been high by Massey standards and the industry standards."

Reuters

Brian Lemon, a Massey Energy miner, waits near the Upper Big Branch mine.

WORLD NEWS

New Kyrgyz leaders seek firmer grip

Opposition presents caretaker government and says U.S. base is secure; president deposed by protests is defiant

By Alan Cullison
And Kadyr Toktogulov

BISHKEK, Kyrgyzstan—Opposition leaders declared a caretaker government here Thursday and vowed to keep open a U.S. military base, while the president deposed in protests Wednesday refused to resign.

President Kurmanbek Bakiyev took refuge among supporters in the country's south, where he conceded that he had lost control of armed forces and police and said he was "still not sure" he would remain in the mountainous Central Asian republic.

But in his first public statement since he fled the capital, Mr. Bakiyev told Russia's Ekho Moscow radio station that he wouldn't give up his post.

Mr. Bakiyev denounced protests as a "Bacchanalia," predicted chaos in the coming days, and said opposition leaders would prove their incompetency.

The Kyrgyz capital remained tense one day after bloody protests forced the president and his government to flee.

As night fell Thursday, looters ransacked a mall in the center of the city, and sporadic gunfire echoed through the streets.

The leader of the coalition of opposition groups, Roza Otunbayeva, said the caretaker government was working on restoring order.

Ms. Otunbayeva said the fall of Mr. Bakiyev's government would have no effect on the supply of troops to Afghanistan through the base at Manas, though U.S. military officials said flights had been halted during the unrest and it was unclear if they had resumed.

"The status quo [on the base] remains in place. We won't rush to decide on such issues," said Ms. Otunbayeva, a former foreign minister and ambassador to the U.S.

Worries of disorder recalled Kyrgyzstan's Tulip Revolution of 2005, when the toppling of the government was followed by several days of looting and a spate of contract killings that claimed the lives of some well-known politicians.

Unlike in the Tulip Revolution, when the departing president fled the country, Mr. Bakiyev appeared to be trying to hang on, raising the possibility of a north-south split that politicians here worry could erupt into serious conflict.

A Kyrgyz news agency reported Thursday that relatives of Mr. Bakiyev's interior minister, who was captured and beaten by a mob Wednesday, had blocked the main north-south road, demanding the minister's return.

In his radio interview, Mr. Bakiyev dismissed reports that he was gathering and arming supporters to stage a return to Bishkek. "How do you think an elected head of state could go against his own people with arms in his hands? Who is making this up?"

Ms. Otunbayeva said Thursday the interim government wouldn't rule out arresting Mr. Bakiyev for the violence Wednesday.

Health Ministry officials raised the death toll in Wednesday's violence to 75, with more than 1,000 injured.

"I think 75 is way too many" to dismiss, said Temir Sariyev, an opposition leader who is now a senior official in the caretaker government. "There's no doubt who gave the order to fire [at protesters]."

Charges against Mr. Bakiyev would complicate any reconciliation of the leaders—who were allies at the time of the overthrow of his predecessor Askar Akayev, but split as Mr. Bakiyev consolidated power.

Ms. Otunbayeva appointed several longtime allies as deputies in the interim government, overseeing the police, military and constitutional reform.

Ms. Otunbayeva signaled that the new government wasn't interested in picking fights over the military base anytime soon, although opposition leaders have been critical of some commercial deals surrounding its presence.

Critics have alleged that Mr. Bakiyev's son, Maksim, has profited from fuel sales to the base, an allegation that he has denied.

The U.S. military base is a key transit point for U.S. troops and supplies bound for Afghanistan. Last month more than 50,000 U.S. and coalition troops passed through Manas en route to Afghanistan, according to U.S. military officials. The U.S. agreement with Kyrgyzstan allowing American use of the base is set to expire soon.

Richard Holbrooke, the Obama administration's special representative for Afghanistan and Pakistan, visited Bishkek last month for talks about extending the pact.

Mr. Holbrooke told reporters the U.S. wanted to "renew the arrangements" for Manas, which he described as "very important."

Those talks have been put on hold because of the current unrest, U.S. officials said Wednesday.

There were also indications Thursday that the change in leadership wouldn't derail the battle for sway in the region between the U.S. and Russia.

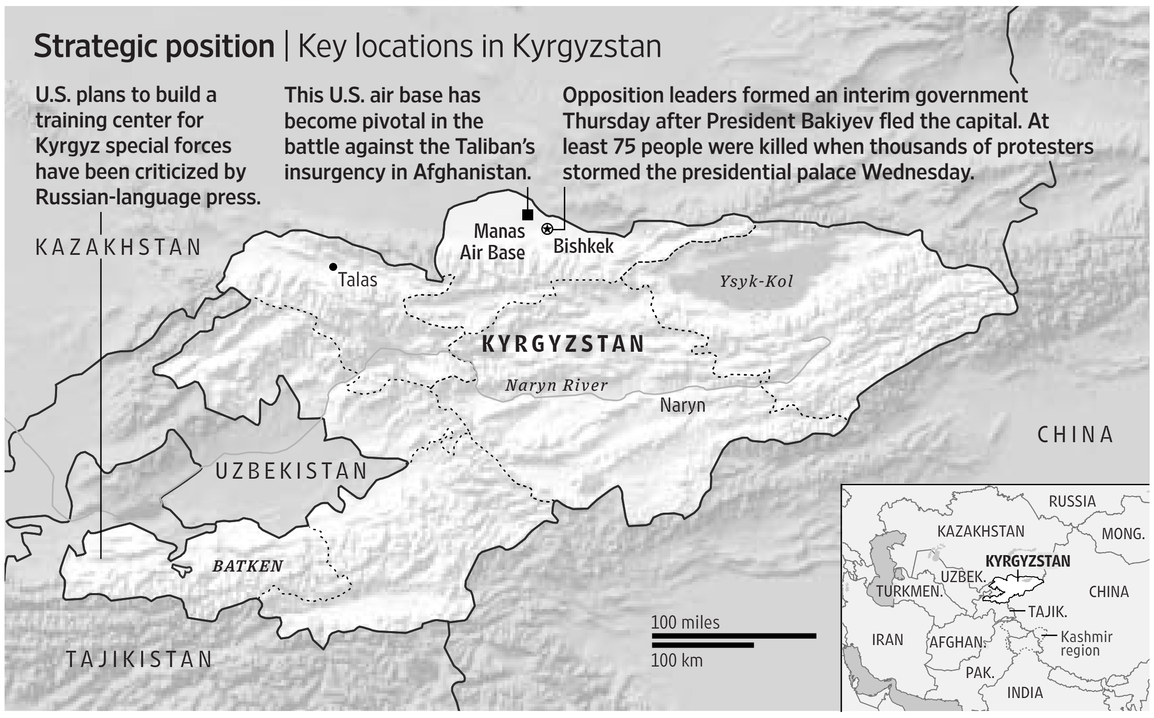
U.S. President Barack Obama and Russian President Dmitry Medvedev, meeting in Prague to sign a nuclear-arms treaty, spoke extensively about the unrest in the former Soviet republic of Kyrgyzstan.

A member of Mr. Medvedev's delegation told reporters that Moscow would insist that the new government shut down Manas.

—Yochi J. Dreazen and Jonathan Weisman contributed to this article.

Associated Press

People pass the remains of a truck in front of the White House presidential office,in Bishkek on Thursday.



Pakistan strips president of some powers

By Tom Wright

Pakistan's National Assembly voted Thursday to strip President Asif Ali Zardari of a number of powers, at a time when he faces increased pressures from his political enemies over allegations of graft.

The National Assembly vote paves the way for the repeal of the constitutional amendments granting those powers.

The amendments were introduced in 2003 by former President Pervez Musharraf, who took office in a military coup. His amendments—accepted by lawmakers—gave the president the power to dissolve the National Assembly and to appoint the heads of the armed forces. The Senate is now required to vote on the repeal and is expected to do so Friday.

The Senate also must act on proposed new amendments, including giving power to Pakistan's provinces and to change the name of North West Frontier Province.

Mr. Zardari had vowed to overturn Mr. Musharraf's amendments after he took office in 2008, following democratic elections.

But the leader dragged his feet on giving up power amid growing political opposition to his presidency, said Hasan-Askari Rizvi, an independent political analyst.

Mr. Rizvi said Mr. Zardari might be agreeing to relinquish certain powers now that political pressures on him have risen to a fever pitch.

"He's trying to deflect opposition pressure by agreeing to this amendment," he added.

Mr. Zardari's spokesman couldn't be reached for comment.

Although he has given up certain powers, Mr. Zardari remains co-chairman of the Pakistan Peoples Party, the largest in the National Assembly.

He became party leader after the assassination of his wife, former Prime Minister Benazir Bhutto, in 2007.

He will continue to play a key role in PPP affairs and hold sway over Prime Minister Yousuf Raza Gilani, who is also a party member. Under the new amendments, the powers to dissolve the assembly and make armed forces appointments will be passed to Mr. Gilani.

The president's foes, which include the nation's senior judiciary and a number of opposition parties, have increased efforts to have the president face trial on graft allegations. Pakistan's anticorruption agency, on the orders of the nation's top judge, asked Swiss authorities recently to reopen a graft investigation on Mr. Zardari.

That move came after the Supreme Court in December overruled an amnesty that had shielded Mr. Zardari and thousands of other Pakistanis from graft allegations.

Mr. Zardari spent 11 years in prison in Pakistan on corruption allegations, but he hasn't been convicted in a Pakistani court and denies wrongdoing.

In 2003, a court in Geneva found him and Ms. Bhutto guilty of laundering kickbacks from a Swiss company, but the verdict was overturned on appeal.

A subsequent Swiss investigation into the allegations was dropped in 2008 at Pakistan's request, following the amnesty decree.

As a sitting president, Mr. Zardari can't be taken to court in Pakistan or overseas, his supporters say.

WORLD NEWS

Talks fuel U.S. hopes on yuan

After Beijing meeting, Washington says China may be nearer to letting currency appreciate

BEIJING—U.S. Treasury Secretary Timothy Geithner's meeting with Chinese Vice Premier Wang Qishan produced no breakthroughs on China's currency policy, but added to optimism in Washington that Beijing may be getting closer to allowing the yuan to appreciate amid intensifying pressure to make a move.

By Andrew Batson, Jason Dean and Deborah Solomon

Xinhua/ZUMApress.com

U.S. Treasury Secretary Timothy Geithner, left, and China's Vice Premier Wang Qishan shake hands Thursday in Beijing.

Mr. Geithner met with Mr. Wang on Thursday for more than an hour in the VIP terminal of Beijing Capital International Airport, before departing for the U.S. The meeting produced brief, almost identically worded statements from both governments that the two sides had exchanged views on bilateral ties and the global economic situation, and worked on preparations for their annual Strategic and Economic Dialogue to be held in Beijing late next month. The statements didn't mention the currency.

A U.S. official said the yuan was discussed, however. The official said the meeting was "constructive" and that the U.S. is encouraged that China will take action on its exchange rate, but that the talks produced no new commitment from China. The person said U.S. officials don't necessarily expect Beijing to make a specific promise to Washington, given the Chinese leadership's intense concern about being perceived to bow to U.S. pressure on the currency issue.

Economists and officials who deal with the Chinese government say they believe the leadership is increasingly close to making a decision to end the de facto peg to the U.S. dollar that it adopted for the yuan in July 2008 amid the worsening global economic crisis.

Critics in the U.S., Europe and elsewhere argue that the policy suppresses the yuan's value, making Chinese exports artificially inexpensive and harming exporters from other countries.

Mr. Geithner's hastily arranged visit, announced just a day earlier, has added to expectations of a move, which has been widely forecast for months and is expected by many participants in the foreign-exchange market.

Although lobbyists for Chinese exporters continue to vocally oppose a more valuable yuan, many influential economists in China have publicly advocated a change, arguing that a more flexible currency would help China deal with the rising domestic prices fueled by its rapid growth.

The currency discussions have taken center stage but Mr. Geithner also raised other issues with Mr. Wang, including the concerns of some American companies doing business in China that they face discriminatory government policies, a U.S. official said. Foreign businesses have complained in recent months about tougher Chinese regulation and intensifying domestic competition in China.

China's central bank Thursday fixed the reference rate known as the central-parity rate at 6.8259 yuan for each dollar—unchanged from Wednesday, which represented the strongest yuan value against the U.S. currency in 10 months.

Late Thursday, on the over-the-counter market, the Chinese currency strengthened to a near six-month high against the U.S. dollar at 6.8245 yuan. Thursday's levels represented only tiny percentage changes, however, and it isn't clear they represent any official shift in thinking.

On Thursday, Xia Bin, a prominent Chinese scholar recently named an outside adviser to the People's Bank of China, told reporters in Shanghai that the current de facto peg is no longer necessary because "the worst of the crisis is over." But he argued that a large move in the currency's value would be unwise, and suggested a return to the pre-crisis policy of a somewhat flexible but closely managed exchange rate.

"There won't be much benefit if the renminbi appreciates suddenly and sharply," Mr. Xia said, using the Chinese currency's official name.

Mr. Xia's comments don't necessarily reflect those of senior government officials, but are in line with the analysis that central bank Gov. Zhou Xiaochuan made publicly in March.

Mr. Zhou said the government still supports the "managed float" system for the exchange rate it adopted in July 2005, and that the current de facto peg is a temporary measure that will eventually end when global economic conditions permit.

Speculation about the timing of a possible Chinese currency move is obscuring another important point: that economists differ on whether any move by Beijing would likely bring about the changes in trade imbalances that foreign advocates of a strong yuan seek.

The Obama administration wants to reduce the drag on the U.S. economy from its large trade deficit—much of which results from China, the U.S.'s second-largest trading partner after Canada. Because a trade deficit represents money spent abroad rather than at home, narrowing it could boost gross domestic product and encourage job creation.

Many Western economists and officials argue that a more market-driven yuan would help address China's massive trade surplus with the U.S. and the rest of the world by making its goods pricier.

Fred Bergsten of the Peterson Institute for International Economics in Washington said in congressional testimony last month that the yuan is 25% to 40% undervalued against the dollar. If the Chinese currency were to appreciate by that amount, he estimated, it would reduce the U.S. annual current account deficit by $100 billion to $150 billion, and generate 600,000 to 1.2 million U.S. jobs.

History suggests that the situation is complicated.

As Chinese officials often note, China's currency rose 21% against the dollar from 2005 to 2008, but its trade surplus continued to increase—nearly tripling to $295 billion in 2008 from $102 billion three years earlier.

China's annual surplus with the U.S. grew by about a third during the period.

The surplus might well have been larger had the yuan not risen, some economists say, but it is difficult to prove that conclusively.

—Esther Fung in Shanghai contributed to this article.

Hu won't file an appeal of sentence in China case

By James T. Areddy

SHANGHAI—Australian Stern Hu, the highest-profile of four former **Rio Tinto** PLC executives found guilty in China last week of taking bribes and commercial secrets while employed by the Anglo-Australian miner, won't appeal his 10-year sentence, his lawyer said Thursday.

At least two of the others convicted appealed their verdicts. All four were fired from Rio Tinto hours after the Shanghai court rendered its verdict on March 29. The four have been jailed since July and none have made public comments.

A lawyer for Mr. Hu, Shi Keqiang, said Thursday that he respects the decision of his client and the family not to file an appeal. He declined additional comment.

In the months since the Rio Tinto employees were first detained, nothing has been revealed about Mr. Hu's defense strategy, and even the identity of his lawyers became known only once the trial had started. There are few clues now as to why Mr. Hu, who unexpectedly admitted during the trial that he accepted bribes on at least two occasions, chose not to appeal his sentence.

Chinese courts rarely overturn guilty verdicts in criminal cases, but are known in some cases to have reduced sentences.

While Mr. Hu's own legal case technically may be finished, details of his case may be reviewed during any broader appeal. Analysts also predict Australian diplomats may ultimately take steps to have their citizen extradited. So far, there is no indication such efforts are under way.

Australia's Department of Foreign Affairs and Trade said Thursday that it respects the decision by Mr. Hu not to appeal. "We will continue to provide Mr. Hu with all consular assistance," it said in an emailed statement.

While at Rio Tinto, the four executives handled a multibillion-dollar business selling iron ore to Chinese steelmakers, and were detained during a period of tense negotiations between Rio Tinto and powerful state-backed companies in China.

A low level of transparency in China's case against the four raised concerns that their arrest was a political move, instead of a legal matter as Beijing contended.

While some executives in China say the case proved the executives were guilty of criminal bribery and deserved their punishment, others say they remain uncomfortable about the process, where the parts of the case relating to commercial secrets were tried behind closed doors.

That did little to generate clarity about what constitutes a commercial secret in China, they said. Australia's government highlighted similar concerns.

Rio Tinto didn't respond to a request for comment Thursday.

Attention now has turned to a handful of Chinese steelmakers and industry executives named in the verdict rendered last week by Intermediate Court Judge Liu Xin as having paid more than $11 million in bribes to the Rio Tinto executives.

—Bai Lin, Yue Li and Liu Li contributed to this article.

Hong Kong taps judge to be chief justice

By Jeffrey Ng And Chester Yung

HONG KONG—The Hong Kong government said it will name Geoffrey Ma, a judge for the past nine years with a long history in private practice, to take over as the city's new chief justice later this year.

Mr. Ma, 54 years old, takes on a critical role as the man charged with maintaining Hong Kong's judicial autonomy under Chinese sovereignty. He succeeds Andrew Li, 61, who announced in September his intention to step down as head of the Court of Final Appeal in August.

Mr. Ma served in private practice from 1978 until 2001, when he was appointed as a judge in the Court of First Instance. He was later named a justice in the Court of Appeal. Mr. Ma's wife is also a judge in the appellate court.

Despite his short tenure on the bench and relative youth, Mr. Ma was named the chief judge of the High Court, the city's second-highest court, from July 2003. That appointment likely paved the way for his eventual ascension to the top judicial job, said legal professionals.

Mr. Li told reporters Thursday he is confident Mr. Ma "will uphold the rule of law and safeguard judicial independence, and that the judiciary, under his leadership, will continue to ensure that individual rights and freedoms of citizens are fully safeguarded."

In the 13 years he has served as chief justice since Hong Kong reverted to Chinese rule, Mr. Li has been widely viewed as a staunch defender of Hong Kong's judicial autonomy.

However, the independent judiciary enshrined in Hong Kong's constitution has faced significant challenges since the 1997 handover, with China's legislature having made binding interpretations of Hong Kong law in recent years.

Wang Guiguo, dean at the City University of Hong Kong's law school, said he believes Mr. Ma's extensive professional experience and strong track record make him a "very good appointment" as the chief justice.