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British troops deemed responsible for all Bloody Sunday killings



Relatives of those killed in Northern Ireland on Bloody Sunday in 1972 arrive to read a report Tuesday that blamed British soldiers for all 14 deaths. Article on page 7.

Lehman auditors to unveil proposal

BY AINSLEY THOMSON

LONDON—Lehman Brothers' European administrators, PricewaterhouseCoopers LLP, will unveil on Wednesday a proposal to expedite the return of as much as \$22 billion of assets to the failed bank's unsecured creditors.

The plan, called the "consensual approach," would see the majority of unsecured creditor claims agreed by the end of the year and cash distributed in 2011. In comparison, the traditional bilateral approach would take years to implement.

"What we are trying to do here is pretty avant garde," said Steven Pearson, joint administrator of Lehman Brothers International (Europe), known as LBIE, and a partner at PricewaterhouseCoopers. "Nothing like this has ever been done before. What we wanted to do was something ambitious to get the cash back into the hands of creditors who need it."

The proposal comes one year and nine months after Lehman Brothers collapsed in the largest corporate failure in history. Nearly 80 Lehman subsidiaries world-wide subsequently folded, each of which is now being wound up.

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Congress upbraids oil firms as pressure on BP increases

BY STEPHEN POWER

WASHINGTON—Senior House Democrats accused all five oil companies attending a congressional hearing Tuesday of relying on "cookie-cutter" spill-response plans.

The hearing came as U.S. President Barack Obama spent a second day in the Gulf region and prepared to deliver an Oval Office address Tuesday night to outline his plans for cleaning up the spill, compensating victims, getting tough on the industry and enacting new policies to reduce U.S. oil dependence.

At the hearing, Rep. Edward Markey (D., Mass.) said a review of oil companies' response plans found that, like BP PLC, three other companies had made references in plans to protecting walrus, "which have not called the Gulf of Mexico home for three million years." He added that two other plans "are such dead ringers for BP's that they list a phone number for the same long-dead expert."

Mr. Markey didn't identify the companies or the de-

ceased expert. He also said the oil companies had spent an average of \$20 million a year on research for safety, accident prevention and oil-spill response plans—an amount he called paltry, compared with the \$39 billion they had spent over the past three years to explore for oil and gas. He called for significantly raising the cap on oil companies' legal liability for spills and legislation that would mandate safety requirements for companies that drill offshore.

BP shares closed almost 4% lower in London after Fitch Ratings downgraded its long-term-issuer default rating to just above junk as potential upfront costs from the spill escalated. The market initially shrugged off Fitch's announcement, despite the severity of the six-notch cut in BP's rating to BBB from AA. However, the company's shares closed down 3.8%.

Rep. Henry Waxman (D., Calif.) presented an excerpt of BP's spill-response plan at the hearing that is virtually identical to one filed by Exxon

Mobil Corp. He said Exxon Mobil, Chevron Corp. Conoco Phillips and Royal Dutch Shell PLC are "no better prepared to deal with a major oil spill than BP" and said the companies had relied on the same company—the Response Group—to write their plans. Response Group described those plans as cookie-cutter plans, Mr. Waxman said.

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"When you look at the details, it becomes evident these plans are just paper exercises," Mr. Waxman said. "BP failed miserably when confronted with a real leak, and Exxon Mobil and the other companies would do no better." Republicans at the hearing accused Democrats and the Obama administration of

inappropriately using the disaster to pass legislation aimed at limiting emissions of heat-trapping gases linked to climate change.

"Anger and frustration do not solve problems," said Rep. Joe Barton (R., Texas). "We must focus on the real problems: how to mitigate the spill, assist Gulf residents and ensure a disaster like this never happens again."

Top oil-company executives at the hearing moved to distance their companies from BP, telling Congress they would have made different well-design decisions than those investigators say were made by BP.

"We would not have drilled the well the way they did," Exxon Mobil Chief Executive Officer Rex Tillerson said. He said "a number of design standards that I would consider to be the industry norm were not followed."

Chevron Chairman and CEO John S. Watson said "it's not a well we would have drilled." Watson said the design of the casing and mechanical barriers that were

put in place at the BP well "appear to be different than what we would use." Chevron's practices in deep water "are safe and environmentally sound," he said. A representative of Royal Dutch Shell, Marvin Odum, predicted that the halt in deep-water drilling will cost "thousands of jobs and billions in lost wages and spending."

The executives' statements raise the pressure on BP, which is already facing criticism from members of Congress over its plans to pay a dividend to shareholders.

On Tuesday, two Democratic senators—Ron Wyden of Oregon and Charles Schumer of New York—expressed outrage over reports that BP is considering setting up an escrow account to pay a dividend in the future. The lawmakers reiterated their demand that the company shelve any payment to shareholders until the cost of the oil spill is fully calculated and sufficient reserves are set aside to meet those costs.

—Siobhan Hughes contributed to this article.

The Quirk



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PAGE TWO

The West is getting ready to walk away from the war in Afghanistan

[Agenda]

By IAIN MARTIN



Gen. David Petraeus, the commander of U.S. Central Command, is used to coming under fire in the field. He led the U.S. Army's 101st Airborne Division in the 2003 Iraq War, overseeing its heroic charge to Baghdad through Karbala, Hilla and Najaf. Famously he is supposed to have remarked to embedded reporters after the fall of the Iraqi capital: "Tell me how this ends". That request was interpreted as an indication that Gen. Petraeus realized early on that keeping the peace after the fall of Saddam would prove a good deal more difficult than winning the war in the first place. He was right. Iraq had to endure years of bloodshed and chaos before the surge of troops he implemented in 2007-2008 began to turn the tide.

On Tuesday Gen. Petraeus was under a different kind of pressure to that experienced on the front-line. Appearing on Capitol Hill he was asked by senators about the progress of another war, the one on-going in Afghanistan. General Petraeus proceeded to faint, albeit briefly. Following a short break for recuperation he blamed dehydration and not the intense questioning from Senator John McCain.

But Mr. McCain and Senator Carl Levin, the chairman of the Senate Armed Services Committee, had been getting somewhere interesting before the unfortunate interruption.

President Barack Obama has committed to starting withdrawals of American troops by July next year. Is that wise? Gen. Petraeus offered what he described as a "qualified yes". "There was a nuance to what the president said



Barack Obama, then a senator, with Gen. Michael Petraeus in Baghdad in 2008.

that was very important, that did not imply a race for the exits, a search for the light to turn off or anything like that," he said.

No race for the exits and no search for the light to turn off, then. Yet the focus is clearly very much on finding a dignified way out. Once the Afghan surge, the latest major Petraeus initiative, finishes next summer the policy looks set to be: organize an

Enemies of the U.S. and Nato will conclude they are not committed to a robust defense of western values.

orderly retreat and call it a victory. Enemies of the U.S. and Nato are, it has to be said, unlikely to draw the conclusion from this that they are deeply committed to a robust defense of western values.

Until then there is still a broad commitment to keeping out the Taliban in Afghanistan and supposedly reconstructing (or constructing) an approximation of a democracy and a functioning central government.

But the mission unmistakably has a slow puncture. Public

support has slipped away and much of the political will with it. The Dutch are withdrawing. The Polish prime minister, Donald Tusk, said last week that he wants Nato to come up with a timetable for the end of its mission in Afghanistan.

And in Britain there is extreme weariness with the war. Soon 300 British personnel will have lost their lives in the conflict, with the death toll now standing at 298 following the deaths yesterday of two soldiers from 1st battalion, the Duke of Lancaster's regiment.

A poll for the BBC conducted in February, indicated that 64% of voters thought the war unwinnable. Britons castigated the previous government for not equipping forces properly, but so many tales are now emerging of the complicity of certain senior military commanders in the confused planning since 2001 that the blame is being more widely spread. Exempt are the troops on the ground, who have fought like lions.

The new prime minister, David Cameron, is a relentless pragmatist determined to disentangle Britain from the Afghan conflict. He always has been highly skeptical of the neo-conservative analysis of foreign affairs, admitting to grave doubts

about another war—Iraq—before he voted for it in the House of Commons in 2003. His aim here is that long before he leaves Downing Street his country's major involvement in Afghanistan—inherited from Tony Blair and Gordon Brown—will be largely at an end. Eventually a few military trainers and support staff will remain to assist the Afghans, but that's about it.

This is what lies behind Mr. Cameron's energetic attempts to woo Hamid Karzai, the Afghan President for whom the U.S. government has only contempt.

On his recent visit to Kabul, Mr. Cameron expressed solidarity with the Afghan government. He also roused a gathering of British troops with an address which thanked them for their "great and important work."

But when he talks of intensifying and speeding up the British efforts to help the Afghans, he has in mind being able to draw down forces as soon as he can after that. Mr. Cameron being nice to Mr. Karzai is about winning the Afghan's leaders support for the idea that Britain will not stay a "minute longer than necessary" as he puts it. The Prime Minister is talking tough, but preparing the ground for the departure of his forces.

The money has also run out. Under Liam Fox, the new defense secretary, a U.K. strategic defense review is under way which will likely mean deep cuts of up to 20% in the British army's manpower levels. The capacity for action, as well as the public appetite for it, is set to diminish.

So, how does this one end? Probably sooner than we think, with the surge declared a convenient success by departing powers; with the supposed prowess of the homegrown Afghan security forces spun like mad; and with the West tiptoeing towards the exit and away from Afghanistan.

What's News

■ **The euro zone's** trade balance swung to a surplus in April, indicating that a weak euro and overseas demand are offsetting strains on Europe's southern fringe. The benefit is being felt more by big exporters such as Germany than other nations. 8

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The Source

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'Fitch Ratings believes the hype. It cut BP's credit rating by an astonishing six notches Tuesday.'

James Herron on The Source: Fitch Believes the Hype



Continuing coverage



Follow our live blog as Spain plays Switzerland at wsj.com/worldcup

Question of the day

Vote and discuss: What is your recommendation on BP stock?

Vote online and discuss with other readers at wsj.com/dailyquestion

Previous results

Q: Should World Cup organizers ban the vuvuzela from stadiums?

Yes

80%

No

20%

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NEWS

The health hazards of the vuvuzela

Horns add to atmosphere at football matches and in the streets, but experts warn that they can harm hearing

BY ROBB M. STEWART

JOHANNESBURG—Football governing body FIFA is standing by its decision to allow vuvuzelas at World Cup matches, but health experts warn the blaring plastic horns favored by South African football fans can cause hearing loss and possibly spread colds, the flu and other infectious diseases.

Traditionally made from the horn of a kudu, a species of antelope found in the African bush, the vuvuzela was once used to call people together across distances. Today, plastic variations are a football-fan fixture, used to distract opposing teams and cheer on one's own—with roughly the same loud blare.

Beyond the stadiums, the horns can be heard from early morning to late at night on South Africa's streets during the World Cup. South African newspapers have reported workplace clashes involving employees blowing the horn. They have caused conflict among bus and train passengers as well.

Earlier this month, Hear the World, a foundation launched by Swiss hearing-aid maker Phonak AG, cautioned that the horns pose an immediate health risk. Its measurements peg the vuvuzela at 127 decibels—louder than a lawn mower, chain saw or air horn. A referee's whistle emits about 121.8 decibels.

The foundation says extended exposure at 85 decibels puts a person at risk of permanent hearing loss; at 100 decibels or more, this can occur in 15 minutes.

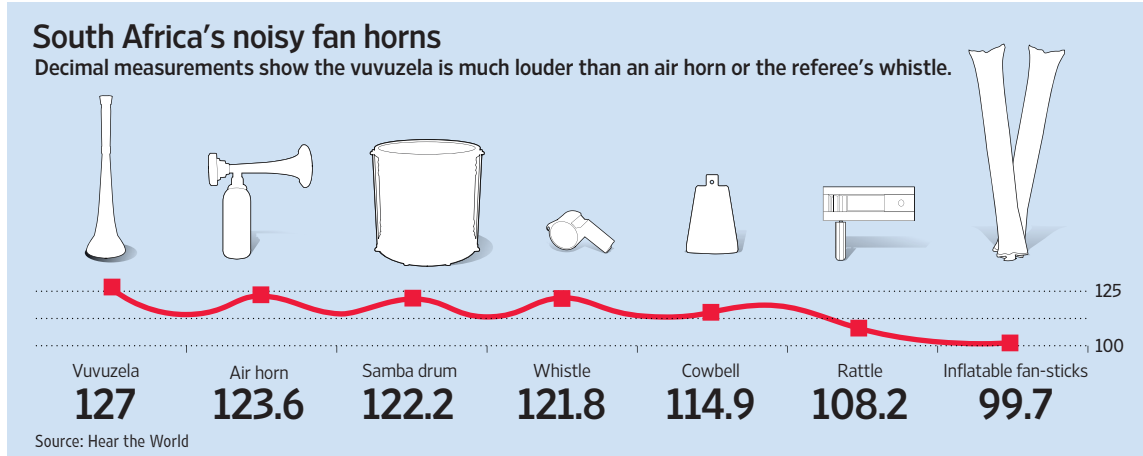
Studies conducted by the department of communication pathology at the University of Pretoria that appeared this year in the South African Medical Journal found the vuvuzela can reach dangerously loud levels that place spectators at risk for hearing loss if they are exposed for more than a few minutes. A football match lasts for 90 minutes.

A study of a match with 30,000 football fans found significant changes in spectators' hearing were observed after the match.

The audiologists said those



Fans wave flags and a vuvuzela before Friday's opening match of the football World Cup in Johannesburg.



changes indicated deterioration in auditory functioning. Even with hearing protection the intensity produced at the bell end of the vuvuzela is "unacceptably high," the study said.

The local World Cup organizing committee has defended the instru-

ment as part of the football experience in South Africa, the first country on the continent to host the event. FIFA has noted complaints from players, broadcasters and fans about vuvuzelas during matches. But "the vuvuzela will continue to be allowed during the tournament,"

said FIFA spokesman Rich Mkhondo. "The status quo has not changed."

FIFA officials say they would revisit that stance if vuvuzelas are thrown onto the field during matches.

Walt Disney Co.'s ESPN, which broadcasts the World Cup in the

U.S., said it is filtering out some vuvuzela hum after hearing from fans. But it is intentionally leaving some in, too. "We have specifically said we still want to hear that because that's part of the experience," John Skipper, ESPN's executive vice president of content, said Monday. "It's part of the culture here. And we accept it and applaud it."

Health experts warn the biggest threat from the vuvuzelas may be unseen. Blowing hard into vuvuzelas may spray droplets of spittle onto nearby spectators, and with it the flu and other diseases.

"We measured what happens when healthy people blow the vuvuzela and were astonished at the number of aerosols formed," said Ruth McNerney of the London School of Hygiene and Tropical Medicine. "If someone with a chest or throat infection uses the vuvuzela in a crowded place then they could spread the infection to people around them."

Dr. McNerney conducted a study ahead of the World Cup in collaboration with Ka-Man Lai at University College London that found very high air flow with large numbers of spit droplets blown from a vuvuzela. These droplets are small enough to stay suspended in the air for hours and, if breathed in, could potentially infect someone, she said.

Diseases spread by airborne droplets include the common cold, chicken pox and rubella as well as more threatening diseases such as severe acute respiratory syndrome, tuberculosis and the H1N1 swine flu, according to Dr. McNerney.

Barry Schoub at South Africa's National Institute for Communicable Diseases said that with winter in the Southern Hemisphere, there's a large caseload of respiratory diseases in the country. But he said the health hazards the horn poses may not be greater than from fans shouting and screaming during a game, although it would be riskier to pass around an infected vuvuzela.

—Ntando Ncube and Sam Schechner contributed to this article.

Lehman auditors to unveil plan

Continued from first page
down under the legal regime of the country in which it is based. Under the consensual approach, the administrators would determine the value of each financial trading creditor's claim using a series of criteria.

LBIE has about 6,500 unsecured creditors, most of whom are financial institutions such as banks and insurance companies. PricewaterhouseCoopers will now consult with those creditors to determine whether enough of them support the proposal. Creditor meetings will be held in London and New York later in the summer, and creditors are expected to vote on the proposal in the last quarter of the year.

Mr. Pearson said the consensual approach will only be used if the "overwhelming majority," likely around 90%, of unsecured creditors support the proposal.

If a majority doesn't support the plan, the traditional bilateral approach will be used to distribute the assets. Under this approach, each

creditor would submit a claim, which the auditor would then examine and decide.

Mr. Pearson said the bilateral approach would take "years and years" to work through. However, Mr. Pearson said the consensual approach is likely to result in lower creditor valuations than the bilateral approach.

Lehman's European unit has about 6,500 unsecured creditors, most of whom are financial institutions.

"Most creditors have the ability to pick all sorts of different dates to value their trades at, and of course what they would choose to do is value them at the date which are most valuable to them," Mr. Pearson said. "What we are doing is valuing everybody on a series of defined dates. If we have to do every permu-

tation of every trade for every client, we run into millions of valuations and, while we can do that, it would take a very long time."

In addition to saving time, the consensual approach would save costs and would give creditors certainty, he said.

Last December, clients of LBIE voted in favor of a plan to speed up the return of about \$11 billion in frozen client assets.

The plan, called the claim-resolution agreement, governed the basis on which the administrators were able to return the assets to clients, who numbered about 500 and were mainly hedge funds.

"That was an innovative solution to a difficult problem, and we are committed to finding an equivalent solution for the rapid determination of creditor claims that is fair, market acceptable and pragmatic," Mr. Pearson said. "We believe the consensual approach, with the support of creditors, will prove to be that solution."

North Korea purchases rights to cup broadcasts

BY EVAN RAMSTAD

SEOUL—North Korea's TV station legally obtained the rights to broadcast World Cup games in a deal brokered by Malaysia-based Asia-Pacific Broadcasting Union on behalf of broadcasters in five countries, the union said Tuesday.

On Tuesday evening, North Korea proved itself World-Cup-worthy with a late goal against Brazil scored by Jong Tae Se after he dribbled through three tackles, although it wasn't enough to overcome Brazil's two goals.

North Korea's rebroadcast on Saturday of the opening game of the World Cup surprised South Korea's tournament broadcaster, which feared the North was pirating its signal after refusing to come to terms for sharing its rights to the event. But when the controversy came to the attention of World Cup governing body FIFA, it said it had

signed a broadcast agreement with the Asia-Pacific Broadcasting Union to send video of the games to North Korea.

The union confirmed the deal on Tuesday. A person in the union's sports department said the deal was reached just before the tournament started Friday for TV stations in East Timor, Kyrgyzstan, Laos and Uzbekistan, as well as North Korea. Terms weren't disclosed.

North Korea illegally used some South Korean broadcasts of the 2002 World Cup, but in 2006 it made an arrangement to obtain TV coverage legally from a South Korean network.

Its state broadcasting system held two meetings with the South Korean TV network SBS, which purchased broadcast rights for the Korean peninsula from FIFA, for a retransmission arrangement on the current tournament, but the two sides couldn't come to terms.

EUROPE NEWS

Osborne to outline overhaul

U.K. finance minister's speech could determine whether the FSA lives on or fades away

BY ADAM BRADBERRY

LONDON—U.K. Chancellor of the Exchequer George Osborne is expected to announce Wednesday a radical overhaul of the country's regulatory structure that could involve shifting a key function of the Financial Services Authority to the Bank of England.

The Conservative-Liberal Democrat government's statement last month that it would give the central bank "oversight" of banking regulation was taken by many regulatory experts to mean the FSA would survive as a largely independent day-to-day banking supervisor, but others believe the regulator will effectively be abolished.

Mr. Osborne could announce the regulator would operate as a subsidiary of the Bank of England, with much greater integration between the central bank's financial-stability experts and the regulator's banking supervisors—and with ultimate responsibility for regulating systemically important banks being held by Mervyn King, the Bank of England's governor.

"The abolition of the FSA is still very much a looming threat," said Jacqui Hatfield, a partner at law firm ReedSmith. "I think the Conservatives went so far with their proposal to abolish the FSA pre-election that it will be difficult for the Liberal Democrats to prevent it."

Mr. Osborne is due to outline the government's regulatory-overhaul program in a speech at London's Mansion House. The government has already made it clear that the central bank will be responsible for overseeing threats to financial stability, but the Conservatives want to find a way to ensure the Bank of England's alerts about emerging threats are acted on by forcing banks to increase their capital and liquidity buffers.

The Conservatives had said before the election that they would do away with the FSA and transfer prudential regulation of banks and insurance companies to the central



European Pressphoto Agency

Chancellor of the Exchequer George Osborne, center, unlocks the gate to London's Downing Street on Tuesday.

bank. The party also planned to set up a new consumer-protection agency to take on FSA powers now in place to ensure customers are treated fairly and had considered creating a market-supervision body.

Some regulatory lawyers and consultants said Mr. Osborne may decide to keep his options open by announcing a review on whether the FSA in its current form should be abolished. That review would analyze whether an integration of the two organizations can be achieved without major disruption.

Many analysts have warned that undertaking such a radical overhaul could stunt the U.K.'s ability to supervise key companies. After all, though the last government an-

nounced the creation of the FSA from a range of sectoral supervisors in 1997, it took four years to create.

The upheaval would come at a time of concerns about banks' exposure to the debt of euro-zone countries that have large fiscal deficits and could default on or restructure their debts.

"From the point of view of making the change happen, it would be a two- to three-year project involving a complex program to be executed at a time when there's quite a lot of turmoil in the financial-services markets, and there's a risk this could make it difficult for the FSA to keep its eye on the ball," said David Kenmir, a director at PricewaterhouseCoopers LLP and a previous

senior manager at the FSA.

Whatever structure is envisioned, the government will need to create a clear line of responsibility for regulation. The government may decide to leave the FSA with its own board of directors, a step short of creating a full subsidiary—but this would raise questions about how the Bank of England would force the FSA to react to its alerts over financial stability. "Anything other than a full subsidiarization to the BOE seems to me to leave an awful lot of question marks about how the organization would be run," said Michael Foot, chairman of Promontory Financial Group (U.K.) Ltd., which was a pre-election adviser to the Conservatives on regulatory reform.

Lawmakers approve UBS deal, with catch

BY DEBORAH BALL

ZURICH—Switzerland's lower house of parliament approved a bill that would allow the government to hand over the names of thousands of alleged U.S. tax dodgers to American authorities. But the legislation is still jeopardized by the inclusion of a clause making the proposed law conditional to a popular referendum, leaving lawmakers with less than a week to resolve the issue.

The law would allow Bern to fulfill its obligations under a U.S.-Swiss settlement of a tax case last year involving hidden offshore bank accounts at Swiss bank UBS AG. UBS admitted it had used the accounts to help thousands of Americans evade taxes on about \$20 billion of income. Under the settlement's terms, the Swiss government must hand over the names of 4,450 American account holders to the U.S. Internal Revenue Service by August.

After a Swiss court ruled in January that the deal broke domestic law, the Swiss government presented a special bill aimed at laying the legal groundwork so that it could hand over the names. While the Senate approved the bill, which has been criticized by some Swiss politicians as a capitulation to American demands, the lower house rejected it last week.

On Tuesday, after the powerful Swiss People's Party dropped its opposition, the lower house gave the bill the green light. A majority of 81 lawmakers voted in favor, with 61 voting against and 53 abstaining.

However, the party succeeded in attaching a condition that it be subjected to a vote of the people. By contrast, the bill approved by the Senate didn't call for a referendum.

A referendum would make it impossible for Switzerland to meet the August deadline to hand over the names, because it would take months to conduct a signature drive to launch a popular vote. The IRS said last week that it is prepared to reopen the case against UBS if the Swiss miss the August deadline. The Swiss government has argued against a referendum.

Failure to hand over the names would be a setback for UBS's attempts to rehabilitate its image and restore its wealth-management business to health. Since the start of 2008, UBS has lost about 1,500 private bankers and seen clients pull hundreds of millions of Swiss francs from the bank.

Swiss politicians must now reconcile the differences in the two bills and try to reach an agreement on the referendum issue. They have until the end of this week, when the parliamentary session adjourns. The Swiss government has been pushing hard for a deal, with Economy Minister Doris Leuthard recently saying that "there is no plan B" in case of rejection of the bill.

On Tuesday, an IRS spokesman reiterated that the U.S. tax agency is prepared to reopen the case should the Swiss fail to hand over the names by the August deadline. "We remain prepared to use all available options, including the U.S. courts, should the present efforts fail," he said in a statement.

U.K. data stoke hope of inflation's peak

BY NATASHA BRERETON

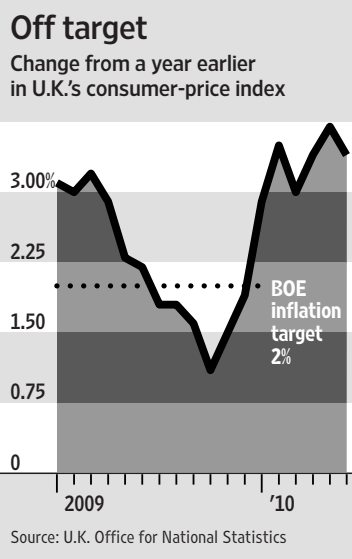
LONDON—U.K. consumer-price inflation ebbed in May although it remained well above the Bank of England's target, with the decline marking what central-bank officials will hope is the beginning of a downward trend.

The Office for National Statistics Tuesday said May annual inflation fell to 3.4% last month from 3.7% in April, weaker than economists' expectations of 3.5%. The BOE's Monetary Policy Committee targets inflation at 2%.

Jonathan Loynes, chief European economist at Capital Economics, called it a "pleasant surprise."

"Inflation worries are not about to disappear overnight," he said. "But there is some reassurance here that the MPC will be able to avoid the nightmare scenario of having to raise interest rates just as an enormous fiscal squeeze hits the economy."

While the bank expects the British recovery to pick up over the



next year, it says economic activity won't return to its pre-crisis trend rate for a considerable period, resulting in a large margin of spare capacity, which should significantly

cool price growth.

The central bank's forecasts indicate that it is likely to keep monetary policy extremely loose for many months to come, amid aggressive fiscal tightening, strains in the banking sector and the weakness of the U.K.'s main trading partner, the euro zone.

In its quarterly inflation report last month, the MPC projected inflation to fall to below but stay close to its 2% target in the medium term, assuming that its stock of asset purchases is maintained at £200 billion (\$294 billion) and the key interest rate at 0.5%.

Persistently high inflation is a worry for members of the MPC, who have expressed concerns that strong price growth could push up public inflation expectations, resulting in further price gains.

A recent BOE survey found that inflation expectations for the year ahead jumped to 3.3% in May from 2.5% in February, although at the five-year horizon, they were more stable, at 3.10% from 3.02%.

One upside risk to inflation, and public expectations of price growth, would be if the government raises the sales tax at next week's emergency budget. Chancellor of the Exchequer George Osborne is expected to use the budget to start laying out tough fiscal-tightening steps.

In monthly terms, consumer prices rose 0.2% in May, below April's 0.6% gain, and also softer than the 0.3% tipped by economists polled by Dow Jones Newswires last week.

Annual core inflation—which excludes volatile energy, food, alcohol and tobacco prices—fell to 2.9% in May from 3.1% in April, Tuesday's data showed, matching economist forecasts. Core monthly inflation was 0.3%, down from 0.4% in April.

Retail price inflation—an alternative measure traditionally used as a gauge for pay settlements—dropped to 5.1% from a year earlier in May, from 5.3% in April and matching analyst expectations.

—Joe Parkinson
contributed to this article.



3 subsidiaries
5 expansion plans
2 strategic options
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to guide you

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EUROPE NEWS



Mahmoud al-Mabhouh (ringed), is shown arriving at his hotel in this CCTV handout from Dubai police on February 15.

Manhunt

A Dubai murder probe triggered a handful of other investigations into how European and Australian passports were forged or fraudulently used by suspects in the case.

Jan. 20

Mahmoud al-Mabhouh's body is found in a Dubai hotel room. Police begin investigation.

Jan. 30

Dubai says it can't rule out Mossad involvement in the case.

Feb. 15

Dubai releases photos and passports of first 11 suspects and vows to pursue them "until the end of time."

Feb. 16

Britain opens investigation into U.K. passports identified in the case. Other governments follow suit.

Feb. 24

Dubai releases a dossier of new evidence in the case, widening the suspect count to 26.

March 23

Britain expels an Israeli diplomat after alleging Israel forged U.K. passports used in the killing.

May 24

Australia expels an Israeli diplomat after alleging the same thing.

June 15

Ireland expels an Israeli diplomat after reaching the "inescapable conclusion" of Israeli involvement in forging Irish passports.

Photo: Reuters

Irish to expel Israeli envoy

Ireland said it will expel an Israeli diplomat after an investigation implicated Israel in the forgery of eight Irish passports used by suspects in the assassination of a top Palestinian official in Dubai early this year.

*By Chip Cummins in Dubai,
 David Crawford in Berlin
 and Marcin Sobczyk
 in Warsaw*

Separately, Polish authorities said they will seek to extradite an Israeli citizen to Germany, where he is wanted on suspicion of fraudulently obtaining a German passport related to the Dubai case.

The proceedings represent the latest diplomatic embarrassment for Israeli officials, who are already facing international censure over a deadly raid on May 31 on activists trying to break Israel's sea blockade on the Gaza Strip.

The Dubai probe began after the body of Mahmoud al-Mabhouh, a top official in the Palestinian militant group Hamas, was found in a Dubai hotel room in January. Shortly afterward, Dubai police started releasing details of passports used by suspects in the case. The documents—including passports from Britain, Ireland, Germany, France and Australia—all appeared to be either forgeries or fraudulently obtained.

These governments launched their own investigations. The U.K. and Australia have expelled an Israeli diplomat each, after accusing Israel of forging passports. Police in Dubai, part of the United Arab Emir-

ates, have blamed Israel's intelligence agency. Israel has said there is no evidence linking it to the Dubai killing.

Micheál Martin, Ireland's minister of foreign affairs, said the Irish probe was conducted in close cooperation with investigators in the U.K. and Australia. Mr. Martin said the probe pointed to the involvement of "a foreign state agency, or a very well-resourced criminal organization" in the passport forgeries.

Ireland said information provided by British and Australian authorities "leads us to the inescapable conclusion that an Israeli government agency was responsible for the misuse and, most likely, the manufacture of the forged Irish passports" associated with the Dubai case, the Irish statement read.

Israeli foreign ministry spokesman Yigal Palmor said "we regret the decision taken by the government of Ireland, which does not reflect the strength of the relationship."

In a separate move, prosecutors in Warsaw said they would soon ask a local court to extradite an Israeli citizen to Germany, where he is wanted on a European Union arrest warrant. Polish authorities said they arrested the suspect at Warsaw's airport on June 4.

A spokesman for Germany's Federal Prosecutor General said the German warrant is linked to the Dubai probe, but focuses only on allegations of illegal activity that would fall under German jurisdiction.

—Charles Levinson in Jerusalem
 contributed to this article.

EUROPE NEWS

Bloody Sunday blamed on soldiers

Cameron apologizes after report finds British army responsible for 1972 killings of Catholics in Northern Ireland

BY ALISTAIR MACDONALD

A long-anticipated report released Tuesday laid full responsibility for the 1972 Bloody Sunday killings in Northern Ireland on British soldiers who shot and killed 14 Catholic civilians in one of the most controversial events in the U.K.'s modern history.

New U.K. Prime Minister David Cameron said in announcing the findings that the British army had fired with no justification and apologized on behalf of the government and country as a whole. The report, however, didn't conclude that the shootings were unlawful, which the British media had reported it would.

"There is no doubt, there is nothing equivocal, there are no ambiguities, what happened on Bloody Sunday was unjustified and unjustifiable," Mr. Cameron said to Parliament.

In a damning conclusion, soldiers were found to have shot some marchers as they fled and others as they tended to the injured. The report also found that none of those shot were carrying weapons. Taking to a microphone erected outside Londonderry town hall, victims' relatives repeatedly shouted out that their relatives were innocent, each proclamation drawing applause from the crowd.

The report—called the Saville Inquiry, named after its chairman, Mark Saville, a senior British judge—is controversial in itself, having cost £191 million (\$281.1 million) and taken 10 years longer than first projected. It was commissioned by former Prime Minister Tony Blair 12 years ago as part of the process that led to a historic 1998 peace agreement that saw a near-cessation of violence between Republicans and the Loyalists who wanted to remain a part of Britain.

That agreement has largely held up over the years, though Northern Ireland has recently seen a small uptick in paramilitary activity by dissident Republicans.

On Jan. 30, 1972, 13 people were shot and killed by the British Parachute Regiment during riots around a protest march in the city of Londonderry. One wounded protester later died. The killings were a pivotal moment in the conflict.

"What happened on Bloody Sunday strengthened the Provisional Irish Republican Army, increased nationalist resentment and hostility towards the Army and exacerbated the violent conflict of the years that followed," the report concluded.

Mr. Cameron's announcements were greeted with applause by crowds who had gathered to watch his statement on a large screen by the Londonderry town hall where the original march had been sched-

uled to end.

The head of the British army, Gen. Sir David Richards, backed the report's findings and Mr. Cameron's apology, but said the "overwhelming majority" of soldiers who served in Northern Ireland did so with "utter professionalism."

Northern Ireland's Public Prosecution Service said it will consider the report and decide whether it could lead to prosecutions. This task is complicated by the fact that the Saville Inquiry agreed with witnesses that they couldn't be prosecuted on the actual evidence they supplied.

A lack of prosecutions could spark anger among the Republican community, and among those gathered outside the town hall there were some calls for soldiers to be held to account.

The report could also stoke tension among Loyalists who argue that a report now needs to be conducted into Republican killings.

Loyalists "will look with some sense of concern and anger that the concentration of a £200 million inquiry and media attention across the globe was on one bloody day, when there was 10,000 bloody days" of the conflict, said Gregory Campbell, a member of Parliament for Londonderry.

Some former British soldiers have also complained that it would be wrong to prosecute troops acting under orders after hundreds of IRA and Loyalist paramilitary prisoners were released as part of the peace settlement.

The new report is meant to address concerns that weren't resolved by earlier inquiries. The government commissioned a report in the immediate aftermath of Bloody Sunday that concluded that though British troops had acted "recklessly" they hadn't acted unlawfully and believed they were under fire.

The soldiers had said it was fired upon by the crowd first. The report concluded that while there was shooting by paramilitaries, British soldiers fired first and without warning and that a parachute regiment colonel exceeded orders in confronting marchers.

"It can now be proclaimed to the world that the civil-rights marchers of Bloody Sunday were innocent one and all," said Tony Doherty, the son of one of those killed.

"The Troubles," as the long Protestant-Catholic strife is known, defined Northern Ireland for the three decades starting in the late 1960s and claimed more than 3,500 lives, the majority killed by terrorists. Catholic Republicans sought to unite the Republic of Ireland and Northern Ireland, opposed by the mostly Protestant majority that wants to keep the province part of the U.K.



Crowds in Londonderry, Northern Ireland, celebrate Tuesday's release of the report on the 1972 Bloody Sunday shootings.

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Grim accounting

Excerpts from the Saville Inquiry on Bloody Sunday, released Tuesday

■ 'The firing by soldiers ... on Bloody Sunday caused the deaths of 13 people and injury to a similar number, none of whom was posing a threat of causing death or serious injury.'

■ 'In our view, events moved so fast after the soldiers had disembarked ... that Major Loden had no idea what was actually going on; he assumed that his soldiers had come under attack ... and were responding.'

■ 'Although those who organised the march must have realised that there was probably going to be trouble from rioters, they had no reason to believe ... this was likely to result in death or injury from unjustified firing by soldiers.'

EUROPE NEWS

Uneven lift

First-quarter trade balances vary widely in the euro zone, in billions

Germany	€37.4
Netherlands	12.0
Ireland	9.4
Portugal	-4.7
Greece	-7.1
Spain	-12.2
France	-14.4

Source: Eurostat
Photo: Associated Press

Porsche cars stand in rows in the port of Emden, northern Germany.



Euro zone posts trade surplus

Weaker currency, strong demand from overseas offset strains along Europe's southern fringe

BY BRIAN BLACKSTONE

FRANKFURT—The euro zone's trade balance swung to a surplus in April, indicating that a weak euro and strong demand in overseas markets such as the U.S. and China are offsetting strains in trouble spots along Europe's southern fringe.

The benefit is being felt by countries such as Germany, whose economies depend more on trade than others in the region. So while Europe's near-term growth outlook brightens, the growing gap between haves and have-nots will likely keep Greece, Spain and others under pressure as they face austerity.

Despite the euro's roughly 15% depreciation against the U.S. dollar over the past six months, it is unlikely that Greece and Spain will be able to export their way to faster growth, given that their economies aren't very tied to global trade. That leaves painful spending cuts and years of stagnation as their only hope of gaining ground against their more productive peers to the north. Such a solution implies years of subpar growth as those economies revamp their labor markets and budgets, and could fuel tensions in Europe over whether Germany's export-dependent growth model is destructive for the region.

The trade surplus for the common currency bloc was €1.4 billion (\$1.71 billion) on a seasonally adjusted basis in April, the European Union's statistics office said. The trade balance was flat in March, fol-

lowing a surplus in February.

Exports and imports both fell at the start of the second quarter. Economists said the April numbers may have been subdued somewhat by the volcanic ash cloud over Iceland, which disrupted air travel for days. Still, exports are well above their average over the first quarter, suggesting a big contribution from trade to euro-zone gross domestic product this quarter, analysts said.

"All of them benefit to varying extents, but obviously Germany is the biggest exporter, so it is going to be helped in particular," says Howard Archer, economist at consultancy IHS Global Insight.

A general rule holds that a 5% decline in a currency's value adds about one-half-percentage point to GDP. But it usually takes time—up to two years—for the effects to be fully felt. It may not take that long this time. The euro's fall has been abrupt and has coincided with a rise in global demand, especially from Asia. In that case, the region could feel the benefits of the weaker euro in as soon as six months, Mr. Archer says.

"For us it's a big help that [the euro] is not as strong as it was a year ago," says SMS GmbH Chief Executive Heinrich Weiss, based in Düsseldorf. About 65% of the plant-construction and mechanical-engineering company's exports are outside the euro zone. SMS had sales of about €3.9 billion in its fiscal 2009.

"At the moment, the euro is weaker, but it's not too weak," he says. Many experts consider an ap-

propriate value to be between \$1.10 and \$1.15, so by that metric it is slightly overvalued. Germany has, in the past, had trouble competing because of the high value of the euro, Mr. Weiss says.

Still, worries over the fallout from Greece on the European economy and banking system are weighing on investor sentiment. Germany's ZEW index, which measures the mood among financial analysts, plunged to 28.7 in June from 45.8 in May. Economists had expected a much smaller decline.

"Increased uncertainty about the debt crisis and rumors about problems in the Spanish financial system are weighing on the outlook," said ZEW economist Peter Westerheide.

But those concerns haven't yet translated into less activity. Current economic conditions in Germany actually improved in June, ZEW said.

Much of that lift is coming from Germany's growth engine—exports—which have been helped by a weak euro, making goods produced in Germany and other euro-zone nations cheaper in global markets.

The euro fell more than 11% from October 2009 through last month against other major currencies. But the benefits aren't being shared equally across Europe, says ING Bank economist Carsten Brzeski. He estimates that, because of national differences in exposure to trade and to markets where the euro has had its largest depreciation, such as the U.S., Ireland actually gets the biggest lift from a falling euro, fol-

lowed by Germany. Portugal and Greece see the smallest benefit from a weaker euro, Mr. Brzeski says.

Christos Kiriakoreizis, a purchasing manager at **Philkeram Johnson SA**, a tile maker in northern Greece, has seen little if any benefit. Much of his business is in Greece and Eastern Europe, and he sees no end to those countries' economic malaise, which is weighing on construction. "In Romania we had a branch and closed it down; we tried to do something in Hungary, but finally we didn't proceed because of the crisis," Mr. Kiriakoreizis says.

He also is seeing the downside of a weaker currency. Though exports are cheaper, the costs of commodities and energy priced in U.S. dollars are rising.

Others along Europe's southern tier see signs of hope. "We have noticed a little bit of growth in new orders placed in the last month," says Fernanda Valente, owner of **Fernando Valente & Ca.**, a 40-person fashion and textile company in Portugal's northern textile region.

Many of her customers are in Spain and Germany, so the weaker euro isn't helping her on that end. Where it does provide relief is fighting for market share against competitors in China and Eastern Europe, which used their own devalued currencies to grab market share over the past decade.

—Laura Stevens
and Nina Koeppen
contributed to this article.

Romanian government survives vote

Associated Press

BUCHAREST, Romania—The Romanian government narrowly survived a no-confidence vote Tuesday after the opposition failed to muster the votes needed to topple it over unpopular cuts in wages, pensions and benefits.

The failure of the motion filed by the opposition Social Democratic Party means the government's austerity measures get the green light, which in turn will unlock the next installment of an International Monetary Fund-led multibillion-dollar loan.

Prime Minister Emil Boc plans to cut public sector wages by a quarter and pensions by 15%, which he says is necessary to keep the budget deficit at 6.8%.

The government was eight votes shy of being ousted. The motion needed a majority, or 236 votes. A ruling from the Constitutional Court is expected before the measures they can go ahead.

As lawmakers debated the motion, thousands of angry Romanians protested outside the Parliament against the proposed salary and pension cuts.

More than 3,500 public sector workers and retirees blocked traffic and some tried to storm a gate. Protesters threw water at police officers and scuffled briefly with riot police. One group set fire to dolls bearing the names of ministers and impaled on poles.

Protesters had threatened to storm the parliament if the government wasn't voted out, but their protest fizzled in the heat.

"No other country going through a crisis has made such cuts. They cut by 5%, but they didn't touch the pensions," said retiree Ioana Cuzmici, 75 years old.

"The main issue is not the money, it is the abuse. It is an abuse to reduce pensions, which are people's right," said French-language teacher Nicoleta Mirica.

Some union members attending the debates booed Mr. Boc during his speech. Mr. Boc argued that, while painful, the measures will help Romania's economy in the long term. He said the cuts must be made to meet the demands of the IMF loan.

Mr. Boc said Romania should choose "the lesser of two evils," because otherwise it could become unable to pay wages, benefits and pensions. Earlier this month, Romania failed to sell \$340 million in one-year Treasury bills after potential buyers asked for yields higher than the government was willing to pay.

Investors' push for higher yields was a sign of their worry that the government in Bucharest would be unable to push through proposed austerity measures -- a fear exacerbated by Hungarian comments that the country might exceed its deficit targets.

Last week Mr. Boc warned that unless cuts were made the budget deficit would soar to 9.1% of GDP and Romania would need to borrow €11 billion (\$13.45 billion) this year.

The government said 195,000 public sector jobs need to be cut this year and in 2011 to ease pressure on the state budget at a time of deep recession.

Romania has 1.36 million public workers in a population of about 22 million. Unemployment is currently at about 8%.

Big Spanish unions call strike

BY DANIEL DE LA PUENTE
AND JONATHAN HOUSE

MADRID—Spain's largest two unions on agreed Tuesday to call a general strike for Sept. 29 against government budget cuts and plans to overhaul labor laws.

"After seeing the shape and scope of the reform, we believe it won't generate confidence and will be useless to solve labor-market problems," Candido Mendez, head of the Union General de Trabajadores,

said at meeting with reporters.

The strike called by UGT and Comisiones Obreras is a key test of the resolve of Prime Minister José Luis Rodríguez Zapatero—who until recently had a cozy relationship with the country's powerful unions—to push through unpopular measures demanded by the European Union to shore up the country's ailing finances and economy.

The government is set to approve Wednesday a decree aiming to encourage hiring by reducing the

cost of dismissal and streamlining the collective wage bargaining process, among other measures.

The EU and the International Monetary Fund say Spanish labor laws need radical overhaul to reduce a historically high unemployment rate. They agreed last month to a huge financial backstop designed in part to allay investor concerns over Spanish and Portuguese sovereign debt. In return, they asked Spain and Portugal for strict budget cuts and economic reforms.

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GULF OIL SPILL

BP chairman is taking center stage

Svanberg meets with Cameron and Obama as he emerges from his behind-the-scenes role dealing with the crisis

By GUY CHAZAN
AND JOANN S. LUBLIN

Carl-Henric Svanberg, the low-key chairman of BP PLC, steps into the spotlight Wednesday when he confers with U.S. President Barack Obama about the massive offshore oil spill.

The White House session will intensify attention on Mr. Svanberg and his oversight of the company's managers during the worst crisis in the oil giant's 102-year history. Chief Executive Tony Hayward and two colleagues will join the Obama meeting, which likely will focus on such touchy issues as creation of a fund to pay victims' claims and suspension of BP's dividend.

Mr. Svanberg ultimately will also lead deliberations about whether the board conducts an investigation—separate from management's probes—into the circumstances leading to the accident that killed 11 and produced the biggest offshore oil spill in U.S. history, as well as discussions about the fate of Mr. Hayward.

The independent chairman, formerly chief executive of Telefon AB LM Ericsson, has kept a low public profile since taking command of the BP board in January. The mild-mannered Swede has let Mr. Hayward be the self-described "lightning rod" for criticism of BP's handling of the Gulf of Mexico disaster.

Behind the scenes Mr. Svanberg has been very busy since the spill. He confers by phone with Mr. Hayward several times a day and convenes fellow directors once a week.

Mr. Svanberg decided to take on a higher public profile as BP entered a phase of direct engagement with the government, a BP spokesman said Tuesday. Last week, the BP chairman spoke with U.K. Prime Minister David Cameron and gave U.K. television interviews.

The 58-year-old Mr. Svanberg is no stranger to management crises nor industry switches. He joined Ericsson after the tech bubble burst and was forced to shrink the telecommunications-equipment maker to 45,000 employees from 100,000. Its transformation into a global telecom giant made him Sweden's best-known businessman. Previously, he led Assa Abloy AB, a lock maker that he turned into one of the world's largest via a string of acquisitions.

While at Ericsson, Mr. Svanberg found himself wooed for CEO spots outside telecom. "I knew he



Carl-Henric Svanberg | BP chairman; 58 years old; Swedish citizen

Took over the BP chairman post in January, succeeding Peter Sutherland

Was president and chief executive of Swedish telecom-equipment company Ericsson from 2003 to 2009

Before Ericsson, led Assa Abloy, a Swedish engineering company

Continues to hold a nonexecutive-director post at Ericsson

Photo: AFP/Getty Images

wouldn't have an issue" with changing industries, recalled one recruiter who pursued him about leading a big electronics-distribution company. Mr. Svanberg spurned the feeler.

Mr. Svanberg's appointment as BP chairman surprised many. Many U.K. journalists had never heard of him. He also was a strong advocate of "green" issues. In a Wall Street Journal interview last June, Mr. Svanberg saw no contradiction between his environmentalism and his powerful new role at the oil giant. "We have to find more effective ways of dealing with energy, and in the middle of it there is BP," he said. "If BP's successful, the world is successful. It's right in the epicenter of a very critical issue for society."

After the oil spill, Mr. Svanberg has come to rue his latest industry change. "I felt going into [the oil industry] would be a smoother ride," he said somewhat wistfully at a London conference last month.

Since the crisis erupted, Mr. Svanberg has organized a special U.S. meeting of BP directors and made multiple other trips to the U.S. He also has met with investors to reassure them about BP's underlying financial health.

Whether or when Mr. Svanberg

launches an independent board probe into the oil spill remains unclear. The investigation isn't imminent, nor have BP directors hired an outside law firm, people familiar with the matter say. Doing the review right now would "add to the crisis of the moment," said a man-

agement lawyer who specializes in governance.

The independent chairman carries considerable clout at major U.K. companies—generally more than at U.S. firms—as most U.K. companies divorced their CEO and chairman spots after a 1992 corporate-governance overhaul. The BP chairman often holds investor road shows to discuss governance issues and manages CEO succession. Peter Sutherland, Mr. Svanberg's predecessor, clashed over strategy with then CEO John Browne. Mr. Browne quit in May 2007.

Mr. Svanberg, a recreational sailor, opposes replacing the current captain of BP, despite Mr. Obama's suggestion that the company oust Mr. Hayward. "The ship is in a hurricane, and you're debating what to do about the captain on deck," a person familiar with the board's thinking said.

That situation could change. If the president reiterates his recommendation about Mr. Hayward Wednesday, Mr. Svanberg probably will promise "to do something about this guy [Mr. Hayward] eventually," predicted Roger Kenny, head of the board practice for executive recruiters CTPartners in New York.

BP representatives weren't immediately available to comment. Earlier this month, the board said it continued to fully support the management team.

Mr. Kenny believes Mr. Svanberg may not survive as BP chairman once the oil stops leaking in the Gulf. "He can't muster what's needed, which is industry support," the recruiter said. "I bet he wishes he were back at Ericsson."

At the moment, "the position of the chairman is not up for discussion," a BP spokeswoman said Tuesday.

Fire delays recovery

By SUSAN DAKER
AND CASSANDRA SWEET

BP PLC on Tuesday shut down its oil containment and recovery operation in the Gulf of Mexico as a safety precaution, following a fire aboard the vessel that has been processing the oil.

This is the latest snag in the company's two-month effort to contain oil spewing from the broken Macondo well at rates estimated by scientists at 20,000 to 40,000 barrels a day.

Tuesday morning, a small fire was observed at the top of the derrick on the Discoverer Enterprise,

the collection ship.

The fire, believed to have been ignited by a lightning strike, was quickly extinguished, BP said in a statement.

A BP official wasn't available for further comment.

The Discoverer Enterprise had been collecting about 15,000 barrels of oil a day and flaring off natural gas. BP's statement didn't say how the fire would affect the ship's collection rate on Tuesday.

However, the Discoverer Enterprise should be up and running later Tuesday, the company said.

There were no injuries in the fire.

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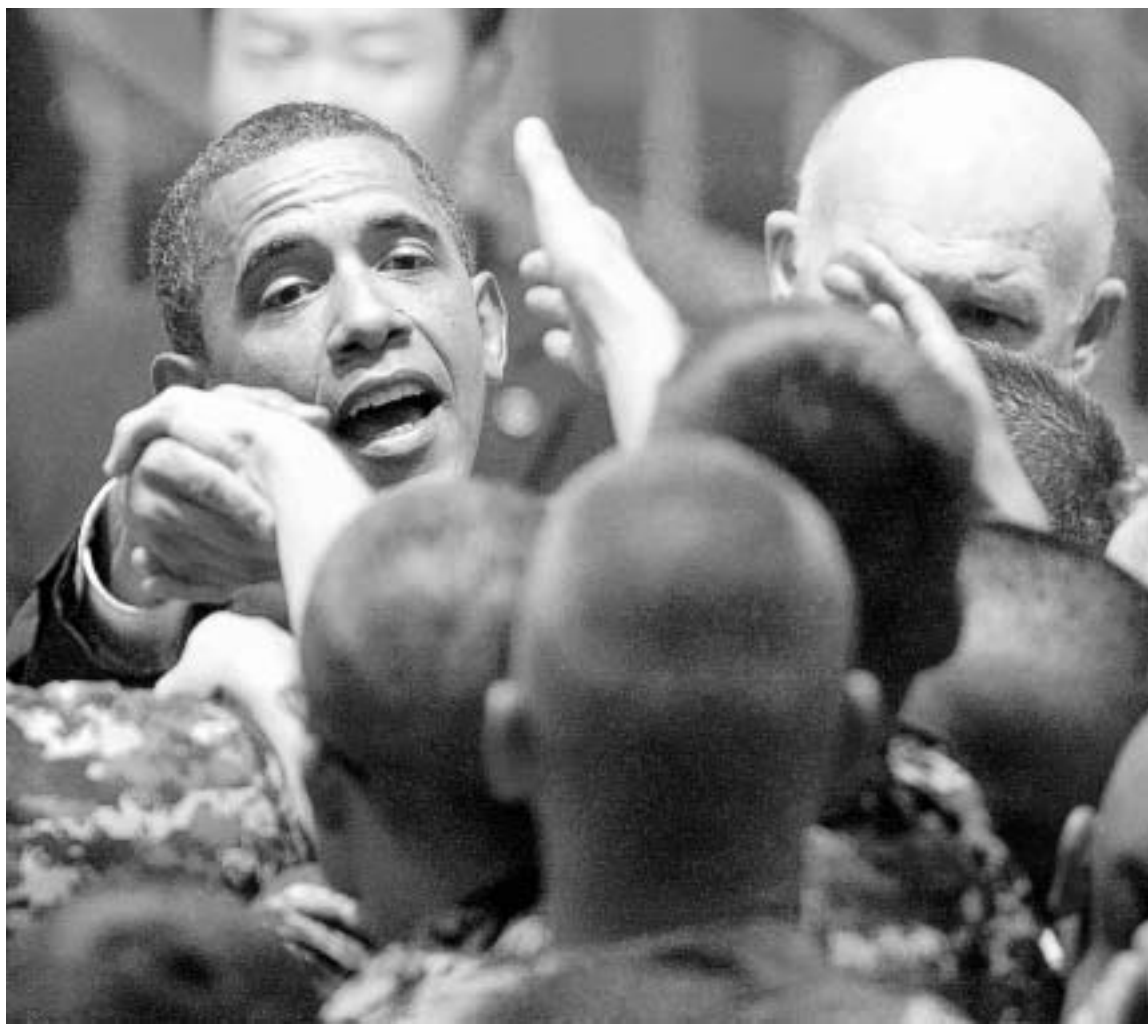
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European Pressphoto Agency

U.S. President Barack Obama shakes hands with military personnel at Pensacola Naval Air Station in Florida.

Obama to set energy plan

Gulf cleanup and oil policy to take focus in first Oval Office speech

BY LAURA MECKLER
AND JONATHAN WEISMAN

PENSACOLA, Fla.—U.S. President Barack Obama will use an Oval Office address Tuesday night to outline his plans for cleaning up the Gulf oil spill, compensating victims, getting tough on the offshore oil industry and enacting new policies to reduce U.S. oil dependence.

This will be the first time Mr. Obama has delivered a speech from the Oval Office, the backdrop his predecessors used to address the nation in times of crisis. The address comes at what White House aides say is an “inflection point” in the disaster—although it could be another two months before a relief well can stop the undersea gusher.

Mr. Obama spoke Tuesday in Florida of “an assault on our shores” and said he will make sure BP PLC, the owner of the leaking well, “pays for the damage it has done” as his administration ensures “you have the resources you need.”

In Florida, Mr. Obama unveiled a new command structure, under Coast Guard Admiral Thad Allen, the national incident commander. He appointed deputy incident commanders in Mississippi, Alabama and Florida, as well as a new command center in Tallahassee, Fla.

“The sand is white and the water’s blue, so folks who are looking for a good vacation, they can still come to Pensacola,” he said. “But that doesn’t mean people aren’t still angry....The plumes of oil are off the coast. Tar balls are coming on shore, and everybody’s bracing for more.”

“We’re going to fight back with everything we’ve got, and that includes mobilizing the resources of the greatest militaries in the world,” he told Marines and Naval aviators in Pensacola, Fla.

Critics say the White House has

been too reactive in responding to the spill, and recent polls indicate the administration is getting poor marks from many voters for its response. The White House hopes the combination of Mr. Obama’s fourth trip to the region, the Oval Office address and a high-profile meeting with BP executives on Wednesday will turn the tide.

One big uncertainty underlying Mr. Obama’s strategy is how far BP will go to meet his demands that the company fund an independently administered, multibillion-dollar escrow account to quickly pay off claims by Gulf residents for economic and environmental damages.

Any effort to put a price on carbon will face opposition from Republicans and some Democrats.

White House aides have said the administration and BP are in talks on how the fund would be structured, but BP officials have signaled they will resist demands to subsidize the wages of people put out of work by a drilling moratorium.

The president will also press for the passage of legislation to move the nation away from fossil fuels, the one piece of his ambitious domestic agenda that has stalled, but it is unclear what that legislation will look like. The president recently said he wants legislation that puts a price on carbon and vowed to help round up the Senate votes for it.

Democratic Senate aides this week said there is little appetite for pursuing ambitious legislation to combat climate change this year and predicted that a smaller package that directly addresses the oil spill

is more likely. The legislation may also include incentives for alternative energy, they said.

The White House appears to be aiming higher. A senior administration official outlined a set of goals that go well beyond a direct response to the BP oil spill, including efficiency improvements and a development of new energy sources, such as expansion of nuclear power as well as oil and gas drilling.

The official said it was too early to know whether energy legislation would include a price on carbon or a cap-and-trade system like the form passed by the House. But he said the president wants comprehensive legislation that addresses a range of energy issues and pointed to a half-dozen bills now pending in the Senate that address various aspects of the energy problem.

“The test for him is: Does it reduce America’s carbon pollution? Does it set America off on a course of energy independence? Does it meet the objective to see that America is leading in the alternative-energy field? Does it lead to the creation of economic growth and jobs? Does it lead to the United States being a leader on alternative energy? Does it help the country wean itself off dependence on foreign oil?” the official said. “Those are the questions the president will ask in evaluating any legislation.”

Any effort to put a price on carbon—effectively raising the costs of gasoline at the pump or electricity—will face strong opposition from Republicans and some Democrats.

After a meeting with Mr. Obama last week, the top congressional Republicans emerged to say they would support legislation specifically related to the oil spill but wouldn’t abide using the spill as an excuse for an “energy tax.”

BP protests threaten independent dealers

BY NAUREEN S. MALIK

Protests and boycotts of the BP brand generated by the Gulf spill aren’t likely to have a big immediate impact on BP PLC, but could threaten the thousands of entrepreneurs who have staked their livelihoods on the company’s name.

Nearly all the 10,000 service stations around the U.S. flying the BP flag are owned by independent dealers that are obligated under long-term contracts to sell BP-branded fuel. For them, mounting anger over the spill’s environmental and economic toll could turn the once-highly coveted brand into a major liability.

But the actual gasoline the stations sell is a mixture of fuel from multiple refiners or importers, so the direct impact of any slowdown at BP-branded stations is minimal for the oil giant, which can sell excess supplies as private-label fuels to other retailers. Maintaining a brand presence is important to BP but the marketing segment only represents a sliver of profit for the company.

BP stations in Florida immediately saw consumers turning away after the leak began in late April. Total sales at BP stations declined 8%-10% in May compared with last year, while competitors benefited from additional traffic, said Jim Smith, president of the Florida Petroleum Marketers and Convenience Stores Association. The magnitude of this sales decline “means that we are going to have a lot of small business owners going out of business,” he said.

Hundreds of Facebook pages and Twitter accounts have sprung up dedicated to the spill coverage, and some have organized protests. Some BP station owners are hearing complaints from customers about the spill or motorists yelling as they drive by. But gas station owners and independent distributors say it is more difficult to quantify the silent protesters who simply drive to other stations to fill up.

“People are kind of melting away,” said Jay Ricker, chairman of Ricker Oil, noting that same-store sales across the company’s 35 BP stations in Indiana fell 5.4% last week, the first decline seen this year.

Mortgage Defaults Seen

BY JAMES R. HAGERTY

Fitch Ratings Ltd. forecasts that most U.S. borrowers who get lower mortgage payments under a federal government program will default within 12 months.

Among those who have loans that aren’t backed by any federal agency, the redefault rate within a year is likely to be 65% to 75% under the Obama administration’s Home Affordable Modification Program, or HAMP, according to a report due for release Wednesday from Fitch, a New York-based credit-rating firm.

Diane Pendley, a managing director at Fitch, said the failure rate will be high largely because most of these borrowers are mired in credit-card debt, car loans and other obligations.

The Treasury Department has

Independent fuel distributors, who bring gasoline to stations and are known in the industry as jobbers, are worried about the reduced demand for BP-branded fuel.

Gas-station owners are concerned that a drop in motorists filling up their tanks will clip purchases for items such as chips and sodas at attached convenience stores, which account for less than a third of sales but two-thirds of profits.

“The distributor and retailer communities have really become the lightning rod of the consumer backlash, easy targets,” said John Phelps, president of Carroll Independent Fuel Co., which supplies 110 BP stores in the Baltimore area. Carroll acquired most of them in the past five years in an effort to bank on BP’s strong brand name and its push toward an environmentally friendly image, he said.

BP-branded fuel retailers say there has been a noticeable change in consumers’ attitudes since the start of June, when images of oil-blackened wildlife and tar balls on beaches heightened the public’s anger about the spill.

“It really coincided with the oil coming ashore,” said Jeff Miller, president of Miller Oil Co., a family-owned distributor based in Virginia Beach, Va., that supplies about 50 million gallons of BP gasoline annually and owns 16 stations. He has seen gasoline sales fall 2%-3% this month at four BP stations in tourist areas.

BP employees are working with local fuel retailers to launch grassroots marketing campaigns and are visiting sites to talk to concerned consumers, said John Kleine, executive director of the **BP Amoco Marketers Association**, an independent organization representing independent distributors.

“BP looks at what they are doing now as a long-term investment for the brand and knowing that investment will play out over time if you are doing the right thing,” Mr. Kleine said.

So far, jobbers and retail stations are largely sticking with BP rather than switching to other brand names, which could require buying out expensive contracts, said Dan Gilligan, president of the **Petroleum Marketers Association of America**, an industry group.

said that among people who have been given loan modifications under HAMP, the median ratio of total debt payments to pretax income is still 64%. That often means little money is left over for food, clothing or such emergency expenses as medical care and car repairs.

“The borrower remains in a very high-risk situation,” Ms. Pendley said in an interview. “The other debts don’t go away.”

Fitch based the redefault forecast on the performance of loans that were modified in the first quarter of 2009. Those modifications were done outside of HAMP, which took effect later in the year.

But Ms. Pendley doesn’t expect there to be a major difference between the results of HAMP modifications and those made under lenders’ own programs.