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WEEKEND JOURNAL

THE WALL STREET JOURNAL.

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Ten-year-old Tylo Kenneth wears a multi-colored World Cup wig as he enjoys celebrations at the spectator zone on the V&A Waterfront in Cape Town on Thursday.

Associated Press

Kickoff raises hopes of nation

As the streets of South African cities and townships throb to the sound of World Cup celebrations, the country waits to see whether its multibillion dollar makeover for the tournament is worth it.

In recent years, headlines of violent crime, government corruption and an HIV-AIDS crisis superseded stories about racial reconciliation, making Nelson Mandela's 1994 election as South Africa's first black president a distant memory for much of the world. The aura of a "rainbow nation" faded.

The World Cup could change perceptions again. Many see Friday's kickoff as a starting point for re-branding the country for foreign tourists and investors. The event has drawn a host of corporate sponsors, from **Visa** Inc. to **Sony** Corp. to **Adidas** AG. After emerging from recession, South Africa's economy is slated to grow 2.7% this year and 3.6% in 2011.

U.K. comes to BP's defense

By Alistair MacDonald
And Guy Chazan

The British government took a first and tentative step Thursday to intervene in the row between **BP** PLC and President Barack Obama, asking the U.S. to "remember the economic value BP brings to people in Britain and America."

U.K. Prime Minister David Cameron also said he expected to discuss BP and the fallout from the spreading Gulf of Mexico oil spill, among other issues, in a previously arranged weekend call with Mr. Obama.

"The Prime Minister is...clear that we need constructive solutions and that we remember the economic value BP brings to people in Britain and America," Treasury chief George Osborne said Thursday.

The high-level British government comments came as BP continued to face strong political pressure from Washington over its handling of the Gulf of Mexico oil spill.

Tensions had escalated sharply on Wednesday when Mr. Obama's Interior Secretary, Ken Salazar, said he would demand that BP pay the lost wages of oil workers in the Gulf region idled because of the administration's order to halt new deepwater drilling for six months.

But Thursday, Mr. Obama appeared to edge back on the issue of oil workers' wages, suggesting that the law doesn't give him the authority to make that demand.

Congress must "update the laws to make sure that the people in the Gulf, the fishermen, the hotel owners, families who are dependent for their livelihoods in the Gulf, that they are all made whole," he said at the end of a meeting with the leadership of Congress.

Mr. Obama's increasingly aggressive attacks on BP in recent days are testing the bounds of the administration's legal authority, and could strain the working relationship with BP in the effort to stop the spill and minimize the damage to sensitive ecosystems threatened by the huge oil spill, which began shortly after an April 20 explosion and fire that sank a deepwater oil rig working on a BP well off the coast of Louisiana.

Mr. Obama had escalated the confrontational tone of his remarks about BP steadily since last Friday, when he questioned BP's $50 million public relations advertising campaign and its planned, $10.5 billion dividend.

BP is a major contributor to the U.K. economy. The company paid £5.8 billion in taxes last year, making it one of the U.K.'s biggest taxpayers, it employs around 10,000 in the U.K., and its dividends form a large revenue stream for the country's pension funds.

Since the start of the disaster on April 20, £54 billion has been wiped from BP's market value.

But British officials had kept a low profile on the spill issue, a reflection of the reluctance to spark a diplomatic incident over the blunder of a private company that has caused environmental damage for its most important ally.

Some British politicians have become increasingly irritated by Mr. Obama's language, including him saying he would "sack" Mr. Hayward, and other U.S. politicians' calls for BP not to pay a dividend.

In remarks to the British Broadcasting Corp., London Mayor Boris Johnson, a senior figure in Mr. Cameron's Conservative party, suggested the prime minister should seek to calm what he said was some "anti-British rhetoric that seems to be permeating from America."

Still, Mr. Osborne reiterated that British officials understand U.S. frustrations.

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For companies, the best defense for reputations is a strong offense

[Agenda]

By David Jones

In boardrooms across the globe, the **BP** crisis has firmly focused the corporate mind on reputation issues.

However, many business leaders are still failing to make the connection between protecting their reputation and being prepared to actively engage with their customers online.

More than ever before, people are using social media as a game changer to create major tremors across the corporate landscape. But despite cautionary tales from **Toyota** and BP, many business leaders are unprepared for changing consumer trends and still believe social media has a marginal or no impact on business—either now or in five years.

I spent a day this week at a conference in London discussing the concept of the "caring corporation" with senior figures and guardians of global brands. We debated the first survey of business leaders and their attitudes to corporate reputation in the wake of the BP crisis. We examined fresh customer research and the results of a global poll of 15,000 young people.

What is clear is that people—and especially young people—want to feel good about the brands they work with and buy from. Businesses that don't take this seriously risk highly public displays of rejection.

Corporate responsibility was already trending in world business before the recession. Consider the impact of public sentiment against bankers' bonuses and irresponsible profit-seeking. Now magnify this with increasingly frequent examples of social media bringing corporate wrongdoing to the world's attention.

Google, **Facebook**, Twitter and YouTube have revolutionized the relationship between businesses and their customers and customers are increasingly acting as the corporate conscience.

Press Association

Innocent used a short message on Smoothie labels that got consumers onside.

Twitter notched up four billion tweets in the first three months of 2010. When enough people follow a story on Twitter, the trending topic is deemed headline worthy by broadcast news channels around the world. Those corporations that fail to address this 24-7 online conscience risk a great deal of good-will with customers, partners and suppliers.

> **What is clear is that people want to feel good about the brands they work with and buy from.**

Plenty of organizations are doing well by doing good. A great example of transparency is drinks brand Innocent Smoothies, whose label listed the relatively low percentage of recycled material that made up their packaging next to the phrase: "but we're trying".

These three short words demonstrate the company may not be perfect, but is at least aware of its environmental responsibilities and is addressing them. It also gives employees a chance to be proud of working for an enlightened company.

Vodafone has pioneered responding to customers via Twitter. Even when a rogue staff member sent an inappropriate tweet through the company's official Twitter feed, Vodafone was praised for its no-nonsense tweeted apology that admitted internal culpability and ended: "Please keep your faith in us". With that level of honesty and transparency, they probably did.

Whistle-blowing your employer used to result in disciplinary action. Today, anonymously, employees and suppliers can all freely have their say on how your business is run. It's increasingly the case that companies must be part of the online conversation or risk internal revelations without the right to reply. It's better to have good stuff to share, than be forced to control what you don't want to share.

Our research found one in four adult users of social media is willing to lash out at companies and brands online. **Nestle**'s tussle on its Facebook fan-page with Greenpeace over palm oil is a particularly salutary tale.

Social media is not just an insurance policy against harm, but a valuable tool that can grow your business. It can even mobilize your own work force to positively respond to customer dissatisfaction—as U.S. chain **Best Buy** did on Twitter with its Twelpforce program where employees were charged with re-tweeting their honest experiences of the store's ideals.

People want to feel good about the brands they work with and buy from, and in a digital society it is the young who are emerging as the change makers.

At Havas, our commitment to the caring corporation has been delivered through an initiative called One Young World, a leadership summit for young people. A One Young World global survey of 15,000 young people clearly reveals they want to see positive change, not for a far-off hope of a better tomorrow, but because it makes commercial sense today.

Younger companies are naturally more agile than their corporate forebears and intrinsically understand the value of their brands as interactive and are more ready to accommodate the changing priorities and values of their customers.

The true test of a company's commitment to transparency and doing good, is when "corporate responsibility" stops being a specialized function and becomes embedded with the culture of the company. This brings an obligation but it also brings huge opportunities.

The caring corporation is the business model of the future and it's one where doing well and doing good are one and the same.

—David Jones is global chief executive of Havas Worldwide

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Iain Martin on Politics

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'There is a large hole where there should be a debate about the future of the British economy.'

Iain Martin on the void left by Gordon Brown in the Labour Party leadership

Continuing coverage

Follow complete coverage, from scores to live blogs, as World Cup play begins at **wsj.com/worldcup**

Question of the day

Vote and discuss: Do you expect BP to suspend payment of its dividend?

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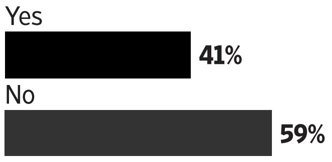
Q: Do you expect the European Central Bank meeting to reassure global stock markets?



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NEWS

Somalis evade militants to watch the World Cup


Abdinasir Mohamed/The Wall Street Journal
Mogadishu's Dhamuke Cinema is the only public place to watch games safely.

By Abdinasir Mohamed

MOGADISHU, Somalia—World Cup madness has come to this troubled nation, creating a dangerous cat-and-mouse game between fans eager to watch televised football matches and Islamic militants determined to stop them.

The militia group al Shabaab, which controls most of south and central Somalia, has declared the World Cup un-Islamic and banned watching the games on television. By al Shabaab's logic, the World Cup interferes with the militant group's "jihad," to overthrow the government, because young Somalis are too busy watching the games to fight on their behalf. While the group hasn't yet laid out specific consequences for those defying the ban, the militants have been known to behead or amputate limbs of people who oppose them.

Undeterred Somali football fans, whose national team failed to qualify for the tournament, are going underground in search of ways to watch the world's largest televised sporting event, which opens Friday in South Africa.

In recent days, wealthier Somalis in both government-controlled and al Shabaab-run areas have been lining up at electronics shops to buy satellite dishes to watch at home. Local technicians will—for a fee—patch together dishes and wires to rig televisions to show the games.

"I don't like my children watching TV—but I don't want to miss watching the World Cup," said Abdullahi Sheikh, a 49-year-old Mogadishu resident who was in line to buy a television and a dish at a shop in town. "It's an amazing event to watch!"

Al Shabaab controls much of Somalia by force. But the militant group's ad-hoc prohibitions have alienated most Somalis. At various times, and in various places around the country, the militants have banned mustaches, dancing and celebrating religious holidays.

For followers of the World Cup, the most dangerous ban is the one on football. In 2006, the militant group, which was then the armed wing of the government, the Union of Islamic Courts, launched a violent campaign against Somali fans.

War-weary Somalis don't have the means to fend off al Shabaab, which has sworn to overthrow the government of President Sheikh Sharif Sheikh Ahmed, and the government remains too weak to defeat the militants. Government troops had to repel a recent attack on the presidential palace.

These days, the only public place to watch games safely is at the Dhamuke Cinema, part of a small patch of government-controlled territory in the capital Mogadishu. Dhamuke remains one of the few cinemas al Shabaab hasn't destroyed or shut down. The cinema hosts hundreds of teenagers from around the city to watch movies and football matches via satellite.

Dhamuke, which is open every day from 10 a.m. to midnight, is almost always full of young people eager to escape the social strictures imposed in other parts of Somalia. Boys and girls are allowed to sit together—a taboo in al Shabaab-controlled areas. Older football addicts also occupy the folding metal chairs.

On nights when football isn't on, the audience watches whatever else is on hand—American movies, Bollywood flicks and films in Swahili and Somali. When one finishes, another reel starts rolling. Price of admission is 2,000 Somali shillings, or a few pennies.

Outside of the government-run area, the cinemas will be dark because showing the games is too dangerous. Over the past few years, militants have hurled grenades into cinemas in several towns, killing and injuring people.

In a Mogadishu café on a recent afternoon, young men huddled to discuss their plans for watching the game. "If we have no jobs and can't watch or play football it's heartbreaking—and unacceptable," said Said Haji, a 22-year-old Somali sipping coffee.

Mr. Haji lives in the government-controlled area, and will be able to go to the cinema. "Some of my friends don't have that chance," he says.

Some young men say militants have deprived them of one of their only means of entertainment. "We can't play football, we have no cinemas to watch the World Cup and we don't have jobs," said Mohamed Nur, a 24-year-old World Cup fan.

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GULF OIL SPILL

Scrambling for work in a region in turmoil

Rush Jagoe for The Wall Street Journal

Harold Matherne, left, and Dickie Bergeron load box lunches in Venice, La.

By Angel Gonzalez
And Jennifer Levitz

VENICE, La.—The Deepwater Horizon oil spill might have spelled doom for Cajun Unlimited, a charter fishing business here in the southeast corner of the state.

The company lost $100,000 worth of booked trips for the summer—high season in this world-class sport-fishing area—as the worst offshore environmental disaster ever to afflict the U.S. scared off the tourists.

But instead of packing up and leaving, owner Jesse Morris, a fourth-generation fisherman born and raised here, dug in. Mr. Morris turned a food kitchen set up for locals and visiting sport fishermen into a small industry that feeds the hordes hired by **BP** PLC for the cleanup. His staff nearly doubled to about 15 people, who prepare between 1,200 and 1,500 meal boxes a day, for a profit of about $3 each.

Mr. Morris said he has been billing twice as much from the expanded food business as he would from charter fishing.

The seven-week-old oil spill is turning the Gulf Coast's business environment upside down. The area has depended for decades on a combination of oil-industry work, tourism and fishing, which captures about one-fifth of the nation's commercial seafood. The closing of fishing areas, a six-month drilling ban and the threat of molasses-like oil washing up on sandy beaches are disrupting all three. Residents are scrambling to rescue their livelihoods even as oil keeps coming out of a mile-deep well, seeking opportunities and finding new pitfalls.

For many, the likeliest source of income is BP, which has so far spent more than $1 billion in oil-response efforts, including claims for lost income for individuals and businesses, and is bracing for a recovery effort that could take many months, if not years.

In Pensacola, Fla., William "Bubba" Thorsen, a charter-boat captain with three vessels who usually takes tourists to catch tuna, grouper and red snapper, has a coveted catch: a contract to help BP. "This is a sad situation, and I hate to see pelicans and birds dying, Lord bless 'em. But for us there is a silver lining—we're getting work," he said.

Earning about $3,000 per day, Mr. Thorsen said he makes more on a good day of running charters, but "this is steady," whereas in fishing "you might run with a full boat one time and next time run with a half boat."

Since the spill, BP has hired more than 1,300 vessels in Louisiana, Florida, Alabama and Mississippi to ferry supplies, skim oil off the water, assist with wildlife rescues and position "boom," or protective barriers, around the shores. BP's "vessels of opportunity" program promises daily payments of between $1,200 and $3,000 per boat, depending on the size of the vessel, and $200 per deckhand.

Some 5,000 boat owners are in BP's database as standing by to go to work, said Daren Beaudo, a BP spokesman. He said the goal of the program was to hire boat operators with local expertise, and also to "put these folks to work in this time when they are not allowed to fish."

The new economic regime is also sparking tension. Some participants in BP's program said the work was little comfort, given the possibility of long-term damage to the fishing industry. Competition for the jobs is fierce, with some pleasure-boat owners who don't rely on fishing for income taking spots from actual working watermen, according to local officials and charter operators.

At a weekend news conference, Tony Kennon, the mayor of Orange Beach, Ala., angrily told a BP representative that he has been trying for five weeks to get a list of who has been hired in the program but that BP "refused to give it to him."

Mr. Beaudo, the BP spokesman, said he wasn't aware of Mr. Kennon's request, but said there may be confidentiality issues associated with releasing data on contract workers. Mr. Beaudo said it was possible that recreational boaters were working in the program, because the vetting system was "somewhat blind to what the boats do" and didn't differentiate between a recreational and charter boat.

Mike Newell, the white-whiskered captain of the Miss Marisa, a deep-sea charter boat, said he had been hired by BP on Friday after applying two weeks earlier at a local meeting held by the company. "About 75% of the people there were not charter fishermen; they were doctors, firemen, people with boats in their back yards, and we're sitting here dying," he said.

Mr. Newell said he was told by BP that over the next 60 days he would have steady work ferrying scientists into the Gulf to get water samples. "Whatever BP pays me, I'd give it all back to fix that," he said, motioning out to the water.

On Monday, Mr. Morris, the owner of Cajun Unlimited, and his crew were putting the final touches on a 85-by-40 foot aluminum, fiberglass and fabric tent, which dwarfs the business's old wooden shed. Four of Mr. Morris's boat captains, grounded because of fishing restrictions, have become cooks.

What most bothers Mr. Morris is the uncertainty. He is taking a gamble by expanding his business without a contract, delivering sandwiches to oil workers through a contractor hired by BP that can drop his services on the spot.

He added that BP promised to favor local businesses. "We're just hoping they're true to their word," he said.

BP's Mr. Beaudo said that the company would like to use local vendors whenever possible, but "it can be difficult sometimes to align local products and services with precisely what we need."

British government comes to BP's defense

Continued from first page

"We are all concerned about the human and environmental impact, and as the prime minister has said, we understand the concerns of the U.S. administration," Mr. Osborne said.

Along with Conservative party politicians, some business groups in Britain have expressed concern about the Obama administration's attacks on BP and its dividend, which is a significant source of income for many British pension funds and U.S.-based funds.

Worries that BP could cut its payout contributed to a sell-off Wednesday and Thursday that sent the company's shares to a 13-year low Thursday morning, before they rebounded later in the day. The company's debt also got hit as investors bet that the damage from the spill to BP's finances could be far greater than the company has acknowledged.

Some BP shareholders said Thursday that the dividend may have to be sacrificed in the short term to turn down the political heat.

"If passing on the dividend is what it takes to get people off their backs, then they might have to do it," said Colin Morton, a fund manager at Rensburg Fund Management and a BP shareholder. He said BP's share price might rally if it abolished the payout.

Getty Images

: Chancellor of the Exchequer George Osborne on Wednesday

Lawmakers on Capitol Hill have repeatedly warned BP not to reward shareholders until it has capped its leaking well and completed the cleanup.

A U.S. Department of Justice official, responding to a question at a congressional hearing Wednesday, suggested that the department was looking into the issue of whether BP and the owner of the sunken Deepwater Horizon rig, **Transocean** Ltd. have the resources to pay dividends to shareholders.

On Thursday, a law enforcement official clarified that the Justice Department is confident that BP has the money to pay required claims but wants to make sure the company does pay.

The White House and officials in the Gulf region have complained that BP is taking too long to pay people who have claimed damages because of the spill.

The company's share price fell to a 13-year low in London Thursday morning, initially dropping more than 11% before closing down 6.7% at 365.5 pence.

The cost of insuring BP's debt also soared: By late Thursday afternoon its five-year credit-default swaps had widened to 4.5 percentage points, according to data provider Markit iTraxx—the equivalent of junk credit. BP has a double-A credit rating.

In a statement, BP said it was "not aware of any reason" for the movement in its share price, which dropped 16% Wednesday in U.S. trading. Its shares were up 11% in New York trading late Thursday afternoon.

But some analysts were disappointed by the statement, saying BP should show a greater sense of urgency in addressing the criticism of its spill response in the U.S.

Citigroup analysts said it was vital that BP consider the political aspect of the crisis. "The U.S. contributes nearly 46% of BP's net value," they said in a research note. "There is no question that BP needs to do the right thing in the U.S. and protect whatever franchise is left after the Macondo dust settles."

The BP dividend payment is a hot-button issue in the U.K., because so many large pension funds rely on the steady revenue stream it provides. Last year, it made up 14% of total shareholder payouts on London's FTSE 100 index.

"Given the strength of the political backlash in the U.S., whether right or wrong, it probably makes sense to temporarily suspend the dividend, at least till the well is capped," said Simon Murphy, a fund manager at Old Mutual Asset Managers and a BP shareholder.

The uproar over BP's dividend has come as the company has had increasing success in capturing oil leaking from the damaged well with a new cap installed last week. The cap collected 15,800 barrels of oil Wednesday, and the containment system will be expanded over the coming days to increase its capacity to process the captured oil to 28,000 barrels a day.

But a permanent solution to the leak will only come in August, when a relief well is completed.

—James Herron contributed to this article.

GULF OIL SPILL

Disaster spawns lab for scientists

By Gautam Naik

DAUPHIN ISLAND, Ala.—On a boat drifting 35 miles offshore, researchers lowered a fine mesh net 110 feet to the seabed and hauled in a typical day's catch: a mass of tiny plankton.

The scientists, from nearby Dauphin Island Sea Lab, have been collecting such specimens for six years, but this trip was different. "Are you seeing any oil?" asked one researcher. "A little," said another, scraping a brown flake and smearing it between two fingers.

The oil comes from the exploded Deepwater Horizon rig. Awful as the accident is, the spill is an unexpected gift for some scientists—a chance to study a vast marine event that no lab test or field trial could match.

"It's bizarre to see this as an opportunity, but this is absolutely new ground we're dealing with," said David Garrison, program director of biological oceanography at the National Science Foundation, one of the biggest funders of basic research in the U.S.

In recent weeks, the NSF has awarded some 20 "rapid response" grants of as much as $200,000 each to researchers pursuing a host of fundamental questions arising from the Deepwater spill, from the oxygen depletion caused by oil-eating bacteria to the effect of dispersants on the tiniest denizens of the sea. While much attention has been paid to the plight of oiled birds and dead fish, many scientists say it's the unseen microscopic life that will tell the true tale of the oil-spill's impact.

Associated Press

Biologist Shane Granier pilots his boat at Pass a Loutre, La., last week. The disaster gives scientists a chance to study a vast marine event no lab test could match.

The NSF has turned down dozens of requests for grants, but said it would award more if they prove worthy. The National Oceanic and Atmospheric Administration is also backing new marine-science studies in the Gulf.

One recipient of NSF funding is Monty Graham of Alabama's Dauphin Island Sea Lab. Just 24 hours after applying, he got word he had received a $200,000 grant.

Dr. Graham has spent several years trying to figure out the food web—who-eats-whom—in the waters of the Gulf. An obvious way is to inspect the gut content of sea creatures. But that isn't always easy or accurate.

The ocean's complex food web partly rests on the simplest of creatures, bacteria.

These microbes eat naturally occurring organic matter, including oil, and then get eaten by tiny flagellates, which are then eaten by ciliates. These are in turn eaten by plankton, drifting tiny sea creatures and plant life, which are feasted on by jellyfish and fish.

The oil spill offers a potentially easier way to study this complex food web.

Oil from the Deepwater rig has a carbon-isotope signature different from the signature usually seen in naturally occurring organic matter. When bacteria eat the spilt oil, they retain this signature, as do all the creatures up the food chain. The journey of the isotope can be traced from prey to predator along the food chain.

"Nobody would fund me to do a large-scale manipulation of a natural system, such as spiking the ocean with oil," said Dr. Graham. The BP oil spill, however, "can now serve as a natural tracer, providing very definitive results."

On a recent day, captain Mairi Miller aimed her boat due south of the Dauphin Island Sea Lab. She and two research technicians who work with Dr. Graham, Randi Shiplett and Jana Herrmann, were off on a plankton hunt.

The group collected three sets of plankton samples from two sites. Data from these samples will be compared with six years of pre-spill data to document any changes in the Gulf's food web, said Dr. Graham.

A key to any shift is the "trophic level," an organism's position in the food chain. As consumption moves from one trophic level to the next, some 85% to 90% of the energy gets lost due to waste, heat dissipation and other factors. This is universal: A massive amount of grass is needed to support a smaller mass of antelope, which in turn supports a smaller mass of lions.

Usually, energy in the Gulf's marine system originates from plant-like organisms called phytoplankton and naturally occurring bacteria. A big oil spill upsets the balance. Oil is eaten only by bacteria, the population of which then blooms. That results in greater and greater energy loss up the food chain.

The result: Shrimp, crabs, fish and other animals may have less energy available to them. That could potentially affect their populations and disrupt the overall ecology.

"We're putting all this organic material out there and letting the bacteria go crazy," said Dr. Graham. "It's going to be decades before we see how all this oil" plays out in the region's food web.

Berms being built to protect coast, but doubts persist

By Jeffrey Ball

Construction is about to begin on miles of sand piles designed to block oil in the Gulf of Mexico from hitting the Louisiana coast, but documents show the Obama administration approved building the sand berms despite concerns from some of its own environmental experts.

The U.S. Army Corps of Engineers authorized the berms. Thad Allen, the retired Coast Guard admiral overseeing the spill response, ordered **BP** PLC to pay the hundreds of millions of dollars that officials estimate it will cost to build the structures.

In announcing his decision June 2, Adm. Allen said the berms would "effectively stem potential damage to these fragile shorelines."

But the Environmental Protection Agency has raised myriad concerns about the berm plan. The EPA has argued the berms probably won't keep most of the spilled oil away from the coast and could cause unintended ecological problems.

The administration approved the berm plan amid mounting pressure from Louisiana Republican Gov. Bobby Jindal, the state's congressional delegation and local leaders. Those officials say the berms—which would stand six feet above the Gulf's mean high-water mark and be 25 feet wide at their top—are the state's best hope to protect its fragile coastal marshes from an onslaught of oil.

The dispute shows the mounting pressure on politicians to be seen taking decisive action against the Gulf disaster in the short term—even if those actions raise potential long-term problems of their own.

"Nobody has good answers on a lot of fronts with this spill," said Ralph Portier, a professor of environmental sciences at Louisiana State University and one of several scientists advising Louisiana on building the berms in a way that minimizes ecological harm. "You've got to try and do something."

For years, Louisiana officials have proposed beefing up their eroded barrier islands as a way to protect their coastline from storms. The oil spill, which originated with an April 20 explosion on the Deepwater Horizon drilling rig, led them in early May to propose some 130 miles of berm to block incoming oil.

The EPA and other federal agencies raised concerns about building berms to block oil in written comments to the Corps of Engineers throughout May.

Among the problems cited by one or more of those agencies: that the emergency berms would take several months to build, by which time a lot of oil would have hit the coast; that dredging up the sand to build the berms could intensify coastal erosion and rip apart undersea oil-and-gas pipelines; and that the berms, by changing the flow of water, could alter the water's salinity, potentially hurting fish.

In response, Louisiana officials changed some of the areas where they proposed to dredge the sand for the emergency berms, nixing areas that federal officials called particularly ecologically sensitive.

Associated Press

A bulldozer builds up a barrier on East Grand Terre Island, La., this week.

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Associated Press

Jean-Claude Trichet on Thursday declined to offer details on the European Central Bank's purchases of government debt.

ECB raises 2010 forecast for growth in euro zone

Central bank plans inexpensive three-month loans during summer

By Brian Blackstone

FRANKFURT—European Central Bank President Jean-Claude Trichet rejected appeals for more clarity on the bank's purchases of government debt, keeping investors largely in the dark about the most controversial decision in the central bank's 12-year history.

In an acknowledgement of renewed strains in interbank-lending markets that have driven banks to park record sums of cash with the ECB rather than lend it out to each other, the ECB said it will make cheap three-month loans available to banks on an unlimited basis through the end of the summer.

The ECB revised up its economic growth forecast for this year, reflecting faster global growth, though it nudged down growth for 2011 because of weak spending in the euro zone. At 1% this year, euro-zone growth will significantly lag behind growth rates in the U.S. and developing countries such as China and India.

The central bank expects slightly higher inflation this year and next as a result of higher prices for commodities, though at around 1.5% inflation remains well below the ECB's sub-2% target, giving officials plenty of leeway to focus on stabilizing financial markets.

The euro gained ground after Mr. Trichet's remarks and the ECB's decision to keep its key lending rate at a record low for a 13th consecutive month. Some investors said they had feared Mr. Trichet might signal an imminent end to the ECB's month-old program to buy sovereign debt of vulnerable countries like Greece, Ireland and Portugal.

The European Central Bank revised up its economic forecast for this year, reflecting faster global growth, though it nudged down growth for 2011.

Though the program is temporary, Mr. Trichet gave no indication that it will end soon, noting that it is "fully consistent" with the ECB's mandate to keep inflation low. "We don't give any additional information" beyond weekly updates on how much the ECB is spending, Mr. Trichet said at a news conference. The ECB has bought about €40 billion ($48 billion) in government bonds so far, but amounts have trailed off since the buying started on May 10, from more than €16 billion in the first week to less than €5 billion last week.

Mr. Trichet declined to provide details on what countries' debt the ECB is buying, how much it plans to purchase, what maturities it is targeting or what type of market signals officials will gauge to determine when the program is no longer required. Mr. Trichet also declined to comment on the euro's recent slide, saying only that the currency for the 16-member euro zone is "credible" and "keeps its value."

After jolting markets with a series of policy reversals in recent months, investors seemed relieved that Mr. Trichet stayed noncommittal Thursday. "His performance was good by saying nothing" on sensitive topics, said Carsten Brzeski, economist at ING Bank.

The ECB is maintaining maximum flexibility, economists say, having learned from past mistakes when bold statements led to embarrassing policy reversals. After the ECB's last meeting on May 6, Mr. Trichet told reporters that buying government debt hadn't even been discussed by policy makers, only to unveil that very program less than four days later. He has also had to backtrack on past commitments related to the ECB's collateral rules for government bonds and the IMF's involvement in the Greece bailout.

But some economists say Mr. Trichet passed up an opportunity to give markets more details on bond purchases, which could make the program more effective at jump-starting trading in strained debt markets such as Greece and Portugal. "My fear is that not providing any details could keep private buyers with the money and willingness on the sidelines, waiting for clues and waiting for transparency" from the ECB, says Marco Valli, economist at UniCredit Bank.

"An assertion that the program is unlimited in both the amount and the breadth of bonds the ECB can buy would have been more constructive," said Credit Suisse economist Christel Aranda-Hassel, in a note to clients.

Critics of the program say that by purchasing government debt for the first time in its history, the ECB is creating future conditions for a resurgence of inflation while putting its celebrated independence from political pressure at risk.

German central bank chief Axel Weber, who sits on the ECB's rate-setting governing council, has publicly attacked the bond-purchase program, saying it poses risks to stability. The ECB goes to great lengths to keep such cracks from bubbling to the surface.

Germans fear the ECB's venture into government debt markets will erode the independence and anti-inflation zeal that was the hallmark of Germany's own vaunted Bundesbank, upon which the ECB is modeled.

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Merkel and Sarkozy's bid for speed risks naked strife

[Brussels Beat]

By Stephen Fidler

How the world has changed. As they made clear in their letter this week urging the European Commission to speed up action to regulate financial markets, Angela Merkel and Nicolas Sarkozy have views about naked credit-default swaps and short-selling of stocks.

These are subjects, one suspects, about which the German and French leaders were blissfully unaware a couple of years ago. Post the euro-zone debt crisis, no European politician worth his or her salt can be without a view on naked CDS.

For the uninitiated, CDS are a sort of insurance that pays out the holder if bonds default. Naked CDS indicate the holder of the insurance doesn't own the bonds he's insuring. The two leaders, and others, blame them for worsening the euro crisis, though the evidence for it is weak. Uncovered short-selling is selling of financial instruments you don't own. Both are used by "speculators" who in popular political rhetoric are ganging up on the euro zone.

Despite the topicality of the subject, the letter's timing struck some in Brussels as strange. After all, EU finance ministers signed off just this week on the commission's work program for financial regulation, including the timing of their proposed regulations on short-selling, derivatives and CDS.

It's possible the importance of the letter was mainly that it was sent. A meeting of the two leaders planned this week was canceled at short notice, generating lots of comment about how the two leaders, poles apart in terms of personality, don't get on. Yet, for some, the subject over which they chose to show their solidarity was, given the scale of the challenges facing members of the common currency, trivial.

Whatever the motive, the letter increases pressure on the commission to be seen to be taking decisive action.

Many in the French press saw it as thinly veiled criticism that the commission is moving too slowly. Publicly, the executive interpreted it as an endorsement of its efforts. "We welcome the sense of urgency expressed by Paris and Berlin and the importance they attach to a coordinated European approach," said a spokeswoman.

She did, however, deliver what seemed to be a dig at its authors, after Germany's recent unilateral moves to ban naked short-selling, criticized by, among others, French finance minister Christine Lagarde. "On short-selling, we have seen in recent weeks divergent positions of member states," she said. "We need a coherent European approach on this issue, which is what the commission is striving for."

But such political pressure is a two-edged sword. On one hand, officials often say it's only when leaders intervene that anything gets done in international organizations—or at least gets done quickly. And if things don't get done quickly, important initiatives often lose momentum.

On the other hand, heavyweight political intervention in technical matters doesn't always help achieve rapid results. For example, in the technical discussions held by the Financial Stability Board and the Basel Committee on financial and banking regulations, some participants say the strong political positions adopted by various leaders are slowing down the work by making compromises even harder. President Sarkozy, for example, has a strong public position on matters that would once have interested only accountants, like mark-to-market accounting. (He's not a fan.)

Some people at the commission see another downside in the intense political pressure to move rapidly to write new financial regulation: Legislation hurriedly drafted often turns out to be badly drafted. Exhibit A is the Alternative Investment Fund Management directive—meant to regulate hedge funds, private equity and the like—that was cobbled together in weeks last year under pressure from Paris and elsewhere.

That proposal was the subject of nearly 2,000 amendments from two committees in the European Parliament, and widely different versions have been agreed by the parliament and by the governments in European Council, that will have to be resolved before it becomes law. It's not a great precedent.

"We have to find a balance between doing things properly and doing things quickly," says one commission official.

The derivatives legislation is, if anything, trickier than the AIFM directive. Again it's the first time the EU has ventured into the area; many different national legislative frameworks are in place; and the issues are more complex.

Documents to emerge from the commission in the coming days will provide the basis for consultation, indicating in some areas the direction of the commission's thinking. According to people who have seen late drafts, the commission will point out that short-selling has a valuable role in increasing liquidity, in price discovery and in hedging. Despite the pressure from the two leaders, it is unlikely to propose a ban on naked CDS, not least because of the practical difficulties of doing so.

It will pose questions related to how long naked short-selling positions should be kept open and what mechanisms might be used to suspend short-selling at a European level. It will look at how to increase transparency about short-selling and to reduce the risks associated with it.

The commission is aiming to have concrete proposals emerge in the summer on this and the rest of the derivatives legislation, and have it all passed into law by September. That, many might think, is already an ambitious enough target.

Special Advertising Section

SPOTLIGHT ON SPAIN

Gaining global markets opens new horizons

Country is showing signs of recovery, boosted by exports

The Spanish economy, the fourth largest in the euro zone, began to emerge from recession in the first quarter of this year. The recovery will be slow, however, as the public sector and consumers cut back on spending and pay down debt.

The recovery so far is based on export growth, and reflects the continued competitiveness of Spanish products and services in the global economy. In February, Spain exported €14 billion of goods, 12.8% more than in the same month in 2009.

This is a dividend of the globalization process of Spanish corporations that began in Latin America in the 1990s, then moved to Europe, and is now focused on the U.S. and Asia, The country's corporate flag bearers continue to post solid earnings and tap into the external demand that is driving the country back to growth.

> *"Spain and Germany are the only countries in the euro zone which didn't lose market share in trade over the last 10 years."*

"The large companies in Spain are not dependent on Spain any more," says Mauro Guillén, professor in international management at the Wharton School of the University of Pennsylvania in Philadelphia.

"It is wrong to identify the future well-being of these companies with the well-being of Spain, as there has been a partial decoupling process. I wouldn't be surprised if over the next five

Continued on following page

Illustrations by Sue Clarke

Special Advertising Section

Gaining global markets are opening new horizons for country's companies

Continued from previous page

years the Spanish economy grows by 1% per year, but the revenues of the large companies grow by 5% to 10%," Prof. Guillén says.

"Our opportunities for growth in the Spanish market, where we already have high market share, are relatively small," says Juan Santana, CEO of Panda Security, a Bilbao-based computer security company. "Our growth outlook is based on international markets." Only 25% of Panda's revenues now come from Spain, down from 50% five years ago.

And Spain's global companies, which include leaders in sectors such as telecommunications, financial services, renewable energy, and infrastructure, are now playing a key role in kick-starting and rebalancing the national economy away from construction-driven domestic demand.

Foreign market share

"Spanish growth was led by internal demand, and now that that has gone, we need to gain market share in the external sector to take up the slack," says Javier Díaz-Giménez, economics professor at the IESE Business School of the University of Navarra in Madrid.

In Spain itself, the domestic outlook for companies remains challenging, after the bursting of a construction and real estate bubble in 2008 put an end to 14 years of economic growth, with GDP in 2009 declining 3.6% from 2008.

Public finances have been hard hit by the slump in demand and by stimulus spending to substitute for private spending. The budget has gone from a surplus position between 2005 and 2007 to a deficit of 11.2% in 2009.

"Certainly Spain faces multiple structural problems and a dire economic outlook," says David Bach, economics professor at the Instituto de Empresa in Madrid. "However the Spanish economy and Spanish society have changed tremendously since the transition to democracy in the late 1970s, and Spain has developed a capacity for adjustment to rapid change when needed. For example, female participation in the labor force is higher than in many other European countries, there is a fair amount of entrepreneurship and small business creation, and Spanish multinationals have excelled abroad."

"Spain has already gone through a period of deficit reduction, so we've done it all before," says Javier Sanz, CEO of Invest in Spain, a Madrid-based government agency. "I am confident that by 2013, public finances will be back to a more reasonable level, which will free up public funds for investment."

And although Prime Minister José Luis Zapatero has so far shied away from the labor reforms that economists say are needed to reduce Spain's 20% unemployment rate, the government has recently stepped up its efforts to rein back spending.

In January, Mr. Zapatero announced a €50 billion austerity plan to reduce the budget deficit to the euro zone limit of 3% by 2013. And last month, the prime minister unveiled an additional austerity package which will save a further €15 billion over two years, including cutting public salaries 5% in 2010 and freezing them in 2011.

"Ambitious fiscal consolidation is under way, recently reinforced and front-loaded," the International Monetary Fund said in a May 24 report. "We fully support this package. It significantly strengthens and front loads the envisaged adjustment and enhances credibility by taking concrete and bold measures."

"Spain has already gone through a period of deficit reduction, so we've done it all before."

And although unit labor costs rose rapidly in Spain during the boom years, much of this increase took place in the outsized construction sector. In sectors producing tradable products and services, Spanish companies have maintained their cost competitiveness.

"Spain and Germany are the only countries in the euro zone which didn't lose market share in trade over the last 10 years," says Federico Steinberg, senior analyst for economy and international trade at the Elcano Royal Institute think tank in Madrid. "In exports at least, Spain hasn't lost competitiveness."

According to the Bank of Spain, the country's central bank, there has been particular growth in Spanish exports of services such as engineering, architecture, and construction, reflecting the global growth in the services area of Spanish companies such as Madrid-based Ferrovial, which owns the British Airports Authority and operates toll roads across the U.S.

From 1995 to 2009, Spanish exports of services increased 9% annually, and the Spanish share in the global services market rose to 3.1% in 2008 from 1.8% in 2005, according to the World Trade Organization.

Although the European Union still accounts for the majority of Spanish trade, the expansion of Spanish companies into first Latin America and now the U.S. and Asia has diversified the country's export markets.

The changing sales trends of fashion retailer Inditex, the La Coruna-based owner of the Zara chain, illustrate how the focus of Spanish companies has evolved. In 2001, the Spanish market accounted for two-thirds of Inditex's sales. By 2009, that had reversed, with two-thirds of sales coming from international markets, allowing the company to post a 5% profit rise despite the slump in domestic demand.

Last year, Inditex opened 343 stores, 336 of them outside Spain spanning 46 countries, including 41 stores in China, 12 in South Korea, and 10 in Japan. In 2010, Inditex will open 95% of its stores outside Spain, including opening its first stores in the huge Indian retail market, in New Delhi and Mumbai.

Meanwhile, according to the Spanish Ministry of Trade, the U.S. was the main destination of Spanish foreign investment in 2009, and Spain is now the ninth largest investor in the U.S., with a 4.3% share of foreign direct investment there. "The U.S. is still the market with most opportunities [for us], because of its size and its tradition in technology," says Mr. Santana of Panda Security.

In the first nine months of 2009, Spanish companies invested €4.23 billion in the U.S., 47.8% of all Spain's total overseas investments. Those figures reflect in particular the push into the U.S. by Spanish renewable energy giants such as Bilbao-based Iberdrola, the largest wind energy producer in the world, and Madrid-based Acciona.

The increasing international profile of Spain's largest companies also has a direct impact on the domestic economy and on research and development and investments in Spain.

"Best practices"

"Foreign companies have made a very significant contribution to R&D in Spain, by transferring best practices," says Antoni Subirà, professor of financial management at the Barcelona campus of the IESE Business School. "And now that Spain is not so distracted by the real estate sector, it is important that it focuses much more on sectors with a more technological component."

Invest in Spain's Mr. Sanz says that last year 65% of the projects managed by his agency had a high level of technology, and that sectors such as information technology, biotechnology and renewable energy have been little impacted by the recession.

And that is borne out by the experience of Panda Security, which boosted its work force 10% in 2010, despite the recession, and says that if the right reforms are carried out, job creation should resume across the country.

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Special Advertising Section

A concerted effort to streamline country's financial system

The restructuring of the Spanish financial system gathered pace in recent weeks, as the Spanish government and the Bank of Spain, the central bank, stepped up their efforts to weed out weak institutions, provide financial support to stronger banks in merger processes, and get banks lending again to the national economy.

Prime Minister José Luis Rodriguez Zapatero and opposition leader Mariano Rajoy agreed in May to deliver new legislation to speed up the restructuring of Spain's troubled regional savings banks, or cajas de ahorros, which represent about half of the Spanish financial system.

"If Spain is not going to end up with zombie banks like in Japan, which don't lend to the economy, legislation needs to change to drive a restructuring process," says Fernando Ballabriga, director of the economics department at Esade, a Barcelona-based business school.

This restructuring process is likely to result in the disappearance of a high number of the smaller 45 cajas. Many of these cajas, which are not listed on the stock exchange and are often controlled by political parties in Spain's autonomous regions, overextended themselves in the real estate boom and bad debts are now raising questions about their solvency.

On May 22, the Bank of Spain seized control of CajaSur, a small savings bank based in the southern city of Cordoba, after CajaSur failed to agree a merger with rival savings bank Unicaja. CajaSur holds 0.6% of the assets of the Spanish financial system.

The Spanish banking sector had no exposure to toxic assets based on U.S. subprime mortgages, and was largely unharmed by the international financial crisis of 2008.

The picture is sunnier for Spain's leading financial institutions, such as the internationally diversified commercial banks BBVA and Santander, and the two giant nationwide savings banks, Caja Madrid and Barcelona-based rival La Caixa, which are well-capitalized and confident that the worst is behind them in terms of non-performing loans.

Caja Madrid, which began to distance itself from the overheated mortgage market in 2007, reports that the proportion of nonperforming loans declined to 5.43% at the end of the first quarter of 2010 from 5.57% at the end of 2009, while BBVA said in April that bad loans had stabilized at 5.1% of total lending in Spain and Portugal, below the 5.4% average for the system.

REUTERS/Andrea Comas

The Bank of Spain has protected its county's banking sector from exposure to toxic assets based on U.S. subprime mortgages.

"A number of the cajas are in very good shape and will lead mergers, seizing opportunities with other cajas," says Mauro Guillén, professor in international management at the Wharton School of the University of Pennsylvania in Philadelphia.

"But some of them, particularly on the Mediterranean coast, were overcommitted to real estate and are in serious trouble. A restructuring is long overdue," he adds.

Because the Bank of Spain has limited the off-balance-sheet exposure that Spanish banks could assume, the Spanish banking sector had no exposure to toxic assets based on U.S. subprime mortgages, and was largely unharmed by the international financial crisis of 2008.

An unintended consequence of that policy, Esade's Mr. Ballabriga says, was that the banks invested too much in the domestic property boom. "The Spanish financial system was initially seen as an example to other countries, but a major part of resources went into real estate instead and problems have now surfaced there, more so at the cajas than at the commercial banks."

The Bank of Spain has made available €99 billion of capital to help stronger banks take over rivals, until the end of June, when the bailout fund is closed. By seizing control of CajaSur, the Bank of Spain is increasing the pressure on other weak savings banks to agree to mergers or face a similar fate. Two days after the Cajasur takeover, four Spanish savings bank announced plans to merge their operations, creating Spain's fifth largest financial institution, with €135 billion of assets.

Special Advertising Section

Northern coast offers an abundance of attractions

Pristine beaches, culinary treats, unique culture and a colorful history

The coastline of Spain's northern regions such as the Basque Country (above), has more in common with Brittany and Ireland than Benidorm and Ibiza.

The colorful northern coast of Spain, far from the crowded beaches and skylines of the Mediterranean, has largely escaped the ravages of mass tourism and overdevelopment.

This windswept land of fishing villages and smugglers' coves has an old-fashioned, unpretentious appeal; vacationers come here not for glitzy hotels and night life, but for the simpler charms of wide, empty beaches, freshly caught seafood, medieval churches and prehistoric caves to explore.

Northern Spain is geographically and culturally a very different country from the rest of the Iberian peninsula. The coastline here has more in common with Brittany and Ireland than with Benidorm and Ibiza; the sun comes out less, the rain falls more, and the hills are often hidden in the mist. Even in the summer, there can be a chill in the air as evening falls.

Cut off from the rest of Spain by a series of mountain ranges that rise from the central Spanish plain, parts of this land were never conquered by the Arabs; the Reconquista, the reconquest of Spanish lands held by the Moors, was launched from northern Spain in 722. The people here are often taller and paler than in the rest of Spain, the drink is as likely to be cider as it is wine, and even the languages can be different.

Four Spanish regions occupy the northern coast; the Basque Country on the border with France, then, heading west, Cantabria, the Principality of Asturias, and finally Galicia, looking out onto the expanse of the Atlantic Ocean.

Although Spanish is spoken universally, in Galicia the majority speak Gallego, which is much closer to Portuguese, and Asturian is also undergoing a revival. Meanwhile, the fiendishly difficult Basque language remains a mystery, a very rare example of a language "isolate" — a language with no known relatives spoken anywhere in the world.

The Basques themselves have long been a nation of wanderers; the Basques were one of the first great whaling peoples of Europe, and Basque sailors and explorers were among the most successful settlers of the Americas.

The Basques are renowned across Spain for their cuisine. And there can be no better place to try Basque cooking than in the cosmopolitan beachside city of San Sebastián, where every evening the streets of the old town fill with locals and visitors, moving from bar to bar indulging in Spain's most celebrated tapas (called "pinchos" in the Basque Country).

Further west, industrial Bilbao, the largest city in northern Spain, now rivals its glamorous neighbor for visitors, following the opening in 1997 of the Frank Gehry designed Guggenheim Museum. The museum is a spectacular fantasy in titanium that recalls the lines of the ships of Bilbao's maritime past and houses frequently changing exhibitions, especially of modern and contemporary art.

Cantabria and Asturias

In the region of Cantabria, the capital Santander is perhaps best known as the home city of one of Europe's largest banks. This elegant and prosperous town, which sits on the Bay of Biscay, is a popular gateway into Spain for British tourists, with excellent ferry connections to Portsmouth and Plymouth in southern England.

Outside Santander, the coastline of Cantabria has an old-fashioned seaside charm. The fishing village of Comillas is perhaps the most attractive town on this stretch of the coast; above the beach and the colored houses and cobbled streets stands the bizarre building of El Capricho, a bewildering early masterpiece by Antoni Gaudí, far from his native Barcelona.

But the highlight of any trip to Cantabria — and perhaps of northern Spain — must be the prehistoric cave paintings in Altamira, just west of Santander. These vivid, colorful paintings of bison, horses and deer date back around 15,000 years, and were hidden in the hills until a chance

GETTY IMAGES/Prehistoric

Altamira's prehistoric cave paintings date back around 15,000 years.

discovery in 1879.

To protect the paintings, visitors are kept to a minimum and the waiting list can be as long as three years. But a replica of the cave opened in 2001 to meet visitor demand. The sophistication of the paintings, the accuracy

The people here are often taller and paler than in the rest of Spain, the drink is as likely to be cider as it is wine, and even the languages can be different.

and freshness of the animal figures, and the very human detail of the handprints left all over the cave, make for an evocative and moving experience.

Meanwhile, in the mountainous region of Asturias, it is art of a different form that is the main attraction. While the Arabs held sway in the rest of Spain, from the 8th century to the 10th, the Christian monarchy in Asturias constructed a series of simple churches, especially in the regional capital, Oviedo, that are some of the finest surviving examples of pre-Romanesque architecture anywhere in the world.

Galicia

Coming into Galicia through the mountain passes of northern or central Spain is a particularly special moment for travelers on the Camino de Santiago, the centuries-old pilgrimage route from the French border, 800 kilometers away, to the capital of Galicia, Santiago de Compostela. The Gothic cathedral of the city is said to be the last resting place for the remains of the apostle St. James.

Galicia itself is a land of Celtic roots and ruins, of bagpipe music, smugglers, storytellers and superstitions. Magnificent cliffs crash down into the Atlantic, and in even the foulest weather, intrepid locals can be seen clinging to rocks off the shore, scraping off the barnacles that are a specialty of Galician cuisine. And when the mist here does recede, it can reveal some of the most pristine white sand beaches in the country, such as the Islas Cies, a national park of three islands just a short ferry ride from Vigo, the largest city in the region.

And for any visitor to the country, there can be few more authentic experiences than dining on Galician shellfish fresh from the sea, with a local bottle of Albariño wine, while the sun sets late over this most western part of the Spanish mainland.

The text of this Special Advertising Section was written by Mark Beresford

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Santiago de Compostela's Gothic cathedral is said to be the last resting place for the remains of St. James.