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BUSINESS & FINANCE 21

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BP bows to U.S. demands

Oil giant suspends dividend, agrees to set aside $20 billion to help pay claims; Chairman Svanberg apologizes

The White House via Reuters

U.S. President Barack Obama and administration officials met Wednesday with, left to right, BP CEO Tony Hayward, Chairman Carl-Henric Svanberg and other company officials at the White House.

By Jonathan Weisman, Jared A. Favole and Monica Langley

WASHINGTON—President Barack Obama, after emerging from a meeting with top BP PLC executives, said the company will put $20 billion into an independently administered fund to help pay for claims as a result of the Gulf oil disaster.

BP Chairman Carl-Henric Svanberg said after the meeting that the company wouldn't pay further dividends this year and will look after the people of the Gulf Coast. (Please see related article on page 9.)

Mr. Svanberg said he wanted to apologize to those affected by an oil disaster he acknowledged should have never happened. He said the company would do its own probe of what caused the catastrophe.

Mr. Obama called the meeting "constructive" and said BP voluntarily agreed to set aside an additional $100 million for workers who lost their jobs as a result of a drilling moratorium.

Mr. Obama said the $20 billion isn't a cap and added that BP will pay the full costs of the cleanup, including environmental damage.

The president met with executives of BP, including Mr. Svanberg and Chief Executive Tony Hayward, for several hours at the White House Wednesday morning. Mr. Obama said "BP is a strong and viable company and it is in all of our interests that it remains so."

The fund will be overseen by Kenneth Feinberg, who has taken on a series of high-profile arbitration cases during his legal career. He is currently the U.S. government's pay czar, a role in which he butted heads with financial executives over their pay packages under the financial-industry rescue plan in 2009. He also oversaw the federal government's compensation fund for victims of the Sept. 11, 2001, terrorist attacks.

Earlier this month, members of Congress had proposed that BP pay $20 billion

Please turn to page 9

The Quirk

Indian tycoon finally gets to run his idea up the flagpole.
Page 33

World Watch

A comprehensive rundown of news from around the world.
Pages 34-35

Editorial & Opinion

Zapatero will have to make much bolder reforms to end the bailout rumors. Page 15

U.K. regulation overhaul will break up the FSA

By David Enrich And Laurence Norman

LONDON—The U.K. government on Wednesday unveiled a shake-up of the country's bank-regulatory system that will consolidate power within the Bank of England.

The Financial Services Authority, which for the past decade has been the primary supervisor of the U.K.'s banking and finance industry, will be splintered into three new agencies, including a bank-regulating subsidiary inside the Bank of England.

The changes are more ambitious than expected, after the Conservative Party was forced to forge a coalition government with a smaller party. The moves also represent the government's attempt to make a clean break with a regulatory system tarred by the financial crisis.

In a speech Wednesday night in London, the U.K.'s Treasury Chief, George Osborne, trumpeted the long-awaited changes as "a new system of regulation that learns the lessons of the greatest banking crisis in our lifetime."

At the heart of the proposed overhaul—which requires approval by Parliament and would be implemented by the end of 2012—is an empowered Bank of England. In addition to its current responsibility for monetary policy, the central bank would take charge of preventing systemic risks and of day-to-day supervision of the U.K. financial sector, including foreign companies that operate in the City of London, through a newly created subsidiary, tentatively dubbed the Prudential Regulatory Authority.

The Bank of England's governor, Mervyn King, would become chairman of the expanded authority. He welcomed the changes as "the right direction of reform." He didn't address his past comments, specifically his argument that big banks should be broken up to separate risk-

Please turn to page 6

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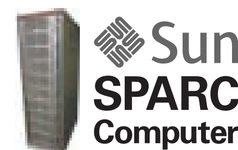

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Yes, time the auditors were audited

[Agenda]

By Patience Wheatcroft

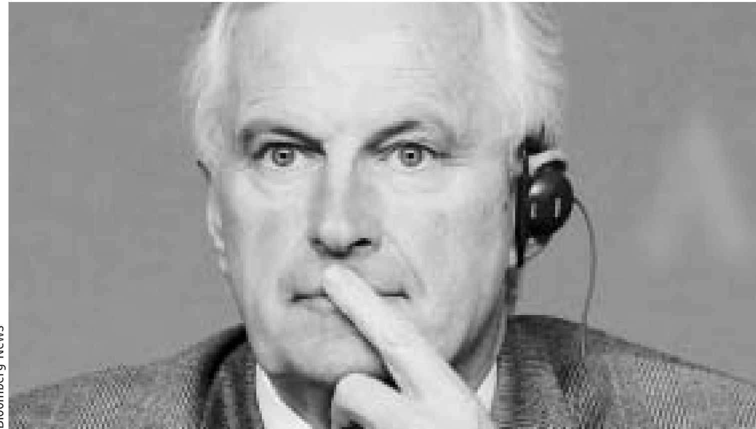
In the search for scapegoats over the financial crisis that has enveloped much of the West, auditors have, at least so far, dodged most of the spotlights. Attention has focused on the financial institutions, understandably, and on the ratings firms that gave them such high scores.

Michel Barnier, the EU's internal markets commissioner, has voiced his surprise about this, and this autumn he will launch a Green Paper on the role of auditors. Now one brave auditor has decided to become an early participant in the debate that the Green Paper is intended to start. John Griffith-Jones put himself squarely in the glare of the spotlight that should be shone on his profession in a speech Wednesday evening.

What he argued was that the audit process was too tightly constrained to provide the reassurance, or deliberate lack of it, that investors seek. "What we do remains ... trapped in time by a combination of regulation and conservatism," he said.

It does sometimes appear that auditors are more than happy to operate within the narrowest interpretations of their role, signing off accounts when one suspects that they must have the odd qualm about the business itself. Champions of the profession would argue that such behavior would simply not constitute sound business practice, however, since an unforeshadowed corporate failure doesn't reflect well on the auditor. Audit, though, is not as other businesses. Just four firms share dominance of the world market and major businesses almost feel obliged to use one or another.

Hence a bit of a blemish on a reputation may have very little effect. It is true that Arthur Andersen was extinguished in 1992 in the wake of its involvement in the spectacular implosion of Enron and the Big Five were then reduced to Four. Each of those four, however, has had its work publicly decried on occasion without any permanent scarring.



Bloomberg News

EU Internal Markets Commissioner Michel Barnier in Luxembourg last week.

Mr. Griffith-Jones is joint chairman of KPMG Europe, a firm whose slip-ups over the failed Independent Insurance company earned it a £500,000 ($740.950) fine. Its rivals, however, can assume no sense of superiority because of that. Among the audits they might each wish to consign to their "best-forgotten" drawer would be Parmelat, that imaginative Italian dairy business (Deloitte Touche Tohmatsu); Equitable Life, the overoptimistic insurer (Ernst & Young); J.P. Morgan, the bank that, over seven years, put clients' money in the wrong accounts without PricewaterhouseCoopers apparently noticing.

Each of the Big Four has had its work publicly decried on occasion without any permanent scarring.

No one, auditors included, is infallible and some of these apparent errors were probably avoidable. But Mr. Griffith-Jones argues that auditors could do a more useful job if their terms of reference were widened. While much of their efforts go into checking the numbers, sophisticated technology means that innocent mistakes are rare and deliberate ones can generally be unearthed.

So he believes that auditors would be serving a more useful purpose if they were more engaged in dealing with the risks in businesses beyond mere accounting.

Few businesses can be risk-free and in the financial world, risks are plentiful. Bankers are in the risk business. So, no one can now be unaware, are oil companies. What investors want to know is the extent of a business's appetite for risk, the controls it employs, and the procedures it has for managing risk.

The effect that a downturn in the subprime housing market would have on apparently mighty financial institutions stunned apparently canny investors, shocked politicians and wrought long-lasting damage. This was despite tier upon tier of policemen and regulators supposed to be policing the financial sector. Auditors were part of that structure that was supposed to guard against such man-made disasters.

Mr. Griffith-Jones doesn't quite plead guilty but accepts that his profession cannot deny its involvement. "Questions have been raised in particular as to whether our professional skepticism stood as firm as it should in the face of subjective management judgments made in difficult economic circumstances."

History has already eloquently provided the only possible answer to that. Yet the more useful question is the one that he is asking: How might auditors perform a useful function in the future? Allowing that "professional skepticism" to be more apparent rather than hiding behind a bland auditor's report has to be part of the answer.

In his speech, he suggests that auditors could work more closely with regulators, and with ratings agencies. And he contends that, working with boards, they might give a view on risk assessment and controls within the business, perhaps even penning part of an overall "assurance report" in accounts.

It would amount to a radical change in the role of the auditor and it wouldn't be welcomed by every member of the profession, but it would certainly be a great deal more use to investors than what is currently, expensively, provided.

Banking on better regulation

Avoiding a repeat of the banking crisis was the subject of another speech Wednesday night, when Chancellor George Osborne addressed the annual City dinner at the Mansion House. That he will be restoring to the Bank of England the overriding role for banking supervision that it used to hold is to be welcomed. But in defining the shape of financial regulation, there would be a strong case for bolstering the Financial Services Authority in the remainder of the regulatory role. With Chief Executive Hector Sants departing shortly, there is a danger of disintegration unless Adair Turner can be cemented into his leadership role there during the period of change.

What's News

■ **Zapatero signed** a decree to overhaul Spain's labor market, but parliamentary leaders vowed to alter the measure, renewing concerns the prime minister's flagging support could upend the government overhaul drive. 4

■ **France announced** a small increase in the retirement age that will allow the French to continue retiring earlier than most other Europeans but drew protests and strike threats from union leaders. 5

■ **GM said it won't seek** European government aid to restructure its Opel and Vauxhall units and will rely instead on its own cash. 21

■ **France Télécom** and a French magazine owner plan to jointly bid for a controlling stake in Le Monde, the French daily. 21

■ **U.K. grocer Sainsbury** reported slower sales growth in the first quarter, and warned it expects little or no short-term industry growth. 26

Inside

Mancations: forget the stereotype of drunken bar crawls. **31**

Marketers play cat-and-mouse with World Cup organizers. **32**

ONLINE TODAY

Most read in Europe

1. RIM Tests Tablet, iPhone Rival
2. Betting on the Bad Guys
3. American Man Arrested for 'Hunting' bin Laden
4. BP Chairman Takes the Stage
5. BP, Oil Industry Take Fire at Hearing

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'The alarm bells are not exactly ringing, but Europe's debt crisis is edging closer to its political heart.'

Paul Hannon on investors' nerves over Belgium's post-election issues

Continuing coverage

BP CEO Tony Hayward testifies in U.S. Senate, live at **europe.wsj.com**

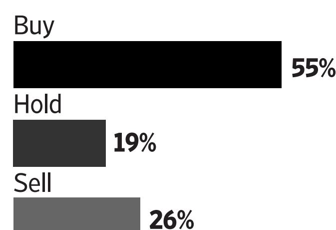
Question of the day

Vote and discuss: At what age would you want to retire from working?

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

Previous results

Q: What is your recommendation on BP stock?



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NEWS

In royal nuptials, a Swedish divide

People's excitement about crown princess's wedding is matched by growing feeling that the monarchy is outdated

By Johan Anderberg

STOCKHOLM—The Swedish royal family is gearing up for the lavish wedding of its crown princess Saturday, even as more citizens are saying the country should divorce itself from the monarchy.

The royal family is something of an anachronism in a country that prides itself on being one of the most equal in the world. For decades, a majority of Swedish lawmakers have been in favor of abolishing the monarchy, but no political party has had the stomach to pursue it.

Royalists and republicans struck a deal in 1974 that allowed the king to remain head of state, but without any executive powers. Ever since, Sweden has been, in the words of then-Prime Minister Olof Palme, a "pen stroke from a republic."

Almost 40 years since the compromise was struck, more than 200,000 people are expected to line the streets of Stockholm to see Crown Princess Victoria and Daniel Westling, her former personal trainer, take a lap of honor in their horse-drawn carriage from the royal castle through central Stockholm and back again.

To further underscore that this isn't an average wedding, 18 fighter jets and 5,000 troops have been called out to pay tribute to the couple.

But it is far from certain that Victoria, 32 years old, will inherit the crown from her father, 64-year-old King Carl XVI Gustaf. Popular support is on a gentle, but steady, downward slide. According to an April poll by Gothenburg University's SOM-Institute, the proportion of Swedes in favor of the monarchy has slid to 56%, from 62% six years ago, and is the slimmest majority since the institute started polling.

Attempts to reach the royal family were unsuccessful.

Some say the weakening support of late is due to Victoria's choice of husband—a regular, middle-class guy from the rural town of Ockelbo in central Sweden.

Others cite public discontent at having to foot the bill for the wedding. Taxpayers are coughing up 10 million kronor ($1.3 million) for the wedding alone, before factoring in the cost of restoring the church, new uniforms for police officers, cleaning and other necessities. The city of Stockholm is also splashing out eight million kronor on a two-week-long festival tied to the wedding called "Love Stockholm 2010." And critics are unlikely to be mollified by the prospect of free subway rides on Saturday, courtesy of Stockholm's taxpayer-funded transportation authority.

"For all of us who weren't too fond of the whole monarchy deal, this has really triggered us to do something," says Vilma Seth, organizer of "Real Love Stockholm," one of the many antiroyalist parties taking place in the capital this weekend.

"I don't understand why politicians refuse to do something about the monarchy," Ms. Seth says. "I think the way a country is run should reflect its values."

Those who favor hanging on to the monarchy often mention the king's role as a representative of the country and his work supporting Swedish companies abroad. Whether that work justifies the 110 million kronor the government pays him every year is a matter of hot debate.

And while the national retail organization is forecasting 2.5 billion kronor in domestic sales of official wedding merchandise, Swedes may be overestimating the allure of their monarchy to foreigners.

Of the 2,300 accredited journalists covering the wedding, only 700 are non-Swedes. The country's main website for classified ads, Blocket, is swamped with Stockholmers eager to rent out their apartments to tourists over the weekend of the wedding.

"No one was interested," says Daniel Andersson, a business student who tried to rent out his one-room apartment for 3,500 kronor during the week leading up to the wedding. "I guess there were too many of us thinking the same thing."

He will be out of town this weekend, but not because he is a republican.

"I think the royal family is a good symbol for Sweden," he says. "Traditions are important, too."

European Pressphoto Agency

The owner of the Gustafsberg factory presented Crown Princess Victoria and Daniel Westling with china at a reception at the Royal Palace on June 3.

Gates, Buffett push rich peers to give more

Associated Press

SEATTLE—Bill Gates and Warren Buffett are running a campaign to get other American billionaires to give at least half their wealth to charity.

Patty Stonesifer, former CEO of the Bill & Melinda Gates Foundation, said that Messrs. Gates and Buffett have been campaigning for the past year to get others to donate the bulk of their wealth.

The friends, who have over the past few years coordinated their philanthropic efforts more and more closely, are asking people to pledge to donate either during their lifetime or at the time of their death.

The handful of billionaires approached so far have embraced the campaign, said Ms. Stonesifer, a close friend of Mr. Gates. Four wealthy couples have already announced their pledges, including Los Angeles philanthropists Eli and Edythe Broad, Gerry and Marguerite Lenfest of Philadelphia, John and Ann Doerr of Menlo Park, Calif., and John and Tasha Mortgridge of San Jose, Calif.

Messrs. Gates and Buffett are calling their campaign The Giving Pledge.

Mr. Buffett, chairman and CEO of **Berkshire Hathaway** Inc., said in a letter introducing the concept that he couldn't be happier with his decision in 2006 to give 99% of his roughly $46 billion fortune to charity.

Mr. Buffett's plan will eventually split most of his shares of his Omaha, Neb., company between five charitable foundations, with the largest chunk going to the Gates Foundation.

Besides Mr. Buffett's pledge to the foundation, he also plans to give Class B Berkshire shares to the Susan Thompson Buffett Foundation, which he and his late first wife started, and the three foundations run by his three children.

Mr. Buffett said in 2006 that his other 73,332 Class A shares of Berkshire stock, worth about $8 billion, would also go to philanthropy, but he didn't spell out how those shares would be distributed.

Bill and Melinda Gates have themselves made a similar pledge through the establishment of their Seattle-based foundation.

Messrs. Gates and Buffett are asking each individual or couple who make a pledge to do so publicly, with a letter explaining their decision.

"The pledge is a moral commitment to give, not a legal contract. It does not involve pooling money or supporting a particular set of causes or organizations," they explain in a written statement about the project.

Reuters

Bill Gates, left, and Warren Buffett at a meeting with students last year.

Spain's cabinet approves labor plan

Parliamentary leaders vow to alter the overhaul, aimed at making the country's economy more competitive

By Paulo Prada

MADRID—Prime Minister José Luis Rodríguez Zapatero signed a decree to overhaul Spain's labor market, but parliamentary leaders vowed to alter the measure, renewing concerns that flagging popular support for Spain's leader could upend the government's reform drive.

The labor-market overhaul, which would make it cheaper for employers to lay off workers, is among a number of planned changes the government believes are necessary to both make the economy more competitive and regain investor confidence.

Mr. Zapatero, who had hoped to use the urgency of Spain's financial situation to push the decree through quickly, now faces what could be months of negotiations.

Concerns about Spain's financial condition were apparent again on Wednesday as the spread, or difference in yields, between Spanish bonds and safer German debt widened to their highest level since the introduction of the euro.

News of a Friday meeting between Mr. Zapatero and International Monetary Fund head Dominique Strauss-Kahn has fueled speculation that Spain is seeking an IMF bailout, something both Madrid and the IMF have denied.

In an attempt to restore confidence in Spain's banking sector—which analysts fear is sitting on tens of billions of euros in potential real-estate losses—Spain's central bank said it would disclose the results of stress tests on local banks. The Bank of Spain said it has already conducted tests to verify that lenders have the capital and solvency levels needed to confront potential scenarios of weak growth, but it wants to publish the results "so markets can perfectly assess the situation of Spain's banking system," central bank Gov. Miguel Ángel Fernández Ordóñez said.

With his labor plan in limbo, Mr. Zapatero has little progress to show fellow European Union leaders at a Brussels summit Thursday. EU officials told Spain this week to be more specific about plans to further tighten its belt next year to reinforce austerity moves now in train.

European leaders are pushing Madrid to take quick action to prevent its problems from spilling deeper into the euro zone, just as Greece's debt crisis exacerbated fears about Spain. Though Spain has a smaller debt load in relation to the size of its economy than Germany, investors are concerned about the government's ability to prop up its banking sector. Investors also worry that the government will have difficulty jump-starting the country's economy at the same time that it is slashing public spending.

Agence France-Presse/Getty Images

Prime Minister Zapatero, center, attends a parliamentary session in Madrid on Wednesday.

The pain in Spain

A timeline of the country's economic woes

- **September 2008:** Lehman Brothers fails, causing global credit markets to freeze. Spain's housing bubble, already deflating, bursts.
- **November 2008:** Government announces billions of dollars in additional stimulus plans.
- **January 2010:** Zapatero says government will begin developing plans to rein in deficit.
- **April:** EU approves bailout for Greece, prompting fears over public spending in other weak economies in the region. Confidence in Spain plummets.
- **May:** Spain announces €15 billion austerity plan and pledges to reduce deficit to within EU limit of 3% by 2013. Markets charge increasingly higher rates to continue financing Spanish debt.
- **June:** Zapatero government begins pursuing labor market, financial, and pension reforms.

Source: WSJ research

Rivals and allies alike agree that Spain needs fast restructuring of rigid and inefficient labor, banking, pension, and energy market regulations. But after more than a year of denying that Spain's construction-fueled economy had succumbed to the global downturn—and months more of perceived indecision over how best to respond—Mr. Zapatero now finds himself unable to build consensus necessary to put the reforms in motion.

"No other party wants to be seen propping up what by now is seen as a sunken government," says Edurne Uriarte, a political scientist and professor at Madrid's King Juan Carlos University.

Mr. Zapatero, a Socialist lawyer from northern Spain, rode to power in 2004 amid a backlash against the incumbent conservative-led government for its support of the U.S. war in Iraq and its bungling of an investigation into a terrorist attack in Madrid that killed hundreds.

Now, many Spaniards accuse Mr. Zapatero of failing to reverse Spain's downward economic spiral and not being up-front with voters.

Just days before the government adopted a €15 billion ($18.5 billion) austerity package in May, Mr. Zapatero assured the public that the move wouldn't be necessary. Under pressure from the European Union to adopt the measures, he buckled.

Such reversals have exposed Mr. Zapatero to accusations of ineptitude. A majority of Spaniards say they would re-elect the center-right party if elections were held today, according to recent polls.

"I and everyone I know is scared," says Marilia Borges, a single mother of two who lost her job as an office assistant in January and is planning to move from Madrid to southeastern Spain to look for a job in a cheaper region.

Among investors, Mr. Zapatero's bid to reassure markets in the face of ratings downgrades, strains in the credit markets and persistent rumors of an imminent bailout are reminiscent of Greek Prime Minister George Papandreou's ultimately fruitless efforts to do the same.

In an interview, Javier Vallés, the top economic advisor to Mr. Zapatero, said the government reacted as best it could as Spain's predicament progressively worsened beyond its initial expectations. While the government knew a decade-long mortgage boom could wind down on its watch, he said, "we never thought the end of the housing boom would come at the same time as a credit crunch."

After he was elected, Mr. Zapatero vowed to use Spain's quickly-growing economy to build generous social programs that the Socialists believed were lacking under the Popular Party government. Through the initial rumblings of the global financial crisis, Mr. Zapatero maintained that Spain's economy remained strong. His policies remained popular enough for a second Socialist win in March 2008.

When markets world-wide collapsed that fall, the credit that had fueled Spain's lending boom evaporated and Spain's economy ground to a halt. Initially, Mr. Zapatero sought to buttress the economy by upping government spending, even as tax revenues collapsed. What had been a budget surplus in 2007 turned into an 11% deficit at the end of 2009.

Meanwhile, credit in Spain grew scarcer. Banks were no longer willing to offer easy loans and the flow of foreign financing froze. That made it difficult for the government, companies, and households—whose combined debt in proportion to the economy is among the largest of any developed country—to continue paying their bills.

Mr. Zapatero has two years left in his term. Early elections are considered improbable at the moment because the opposition Popular Party is unlikely to get enough support from influential regional parties to force the government to call them. That could change as even parts of the Socialists' base have begun to abandon the party.

Spain's two biggest unions, once a core Socialist constituency, this week called for a general strike to protest the labor reform. Asked by reporters if they were trying to topple the government, Ignacio Fernández Toxo, head of one of the unions, said Mr. Zapatero "doesn't need any help" to be pushed from office. "He's pushing himself," he said.

EU pressured to release stress-test results

By Carolyn Henson
And Paul Hannon

Pressure is mounting for Europe to publicly disclose the results of a new round of bank stress tests due for completion this month.

European Union countries will meet at the end of the month to discuss the outcome of the tests, and decide whether to make the full results public, Chantal Hughes, spokeswoman for EU financial services chief Michel Barnier, said.

With Spain planning to unilaterally disclose the results of the stress tests on its local banks and Germany also warming to the idea, the momentum is building for full publication, despite worries from many in the banking sector about the sensitivity of the information, EU officials say. Around 30 large European cross-border financial services firms are being tested by Europe's banking supervisors on their capital requirements and financial resilience.

While the U.S. published full results of stress tests on its 19 largest banks in May 2009, a previous European test gave no details of the results of individual banks.

However, Mr. Barnier, the EU's new internal markets commissioner, supports full disclosure this time.

A European Central Bank report published last week showed euro-zone banks could suffer an additional €195 billion ($240.15 billion) in write-downs this year and next year, and the idea of full disclosure makes many bankers queasy.

"Stress-testing can be a helpful supervisory tool for the financial sector: It can provide intelligence on a firm's activity which can then be discussed with its regulators," a spokesman for the British Bankers' Association said. "But it is not clear that anything is gained to by releasing the information more widely."

Separately, a group of leading economists said in a report published Thursday that the euro zone should establish a mechanism to allow for the restructuring of its members' debts.

The Centre for Economic Policy Research, the economists said the crisis isn't over, and is likely to intensify if governments don't act quickly to address its fundamental causes.

"The underlying causes of the crisis have not been addressed," the economists said. "Confidence in the financial system has not been restored. Doing nothing thus risks re-igniting the vortex of increasing risk premia and declining confidence."

In the report, the economists argue that Greece's public finances have not been stabilized and warn that "massive shocks could come from any number of courses," including Spain's banking system, which is burdened with bad real-estate loans after the bursting of the nation's property bubble.

Among many proposals to fix the hole, the economists call for a mechanism that would allow governments such as Greece's to restructure their debts to allow them to repay over a longer time period.

France seeks to raise retirement age to 62

By David Gauthier-Villars

PARIS—France announced a small increase in the retirement age that will allow the French to continue retiring earlier than most other Europeans but drew protests and strike threats from union leaders.

President Nicolas Sarkozy's conservative government said Wednesday it will introduce a bill this summer to raise the minimum retirement age to 62 from 60.

Labor Minister Eric Woerth said the measure, combined with economic growth and a small increase in an income tax on the rich, would help bring France's pension system out of the red in the next few years. "Our objective isn't a lower deficit but a zero deficit as early as 2018," Mr. Woerth said.

Some economists said the measures wouldn't be enough to balance the national pension system's books by 2018. In addition, the pension system will face more pressure over the next two decades because members of the baby-boom generation, due to retire between now and 2030.

"It will solve a small part of the problem," said Riccardo Magnani, an economist with French research center CEPII. "It won't be enough."

The government plans in September to present its bill to Parliament, where Mr. Sarkozy's ruling UMP party has a majority.

The pension overhaul is a test of France's ability to tame budget deficits in its state institutions after the Greek debt crisis raised fears of problems in other countries. Wednesday's announcement of an incremental change showed that Mr. Sarkozy wants to avoid battles with labor unions. His plan raises the retirement age only a little, and economists expect it will be followed in several years' time by a further increase.

His predecessor, Jacques Chirac, tried after becoming president in 1995 to shrink France's generous welfare system by reducing public spending and abolishing certain privileges for some public employees. But his plans sparked widespread demonstrations and strikes, which led him to back down.

Most union leaders pledged to oppose the plan, saying the retirement age of 60 was "non-negotiable."

Other European Union countries have in recent years increased their retirement ages and cut pension payments in response to slow growth and longer life spans. In 2007, Germany opted to gradually change its standard retirement age to 67 from 65. Last year, Italy pegged future retirement ages to rising life expectancy.

France cut the minimum retirement age to 60 from 65 in 1983 under Socialist President François Mitterrand. Unions saw this as a major victory, along with five-week annual holidays, a minimum wage and the 35-hour workweek.

France recently reduced some pension benefits, but in its effort to avoid cutting monthly pension payments, it has piled up debt. Without alteration, the annual deficit of state-run pension funds could exceed €100 billion ($123 billion) by 2050, according to a council advising the government.

The government also said Wednesday it will increase the pension payroll tax of civil servants and align it with the 10.55% level paid by workers in the private sector. Still, Mr. Woerth acknowledged that the new moves wouldn't be enough to reduce the state worker pension plan's persistent annual shortfall, which was about €15 billion in 2008.

Some said it was "dishonest" of Mr. Woerth to say his plan would balance the pension system's budget by 2018 because the plan still anticipated shortfalls. "Mr. Woerth is like David Copperfield the magician," Jean-Claude Mailly, head of the Force Ouvrière union, said on French television. "He turns deficits into surpluses but it's an illusion."

Mr. Woerth said the government would also tap into a special pension fund set up a decade ago to deal with the effect of longer life spans. As of March 31, the fund had assets of €34.5 billion.

Pension policy could become a major political fault line as parties brace for the next presidential election. Socialist Party leader Martine Aubry has said that she would bring the retirement age back down again if elected president in 2012.

Vintage

France has one of the world's most generous pension systems

Country	Labor force exit age, 2007 — Legal	Labor force exit age, 2007 — Average	Expected years in retirement
Japan	67	68.9	14.1
U.S.	65.8	64.6	17.6
Germany	65	62.1	19.8
U.K.	65	63.2	18.8
Italy	65	60.8	21.7
Spain	65	61.4	20.9
France	60	58.7	24.0
Greece	58	62.4	19.8

Source: OECD

Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa SpA
Via Calabria n. 46 – 00187 Rome – Italy

INVITATION TO EXPRESS INTEREST IN THE REDEVELOPMENT OF THE TERMINI IMERESE INDUSTRIAL CENTER

The Italian Ministry for Economic Development ("MISE") will be selecting one or more initiatives for the complete redevelopment of the Termini Imerese (PA) industrial center in Sicily where the manufacturing facilities for Fiat Group Automobiles S.p.A. and other FIAT group companies (the "T.I. Center") are currently located. Fiat Group Automobiles S.p.A. has communicated its intention to cease automotive manufacturing on 31 December 2011 and to make the factory available under certain conditions with particular attention to safeguarding the current employment levels. The T.I. Center is located at the center of the Mediterranean Sea on the northern coast of Sicily, just a few kilometers from the Termini Imerese commercial port, and around 70 kilometers from the Palermo airport, as well as having a good logistics infrastructure available. The FIAT group manufacturing site occupies an overall area of 423,355 square meters, including buildings with 176,323 square meters of space. The buildings contain the offices, dressing rooms, canteen and other services, as well as the production facilities for steel bodywork, painting and vehicle assembly.

Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa S.p.A. ("Invitalia", the Italian Agency for Inward Investment Promotion and Enterprise Development), appointed by the MISE as its advisor for the analysis and assessment of proposals to redevelop the T.I. Center, invites Italian and foreign parties to express their interest by providing Invitalia with complete detailed information regarding redevelopment initiatives to be submitted to the MISE. These expressions of interest may relate to any business sector, although those which relate to the automotive industry shall have priority.

Expressions of interest may be presented by filling out and sending the "Redevelopment Initiative" form, which specifically includes a non-disclosure agreement to be stipulated with Invitalia. That form is available online at: www.invitalia.it.

The form and the non-disclosure agreement must be duly filled out in Italian or English and signed by the party expressing interest. They must be sent in advance by fax (fax number +39 06 42160824) and, together with the requested documentation – translated as necessary into Italian or English – then sent by courier to the following address:

Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa S.p.A. (INVITALIA)
Via Calabria, 46 – 00187 Rome – Italy
c.a Segreteria Amministratore Delegato
(att. Office of the Managing Director)

Expressions of interest which are received by 11:59 p.m. (Italian time) on 31 July 2010 shall be given priority consideration by Invitalia over the others, without prejudice to the consideration of any expressions of interest received after that deadline or independently of this invitation.

Parties who are interested in this invitation are hereby informed that further clarification and/or information regarding the above may be requested by sending queries to the following e-mail address: termini.imerese@invitalia.it.

Invitalia hereby reserves the right to organize meetings with the interested parties at a later stage of the selection process in order to further examine and/or request clarification or explanations regarding the information received from them.

The publication of this invitation and the receipt of expressions of interest do not constitute binding commitments versus MISE for the parties expressing interest, nor do they give rise to any obligations by the MISE for admission to any procedure and/or to begin negotiations and/or any other commitment. The MISE reserves the right to suspend, interrupt or modify the examination and analysis process undertaken by Invitalia on its behalf in relation to any proposals regarding the Redevelopment Initiative and the parties who presented such proposals shall have no right to make any claims against it.

This announcement is exclusively an invitation to express interest and it is not an invitation to treat or a public tender pursuant to article 1336 of the Italian civil code, nor is it the mobilization of domestic savings pursuant to articles 94 and subsequent articles of Legislative Decree no. 58/98.

Furthermore, this announcement is made by Invitalia in its role as the MISE's advisor and it shall not give rise to any obligations or responsibilities of any kind for Fiat Group Automobiles S.p.A. or other companies in the Fiat Group, which the MISE and Invitalia in any case reserve the right to notify of the expressions of interest received.

The data received shall be processed in accordance with the provisions of Legislative Decree no. 196 dated 30 June 2003 and, in accordance with the same, the Italian Ministry for Economic Development shall appoint the data controllers with whom the interested party may raise claims pursuant to the rights prescribed by art. 7 of the said decree.

This invitation and the entire selection process for the Redevelopment Initiative are regulated by Italian law and any dispute arising over it shall fall under the exclusive jurisdiction of the Court of Rome. The text of the Italian version of this invitation prevails over any other text published anywhere in any foreign language.

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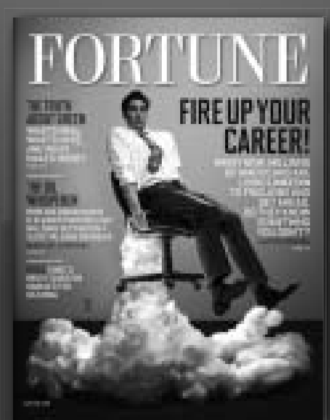

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EUROPE NEWS

Bloomberg News

FSA Chief Executive Hector Sants, left, and Bank of England Gov. Mervyn King

U.K. to break up the FSA

Continued from first page
taking from utility banking, something the City of London has fiercely resisted.

The new agency would inherit some of the powers of the FSA, which never fully recovered from its legacy of "light touch" regulation of London's financial community in the wake of the financial crisis. Further tarnishing the FSA in the eyes of many Tories, the previous Labour government created the agency in 1998 shortly after taking power, removing bank-regulatory oversight from the Bank of England.

While the FSA would cease to exist on paper, much of its current structure is likely to live on in the new prudential authority. Its supervisory staff is expected to remain largely intact, as is its newly muscular approach to policing banks, traders and insurers.

Even the agency's leader would be the same. The FSA's chief executive, Hector Sants, had announced plans to retire this summer, but Mr. Osborne persuaded him to take the helm of the new agency for three years. Mr. Sants would become a deputy governor of the Bank of England.

Two of the FSA's other duties—consumer protection and law enforcement—would be assumed by new independent entities, including an agency focused on white-collar crime.

In addition to fulfilling a Conservative campaign pledge, the revamp of the regulatory system is intended to bring bank supervision under one roof at the central bank. The Tories blame a disjointed approach, in which officials from different agencies didn't coordinate with each other, for allowing the banking system to grow bloated with debt and for impeding the government's response when the crisis hit.

"Because central banks are the lenders of last resort...they need to be familiar with every aspect of the institutions that they may have to support," Mr. Osborne said in Wednesday's speech, at a black-tie dinner attended by London's financial elite.

The new structure doesn't include a spot for the FSA's well-regarded chairman, Adair Turner, who is expected to remain at the FSA during a two-year transition. Lord Turner endorsed the shake-up Wednesday, saying it resolves the uncertainty surrounding the agency.

The planned overhaul is the product of weeks of negotiations and horse-trading that highlights the delicate nature of the coalition government. In order to win over Vince Cable, the Liberal Democratic business secretary who had opposed abolishing the FSA, Mr. Osborne let him pick at least two of the five members of a high-profile committee charged with making recommendations about the structure of the U.K. banking industry, according to a person familiar with the matter.

The proposed revamp is likely to prove controversial.

Some experts have said it risks distracting the Bank of England from its paramount role of setting monetary policy and controlling inflation at a particularly crucial time for the U.K.'s struggling economy.

Mr. Sants himself was critical of the Conservatives' proposal to fold the FSA into the Bank of England. "There remains the possibility of tougher times to come for those we regulate," he said in a speech in November. "Now is not the time, therefore, to be diverting resource to looking at structural questions."

Bringing the FSA's supervisory infrastructure under the Bank of England's roof is likely to be especially tricky because of the two organizations' cultural differences.

Past and present officials at both organizations say the FSA tends to pay employees up to 50% more than the Bank of England. Senior FSA bank supervisors can pocket more than £300,000 ($444,500) annually, and the agency sometimes doles out lucrative bonuses. Mr. Sants received total compensation of £742,011 last year, more than double the £305,764 that Mr. King took home.

The FSA has argued that to police banks effectively, it needs to lure talent from them, which requires competitive pay packages. A lesser-paid civil-service culture pervades at the Bank of England.

Even the organizations' headquarters are starkly different.

The Bank of England occupies a columned granite building in the heart of the historic City of London. It has been on the same plot of land since 1734. About 3.5 miles to the east, the FSA's Canary Wharf headquarters is a sleek glass and steel tower that opened in 1998 and is adorned with modern art.

EUROPE NEWS

Russia revives plan for financial hub

Government sees chance to capitalize on woes of centers such as Dubai by pitching Moscow as an alternative

By William Mauldin

MOSCOW—The Kremlin is reviving the idea, shelved during the country's deep recession, of turning Moscow into an international financial center, not only to handle the deals of former Soviet countries but also to take on better-known hubs such as Dubai and Frankfurt.

"Probably we can do better than Dubai," said Arkady Dvorkovich, President Dmitry Medvedev's chief economic aide, in an interview. "We'll look more like Europe, and for many people there is an advantage to working in a European environment."

Mr. Medvedev's sustained pressure for modernization of the Russian economy and legal system means the government is taking steps to eliminate obstacles that have kept even Russia's own tycoons and domestic firms from conducting routine financial transactions inside the country.

Regulators are working on creating a central securities depository, which would allow international investors, worried about clearing and settlement, to buy Russian shares locally for the first time, rather than as American or global depositary receipts.

New legislation taking effect next month will allow qualified foreign professionals to bypass some of Russia's onerous restrictions when applying for work permits and visas.

And investment bankers are talking about the possibility of streamlined visa applications so foreign executives, lawyers and accountants can come and go at short notice.

Mr. Medvedev this year appointed Alexander Voloshin, a former top aide and current OAO **Norilsk Nickel** chairman, to spearhead the financial center project, and Russian officials, flanked by top Wall Street executives, are expected to reveal more plans at the St. Petersburg International Economic Forum, which starts Thursday.

The Russian government may support specializing in a particular area of finance, such as commodities trading, while another possibility would be focusing on increasing its share of business in the Commonwealth of Independent States as well as other emerging markets, Mr. Dvorkovich said.

The legal and regulatory framework will be set in the next three years, and the project may bear fruit in 10 years, he said.

Were Moscow to take off as a financial center, its biggest homegrown investment banks—Troika Dialog, Renaissance Capital and VTB Capital—would be the first beneficiaries.

But it would take a "lot of commitment" from big international banks for Mr. Medvedev's project to succeed, said Ruben Vardanyan, chief executive of Troika.

Yet that degree of commitment might not be forthcoming. Russia's troubled legal system, relatively small banking sector, miniscule domestic investor base, and the barriers to the movement of deal makers and their money will prevent Moscow from becoming a global financial center anytime soon, bankers said.

"Political risks are seen as being very high, and the protection of investor interest in the legal system is still under development," said Maxim Lubomudrov, head of Deloitte's financial services department in Moscow.

Russia has generated only $259 million in investment-banking revenue so far this year, ranking 15th with 1% of the world's total, a proportion that hasn't changed from last year, according to Dealogic.

Meanwhile, China has jumped from sixth place last year to second place, increasing its share of revenue to $1.9 billion.

Most of the world's biggest banks, some reeling from the financial crisis, aren't ready yet to significantly to increase their exposure to Russia and its highly volatile markets, especially when there is little long-term domestic money to anchor stocks and bonds, as seen in 2008, when Russia's RTS Index was the worst performer among major equity benchmarks.

"The most important thing is that the local markets themselves are too shallow at the moment, unfortunately," said Alexander Pertsovsky, president of Renaissance Capital, which handles investment banking from sub-Saharan Africa to Mongolia, with a headquarters in Moscow.

Brazilian stocks, with dependence on commodities similar to Russia's, have performed better because of the large equity stakes held by local portfolio investors and pension funds, Mr. Pertsovsky said, adding that Moscow is seeking a "little more of a global basis" for its financial center than Sao Paulo currently has.

"The deficiency that we need to deal with is that local banks aren't strong enough—with very few exceptions—and global banks don't have the exposure to this market that's significant enough," Mr. Lubomudrov said. "We need to have three or four Russian banks in the top tier, the top 50 or so, who would be strong enough to play at the global level."

Anthony Suau

Moscow City, expected to become the first zone in Russia to combine business activity, living space and entertainment.

Russia's biggest bank, OAO **Sberbank**, has until now focused mainly on accepting nearly half of the country's retail deposits and lending to domestic companies, with some consumer loans as well.

The No. 2 bank, **VTB**, founded on the basis of the Soviet Union's foreign trade banks, has expanded internationally, starting an investment bank with staff lured from Deutsche Bank AG.

VTB Capital recently moved into Moscow City, the unfinished financial district perched outside the central part of the city, and after participating in Russia's first sovereign Eurobond issue in a decade, the bank won the mandate to help with Ukraine's sovereign bond.

The most immediate task is updating trading at Russia's Micex Stock Exchange, the country's biggest bourse by volume, so qualified investors don't have to deposit money or shares at the moment they make the trade, said Ruben Aganbegyan, a former RenCap banker who is set to take over as president of the Micex Group.

Banking centers

Investment-banking revenue in billions of dollars by country, year-to-date

Rank	Country	Net revenue	Pct. share
1	U.S.	$11.36	43.6%
2	China	1.99	7.6
3	Japan	1.77	6.8
4	Canada	1.37	5.2
5	U.K.	1.33	5.1
6	Germany	1.04	4.0
7	France	0.78	3.0
8	Netherlands	0.60	2.3
9	Australia	0.50	1.9
10	India	0.41	1.6
11	Russia	0.26	1.0

Source: Dealogic

The Micex, controlled by the Bank of Russia and state-controlled banks, may also merge with the RTS Exchange, which has a large futures and options business for investors seeking to control risk in Russia.

"There are a lot of steps that will make everybody's life a lot better," Mr. Aganbegyan said, adding that boosting Moscow as a global financial center is "kind of a big goal at the end."

—Gregory L. White contributed to this article.

Euro-zone inflation rose slowly in May

By Ilona Billington

LONDON—Euro-zone consumer-price inflation rose to its highest level in 18 months in May, but remained well below the European Central Bank's target rate and is expected to do so for some months to come despite some upward pressure from the weaker euro.

Data published Wednesday also showed that euro-zone labor costs picked up in the first quarter of the year, with a large boost from wages. While costs and prices across the 16-member currency bloc are rising, the pace of the increase is slow and comes from a low base.

Euro-zone CPI rose 0.1% in May from April and was up 1.6% from May 2009, in line with both Eurostat's flash estimate and economists' forecasts. Labor costs rose 2.1% on the year in the first quarter of 2010, up from a 1.7% gain a quarter earlier, as wage costs grew 2.0%, up from 1.6%. So while labor costs are rising, they remain low.

The data also showed that core inflation, which excludes the more volatile components of energy, food, alcohol and tobacco, rose 0.1% from April and 0.8% from a year ago.

After contributing heavily to the steady increase in headline inflation in recent months, energy costs are now falling, which is expected to drag on prices by the end of the year, economists say.

At the latest central bank meeting in June, President Jean-Claude Trichet said he expects inflation to remain moderate for the next 18 months. Over that time, the euro-zone economy is expected to grow modestly.

This leaves the ECB free to keep interest rates at its record low accommodative level of 1% for some months to come, possibly throughout 2011, while supporting euro-zone members struggling with sovereign-debt issues, such as Greece.

—Matthew Dalton in Brussels and Paul Hannon in London contributed to this article.

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Humvee proves tough to follow

By Nathan Hodge

ABERDEEN PROVING GROUND, Md.—The U.S. military is moving to replace the venerable Humvee, the fuel-guzzling four-wheeler that set the standard for macho off-road SUVs in the civilian world.

The next-generation vehicle isn't likely to appear in American suburbs soon. But the debate over what succeeds the Humvee mirrors a broader discussion over what kinds of wars the military needs to prepare for in 2015 and beyond, when any new vehicles will enter the field.

Will tomorrow's Army need expensive new blast-proof vehicles to fight insurgents in places like Afghanistan, or a more affordable mix of upgraded Humvees and traditional armor to fight conventional forces? With the Pentagon in belt-tightening mode, it may not be able to afford both approaches.

David Berteau, senior adviser at the Center for Strategic and International Studies in Washington, said replacing the Humvee "is more complex than the Army itself realizes." He said buying a versatile blast-resistant truck only made sense in an era when the military didn't have to make hard budget choices.

The High Mobility Multipurpose Wheeled Vehicle—the Humvee—entered service a quarter-century ago as the military's four-wheel-drive vehicle of choice. Designed for garrison duty during the Cold War, it was not designed to be an armored vehicle. But as casualties mounted in Iraq, the Pentagon spent heavily on armored doors, ballistic glass and other protective improvements.

What the military needed was a vehicle designed from the ground up to survive mines and roadside bombs. In mid-2007, Defense Secretary Robert Gates launched a crash effort to buy thousands of Mine-Resistant Ambush Protected vehicles, or MRAPs—massive trucks with V-shaped hulls to deflect blast energy away from passengers.

Those vehicles are credited with saving many lives, but can't be moved by helicopter or many cargo aircraft. Serious questions remain about what the military will do with them after Afghanistan and Iraq.

The military is now looking to create a hybrid that offers the versatility of the Humvee with the survivability of the MRAPs. Last month, the Army and the Marine Corps began testing three competing prototypes for a successor to the Humvee: the Joint Light Tactical Vehicle, a truck designed from the get-go as resistant to roadside bombs.

This new class of truck is supposed to be tough enough to withstand a bomb blast, light enough to be carried by a helicopter, and versatile enough to handle any terrain. The standard model will have a blast-proof hull and weigh at least eight tons—double your Hummer on the road, but with a much-slower maximum speed of 70 mph.

Three teams have delivered prototypes: **BAE Systems**; General Tactical Vehicles, an alliance between **AM General** LLC and **General Dynamics**' Land Systems unit; and **Lockheed Martin** Corp. The military hasn't released a definitive cost estimate for the new vehicles, but a 2009 Congressional Research Service report, citing Army figures, estimated they might cost over $400,000.

For engineers, striking the right balance is a tall order. The Army and the Marines want a truck that can adjust its suspension, riding high off the ground if there's a threat from roadside bombs, or lowering to squeeze inside the cargo hold of an amphibious ship.

Don Howe, senior director for General Tactical Vehicles, said the challenge is fitting all those features in a single package and still having a vehicle light enough to be useful.

Off-road race

Lockheed Martin

SEATING CONFIGURATION
Ranges from two crew only to two crew and as many as four passengers

HULL
Improved V-hull design

POWER TRAIN
Cummins 4.5L–6.7L diesel engine, Allison transmission, Arvin Meritor transfer case

General Tactical Vehicles

SEATING CONFIGURATION
Two crew only to two crew and as many as four passengers

HULL
V-shaped aluminum monocoque hull

POWER TRAIN
General Electric 300hp I-6 twin turbo diesel engine, Allison automatic six-speed transmission, inline 10kw exportable/20kw on-board power generation

BAE Systems

SEATING CONFIGURATION
Two crew only to two crew and as many as four passengers

HULL
Armor grade aluminum monocoque V-hull

POWER TRAIN
Conventional International 6.0L V8 diesel eingine/325hp, Allison 2500 six-speed transmission, integrated 20kw on-board/10kw exportable power starter generator

Source: U.S. Army Photo credits: Lockheed Martin; GTV; BAE Systems

Rethinking part of the American dream

[Capital Journal]

By David Wessel

It's time to have a serious conversation about the American approach to homeownership and mortgages. A system once celebrated for putting so many families into their own homes and for making mortgages so widely available has become, as one housing economist puts it, "a case study in failure."

Beyond the complexities of securitization, the merits of homeownership tax breaks and the politics of Fannie Mae and Freddie Mac lurk two fundamental issues.

One, the U.S. has for decades overemphasized the virtues of homeownership.

Two, many Americans are addicted to a unique, and costly, strain of mortgage—a 30-year fixed-rate loan that can be paid off at any time without penalty.

The U.S. has long seen homeownership as an unquestioned virtue, dating to a 1918 government "Own Your Own Home" campaign.

Not only did it promote social stability—recall President George W. Bush's "ownership society"—and build well-maintained neighborhoods, homeownership became a hedge against inflation and a way to save for retirement. Until it didn't.

Homeownership rose from around 40% of households in the 1940s to about 60% in the 1960s and then hovered around 65% until the 1990s, when a government-backed push to spread ownership, particularly among minorities, helped lift the rate, reaching a peak of 69.4% in mid-2004.

Some of those new homeowners, including those sold outrageously inappropriate subprime loans, should have remained renters. Many couldn't afford to maintain the houses they bought. Others were dependent on refinancing to keep their homes, an approach that worked only as house prices kept climbing. They didn't. At last tally, the U.S. homeownership rate was at 67.2% and sinking.

The rub: Many virtues of homeownership evaporate if the value of the house falls to the point where one owes more on it than it's worth.

To examine the eye-popping dimensions of the housing bust, New York Federal Reserve Bank economists calculate the fraction of families who actually have equity in the house they own. In San Diego, for instance, the homeownership rate had fallen to 55% last year from a peak of 63%. But by late last year, the fraction of households with equity in their homes was between 35% and 39%. In hard-hit Las Vegas, nearly 59% of households own their homes, but only 15% to 19% of households own a home in which they have any equity left.

For them, the American dream of homeownership turned into a nightmare of debt and foreclosure. Some people should rent.

As late as the 1930s, a U.S. mortgage was generally a loan for three to five years, at which time the borrower had to pay it off. Then the government fostered the 15-year fixed-rate mortgage—and eventually the 30—and the concept that the homeowner would pay off principal in monthly installments.

Most other countries rely on mortgages in which the rate is fixed for only three to five years. In the U.S., one usually can refinance a mortgage without penalty to take advantage of lower rates. More than 70% of mortgage applications filed in early June were for refinancing existing loans, the Mortgage Bankers Association says. Elsewhere, refinancing is less common. Adjustable rates and prepayment penalties make it less alluring.

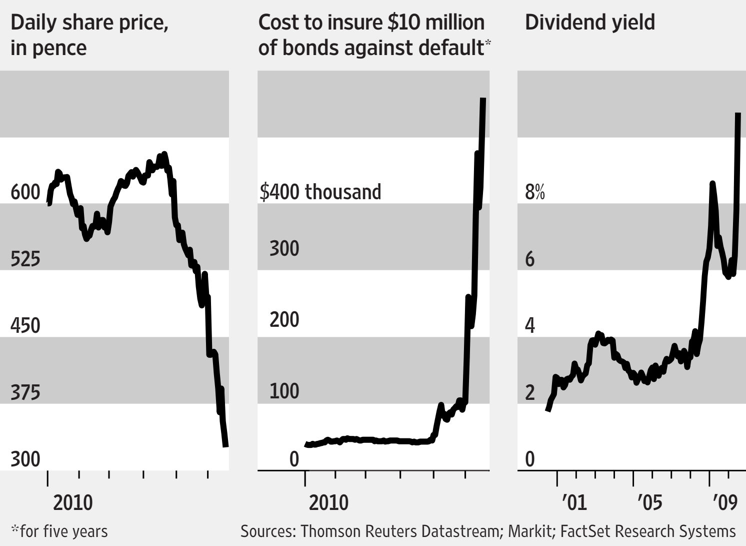
At a Cleveland Federal Reserve Bank conference last week, Patrick Lawler, chief economist of Fannie and Freddie's regulator, said people who take a 30-year fixed-rate mortgage are buying a two-fer: a loan plus the right to prepay without penalty. You might call it a derivative that protects the borrower. Rates fall, you refinance; rates rise, you don't pay 'em. Mr. Lawler estimates this feature adds at least one-quarter to one-half a percentage point, probably more, to the rate on every mortgage.

And there are the side effects. The cherished right to repay a mortgage and get a cheaper one creates a huge, lucrative refinancing industry whose value he questions. And it creates a need for Fannie and Freddie, which may end up costing taxpayers more than any other element of the much-reviled bailouts. Without them to guarantee repayment of a loan and lubricate the market, the 30-year fixed-rate loan would be more costly and less common. But Americans might be better off.

The success of a mortgage-financing system should be gauged not only by how many people own their homes, but by whether it can absorb shocks without crumbling. "Ours has failed that test twice—once with the savings and loans and then recently," says Michael Lee, a housing economist now at San Diego State University. "If you look at the outcomes," he says, "other countries have equal or greater home-ownership rates with less volatility and fewer government subsidies."

Today, the U.S. guarantees nearly all new mortgages, and there is no sign that's about to change soon. But it's well past time to rethink the over-celebration of homeownership for all and to question if allowing Americans to refinance with such ease makes sense.

U.S. NEWS



Getty Images

BP executives arrive for a meeting at the White House on Wednesday.

BP, under fire, halts dividend payouts

By Guy Chazan

BP PLC said it was canceling dividend payments this year, a move that will disappoint shareholders but will help to ease the political pressure the company has come under since its well began spilling oil into the Gulf of Mexico.

BP also said it was creating a $20 billion fund over the next 3½ years to cover compensation claims arising from the massive spill.

In a statement, Chairman Carl-Henric Svanberg said the board regretted the move, but concluded it was in the "best interests of the company and its shareholders." He said canceling the dividend would underline BP's commitment to meeting its obligations on the spill and would bring "greater clarity" to the company's shareholders.

The company said it was canceling its previously declared first-quarter dividend and would not be paying interim dividends in the second and third quarters either. It said it would decide later whether to restart dividends in 2011.

The moves came as investors grew increasingly pessimistic about the company's ability to put a cap on the liabilities it faces over the Gulf of Mexico oil spill.

The oil company has insisted it has the firepower to weather the storm. It stressed Wednesday that its businesses generate $30 billion in cash flow, it had more than $10 billion in committed bank lines and its debt ratio remained near the low end of its targeted 20% to 30% band. BP also said it would increase planned asset sales to $10 billion in the next 12 months and would aim for a "significant reduction" in capital spending.

But political pressure has muddied the financial picture, injecting a degree of uncertainty that is making it impossible to calculate the ultimate cost of the disaster to BP.

Even if BP can afford to pay the tab, the suspension of its dividend will hurt the many U.K. pension funds and institutional investors for whom the dividend is a crucial revenue stream.

In recent days, however, some investors had become resigned to BP acceding to that pressure. "We won't mind if the dividend is suspended," Will Riley, co-manager of **Guinness Atkinson Global Energy Fund**, said before the announcement. "We're long-term investors, and we believe BP can and will survive as a company."

The company's shares rose immediately after the announcement.

Fitch Ratings downgraded BP's credit rating six notches to just above junk Tuesday, amid growing concern about the potential financial impact on the company from the oil spill.

BP's share price is at its lowest since 1997 and the cost of insuring its debt is soaring, suggesting many investors believe the company could run out of cash, default or even go bankrupt.

The question now being asked on trading floors in London and New York: Is this the end of BP or one of the best buying opportunities in the recent history of Big Oil?

Pessimism about the company's prospects is reflected in the spread on its five-year credit-default swaps, which was at a record 620.3 basis points in New York early Wednesday, up from a close of 495 basis points the day before, according to CMA Datavision. That put the cost of insuring $10 million of the company's debt annually for five years at $620,300. The spread later fell back down to 589 basis points, amid relief at signs of an agreement between BP and the White House on the escrow account.

Still, the spread on the swaps "implies a higher probability of default than before and a credit rating well into junk territory," said Gavan Nolan, head of credit research at Markit. BP's image in the market is now not that far from debt-wracked Greece, he said.

But there are optimists, too. "We believe BP could comfortably raise" the $20 billion pledged to the compensation fund, "partly from its balance sheet, partly on the debt market," said Mr. Riley of the Guinness Atkinson fund.

BP has $5 billion in available cash. In addition to $10.5 billion in committed bank lines, it is in talks with a handful of banks to raise additional funds, a person familiar with the matter said. Possible sources of cash include bank loans, bond sales and advances on receivables. The person said the company was unlikely to announce any of these liquidity measures until it had succeeded in capping the leaking well.

Fitch analysts agree that BP should have no trouble raising $20 billion for the escrow account. It could borrow against its 18 billion barrels of proven oil and gas reserves; reduce capital expenditure, which stood at $20 billion last year; and in a pinch even sell assets. It also doesn't think BP will be broken up as a consequence of the disaster.

Before a dollar amount was set for BP's contribution to the escrow account, Fitch estimated that containing and cleaning up the spill and settling all damage claims would cost the company up to $6 billion, said Jeffrey Woodruff, senior director in Fitch's Europe, Middle East and Africa Energy team. Civil penalties for the spill could be between $2 billion and $8 billion, he said, while punitive damages could run into the tens of billions of dollars.

—Jared A. Favole and Dana Cimilluca contributed to this article.

Obama piles on pressure

Continued from first page

into the fund, which would be used to compensate Gulf residents for losses associated with the oil spill.

BP executives had initially expressed resistance to an Obama administration demand that the company replace the wages of people who have lost their jobs because of a moratorium on new offshore oil and gas exploration off the U.S. coast. The Obama administration had also resisted BP's proposal that there be a cap on its liability in return for the $20 billion payment.

BP shares have lost roughly half their value since the spill began on April 20, and investor concerns about the oil giant have intensified in recent days as the Obama administration has escalated its demands for compensation.

Mr. Obama has come under increasing political pressure from residents and political leaders in the region who say the federal response to the spill has been slow and disorganized, and that BP has been too slow to pay damage claims.

Mr. Obama toured the region for the fourth time Monday and Tuesday, and heard complaints from officials in Alabama, Mississippi and Florida. Mr. Obama said in a speech Tuesday evening that he wanted BP to fund efforts to restore the Gulf Coast after the spill and appointed Navy Secretary Ray Mabus to lead a long-term Gulf Coast restoration effort.

The Gulf oil spill, which began after a huge deep-water oil rig leased by BP exploded April 20, is now estimated to be spilling as many as 60,000 barrels of oil into the Gulf of Mexico every day.

Mr. Obama has called the spill the worst environmental disaster in U.S. history. Cleanup and restoration efforts in environmentally sensitive coastal wetlands and fisheries could take months or years.

The threat that oil could foul tourist beaches along the Gulf Coast has dented the tourist industry in the region.

The Obama administration is conducting civil and criminal investigations of the causes of the spill and BP's response. Congress is conducting multiple probes and is expected to debate legislation to institute stricter regulation of the offshore-drilling industry.

Florida residents fret over spill

By Mike Esterl

PENSACOLA BEACH, Fla.—Dolphins were jumping in the blue-green water and the sand was bright white as President Barack Obama visited this popular beach town on Florida's Panhandle Tuesday, but local fears are mounting about what the coming days and weeks hold as the oil spill spreads.

Fallout from the Deepwater Horizon rig explosion on April 20 hasn't been nearly as bad along the shores of northwest Florida as in neighboring Alabama, where large deposits of oil have washed up on local beaches.

But smaller, scattered tar balls have been washing up on Pensacola Beach, about 25 miles east of the Alabama border, for more than a week now. Some surface sheen and oil also have entered Pensacola Pass in recent days, threatening local inlets. Louisiana's coast was hit hard last month.

"It's going to be a long, hard summer for us, I'm afraid," said Buck Lee, head of the Escambia County agency that oversees the beach at Pensacola Beach, as he patrolled the eight-mile-stretch of sand Friday.

Many state and local officials in Florida said **BP** PLC and federal authorities haven't been moving fast enough to protect the shore from the spreading oil, and they fear a repeat of what happened in Louisiana and Alabama. "It's the worst-managed thing I've ever seen," said Mr. Lee of coordination efforts between BP and federal, state and local authorities.

Mr. Lee said the county asked BP for eight sand-raking machines five weeks ago to prepare for the arrival of oil but that he was still waiting. He also said he alerted the authorities leading the oil response Monday after spotting an oil deposit floating in a nearby inlet but that it was still there when he returned four hours later. BP didn't respond to a request for comment.

More than 100 people gathered on the sand at Pensacola Beach Tuesday morning, some chanting "Save our beach," as Mr. Obama arrived after touring Mississippi and Alabama on Monday and listening to Gulf Coast concerns about the pace of the cleanup. Mr. Obama and Florida Gov. Charlie Crist walked on the beach for a few minutes and spoke at the local pier, where fishing restrictions went into effect earlier this week because of the oil spill.

"I would like to know he's taking control," said Camille Abbamonte, a 53-year-old school bus driver, who drove from nearby Navarre Beach to see the president. "I think they waited way too long before taking action."

Tony Kennon, the mayor of Orange Beach, said he received personal assurances from Mr. Obama on Monday that "he was going to go to bat for us" as the Alabama beach town presses BP to process lost-income claims more quickly and deploy more equipment to protect the area's beaches and bays

Mr. Obama also unveiled a new command structure, under Coast Guard Adm. Thad Allen, the National Incident Commander. He appointed deputy incident commanders in Mississippi, Alabama and Florida, and established a new command center in Tallahassee, Fla.

Agence France-Presse/Getty Images

Ethnic Uzbeks confront the devastation in a village outside Osh on Friday. Thousands have fled the violence that began in southern Kyrgyzstan last week.

Stranded on the Kyrgyz border, an Uzbek family recounts terror

By Richard Boudreaux

OSH, Kyrgyzstan—When bloody clashes erupted last week in southern Kyrgyzstan, Imadzhan Yuldashev was initially relieved to hear the rumbling of armored personnel carriers through his ethnic Uzbek neighborhood.

Uzbek homes and shops were being set afire in other parts of this ethnically mixed city, the 59-year-old retired shopkeeper had learned in frantic midnight phone calls from friends. Not to worry, he told himself: The Kyrgyz army is stepping in to control marauding Kyrgyz gangs.

He was wrong. Armored vehicles merely cleared the way for Kyrgyz in civilian clothes who burned, shot up and besieged his neighborhood starting early Friday, he said, until an ad hoc truce Monday allowed him and nine members of his extended family to leave.

As the violence subsided this week, Uzbeks who bore the brunt of it described being trapped in basements as looters and arsonists, unchecked by government forces, assaulted their neighborhoods and killed their neighbors. At least 187 people died, Kyrgyz officials said; Mr. Yuldashev said he counted the bodies of at least 10 of neighbors along his street.

The neighborhood was calm Wednesday. The burned-out homes were abandoned, but a small group of Uzbek men remained, having sent their wives and children to safer places.

The interim government, which on Wednesday began three days of official mourning, denied that military forces took part in or abetted the Central Asian country's deadliest violence in two decades. Officials said marauding gangs commandeered army vehicles in Osh.

"The military is very weak," acting President Roza Otunbayeva told reporters. "The scale and the speed of this crisis were so rapid that we couldn't respond adequately."

Uzbeks described being trapped in basements as looters and arsonists, unchecked by government forces, assaulted their neighborhoods.

Ms. Otunbayeva asked Russia on Saturday to send peacekeeping troops, then withdrew the request after Moscow demurred and Kyrgyz military forces began securing parts of Osh and the embattled city of Jalal-Abad. On Wednesday, however, a senior United Nations official, Antonio Guterres, said Kyrgyzstan remained unstable and in urgent need of an international peace force.

Mr. Guterres, the U.N. High Commissioner for Refugees, spoke as his agency sought to help an estimated 200,000 victims of the violence displaced within Kyrgyzstan and 75,000 who fled into Uzbekistan before that country, overwhelmed by the influx, closed its border this week.

The closure left Mr. Yuldashev, his wife Nasiba, a daughter-in-law and her five young children stranded along with thousands of other Uzbeks seeking to enter Uzbekistan through a border post outside Osh. For the Yuldashev family, it was a harsh tradeoff: leaving their shattered city neighborhood for a frustrating limbo in a flimsy open-sided shelter that they set up themselves.

"What started this? We still don't know," Nasiba Yuldasheva said, describing the family's ordeal.

Mr. Yuldashev's family had lived for three generations in a row of one-story homes on an alley one block off Uzgenskaya Street, a central artery in this low-rise city of 250,000 people near the Uzbek border. He said the neighborhood was little affected by the previous upsurge in Kyrgyz-Uzbek fighting, in 1990, when the collapsing Soviet authority in Moscow had little force to contain what started as a dispute over land. Hundreds died in those skirmishes.

"After 1990 we decided that the conflict was over," Mr. Yuldasheva said. "We lived peacefully with Kyrgyz in the same city. We even made Kyrgyz friends." The attack on Friday came as a surprise, he said.

For many others, the animosity had lingered. While ethnic distinctions between Uzbeks and Kyrgyz are slight and both are predominately Muslim, many Uzbeks in southern Kyrgyzstan prospered in business after the Soviet collapse, stirring resentment among the Kyrgyz, who were traditionally nomads.

The country's political elite is ethnic Kyrgyz. But President Kurmanbek Bakiyev's ouster in a popular uprising led by Kyrgyz angered by his alleged corruption and his utility-rate increases, upset a political balance in the south, his stronghold. Kyrgyz, many of whom had been loyal to Mr. Bakiyev, chafed as Uzbeks sought a bigger role under the interim government, still led by Kyrgyz.

A premonition of trouble reached the Yuldashev household early this month when vague television reports suggested Mr. Bakiyev's supporters were predicting some kind of unrest before June 22, Mr. Yuldashev said. Mr. Bakiyev, from exile in Belarus, has denied accusations by the government that he fomented the unrest to weaken its authority.

During the disorders, Uzbeks armed themselves with guns and spiked clubs and attacked Kyrgyz. Some Kyrgyz leaders have cast their community as the victim, saying Kyrgyz families have been ambushed by Uzbek snipers.

The Yuldashev family's account of the assault on its neighborhood echoes a pattern described by dozens of other Uzbeks. "The mobs robbed and burned 16 homes on my street," he said. "The fire department didn't work. The emergency numbers didn't answer."

The family hid in a small basement room, struggling to quiet frightened children between 13 years and nine months.

On Monday, the siege lifted and the family left with about 50 other Uzbeks on two buses in a deal that allowed two large Kyrgyz families to flee safely from a majority Uzbek enclave across town that escaped the fighting but where they felt threatened.

Most of Mr. Yuldashev's family headed for the border, leaving behind two of his grown sons to help defend their neighborhood.

■ Ties to former Bakiyev regime in Kyrgyzstan plague U.S. .... Page 18

Australia is considering some tweaks in mining tax

MELBOURNE—Australia's government signaled it will consider changing the way its planned new mining tax is applied to some parts of the resource sector, but mining giants **BHP Billiton**, **Rio Tinto** and **Xstrata** PLC said little headway has been made toward a compromise despite fresh talks.

*By **Alex Wilson** in Melbourne and **Rachel Pannett** in Canberra*

The planned resource-profits tax has met with furious opposition from the mining sector since it was unveiled May 2. The government has been eager to show progress in talks with industry, but comments from the miners themselves suggest Canberra isn't near delivering what they would consider an acceptable compromise. The tax still must be approved by lawmakers ahead of its planned 2012 introduction.

BHP Chief Executive Marius Kloppers, Rio Tinto Australia Managing Director David Peever and Xstrata Coal Chief Executive Peter Freyberg met with Resource Minister Martin Ferguson in Canberra early Wednesday. The executives argued that the tax shouldn't apply to existing projects and said it could damage Australia's competitiveness as an investment destination.

"At present there is no formal acknowledgment from the government that these key issues will be addressed," the companies said.

Rio Tinto also highlighted the unresolved issues in a letter to shareholders Wednesday, in which it lambasted the government for its lack of consultation and for a policy it said was damaging and divorced from commercial reality.

Prime Minister Kevin Rudd, who has seen his popularity with voters plummet as the mining debate intensifies, told reporters the government is considering companies' individual circumstances and is "serious about generous transition arrangements," but he reiterated his belief that the headline rate of the tax—which would be levied at 40% on profits above a rate of return of 6%—is "about right."

Mr. Ferguson said productive talks with the industry are under way, and while there will be no "special deals," he indicated the government will consider varying the point in the production process at which the tax could be applied.

Mr. Ferguson said he has heard arguments from the petroleum industry, producers of low-value resources such as sand and gravel, and the mineral sector, and they are each arguing that there is no one-size-fits-all model.

In his letter to shareholders, Rio Tinto Chairman Jan du Plessis said the company supported tax overhauls that would enhance the competitiveness of the Australian economy, but that the proposed resource super-profits tax wouldn't achieve this. "The government's proposal will penalize efficiency, discourage competitiveness, curtail investment and limit jobs growth," he said. "It has been developed in a vacuum and is divorced from the day-to-day realities of business."

—Rebecca Thurlow in Sydney and Neil Sands in Melbourne contributed to this article.