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BOE warns euro zone is losing steam

LONDON—Bank of England governor Mervyn King highlighted a new threat in the U.K.'s economic prospects: the risk of weaker-than-expected recovery in its main trading partner, the euro zone.

With credit availability

By *Natasha Brereton, Paul Hannon and Terence Roth*

still weak and the public and private sectors expected to re-trench, the central bank had hoped external demand would play a major role in driving the U.K. recovery, boosted by the depreciation in sterling.

"Some countries—especially those whose banking systems were relatively unscathed by the crisis—have seen strong growth in recent quarters," Mr. King said. "But recovery in our largest export market—the euro area—appears to have stalled."

Giving evidence to lawmakers, he said it is hard to time a pickup in U.K. exports to coincide with the fall in U.K. demand. "We would very much like to see a recovery in the world economy, led by our biggest trading partner. That

would be a big help if the euro area were to grow more rapidly," he said.

His pronouncement coincided with a raft of data Tuesday showing more signs of faltering business and consumer activity in the euro-zone. Confidence among German companies fell unexpectedly in February, but the country's economic recovery should continue after the winter, according to the closely watched sentiment index released by the Ifo Institute.

In Italy, a new survey by the state-funded ISAE think tank showed Italian consumer confidence falling more than expected in February in response to a deteriorating outlook for the economy and job market. French consumer spending unexpectedly fell in January, as the end of the cash-for-clunkers program caused car sales to slump.

Every week, new euro-zone economic data add to signs that the area's economic recovery is running out of steam after France and Germany led the way out of recession last summer.

A faltering recovery could be particularly wounding for

some of the region's most vulnerable economies. Greece and Spain, which both remained in recession in the fourth quarter, could find it increasingly difficult to cut spending and reduce budget gaps if the euro-zone recovery stutters, or even tips back into a new recession.

Previously, the European Central Bank was seen delaying a boost in interest rates out of concern for some of Europe's weaker economies. But with German growth in a stall and possibly going negative again in the current quarter, economists are pushing expectations of ECB rate increases further back into the year, even into 2011.

Meanwhile, Greece is preparing a crucial bond issue for later in the week as unions prepare for a general strike today. Fitch Ratings downgraded four of the country's biggest banks, saying their already-weakening asset quality and profitability are likely to come under further pressure.

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Burberry flies high for London show



Alastair Grant/Associated Press

Creations inspired by early 20th century aviation wear joined classic Burberry trenchcoats on the catwalk for the company's show at London fashion week on Tuesday. See article on page 3.

The Quirk



Life for an Olympic bobsledder is really a downhill slide Page 29

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David Davis on the politics of personality. Page 13

Toyota says other acceleration issues being probed

By *JOSEPH B. WHITE AND KATE LINEBAUGH*

WASHINGTON—Toyota Motor Corp. is continuing to investigate other causes for sudden acceleration in its vehicles even after it issued two major U.S. recalls to address the problem, a top Toyota executive testified Tuesday before Congress.

"There are many, many causes" of sudden acceleration, said Jim Lentz, head of Toyota's U.S. sales and marketing arm. "In terms of solving the issues of those recalls, we solved the problem." But Mr. Lentz said the recalls for

sticking gas pedals and floor mats that can trap the pedal did "not totally" solve the issue of sudden acceleration.

"We never rule out anything that could cause sudden unintended acceleration. We are vigilant and continue to look for causes," Mr. Lentz told lawmakers. "What we know today it is not an electronic issue."

The House Energy and Commerce Committee opened the first of three congressional hearings on Toyota's safety issues. On Wednesday, Toyota President Akio Toyoda is expected to apologize in person for safety problems

and concede that his company grew too rapidly and its priorities "became confused."

Lawmakers are expected to grill Toyota executives and federal safety regulators over their response to more than 2,000 complaints of sudden acceleration in Toyota and Lexus vehicles over the last decade. Toyota has recalled more than eight million vehicles globally to fix problems with sticky gas pedals, floor mats that can get trapped under accelerators, brake problems and other systems.

In one emotional exchange, Mr. Lentz teared up as he recalled losing his brother, who

was 30 years old, to a car crash two decades ago.

"There's not a day that goes by that I don't think of that," Mr. Lentz said in a quivering voice. "So I know what these families are going through."

The remark was in response from questioning by Rep. Donna Christensen (D., Virgin Islands) about what the lawmaker characterized as inconsistencies in Toyota's stances on unintended acceleration. Rep. Christensen asked, "What happened to the Toyota of the '80s to bring us to the Toyota of today?"

"I think we outgrew our

engineering resources." Mr. Lentz said, adding that the company "lost sight of the customer."

Earlier, the committee heard dramatic testimony from a woman who survived a sudden-acceleration incident. Rhonda Smith of Sevierville, Tenn., said her Lexus ES350 accelerated out of control on a Tennessee highway in 2006, reaching speeds of 100 miles per hour.

"I prayed to God to help me," she said as she choked.

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Under fire Tories running out of time

[Agenda]

BY IAIN MARTIN



Labour can't believe its luck: A British election in which the party had been written off as a hopeless underdog is a real contest again, and the Conservatives grow more concerned by the day.

It isn't just that a hung parliament is a prospect; that has been the case for some time. More than that, the Tories appear diffident and unsure precisely what to do next while their opponents have their tails up.

Those in Labour marvel at what has happened to the Tories, professing themselves slightly bemused but delighted by recent developments.

Why, they ask, are the Tories throwing it away so easily?

"All MPs and activists wanted from Gordon [Brown] was for him to make us competitive again, to give the MPs a chance of saving their seats. It didn't look likely but now they really think it's possible," says a Labour insider.

Recent opinion polls certainly show a considerable narrowing of the gap that suggests a great many of those Labour seats may be saveable. This week, ICM in the Guardian had the Tory lead down to seven points (with the Tories on 37%, Labour on 30% and the Liberal Democrats on 20%). You Gov in the Sun had an even tighter race, with the Tories at 39%, Labour at 33% and the Liberal Democrats at 17%.

The electoral system currently favors Labour, which, after boundary changes, starts with a notional majority of 40 seats or so, and the Conservatives need a much stronger lead to be sure of a majority.

The narrowing of the gap suggests that momentum is with Labour and the Conservatives chances of being the next government are diminishing.

Why is this happening?



Once in the campaign, Lord Mandelson appears to have sensed Tory weakness

It is partly that Britons in work seem much less gloomy about the economy than they were when the warnings on unemployment and deflation were apocalyptic.

But it's more than that. Labour had handled itself well in recent weeks, and the Tories look as though they have lost their nerve.

But, again, why? Any answer must begin with the immaculately tailored figure of Peter Mandelson. When Prime

Despite the worst recession in living memory, it is the Conservatives who find themselves on the back foot

Minister Gordon Brown invited him back from Brussels to rejoin the British cabinet it caused a sensation. The poison had flowed between them for years, and their reconciliation seemed a most unlikely affair.

However, since the Dark Lord's return, theirs has become the central partnership in British politics. In reality, their relationship has ebbed and flowed in recent months a good deal more than Lord Mandelson pretends. Initially, he was much slower to rush to the prime minister's aid when faced with the most recent botched plot to

remove Mr. Brown. At the turn of the year it is said he had "had it with Gordon."

Then Lord Mandelson decided, one last time, to really get stuck in to an election campaign. He appears to have sensed Tory weakness and judged something interesting might be possible.

To that end he has forged a very close working partnership with fellow cabinet minister Douglas Alexander, Labour's general-election coordinator. The duo have very little money—Labour is all bankrupt—but they appear to be genuinely enjoying the challenge of fighting with little more than their reserves of experience. They feel they are directly taking on David Cameron's marketing guru Steve Hilton and winning.

At the weekend, they made a very impressive job—in the circumstances—of launching Labour's campaign. The lack of funds meant that on stage there was no set to speak of but underpinning the event was an old-time New Labour ruthless focus on a simple message.

Mr. Brown acknowledged imperfection, but said it was time to take a second look at Labour and a long hard look at the Conservative alternative.

Mr. Brown, Lord Mandelson, Mr. Alexander and Labour were pleased with the results. Then, intruding into this happy little picture stepped the journalist

Andrew Rawnsley with his new book. It makes allegations of bullying inside Mr. Brown's No. 10 and retails stories of epic prime ministerial rudeness and shouting.

To outsiders it might look strange that the country of Winston Churchill and the stiff-upper lip can get itself into such a tizzy over a few tantrums. But ever since the British lost their obsession with manners (which used to self-regulate behavior), they have been confused about what constitutes proper behavior. Into the vacuum has flooded an anti-bullying industry and a swarm of experts and regulators.

But, the bullying allegations do not—yet—seem to have halted Labour's momentum. If anything, they have strengthened the party leadership's belief that it can make the notion of Mr. Brown the un-spun underdog with flaws somehow appealing.

Yesterday's meeting of the cabinet was reportedly decidedly upbeat, the general tenor seeming to be that they might have the Tories on the run.

The Conservatives hope to get back on track with major speeches on the economy from Shadow Chancellor George Osborne in the City of London and from David Cameron at his party's Spring Forum this weekend. But so far they seem mesmerized by the figure of Lord Mandelson and perpetually worried about what he is going to try next. Amid this uncertainty it remains difficult to discern any distinct message on why the Conservatives actually want to govern Britain.

After 13 years of a Labour government, and after the worst recession in living memory, it is the Conservatives who find themselves rather unexpectedly on the back foot and slipping.

Perhaps, then, the Tories should consider stealing the name Labour chose for the launch of its election campaign last week? Operation Fightback they called it. But if the Conservatives are preparing such a fight back they might consider getting a move on. They don't have much time left.

What's News

■ **Greece is moving closer** to choosing new austerity measures in talks with EU and IMF officials, and the package is likely to include an increase in the value-added tax rate. Meanwhile, Fitch downgraded four of the country's biggest banks. 4

■ **U.S. consumer confidence** fell sharply in February, raising concerns about the outlook for consumer spending. Also, home prices fell in December but were up when adjusted for seasonal factors. 7

■ **A judge ordered** the arrest of Silvio Scaglia, a founder of Italian broadband company Fastweb, for alleged money laundering. 6

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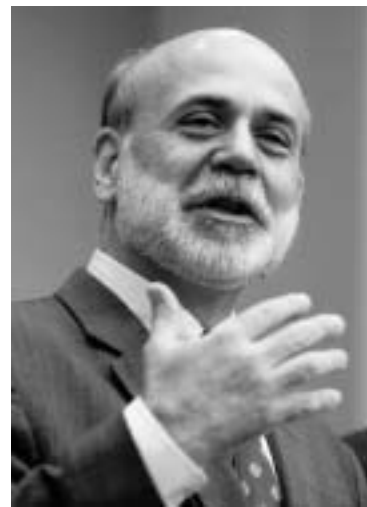
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Reader Phillip Hwee on the wavering support for Toyota Motors' president



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NEWS

Snoop's in U.K. Dogg house

Question for the court: did the performer get a bum rap over evaluation of his character?

BY CASSELL BRYAN-LOW

LONDON—At Heathrow Airport in 2006, Snoop Dogg was embroiled in the kind of dispute that befits his status as hip-hop royalty. The issue: How many members of his 30-strong entourage could enter the British Airways first-class lounge during a layover.

Police were called, heated words were exchanged and a scuffle ensued. Snoop Dogg—real name Calvin Broadus—was detained but later released with a warning for what British authorities said, and he admitted, was the use of “insulting words.” He and his posse went on their way.

But Mr. Broadus has been barred from setting foot in the U.K. ever since he received the warning. At a time when the government's border efforts are focused on fending off religious extremists and illegal immigrants, the U.K. has assigned a special no-fly status to the famous rapper—invoking a rule that allows it to deny entry based on questions of character.

The U.K. says Mr. Broadus, whose rap sheet includes drug and weapons convictions, fits the bill, and border officials here have gone to unusual lengths to back it up. While the average immigration dispute here takes several months to resolve, Mr. Broadus's odyssey with the U.K. bureaucracy has gone on for years. The story is headed for another installment in the coming weeks, when a U.K. Asylum and Immigration Tribunal is expected to rule on the case.

The situation has exasperated the Snoop camp. There is “disbelief and frustration” at the time it is taking and the energy the government has put into the effort, said Philip Trott, Mr. Broadus's lawyer at the U.K.'s **Bates Wells & Braithwaite** LLP. Agent Brent Smith at **William Morris Endeavor Entertainment** LLC added: “Snoop has missed out on several arena tour opportunities, many TV and festival opportunities, as well as a few proposed charity events...And now the U.K. taxpayer is financing the court appeals.”

A spokesman for the U.K. Home Office declined to comment on the case. Mr. Broadus's agent Mr. Smith said the rapper declined to comment.

Mr. Broadus used to be portrayed by the media as closely affiliated with gang culture. He was tried for murder in Los Angeles Superior Court in the shooting of an alleged gang member but was acquitted by a jury in 1996. He has acknowledged his use of marijuana, a frequent subject of his lyrics. But Snoop's public profile is more cartoonish than menacing these days. He coaches high-school football, has touted corporate brands such as car maker Chrysler Group LLC, and is frequently on daytime television, including talk shows such as “The View.” He also has appeared in his own shows, including the reality series “Father Hood,” which stars his wife and children, and the comedy show “Doggy Fizzle Televizzle”—a play on his trademark construction “izzle.”

The April 2006 incident took place as Mr. Broadus was on the way to South Africa to appear at a series of concerts. In video footage at Heathrow, the lanky rapper ini-



Snoop Dogg arrives at Heathrow airport's police station shortly after the 2006 fracas that has been cited by U.K. authorities as they continue to refuse him entry to Britain, where he hoped to perform on stage and TV.

tially seems carefree, greeting fans and dancing with laughing children. But at the British Airways lounge, some of his party—which included hairdressers, dancers and sound engineers—were denied access, and airline staff asked Mr. Broadus and his entourage to leave.

Roughly 20 armed police descended on the scene. As they escorted the group through the airport, Mr. Broadus was pushed to the ground in a duty-free shop by baton-wielding officers, as is evident in the video and according to evidence given in the immigration hearings.

Mr. Broadus was detained overnight. Two in his party were convicted of public-order offenses for using threatening language, and one other person received a caution. U.K. police can issue a warning, or caution, to individuals who admit they are guilty of a minor offense, but it isn't a criminal conviction. “I never had any intention to cause violence or create a threat of it,” said Mr. Broadus in a statement attached to his caution, in which he admitted to using colorful language.

The next year, Mr. Broadus planned a return to Britain to perform as well as to speak at an event against youth violence. But the U.K. banned him from entering, citing the “fracas in Heathrow” as well as convictions in the U.S. and outstanding charges for possession of drugs and firearms, according to the March 23, 2007, refusal.

The two outstanding charges were soon settled. The following month, Mr. Broadus pleaded no contest in a Los Angeles County Superior Court to possession of a gun and marijuana. And, in September 2007, he pleaded guilty in Orange County Superior Court in Santa Ana,

Calif., to possession of a weapon in the form of a baton. He received a suspended sentence and community service in each instance.

U.K. immigration rules allow border authorities to refuse entry if they believe it would be for the public good based on “character, conduct or associations of the person seeking leave to enter.” When a member of the House of Lords asked the government to allow Mr. Broadus entry, the then-minister for borders and immigration countered in a letter that the singer's presence “may act as a focus for public order offenses or violent crime.” Mr. Broadus's lawyers have argued in court that all Mr. Broadus did during the Heathrow incident was use bad language and that he doesn't endorse a criminal lifestyle.

It was a costly moment for Mr. Broadus. The planned 2007 trip was expected to generate concert ticket sales of about \$15.9 million as well as spur further income from music sales, according to Mr. Broadus's lawyers. Tickets already sold for the shows were refunded.

Mr. Broadus appealed the decision. He won an early round when an immigration judge reversed the ban, finding no evidence that he had been responsible for public disorder.

In fact, Judge Nehar Bird said in her January 2008 decision, the Heathrow melee was “precipitated by decisions made by BA staff and the police” and noted that Mr. Broadus had previously been granted permission to perform in the U.K. despite convictions in the U.S. She added that Mr. Broadus had performed in France, Germany and other European countries in 2007.

Border authorities asked for the case to be reconsidered. But in April

2008, a second immigration judge came to the same conclusion Judge Bird had come to.

The government took the case to the Court of Appeal. In a partial victory for the immigration authorities, the appeals court in 2008 said that Judge Bird had misinterpreted the test for exclusion for the public good and sent the case back to an immigration tribunal to rehear it. A spokeswoman for the Judicial Communications Office said judges are unable to comment on cases they've heard.

Late last month, Mr. Broadus's legal team was back at it, this time in a small, white-walled London courtroom where two senior immigration judges watched video of the Heathrow incident during a day-and-a-half-long hearing.

The government's lawyer, Jeremy Johnson, argued that the Heathrow incident shows what happens in Snoop's world “when something does go wrong. Mr. Broadus may react badly and may threaten violence.” He argued that Mr. Broadus was influential and that some of his fans were on the fringes of gang culture.

Mr. Broadus's lawyer, Amanda Weston, scoffed, saying that some of Mr. Broadus's fans are dentists: “Is there a link there?” she asked. “This has become a minister defending a decision rather than a careful review” of the facts, Ms. Weston told the judges.

As Mr. Broadus has tried to battle his way into the U.K., he has found a warmer reception elsewhere in the former British Empire. In 2008, Australia granted him a visa after a full character assessment. Authorities there say they “weighed his criminal convictions against his previous behavior while in Australia, recent conduct—including charity work—and any likely risk to the Australian community.”

Design acumen clearly behind Burberry's rise

BY PAUL SONNE AND BETH SCHEPENS

LONDON—**Burberry** PLC took off on the runway with a vintage-aviator look Tuesday, blasting a live feed of designer Christopher Bailey's London show to five cities around the globe in 3-D.

The show, which has become the highlight of London fashion week since Burberry moved its couture line from Milan to London last fall, comes about a month after the fashion house beat market expectations by reporting a 10% increase in same-store retail sales for the third quarter ended Dec. 31.

Burberry has fared better than other luxury labels in the recession thanks to tight inventory control, successful digital marketing, lower entry-level price points and agile moves to cut costs that were made early on in the downturn. But perhaps the most crucial element behind the company's sales momentum is Mr. Bailey's design acumen.

Since joining the company in 2001, he has transformed Burberry from a dowdy raincoat maker into a glitzy fashion powerhouse by finding ways to reinvent the label's classic look, often digging through the company's archive to find inspiration. The fall 2010 collection was no exception, with designs that took cues from early 20th-century aviation. “We have 153 years of history and I found these great aviator jackets in our historic archive,” Mr. Bailey said backstage after the Tuesday night show. “I used those as a starting point.”

An army of models marched down the runway in tailored military coats and bomber jackets, many with oversized collars, as actresses Claire Danes and Kate Hudson as well as Vogue editor-in-chief Anna Wintour looked on from the front row. The overcoats, a backbone of Burberry's business, were paired with sexy, body-hugging dresses and thigh-high leather boots, giving the collection a tough but delicate feel.

CEO Angela Ahrendts said it expected heavy online viewership, and said about 1,500 people saw the show in 3-D at special locations throughout the world. The 3-D initiative follows a digital campaign last fall that helped drive holiday sales. “The most important message that we're trying to get across in this digital space is the brand and the emotion behind the brand,” Ms. Ahrendts said.



A model at Tuesday's show



Snoop Dogg

Reuters

EUROPE NEWS

Spotlight turns to Greek debt chief

Petros Christodoulou, new to post, faces steep challenge of persuading wary investors to buy country's bonds

BY CARRICK MOLLENKAMP
AND SEBASTIAN MOFFETT

Petros Christodoulou has just started one of the least enviable jobs in European financial markets—persuading wary investors to buy Greek debt.

A U.S.-trained former bond trader, Mr. Christodoulou was last week named head of Greece's debt management agency, a normally obscure post that has taken on new importance as Greece scrambles to raise cash to service its growing mountain of debt.

After only a few days on the job, Mr. Christodoulou is trying to pull off the trade of his life: the planned sale of €5 billion (\$6.8 billion) in Greek debt, a step many in the market view as a critical test of Athens' ability to stave off a default. The sale of the 10-year bond could take place in the next few days, according to a person familiar with the matter. The challenge won't stop there. Greece will need to tap the markets again soon to cover some €20 billion of debt maturing over the next several months.

Mr. Christodoulou succeeded Spyros Papanikolaou, who had openly provided reporters with details about future bond deals, an unorthodox move that raised eyebrows in the markets. A finance ministry official said that this wasn't the reason for the move. "In Greece, it's customary to change some government posts when there is a new government," he said. "But because it was a very critical time, he was

On sales

Petros Christodoulou's career highlights prior to becoming Greece's bond chief last week

Born: 1960

Previous positions:

- National Bank of Greece, general manager of treasury, global markets and private banking
- J.P. Morgan, worked on derivatives, emerging markets and short-term interest-rate trading
- Goldman Sachs, global markets
- J.P. Morgan, global markets

Education:

- Athens School of Commerce and Economics. BSc
- Columbia University, MBA in international financial markets

Source: National Bank of Greece

kept on for a few months."

Though new to government, Mr. Christodoulou, who declined to be interviewed for this article, is no stranger to the world of sovereign debt. A 1985 graduate of Columbia University, where he specialized in international financial markets, Mr. Christodoulou spent years trading bonds and underlying derivatives at **Credit Suisse Group**, **J.P. Morgan Chase & Co.**, and **Goldman Sachs Group Inc.**

For the past 12 years, he worked at the National Bank of Greece, where he ran the treasury, global

markets and private bank units.

"He's the expert on Greek government bonds, and now he's changing sides," said Alexander Kyrtis, a banking analyst at UBS AG in London.

Mr. Christodoulou's tenure at the National Bank of Greece provides one window into his skills juggling financial risk. He managed the bank's access to liquidity while hedging against interest-rate and foreign-currency risk, said a person familiar with his work.

Greece's large budget deficit plus its weak economic foundations have raised concerns among investors over the country's ability to pay back its debt. Greece last month paid four percentage points more than Germany to borrow money.

Greece's Prime Minister George Papandreou said in an interview broadcast Sunday that the country's borrowing needs were covered until mid-March. But he added that Greece needed the backing of other governments, "so that we can borrow at the same rate as other countries, not at high rates."

Mr. Christodoulou's reading of economics hasn't been flawless. In August 2007, he told a Greek newspaper that the packaging and sales of subprime mortgages was a good thing because it dispersed risk to institutional investors and hedge funds. "Most of the bad news about America's subprime-mortgage market will be out by the end of August," he said.

—Costas Paris
contributed to this article.



Petros Christodoulou, in a 2000 photograph, at the National Bank of Greece.

Greece weighs new austerity measures

BY COSTAS PARIS
AND ALKMAN GRANITSAS

ATHENS—The Greek government is moving closer to choosing new austerity measures in discussions with a visiting delegation of European Union and International Monetary Fund officials over how to tame its deficit, said people familiar with the government's thinking.

These people said the new package is likely to include an increase in the current value-added tax rate of 19%, more cuts in civil-service entitlements and higher duties on luxury items such as boats and expensive cars. Greece is also considering a further increase in fuel taxes. The EU in these talks has also asked Athens to cut one of two extra months of pay that public-sector workers now get over and above their normal 12-month salary—a move the government is resisting, according to the people.

Greece has already said it plans a freeze on civil-service wages, cuts in public-sector entitlements by 10% on average, a fuel-tax increase and the closure of dozens of tax loopholes for certain professions, including some civil servants. It says the spending cuts and tax increases will produce some €8 billion to €10 billion (\$10.9 billion to \$13.6 billion) in savings and additional revenue.

The talks with the EU, which formally began Tuesday, are likely to wrap up Wednesday night. "The delegation will strongly urge the government to adopt additional mea-



A man walks past protesters outside the Athens Stock Exchange on Tuesday.

asures worth €2 billion to €2.5 billion," said a person familiar with the talks, adding that if those extra cuts were agreed upon the official announcement could follow early next week.

Italy's finance minister on Tuesday stressed the need for a coordinated response to Greece's financial woes.

"There is only a European position, and that should be as coordinated as possible," Giulio Tremonti said. "Talks are continuing."

Mr. Tremonti declined to say whether EU finance ministers are pressing Germany, whose domestic wage deflation and huge trade sur-

plus make it harder for Greece to export its way out of its woes, to boost consumption.

Since the EU issued its rhetorical support for Greece on Feb. 12, EU members such as Germany and France, among others, have demanded that Greece take further steps to close its budget gap before they would commit to any specific financial support for the country.

"The EU is suggesting an average cut of 7% in gross salaries through cuts in the entitlements of civil servants, while the government is proposing a maximum 5.5% cut," the person said. "If the EU gets its way, the 14th-month salary will basically

disappear." He said the visiting delegation will also be briefed on Greece's borrowing plans. Greece needs to raise about €54 billion this year and has so far borrowed €13 billion.

Greece is expected to come to market with a 10-year bond offering "quite soon," and possibly within the next few days, said a person familiar with the matter. The issue, which is expected to raise between €3 billion and €5 billion, will be the second for Greece this year and the first since EU leaders declared their political support for Greece's borrowing program.

While Greece hasn't asked for financial aid from its EU partners, it is instead pushing for a long-term loan of up to €25 billion, rather than bond guarantees, if the need arises.

Fitch Ratings downgraded four of the country's biggest banks, saying their already-weakening asset quality and profitability are likely to come under further pressure. The agency cut the long-term ratings on **National Bank of Greece SA**, **Alpha Bank AE**, **EFG Eurobank Ergasias SA** and **Piraeus Bank** to triple-B—just two steps above junk.

Fitch said the Greek banks' already-weakening asset quality and profitability "will come under further pressure" because of fiscal adjustments that "need to be made" by the Greek government. Those adjustments will affect loan demand and put additional pressure on asset quality, which could result in higher credit costs and ultimately weaker

underlying probability, Fitch said. Fitch said the banks' profits also are likely to be affected by increased funding costs because uncertainties surrounding Greek public finances "have, to a large extent, constrained" their access to wholesale and interbank markets at reasonable prices.

The outlook on the banks' ratings is negative but could be revised to stable if the quartet can successfully reduce European Central Bank funding and "rebalance their funding and liquidity position without impairing their profitability," Fitch said.

Greece's newest austerity measures are also sure to stoke further resistance from Greece's unions. Already, public-sector umbrella union Adedy and its private-sector counterpart, GSEE, have announced plans for a 24-hour general strike Wednesday.

The strike is seen as the first major test of the government's commitment to push through its harsh austerity program. So far, the government has resisted demands by farm groups seeking further handouts, while separate strikes by tax collectors and customs officials have been called off or else ruled illegal.

Nevertheless, in the latest sign of labor unrest, a group of about 200 left-wing protesters blocked the entrance to the Athens Stock Exchange earlier Tuesday and prevented staff from entering the building. Trading operations were unaffected.

—Nathan Becker
contributed to this article.

EUROPE NEWS



Agence France-Presse/Getty Images

A Danish soldier sits on his tank, guarding U.S. and British soldiers as they clear improvised explosive devices from a main route into Marjah earlier this week.

Denmark rallies behind war

As Afghan operation's popularity wanes elsewhere, Danes support effort amid high casualties

BY ALISTAIR MACDONALD

Among allied forces fighting in Afghanistan, few countries have deployed a bigger share of their armed forces than Denmark, and fewer still have taken higher levels of casualties. But the small Scandinavian country is emerging as an unlikely example of how to maintain public support for the war.

The popularity of the international campaign in Afghanistan has fallen across Europe and in the U.S. On Tuesday, the Dutch government set a June 9 date for general elections, nearly one year ahead of schedule. The move followed the unraveling of the Netherlands' coalition government last weekend after it failed win support to extend the mandate of the nation's 1,600 troops in Afghanistan, presaging a likely withdrawal this year.

The Danes, meanwhile, have largely maintained support, selling the mission as a humanitarian effort rather than simply protection against a terrorist threat, and building consensus among political parties. They have reaped the benefits of a largely supportive media and the country has, to some degree, rediscovered its pride in an active military.

"The key to sustaining public support is an elite consensus that includes politicians in government and opposition as well as key opinion leaders: influential intellectuals, academics and columnists," says University of Copenhagen security expert Peter Viggo Jakobsen.

Denmark has paid a high price in Afghanistan. Its 750 troops represent almost 5% of its entire military, including reserves—among the highest in Afghanistan. Of the total, 31 Danish troops have died there, an allied casualty rate that is behind only Canada and Estonia, which has just 150 soldiers fighting.

Yet throughout a difficult 2009, polls consistently showed around a half of Danes surveyed by TNS Gallup believed Danish troops should be in Afghanistan; only one-third said they didn't. In NATO nations such as

the U.K., Germany and Netherlands, meanwhile, polls reveal over half wanting troops back home.

"If you can't win the public opinion, you have lost the war," Danish Defense Minister Søren Gade said in a recent interview.

Mr. Gade, who has led the Danish efforts to maintain public support, announced Monday he is stepping down. Mr. Gade's ministry has been accused of leaking news of the deployment of Danish special forces to Iraq and he said this was attracting attention away from Afghanistan.

Denmark's forces in Afghanistan—along with Britain, the Netherlands, Estonia and Canada—have formed a rump of non-U.S. allies essential to the U.S.-led war effort that do battle in Helmand province and other Afghanistan hot spots, contributing to high casualty rates for these countries' contingents.

Now some of those nations are growing weary of the effort. The Netherlands and Canada have set pull-out dates, and some foreign armies remain reluctant to fight in restive regions like Helmand. British politicians face hostile media that chronicle the return of every dead soldier's coffin.

It's a different story in Denmark.

"On editorial pages, there has been a total agreement that it is a necessary war," says Kristian Mouritzen, the foreign editor of Berlingske Tidende, one of Denmark's big three dailies.

Mr. Gade, a former Danish army officer, said a key to winning the public was giving reporters deep access to soldiers, who were allowed to talk. When troops say, "We did a job and we did it good, and it is worth doing," then it is very hard indeed for a lot of people to oppose, because those are the men and women who risk their lives," he said.

That doesn't mean the public doesn't struggle with the country's involvement. Frank Erik Carlsen says that on "down days," he questions why Denmark is in Afghanistan, where his brother Henrik lost his life to a roadside bomb in August. But doubts pass, he says, when he thinks of the terrorist threat from Afghanistan and of Denmark's reconstruction efforts there, such as building wells and schools.

"It is too easy to stay at home, and Denmark is doing its part," he said. Next month, Mr. Carlsen begins training for his own deployment.

Denmark only recently returned to military action following a long

span of neutrality following its 1864 defeat to Prussia, in modern-day Germany. With the end of the Cold War, Danish forces, long tasked with home defense, had nothing to do.

A stint in NATO's military intervention in Kosovo saw a Danish tank force rout a Serbian attack in 1994. Suddenly Danish politicians found it advantageous for the military to punch above its weight internationally and become a point of national pride, Dr. Jakobsen says.

Denmark's participation in Iraq was less popular. But Danish politicians learned lessons they believe the U.S. and U.K. took too long to heed—emphasizing reconstructive work as much as the military conflict, and recognizing the broad-based effort of a U.N. mission with 44 contributors.

"When I read a U.K. paper its just like, the U.K. and nobody else" fighting, Mr. Gade said.

But support can't be taken for granted. Recently there have been cracks in the coalition and a fall in opinion polls, with a major newspaper withdrawing its support. Also, Mr. Gade's departure is seen as bad news, given the former advertising executive is seen as the government's most persuasive campaigner.

Fighting Danes

Few countries have contributed more or taken a bigger hit in Afghanistan than Denmark. With Canada and the Netherlands scheduled to pull out, keeping public support in places like Denmark is all important.

	Number of soldiers sent	Number of soldier deaths	Soldier deaths as a pct. of soldiers sent	Soldiers sent as a pct. of total military personnel
U.S.	78,000	1,003	1.3%	5.7%
U.K.	10,00	264	2.6	5.7
Canada	2,830	140	4.9	4.4
France	3,750	40	1.1	1.6
Germany	4,415	34	0.8	2.4
Denmark	750	31	4.1	4.4
Spain	1,070	28	2.6	1.1
Italy	3,150	22	0.7	1.8
The Netherlands	1,940	21	1.1	4.4

Sources: ISAF; IHS Jane's; icasualties.org; WSJ research

Netherlands sets early date for election

Associated Press

AMSTERDAM—The Dutch government on Tuesday set June 9 as the date for general elections, nearly one year ahead of schedule, following the collapse of the center-right government in a dispute over the country's engagement in Afghanistan.

Queen Beatrix, the ceremonial head of state, accepted the resignation of 12 cabinet officers from the Labor Party who quit the coalition Saturday when the left-leaning party refused to comply with a North Atlantic Treaty Organization request to keep Dutch troops in the southern Afghan province of Uruzgan.

Prime Minister Jan Peter Balkenende will remain in office as head of a minority cabinet until the elections, but is empowered to deal only with issues that can't be delayed, the queen's office said in a statement. The announcement from the Royal Palace followed two days of consultations by the queen, who broke off a skiing holiday in Austria to meet the leaders of all political parties and her political advisers.

Although the queen's function is largely ceremonial, she does have some leeway in deciding an election date and the powers of the interim government.

"A lot has happened in the last days after the cabinet fell," Mr. Balkenende told a news conference. "The parties have made it clear they want elections as soon as possible."

He named Jan Kees de Jager as the new finance minister to replace Wouter Bos, the Labor Party leader who resigned.

The government's fall and the withdrawal of Dutch troops this year was a blow to NATO, coming as the U.S. is pouring 30,000 more troops into Afghanistan and calling on its allies to step up their own contributions. Without a consensus to extend the Dutch mission, the forces will begin their evacuation in August and pull the last of its 1,600 troops from the province by December.

Richard Holbrooke, the U.S. special envoy for Afghanistan and Pakistan, called the Dutch decision a disappointment. "They've done a wonderful job in Uruzgan," Mr. Holbrooke told reporters in Berlin, where he was consulting with government officials. "To be honest, I heard the news with great sadness," he said.

"It is disappointing to see such a decision unfold," Mr. Holbrooke said. He added, however, that he hoped it could be adjusted.

The mission in Afghanistan was deeply unpopular from the start. The troops were sent in 2006 with responsibility for security and reconstruction in Uruzgan, where the Taliban was particularly active. But Mr. Balkenende's government responded positively to then-President George W. Bush's appeal to join the NATO effort. Mr. Balkenende had favored keeping a reduced force in Uruzgan to prepare Afghan army and police forces to take over security operations.

In Washington, U.S. Defense Secretary Robert Gates said in a speech to NATO officers Tuesday that Europeans' aversion to fighting wars has become "an impediment to achieving real security and lasting peace" in this century and threatened to be a temptation for aggression.

EUROPE NEWS

Fastweb founder sought

Italian police seek 56 people in sweeping money-laundering probe

BY STACY MEICHTRY
AND SABRINA COHEN

ROME—A judge Tuesday ordered the arrest of 56 people, including a founder of Italian telecom operator **Fastweb** SpA, as part of an international probe into an alleged €2 billion (\$2.72 billion) money laundering and tax-evasion scheme earlier this decade at Fastweb and at a unit of **Telecom Italia** SpA.

Italian prosecutors allege Silvio Scaglia, who was Fastweb's chief executive until 2003 and chairman until 2007, was part of a ring that used phony companies to launder large sums of money to buy jewels, cars and real estate between 2003 and 2006, according to a copy of the arrest warrant signed by Judge Aldo Morgigni and seen by The Wall Street Journal.

The arrest order was issued for people in Italy, the U.K., Switzerland and the U.S. It was unclear how many people had actually been arrested by Tuesday evening, however. In a statement, prosecutors didn't elaborate on what role Mr. Scaglia allegedly had in the money-laundering operation.

Prosecutors said internal audits showed that Fastweb's management was aware that funds were "circulating" between the phony firms and Fastweb.

In an emailed statement, a lawyer for Mr. Scaglia said his client denied any wrongdoing. Mr. Scaglia is "on a business trip overseas," the statement said, adding Mr. Scaglia will cooperate with investigators. In statements, both Fastweb and Telecom Italia said they were "injured parties" in the investigation.

Swiss telecom operator **Swisscom** AG took over Fastweb in 2007 for about six billion Swiss francs (\$5.6 billion). A spokesman for



Silvio Scaglia, shown in 2005, is among those being sought in the probe.

Swisscom said the company was "aware of the VAT issues and this was part of what we looked at as part of the due diligence" before purchasing Fastweb. Swisscom isn't accused on wrongdoing because the alleged money laundering took place before its acquisition of Fastweb.

Prosecutors allege that between 2003 and 2006 Fastweb and Telecom Italia purchased €2 billion in services, such as phone card systems, from phony companies registered in Finland and the U.K. Fastweb and Telecom Italia then resold the phony services to other fake firms without declaring income from the transaction to tax authorities, according to the statement.

As part of the money-laundering probe, Judge Morgigni has also ordered the arrest of Nicola Di Girolamo, a senator from Premier Silvio Berlusconi's party, on allegations of money laundering. Mr. Di Girolamo denied any involvement on Tuesday.

"This is science fiction. I feel like I've been dropped into a war zone," the senator told reporters in comments confirmed by an aide. As a senator, Mr. Di Girolamo enjoys par-

tial immunity; the Senate has to authorize prosecutors' request for the arrest.

Prosecutors are also probing Fastweb and Telecom Italia for alleged false accounting between 2003 and 2006. They said in their statement that the companies created fake invoices as part of the transactions.

Through the scheme, the ring managed to evade up to €400 million in taxes, prosecutors alleged in their statement.

Fastweb's current chief executive Stefano Parisi and two other Fastweb managers have been placed under investigation as part of the probe, the company said in a statement. The company said Mr. Parisi wasn't available for comment.

Telecom Italia said former employees had been placed under investigation, but didn't say if any of its employees were arrested in connection with the probe. A company spokesman declined to comment further.

—Cassell Bryan-Low, Deborah Ball and Giada Zampano contributed to this article.

Irish bomb reflects rise in insurgency

BY GUY CHAZAN

The car bomb that exploded in the Northern Ireland city of Newry on Monday night highlights the resurgence in activity of Irish Republican splinter groups determined to wreck the province's fragile peace process with an increasingly sophisticated use of explosives.

But analysts say that despite the upsurge in attacks, there is little likelihood of a return to the full-blown violence that plagued the province at the height of the Troubles.

Monday's 100-kilogram bomb went off in a car near the front security gates of the courthouse of Newry, a town near the border with the Republic of Ireland. Warnings were received by authorities giving 30 minutes' notice of the blast, but the device exploded just 17 minutes later. Local police said it was a "sheer miracle" no one was killed or hurt.

The Newry bomb, which no group has yet claimed responsibility for, is proof that "we are not quite postconflict," said Richard English, professor of politics at Queen's University Belfast. Dissidents are going to be "more of a part of the new order in Northern Ireland than people thought would be the case," he said.

Republican spinoffs enjoy little popular support and lack the technical capacity to wage an armed campaign on anything like the scale pursued by the Provisional Irish Republican Army, or IRA, during the 1970s and '80s. After the IRA laid down its arms in 2005, small splinter groups—made up of hard-line Catholic nationalists who opposed disarmament—sprang up and have slowly stepped up their activity.

Monday's attack indicates that dissidents have made progress, even if they aren't yet a full-powered threat, and that gives them a growing ability to disrupt life in the province.

"The fact that IRA offshoots are now able to detonate bombs of this size is an alarming development," said Andy Oppenheimer, an explosives expert and author of "IRA—The Bombs and the Bullets." But he noted that they still aren't in the same league as the Provisional IRA, which had "the world's most advanced bomb-making program." IRA explosives typically packed four times the punch of Monday's car bomb.

U.K. Prime Minister Gordon Brown's official spokesman condemned the attack. "Such acts are entirely unrepresentative of the views of the vast majority of people in Northern Ireland," he said. "We will not allow a tiny minority to turn the clock back."

Police in Northern Ireland said they have been expecting militants to respond to this month's Hillsborough Agreement, which paved the way for policing and judicial powers to be passed from London to Belfast.

The deal broke a monthslong deadlock on the policing issue that threatened to bring down Northern Ireland's power-sharing government, which links Catholics from Sinn Fein and Protestants from the Democratic Unionist Party in an uneasy alliance.

Hard-line Republican groups like the Real IRA and Continuity IRA have kept up a steady drumbeat of attacks over the past year or so.

The worst month for violence was March 2009, when two British soldiers were shot and killed as they picked up a pizza delivery outside their barracks, and two days later a local policeman was killed.

While such fatal attacks are rare, there has been a marked increase in the use of explosives—though unlike Monday's incident, they rarely detonate.

Bombs have been left near the homes of policemen and their relatives, and police stations have been fired on. Politicians from the Catholic Sinn Fein party have suffered death threats and arson attacks on their homes.

Last month, a Catholic police officer was seriously injured in a car bomb blamed on dissident Republicans.

Some observers say the latest incidents show the young, disaffected men who dominate the ranks of splinter groups opposed to the peace process are being joined by IRA veterans with experience of handling and planting explosives.

But the dissidents' impact is damped by the fact that the mainstream Republican movement has disowned them, and opinion polls show the vast majority of voters in Northern Ireland back the peace process—a stark contrast with the 1970s, when the IRA's armed struggle against British rule enjoyed broad support in the Catholic community.

Madeira begins repair efforts

BY JEFFREY T. LEWIS

Madeira on Tuesday shifted its focus from recovery to repairing damages from the weekend storm that left at least 42 people dead on the island more than 600 miles west of the European mainland.

The number of reported deaths in the Portuguese autonomous region has been unchanged since Sunday, and the number of people missing has fallen to 18, from earlier reports of more than 200.

Madeira's government hopes to repair physical damage and the island's reputation as a tourism haven,

said Conceicao Estudante, the regional government's spokeswoman and head of the tourism and transport department. Heavy rains flooded roads, homes and businesses, cut off telecommunications, water and electricity supplies, and provoked mudslides.

"We're rolling up our sleeves and getting to work," she said at a briefing Tuesday at the regional government's headquarters. "We want to heal the wounds to our people and to our island, and we want visitors to know that we have what it takes to move on and recover from this."

The island is heavily dependent on tourism, representing about 20% of the economy and with about 7,000 people working in hotels.

The government doesn't expect to have estimates of the total value of the damage caused by the storm and the mudslides until Friday at the earliest, she said.

About 600 people who were evacuated from their homes haven't been able to return yet, some because of dangerous conditions nearby and others because their homes were destroyed. Those people are being looked after, either in shelters or by family or friends, Ms. Estudante said.

The situation around the island is rapidly returning to normal. Water, electric and telecommunications ser-

vices have been restored to all but a few of the most affected areas of the island. Public offices have reopened and more schools will reopen Wednesday.

Parts of Funchal, the capital of this mountainous island of about 240,000 inhabitants, were full of cleanup crews, residents and tourists Tuesday. Construction and cleanup teams cleared mud and debris, drained flooded underground parking garages and carted sodden trash from basements. Giant dump trucks full of mud and stones rumbled their way to the nearby port to pour their contents into the sea.

The Madeira Autonomous Region consists of several islands, the biggest being Madeira island. The government is headed by Alberto João Jardim, who has won every regional election here since they were first held in 1978 following the return to democracy in 1974.

Hotel workers say they want to reassure potential visitors that storms like the weekend's are highly unusual there.

"There are a lot of cancellations," said Susana Silva, 37 years old, who works in the reception at the Quinta Mirabela Hotel in the hills of Funchal. "People think these storms happen all the time here, but this is the first time I've ever seen anything like this."



A forensics team examines the car that exploded in Newry, Northern Ireland

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U.S. NEWS

Mood darkens; home prices stabilize

Data indicate Americans grew more pessimistic in February, while fourth-quarter housing index showed promise

By KATHLEEN MADIGAN, SARA MURRAY AND NICK TIMIRAO

U.S. consumer confidence plunged more than 10 points in February, raising concerns about the outlook for consumer spending.

Separately, home prices in the U.S. continued to decline at the end of last year but at a slower rate as the housing market continued to stabilize.

The Conference Board, a private research group, said its index of consumer confidence declined to 46.0 this month, from a revised 56.5 in January, first reported as 55.9. The February reading was far below the 54.8 expected by economists surveyed by Dow Jones Newswires.

The percentage of U.S. consumers expecting more jobs in the months ahead fell to 13.4% from 15.8%.

The present-situation index, a gauge of consumers' assessment of current economic conditions, fell to 19.4 this month from 25.2 in January, originally reported as 25.0. The February index was the lowest in 27 years. Consumer expectations for economic activity over the next six months dropped to 63.8 from a re-

vised 77.3, first reported as 76.5.

"Fewer consumers [are] anticipating an improvement in business conditions and the job market over the next six months," said Lynn Franco, director of the Conference Board Consumer Research Center. "Consumers also remain extremely pessimistic about their income prospects."

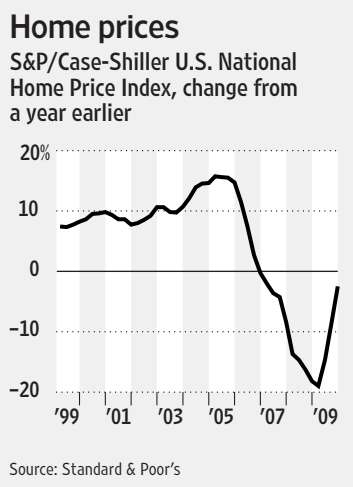
Sentiment about the current labor markets took a direct hit in February, even as government data for January showed some improvement in the jobless rate. The percentage of respondents who think jobs are "hard to get" rose to 47.7% in February from January's 46.5%. And those who think jobs are "plentiful" fell to 3.6% from 4.4%.

The employment outlook didn't fare any better. The percentage of consumers expecting more jobs in the months ahead fell to 13.4% from 15.8%, while the proportion expecting fewer jobs jumped to 24.6% in February from 18.9% in January.

The report also showed 17.2% of respondents expect their incomes to fall over the next six months, and only 9.5% expect an increase.

"The combination of earnings and job anxieties is likely to continue to curb spending," said Ms. Franco.

The U.S. S&P/Case-Shiller Home Price index fell 2.5% in the fourth quarter, compared to the same period a year earlier, according to a



Home prices continued to decline at the end of last year but at a slower rate.

report released Tuesday. The slight drop is a clear improvement from early in the recession. For example, in the fourth quarter of 2008, home prices were down 18.2% from a year earlier.

Meanwhile, the month-to-month change in home prices for a composite index of 20 housing markets that S&P/Case-Shiller tracks showed that home prices actually rose 0.3% in December, from the prior month, adjusted for normal seasonal variation. That measure of home prices also rose 0.3% in November. Prices fell in just five of the 20 markets included in the survey, remained flat in one and rose in the other 14.

Not adjusted for seasonal variations, prices fell 0.2% in December. Home sales tend to slow during the winter, which in turn can lead to a drop in prices and may explain the decline in home prices on an unadjusted basis.

"Overall, this report suggests that the recent positive momentum in the U.S. housing market is gaining further traction and underscores that home prices are continuing to stabilize," Millan Mulraine, a TD Securities analyst wrote in a note to clients. "As such, we may only be a few months away before we see a monthly gain in national home prices."

Robert Shiller, the Yale University economist who co-founded the index that bears his name, called the home-price rebound during the second half of last year "the most dramatic turnaround" since he began charting home prices in 1987.

Home prices fell by 11% for six months ended in April 2009, before rising by around 5% over the following six months. The last time home prices swung so sharply was in April 1991, when a more modest 5% decline over six months was followed by a 2% rally. "The home market was absolutely dead for the better part of a decade after that," said Mr. Shiller.

Struggles continue in banking industry

By MICHAEL R. CRITTENDEN

WASHINGTON—The U.S. banking industry continued to struggle in the fourth quarter, as the number of banks on the brink of failure continued to rise and the government's fund to protect deposits fell sharply into the red.

The Federal Deposit Insurance Corp. said Tuesday that its deposit-insurance fund's deficit widened by \$12.6 billion in the final three months of 2009 and hit \$20.9 billion at the end of the year, as bank failures continued at a pace not seen since the savings and loan crisis.

The fund's reserve ratio was minus-0.39% at the end of the quarter, the lowest on record for the combined bank and thrift fund.

The deposit insurance fund is unlikely to soon see a respite from a decline in the number of failing banks: The FDIC said the number of banks on its "problem" list climbed to 702 at the end of 2009 from 552 at the end of September and 252 at the end of 2008.

The number of banks on the list, which have combined assets of \$402.8 billion, is the highest since June 1993.

"The continued rise in loan losses and troubled assets points to further pressure on earnings," FDIC Chairman Sheila Bair said in a statement. "The growth in the numbers and assets of institutions on our 'Problem List' points to a likely rise in the number of failures."

Industry indicators deteriorated nearly across the board. The FDIC

said loan losses for U.S. banks climbed for the 12th straight quarter, while the total loan balances for U.S. banks continued to fall. The agency said the quarterly net charge-off rate and the total number of loans at least three months past due both were at the highest level ever recorded in the 26 years the data have been collected.

Net charge-offs of troubled loans occurred across all major loan categories, led by a \$3.3 billion increase in residential mortgage loans. The FDIC said U.S. banks' coverage ratio—reserves divided by the amount of noncurrent loans—fell to 58.1% in the fourth quarter from 60.1% in the third quarter.

The FDIC did cite some reasons for optimism. The banking industry was able to report a modest profit of \$914 million in the fourth quarter, compared with a record loss of \$37.8 billion in the final three months of 2008. And while the largest banks were the beneficiaries of much of the earnings improvement, the agency said more than half of FDIC-insured banks saw a year-over-year improvement in their net income.

Banks' profits were helped by improvements in trading revenue, which totaled \$2.8 billion the fourth quarter, and servicing income, which represented a gain of \$8.0 billion.

The FDIC also said that more than half of all banks reported higher net interest margins in the fourth quarter compared with third-quarter levels.

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U.S. NEWS

Charting a course around filibusters

BY GREG HITT

Crafting and passing health-care legislation, which promises to overhaul a sector that accounts for a sixth of the U.S. economy, was always going to be complicated and messy. By all accounts, the effort is poised to get even messier.

That is because the most likely path forward for the sweeping legislation—stalled on Capitol Hill since mid-January's Senate election in Massachusetts—appears to involve an abstruse legislative procedure designed to circumvent Senate filibusters, several congressional aides said. The procedure, known as reconciliation, would be part of a process under which Congress would vote on two closely linked bills, one after the other.

"It's designed to get everything you want, through two bites of the apple," said Mike Franc, vice president of government relations at the Heritage Foundation, a conservative think tank.

Under this approach, the first major action would be House approval of the Senate's version of health-overhaul legislation, which would clear the measure to be signed into law. But winning passage in the House is problematic. Many House Democrats weren't thrilled with the Senate's bill, which they saw as less generous to those in need of health-insurance coverage, among other things. So a second, smaller bill would be pushed through Congress, making changes to the broader package in hopes of making it more palatable to House Democrats. The second bill would be given so-called reconciliation protection by congressional leaders, effectively shielding it from the threat of a filibuster in the Senate.

Below is a primer on the reconciliation process and why it would be deployed.

Why the legislative contortions?

The whole goal for Democrats on Capitol Hill is to avoid sending the broader health bill back through the Senate. After the Massachusetts election gave the late Sen. Edward Kennedy's seat to Republican Scott Brown, Democrats no longer have the 60 votes needed to shut off a filibuster. So they hope to work around the newly empowered Sen-

ate Republicans by securing House passage of the Senate bill and sending it to the White House, and then use the smaller bill—protected from filibuster by reconciliation—to make adjustments needed to solidify support among House Democrats.

How would reconciliation help?

The procedure limits total debate in the Senate to 20 hours, though amendments can still be offered—and voted on—once time for debate has expired.

Should reconciliation apply to health care?

Democrats avoided reconciliation last year, in part because of questions about whether popular provisions of the health bill—such as the requirement that insurers no longer deny coverage to individuals with pre-existing conditions—might fall outside of the rules governing use of the procedure.

In the Senate, the so-called Byrd rule bans nonbudget measures—such as regulatory mandates—from being attached to a reconciliation bill. Most of the provisions likely to be incorporated in the follow-on health bill will be budget-related. But the White House is also proposing to impose new federal oversight of the insurance industry, and it isn't clear that idea would be protected by the reconciliation process. If the Senate parliamentarian decides a provision doesn't qualify, it could be knocked out of the bill.

What are the political risks and benefits?

Democrats stressed that no final decisions had been made on using reconciliation, especially with President Barack Obama's summit with congressional leaders looming later this week. "That's not a done deal," cautioned a senior Democratic leadership aide in the Senate.

But several aides stressed that invoking reconciliation as part of a two-step process could ensure a health overhaul is accomplished, allowing Democrats to claim victory after a long series of legislative fights that have hurt the party's image. The risks are that the complicated process reinforces public concerns about congressional transparency and further emboldens Republicans.

Reconcilable differences

Every U.S. president since Jimmy Carter—Democrat and Republican—has made use of reconciliation. Below are some recent examples:



1993: President Bill Clinton; wins passage of deficit-reduction package.

1997: President Bill Clinton; secures another deficit-reduction bill.



2001: President George W. Bush; wins passage of major tax cut.

2003: President George W. Bush; approval of second tax-cutting bill.



Bloomberg News

White House Chief of Staff Rahm Emanuel pushed for a less robust proposal after Democrats' defeat in Massachusetts

Sticking to the first plan

The health proposal shows Obama isn't making concessions yet

BY LAURA MECKLER
AND JONATHAN WEISMAN

WASHINGTON—President Barack Obama's health-care proposal is a victory for those in the White House who want to press ahead with ambitious legislation over those who counseled scaling it back.

The proposal, unveiled Monday, reaffirmed Mr. Obama's support for the policy's sweeping objectives: expanding health-care coverage to some 30 million Americans, new efforts to control health spending and new rules for health insurers.

Continued pursuit of a comprehensive health-care overhaul had been uncertain following the victory last month of Republican Scott Brown in the Massachusetts U.S. Senate election. Mr. Brown won partly by campaigning against the health bill, which was proving increasingly unpopular with voters.

"People were in shell shock after Massachusetts," said one person close to the White House deliberations.

The night of the Massachusetts vote, the president met with House Speaker Nancy Pelosi and Senate Majority Leader Harry Reid and asked the speaker if she had the votes to move the Senate bill through the House, a senior White House official said. She replied that she didn't know yet.

After that, the internal White House debate involved what was feasible given the political pressures on Capitol Hill.

Advocates of a "skinny bill," including White House Chief of Staff Rahm Emanuel, made some headway with their case after that defeat, according to people involved in the discussions.

This camp argued for a slimmer measure that would include provisions from the pending Democratic legislation—such as forcing insurers to cover pre-existing conditions. The argument was that a more expansive measure couldn't win enough votes to pass through Congress. Mr. Obama himself publicly suggested such a step.

Mr. Emanuel, who had long advocated for a smaller health-care bill, argued that the state of play in Congress didn't favor the Democrats' sweeping legislation, which was helping drive down Mr. Obama's approval ratings, one person involved in the talks said.

"Rahm strongly believes that incremental reform is all that can (and should) be done," this person said in an email Monday.

White House senior adviser David Axelrod was among those to articulate the arguments for moving forward with the comprehensive approach, in conference calls with congressional leaders and elsewhere, according to Democrats familiar with the debate, though the senior White House aide said he didn't take sides in the central legislative strategy debate.

The president explored a scaled-back approach and asked his staff to examine areas of broad political

agreement, according to congressional aides involved in the process. The exercise quickly pointed to a practical problem: You couldn't make incremental changes that were politically popular without pursuing the whole package.

For instance, Republicans and Democrats agree they should prevent insurers from denying coverage based on pre-existing conditions. But without a mandate requiring healthy people to buy coverage, insurers would wind up with a slew of sick customers without healthy ones to balance them out. That would likely lead to either soaring premiums or a bankrupt industry.

White House aides say Mr. Obama tipped his hand at a town-hall meeting Jan. 22 in Elyria, Ohio, when he discussed the results of trying to tease out insurance regulations. "A lot of these insurance reforms are connected to some other things we have to do to make sure that everybody has some access to coverage."

Despite Mr. Obama's resolve, the White House may still wind up supporting a scaled-back bill if congressional Democrats are unable to rally enough support for the comprehensive measure and aides left the door open to that approach.

Inside the White House, the calculations involved both politics and policy. "There is a growing realization that we are still so very close," one person involved in the talks said Monday. "Today was a big victory for the comprehensive advocates."

WORLD NEWS

Recall dims Japan's export outlook

Toyota's troubles could hurt trade, damp consumer spending at home; government plans stronger recall rules

By TAKASHI MOCHIZUKI

The Japanese government acknowledged for the first time Tuesday that **Toyota Motor Corp.**'s massive global recall could have a ripple effect on the world's second-largest economy, which is struggling to overcome deflationary pressures.

Also Tuesday, Japan's transport authorities said they would tighten rules related to vehicle recalls, responding to criticism that insufficient government oversight in the nation's recall process may have contributed to delays in the handling of safety problems at Toyota.

Transport minister Seiji Maehara said the government will review several aspects of the recall system, with an eye toward strengthening its authority and capability in gathering information on vehicle problems and enforcing remedial action when necessary.

"I tend to think there is a great possibility that Toyota didn't share information with the government properly," Mr. Maehara said at a news conference.

"I think it's extremely important to strengthen our information-gathering system so the [transport] ministry and the consumers are given full explanations, even when the problems seem trivial to the manufacturers," he said.

Mr. Maehara said the staff of Japan's National Traffic Safety and Environment Laboratory—the agency that conducts investigations when vehicle problems are reported or suspected—should be expanded. The section in the laboratory responsible for auto recalls has just 16 employees, 15 of which are part time.

The government also will study whether the existing system to enforce a recall when it sees a problem is adequate, the minister said, without giving further explanation.

Japan downgraded its assessment of exports in its economic report for February, partly because of concerns stemming from Toyota's recall of more than eight million vehicles world-wide.

Toyota's position as the world's



Japanese vehicles for export about to be loaded on a freighter in Yokohama on Tuesday. Toyota is one of Japan's most important exporters.

largest auto maker means that it is one of the leading exporters in Japan, at a time when the country's economic recovery is fragile and susceptible to external shocks.

Shipments of cars and automobile parts accounted for about 15% of Japan's overall exports in 2009, analysts say. Daiwa Research Institute says that if Toyota's recall issue worsens, the fallout could push Japan's nominal gross domestic product down by 0.12 percentage point in the future.

The government left its overall economic assessment unchanged for the seventh straight month, saying "the economy has been picking up," but downgraded its assessment of exports to "increasing moderately" from "increasing" a month ago.

The downgrade was partly due to "Japanese cars' recall issues," said Keisuke Tsumura, a parliamentary secretary at the Cabinet Office.

"It is very disappointing," said Mr. Tsumura, citing private research showing sales of Japanese cars in the U.S. dropped by 4.3% in January from a year ago.

He added that feedback from U.S. retailers shows demand for Japanese cars in the U.S. isn't in good shape in February, either.

"I've heard that sales [of Toyota's cars] have been decreasing in a part of overseas markets, so we need to watch the impact" on the Japanese economy, said Naoto Kan, finance and economy minister, at a news conference. "Still, I don't expect the [recall] problem to affect the economy soon."

But the possibility that the recall could pose a downside risk to the export-reliant economy hasn't been ruled out in the medium term, and the government is alert to whether additional economic stimulus measures may be needed.

The government is also wary about the impact of Toyota's recall on domestic private spending although there hasn't been any notable impact yet.

It kept its view unchanged that private spending is "picking up" in February.

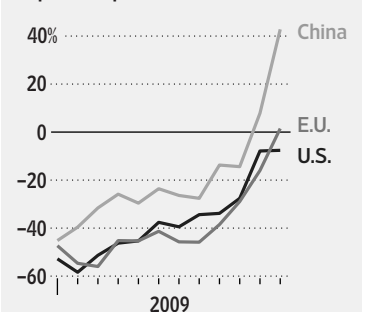
"We are concerned that the car recall issues may negatively affect other sectors of the economy, such as retail, services and transportation," said Hiroshi Watanabe, an economist at Daiwa Research Institute.

Separately, Toyota's domestic and global output soared in January, before it was hit with the recall crisis. Toyota said it boosted production in Japan last month by 29% to 268,888 vehicles. Meanwhile, its overseas output in January shot up 84% to a record for the month of 375,037 vehicles.

A Toyota spokeswoman attrib-

On the mend

Change from previous year in Japan's exports to:



Source: Japan's Ministry of Finance

uted the increased production figure to a low basis of comparison with the year-earlier month.

—Yuka Hayashi contributed to this article.

Toyota is looking at other acceleration issues

Continued from first page
back tears. She was finally able to get her car stopped. She said Toyota was dismissive of her complaint, which she attributes to a fault in the vehicle's electronics.

Lawmakers had said in advance of the hearing that they believe electronic faults can't be eliminated as a cause for incidents in which Toyota vehicles surged out of control.

Mr. Lentz apologized for the company's failure to move more quickly to address safety problems. "We acknowledge these mistakes, we apologize for them and we have learned from them. We now understand that we must think differently when investigating complaints and communicate faster, better and more effectively with our customers and our regulators," Mr. Lentz told the panel.

Sean Kane, president of **Safety Research & Strategies Inc.**, a for-profit car-safety research firm, singled out Toyota for not doing enough to examine its electronics or

to undertake timely safety recalls. "If the floor mat was to blame, Toyota is guilty of failing to acknowledge the very serious and real consequences of pedal entrapment for at least two years," Mr. Kane testified.

Rep. Steve Buyer (R., Ind.) pointed out ties between Mr. Kane's firm and plaintiff's attorneys who represent accident victims suing Toyota.

Automotive technology Prof. David Gilbert of Southern Illinois University in Carbondale, who is being paid by Mr. Kane's firm, said by altering the circuitry in a gas pedal he was able to replicate a circumstance in a Toyota vehicle that experienced sudden acceleration, without creating an error code in the vehicle's computer.

Energy and Commerce Committee Chairman Henry Waxman (D., Calif.) said U.S. safety regulators, including the National Highway Traffic Safety Administration, aren't equipped to

assess electronic problems in vehicles. Rep. Waxman didn't offer specifics about likely legislation to address the issue.

"Car makers have entered the electronics era, but NHTSA seems stuck in a mechanical mindset," Rep. Waxman said. "We need to make

Lawmakers have said they believe electronic faults can't be eliminated as a cause for these incidents.

sure the federal safety agency has the tools and resources it needs to ensure the safety of the electronic controls and on-board computers."

The congressional committees are examining the response by Toyota and regulators to more than 2,000 complaints of sudden acceleration in Toyota and Lexus vehicles over the

past decade. Toyota has recalled more than eight million vehicles globally to fix problems with gas pedals, brakes and other systems.

Rep. Bart Stupak (D., Mich.), chairman of a House Energy and Commerce subcommittee, said at Tuesday's hearing that the Toyota crisis draws into question whether a U.S. law known as the Tread Act has achieved its intended purposes.

The law was put in place about a decade ago after fatal accidents involving Ford sport-utility vehicles and Firestone tires. The law boosted reporting requirements for auto makers and was designed to provide regulators more tools to track safety defects and push for recalls.

Rep. Edward Markey (D., Mass.) said the crisis may result in strengthening the Tread Act.

Throughout Tuesday's hearing, the issue of whether modern automotive electronics can put drivers at risk, and whether Toyota underplayed the risks, was a central ques-

tion.

Messrs. Waxman and Stupak on Monday criticized Toyota in a letter for resisting the possibility that problems with Toyota vehicles were caused by electronic faults.

In written testimony submitted to the House Oversight and Government Reform Committee, Mr. Toyoda said Toyota "pursued growth over the speed at which we were able to develop our people and our organization." He also expressed regret at safety problems and recalls that have affected millions of Toyota vehicles.

In an opinion piece published in The Wall Street Journal on Tuesday, Mr. Toyoda acknowledged that the car maker had stumbled badly. "It is clear to me that in recent years we didn't listen as carefully as we should—or respond as quickly as we must—to our customers' concerns," Mr. Toyoda wrote.

—Josh Mitchell contributed to this article.

WORLD NEWS

South Africa's power costs may rise

Global miners could see expenses jump significantly as state electric utility proposes 35% annual increase in rates

By PETER WONACOTT
AND ROBB M. STEWART

JOHANNESBURG—South Africa's power supplier Eskom Holdings Ltd. generates nearly all of the nation's electricity at some of the world's cheapest rates. That arrangement has allowed global mining giants to extract vast amounts of gold, platinum and coal from South Africa's earth and to keep electricity affordable for the poor.

But the state-run utility says artificially low electricity rates have left it with dangerously low generating capacity, leaving the country vulnerable to power cuts.

It is proposing raising tariffs 35% annually in each of the next three years. Eskom executives warn anything less threatens the company's ability to provide a steady supply of electricity.

The proposal has brought a barrage of criticism from politicians and consumers, fanning concerns about inflation and imperiling the recovery of Africa's biggest economy. On Wednesday, government regulators are set to decide on its rate-increase proposal.

Meanwhile, the company has been left with a leadership vacuum at a critical time after the acrimonious departure of its chairman and CEO in a public clash late last year.

The economic bellwether has long been Africa's dominant power producer—it generates about 45% of the continent's electricity through its operations in South Africa and neighboring countries. And while political turmoil has rocked the foundations of other economies, Eskom has been a stable presence amid upheaval at home. During the transition from an apartheid government to a multiracial democracy, cheap electricity has been among the few constants in South Africa.

"This is the only place in Africa where the lights stay on," says Bobby Godsell, who served as Eskom's chairman until late last year.

Mr. Godsell said he resigned in November after a dispute with Chief Executive Jacob Maroga over the direction of the company. Mr. Maroga also left Eskom around the same time, but is now challenging his former employer in court. In a statement, Eskom said it was aware of



The Royal Bafokeng stadium in Rustenburg, South Africa. State utility Eskom has said it can provide reliable electricity for World Cup football matches in June.

the former chief executive's legal action and would oppose it. Eskom declined to provide contact details for Mr. Maroga.

Mr. Godsell and others have argued that South African industry has become too dependent on artificially cheap electricity. At the same time, a growing economy and the emergence of a black middle class over the past decade has created greater demand for power. As a result, the utility says there is a risk of blackouts because of a low reserve margin.

For the FIFA World Cup football championship in June, South Africa's most important coming global event, Eskom has sought to assure the public that stadiums would have reliable power supply.

To remedy the country's electricity shortfall, Eskom embarked on a program to build new power stations; to bring old plants back to life; and to price power more in line with what it costs to produce.

But the company's initial proposal to raise annual rates 45% over three years was shot down. Eskom reduced that proposal to 35% annually, and said it would delay construction of some new power plants.

Last year, Eskom boosted prices 31%, although it limited the increase for the poor to 15%.

Several executives at mining companies operating in the country have warned that granting Eskom the tariff increase it has requested will mean a jump in production costs, which could make some operations unviable and put jobs at risk.

Rio Tinto Ltd. last year shelved plans to build a new multibillion dollar aluminum smelter, in part due to uncertainty over stable supplies of electricity.

Gold producers, in particular, are seen as vulnerable. Some of them mine to depths of three kilometers and more, which requires a heavy reliance on electricity for cooling and pumping water in the hot, wet environment. AngloGold Ashanti Ltd., Gold Fields Ltd. and Harmony Gold Mining Co. have each commented on the risks of rising costs in recent weeks.

"Clearly none of us is in a position to sustain large electricity price increases year after year," Anglo American PLC Chief Executive Cynthia Carroll told an African mining conference this month.

The country is slowly surfacing

from recession, with almost one-quarter of the working-age population still unemployed. On Tuesday, South Africa's government said economic growth in the fourth quarter rose 3.2% over the previous quarter, beating expectations. The country's central bank has warned that a sharp rise in electricity tariffs would endanger its inflation forecasts of between 3% and 6%, and that higher prices are likely to hit the poor hardest.

Eskom has been struggling to find other ways to fund its expansion. It has government approval to seek investors for a minority stake in a new coal-fired power station—a step that some say reflects a state preparing to relinquish some control over a key industry.

So far, there has been little public interest shown in buying a stake in the planned plant. A study that AngloGold Ashanti helped commission suggested that Eskom would attract greater investor interest if it were to sell control of several existing power stations, thereby easing the pressure to raise prices.

South Africa has lagged behind China and India in opening state-run industries to overseas investment.

Power-less

South Africa has cheap electricity compared to other Western countries; U.S. cents per kilowatt-hour

Italy	16.16
Germany	13.52
Austria	13.31
Spain	12.53
Netherlands	11.75
U.K.	11.32
Belgium	9.90
U.S.	9.27
France	8.15
Sweden	8.05
Finland	7.94
Canada	6.33
Australia	6.29
South Africa	4.90

Note: Based on prices as of June 1, 2009, for the supply of 1,000 kilowatts with 450 hours use
Sources: the company; NUS Consulting Group

Sudan president signs Darfur peace accord

Sudan President Omar al-Bashir, facing charges of war crimes, signed a preliminary peace accord with a rebel group in the Darfur region to help end the conflict in the oil-rich nation.

By Sarah Childress in
Nairobi and Margaret Coker
in Abu Dhabi

Officials in Doha described the accord as a temporary cease-fire, backed by a promise between the two sides to forge a final settlement that could include a power-sharing arrangement with the rebel group.

The sides were also expected to negotiate the possibility that representatives for the rebels, known as the Justice and Equality Movement, or JEM, could become an officially recognized political party. Compensa-

tion for those killed or displaced by the seven years of fighting in Darfur is also on the table, say officials familiar with the talks.

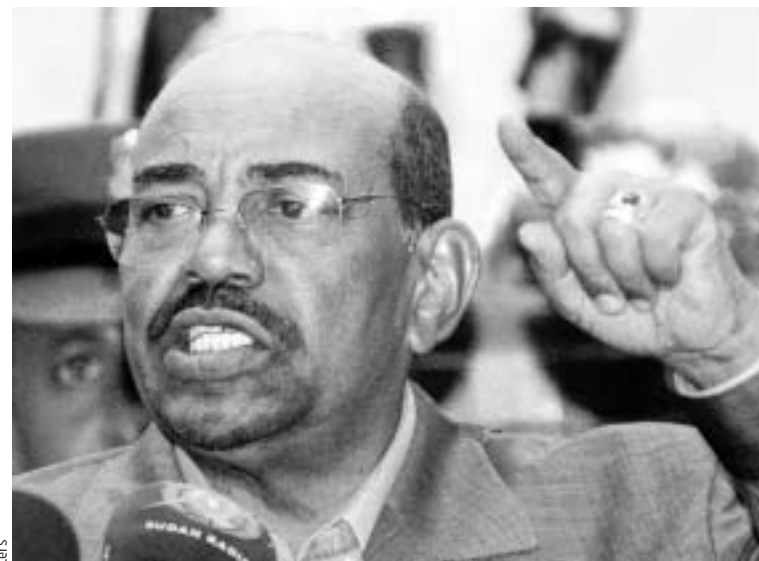
JEM representatives and spokesmen for the Sudanese government didn't respond to requests seeking comment on the cease-fire agreement. Unresolved issues may undermine a permanent pact, however. On Tuesday, JEM accused Sudanese troops of attacking rebels—despite the cease-fire—although the government denied the attack, Reuters reported.

And while some other rebel factions may join in this agreement, it could alienate those who feel their grievances aren't being addressed, analysts say. Such a deal "will be difficult to implement on the ground," said Fouad Hikmat, a Sudan expert at the International Cri-

sis Group, an independent think tank in Nairobi. The other rebel groups, he added, "could become spoilers".

A permanent deal would propel JEM to the forefront of efforts to resolve the regional conflict. For Mr. Bashir, a signing ceremony for a cease-fire shows his government working toward peace as his presidential campaign gears up and he fends off war-crime charges brought by the International Criminal Court in The Hague. Both sides are scrambling to position themselves ahead of the April vote, which will be the country's first since a civil war began in 1983. That war—which ended in 2005—left two million dead.

Washington has backed the peace process sponsored by Qatar, seen by Khartoum and the rebels as a neutral mediator.



Sudanese President Omar al-Bashir is gearing up for the election.