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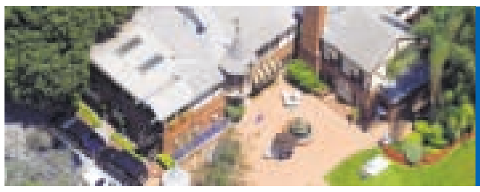

Michael Jackson estate recovers but there's a big payout ahead
NEWS 3

In cash-strapped Spain, 100% home loans are back
BUSINESS & FINANCE 21

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China shifts course for yuan

By Andrew Batson

BEIJING—China's move to make its exchange rate more flexible could eventually help put the world's third-largest economy after the U.S. and Japan on a course to boost the spending power of its own consumers, easing the strains with other nations caused by its long reliance on cheap exports.

The decision to drop the nearly two-year-old peg to the dollar, announced by the central bank over the weekend, was cheered by the U.S. and other trading partners but is likely to result in only a modest appreciation of the yuan at first. The test will be the rate and rapidity of currency appreciation China allows, which Beijing left unclear in its statements.

It was a difficult call for Beijing to make, shaped as much by politics as economics. The leadership had to overcome fierce resistance from a domestic export lobby, as well as its own nervousness that letting the yuan rise, and thus tinkering with a driver of China's export-led growth, is all the riskier at a time of deep economic problems in Europe and elsewhere.

But with pressure on China to revalue building in both the U.S. Congress and the Group of 20 major economies, the decision showed pragmatism and a desire to set China's economic diplomacy on a more sustainable footing. The move came just ahead of a summit of the G-20 in Toronto next weekend, where China was set to face pressure to do more to aid the global recovery.

"China is taking a cooperative stance. They want to show that China is contributing to the rebalancing globally," said Wang Tao, an economist for UBS AG in Beijing. "China may not act as speedily as many people want, but they are moving in the right direction."

That direction is toward an economy less driven by selling goods to the rest of the world and more driven by the spending of its own consumers. The Americans argue that the yuan is undervalued, giving Chinese exporters an unfair pricing advantage and making China too reliant on U.S. consumers for growth.

Both China's trading partners and the country's own leaders say a shift would be good for all: It would make China less vulnerable to external troubles, while reducing the politically troublesome trade surplus and providing

Please turn to page 12

Rise and fall | China's currency, trade and financial markets since 2005

Sources: Thomson Reuters via WSJ Market Data Group; China's National Bureau of Statistics (trade balance); Agence France-Presse/Getty Images (photo)

The Quirk

Hedge-fund king Ray Dalio philosophizes on truth and weasels. Page 33

World Watch

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

Editorial & Opinion

Global prosperity and the yuan scapegoat. Page 15

Hayward under fire again for time spent on a yacht

The U.S. released more details of how victims of the Gulf oil spill will be compensated as **BP** PLC Chief Executive Tony Hayward suffered more bad publicity for going yachting over the weekend.

White House Chief of Staff Rahm Emanuel described it as the latest in a "long line of PR gaffes and mistakes."

"To quote Tony Hayward, he's got his life back," added Mr. Emanuel. BP said it was the first day off Mr. Hayward had had since the spill began.

Separately, victims of the Gulf oil spill will be able to get quick, emergency payments from BP's $20 billion compensation fund without waiving their right to litigate future claims, Kenneth Feinberg, the government-appointed administrator of the fund, said.

Tony Hayward's yacht Bob

Mr. Feinberg, in a television interview on Sunday, said his immediate goal was to get emergency payments to victims who have "legitimate" claims and to then later compensate them with longer-term payments. Individuals and businesses whose livelihoods have suffered "will get an emergency payment without any obligation," followed by "a program that will provide...compensation," he said.

"BP's got to pay," Mississippi Gov. Haley Barbour, a Republican, said on "Meet the Press." "BP's the responsible party and we expect them to pay for everything."

—Full article on page 7

PAGE TWO

Zapatero's state of denial will be felt far beyond Spain as pain spreads

[Agenda]

By Irwin Stelzer

Greece is the sideshow, a warm-up act. Spain is the main event, the country that will have a huge impact on the future of the euro and on whether a new governance system will be put in place to control euro-zone members' budgets. The pain in Spain will fall, well, just about everywhere. That's why key figures from the world's financial institutions converged on Madrid late last week.

Spain matters because its economy is the euro zone's fourth largest, four times larger than Greece's. In the words of **Goldman Sachs** economists, if Spain were to experience a real financial fiasco, "the degree of cross-border financial exposure for the entities based in the larger euro-area economies would multiply dramatically." **Spain's** banks are already frozen out of interbank loan and capital markets, and are now the European Central Bank's largest customer. Last month they borrowed €85.6 billion ($105.9 billion) from the lender of last resort, up from €74.6 billion in April. Spain's banks account for roughly 10% of the euro-zone banking system, but account for 16% of all net euro-zone loans. Next stop, the €440 billion European Financial Stability Facility, created by the euro zone's powers-that-be as part of a €750 billion rescue package aimed at reassuring markets that there will be no defaults.

The need for a bailout is hotly denied by all of the players in this financial drama. A U.S. Treasury delegation joined International Monetary Fund head Dominique Strauss-Kahn in Madrid to meet with Spanish Prime Minister José

Associated Press

José Luis Rodríquez Zapatero is getting mixed requests from the U.S. and ECB

Luis Rodríquez Zapatero and key government officials in what was represented as a rather routine, long-scheduled affair to discuss growth prospects over the next decade. European Council president Herman Van Rompuy stressed the "normality" of the meeting. No emergency measure was even discussed. Speculators and others circulating rumors that

> **Spain's banks account for roughly 10% of the euro-zone banking system, but account for 16% of its loans**

the EFSF is preparing a €250 billion rescue package are tilting at windmills.

"I am really confident in medium- and long-term prospects for the Spanish economy," announced Mr. Strauss-Kahn as he emerged from the Madrid meeting, adding, "providing the efforts that have to be made will be made." Quite a proviso, given Mr. Zapatero's long period of denying that a crisis exists, his initial refusal to cut the size of the public sector and the one-vote margin by which some of his reforms passed a parliament convinced that his future prospects are about as bright as those of Tony Hayward's.

The markets remain appropriately skeptical, nervous that the premium that Spain has been paying over safe(r) German bunds will balloon when it taps the debt markets for some €50 billion over the summer. Even more important, with Spain's government in no position to help its banks, failures would rain pain throughout Europe and on the U.S. and Britain. Miguel Ángel Fernández Ordóñez, governor of the **Bank of Spain**, hopes to calm the financial waters by releasing the results of the stress tests some of Spain's banks have undergone. He claims these will show that the nation's banks are adequately capitalized to withstand defaults by over-borrowed construction and property companies, and individual mortgagees. Markets are not reassured: the tests are confined to a handful of banks, and contain not very stressful assumptions.

New data from the **Bank for International Settlements** reveal that banks in the euro zone have a $1.58 trillion exposure to Greece, Ireland, Portugal and Spain, of which $727 billion is exposure to Spain. German and French banks carry 61% of euro-zone exposure, most of it exposure to private borrowers. So the EFSF is really aimed at easing the pain of Europe's banks. The argument that it is designed to help the euro-zone nations, says Cantor Fitzgerald, "is to treat all the citizens of Europe and the wider world like naïve fools. It was cobbled together to help the leading banks of Europe who are heavily exposed to weak sovereign debt."

German Chancellor Angela Merkel might hate the idea of saving Spanish banks, but she knows that the bell that might toll in Madrid will reverberate in Berlin. She knows, too, that the day of complete sovereignty over national budgets is over in the euro zone. Jean-Claude Juncker, president of the council of euro-zone countries, was overstating things, but not by much, when he announced, "Too many countries amongst the 16 members behave like national economies, but national economies no longer exist; we are in an economy crowned by the common currency."

The good news is that there now is widespread recognition that Spain will not prosper unless it reforms its labor market, which it has started to do by making it less expensive to fire workers, a sure way to encourage hiring.

Meanwhile, spare a tear for Mr. Zapatero. The European Central Bank is telling him the only sure route to economic growth is austerity. President Barack Obama will use the G-20 meeting later this week to argue that stimulus, not austerity, is the key to prosperity. Mr. Zapatero needs the ECB and its bail-out facility more, right now, than he needs Mr. Obama.

*—Irwin Stelzer is a director of economic-policy studies at the **Hudson Institute**.*

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'BP's damage is nothing compared to the damage our global banking system has inflicted.'

David Hill on BP chief Tony Hayward's testimony before a U.S. House panel

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Question of the day

Vote and discuss: What is the most important issue facing Russian President Medvedev during his visit to Washington this week?

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Previous results

Q: Should Europe disclose bank stress test results?

Yes **86%**

No **14%**

What's News

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■ **France's de Villepin** launched a new center-right political party, a move that could sow division among conservatives ahead of the 2012 presidential vote. 4

■ **The euro remains** vulnerable, but China's pledge to allow the yuan more flexibility may offer support. 27

■ **ECB President Trichet** will urge politicians to tackle inefficiencies in the governance of the euro zone to restore investor confidence and prevent another debt crisis. 6

■ **France Télécom** was planning to bid as much as $74.2 million for French daily Le Monde and its website, according to a spokeswoman for the telecom group. 24

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Why the World Cup mice keep on roaring. **32**

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Michael Jackson estate is stabilized

Surge of fan interest helped pay off debt, but a $300 million loan, which is due at the end of this year, still looms

By Ethan Smith

Nearly a year after Michael Jackson's death, the managers overseeing his estate have stabilized its precarious financial situation, but at least one major liability still looms: a $300 million loan due at the end of this year.

Thanks to the surge of fan interest sparked by Mr. Jackson's death, the singer generated an estimated $200 million posthumously, allowing the estate to pay off tens of millions of dollars in debt and avert foreclosure on the suburban Los Angeles complex where the singer's mother lives.

Since Mr. Jackson's death last June 25, his businesses have been run by the singer's longtime lawyer, John Branca, and a music-industry veteran and personal friend of Mr. Jackson's named John McClain.

Unlike traditional executors, Messrs. Branca and McClain are aggressively managing Mr. Jackson's affairs as a going concern. The estate's primary beneficiaries are Mr. Jackson's three young children and his 80-year-old mother, Katherine, who is now the children's guardian.

Meanwhile, Mr. Jackson's absence from the equation has eliminated the chaos and out-of-control spending that reigned during his life.

Using income from past music sales and advances against future ones, music-publishing royalties, a film-rights sale and various other licensing deals, the estate has paid off nearly $200 million of the $500 million debt the singer had used to fund his extravagant spending in his final years.

The estate has collected as much as $125 million in royalties and advances from **Sony** Corp.'s Sony Music, which has sold 31.5 million Jackson albums since his death and plans to distribute an album of previously unreleased music around November.

Mr. Jackson's absence from the equation has eliminated the chaos and extravagant spending during his life.

Corporate sibling Sony Pictures paid another $60 million for the rights to "This Is It," the documentary about rehearsals for Mr. Jackson's planned comeback concert series.

Mijac, the publishing company that controls the copyrights to songs written by Mr. Jackson, is on track to generate $35 million in royalties.

The estate is set to collect $11 million in dividends from Sony/ATV Music Publishing, the joint venture with Sony Corp. that controls 251 songs by the Beatles. Television and merchandise deals could generate an additional $10 million, while deals to create a videogame and two Cirque du Soleil shows based on Mr. Jackson's music are set to provide additional revenue later this year. The Sony Music deal guarantees Mr. Jackson's estate significant additional cash advances in coming years, too.

However, Mr. Jackson's biggest financial obligation remains unresolved. A $300 million loan from **Barclays** PLC, backed by his 50% stake in SONY/ATV, matures at the end of the year. To secure the loan in 2006, Mr. Jackson appealed for help from Sony, which dispatched two executives to meet him in Dubai and negotiate terms under which it would guarantee the loan.

At the time, Mr. Jackson was in danger of defaulting on a $270 million loan held by hedge fund **Fortress Investment Group** LLC. As part of the agreement under which Barclays ultimately refinanced that debt, Mr. Jackson granted Sony an option to buy half of his stake in the company at any time for a fixed price of $250 million. At the time that was a generous valuation, but Sony/ATV's value has since soared to around $2 billion.

The Jackson estate and Sony have held talks about whether the company will again guarantee a refinancing of the debt backed by Mr. Jackson's Sony/ATV stake.

If it won't, the estate could be forced to sell its stake in Sony/ATV at a steep discount, though that would still generate enough cash to wipe out the Barclays loan with hundreds of millions to spare.

But Sony may have an incentive to reach a deal on refinancing, because buying out Mr. Jackson's estate would require it to pay hundreds of millions of dollars for an asset it already effectively controls.

All of this stands in stark contrast to the state of affairs when Mr. Jackson died. Despite being poised for what was heralded as a major comeback concert series, his finances were in shambles and he was unable to meet some of his most basic financial obligations.

Among the unpaid bills at the time of his death, Mr. Jackson had not paid $341,000 to Thomas Mesereau, the lawyer who successfully defended him against charges of child molestation in 2005. That bill and many other creditors' claims, including invoices from several other law firms, have now been paid.

The singer was also months behind on utility bills for his longtime family home in Encino, Calif., where his mother, Katherine, now lives with his three children, along with the children of two of his brothers. The Los Angeles Department of Water and Power, owed nearly $9,000, was threatening to disconnect service. **AT&T** Inc. was owed $1,300.

Associated Press

The family home of the late Michael Jacksonin Encino, Calif, last year. The pop star was behind on utility bills there.

Mr. Jackson was living in a rented mansion in Holmby Hills, a ritzy neighborhood near Bel Air, covering his sizable personal overhead with a $35 million cash advance from AEG Live, the concert promoter that was planning to stage his London concerts. That loan, too, has been repaid.

Mr. Jackson's debts were spiraling out of control in other ways, too. A loan backed by Mijac carried a crushing 16.5% interest rate, to be paid out of royalties generated by the company. When the royalty payments fell short of the towering cost of servicing the debt, any unpaid interest was piled on to the principal. As a result, by the time of his death, the Mijac loan had reached $75 million, with $11 million due in annual interest, which was several million dollars more than the catalog was generating annually.

The loan has now been refinanced with an interest rate of less than 4%. And thanks to increased album sales since Mr. Jackson's death and a new deal for public-performance royalties, the catalog is generating enough cash to pay off the refinanced loan a little more than a year from now.

Looking to raise cash Mr. Jackson had planned to auction most of his personal effects from Neverland, his 2,600-acre ranch near Santa Barbara. In 2008, after he had defaulted on a $24.5 million loan backed by the ranch itself, the property was spared from foreclosure when Colony Capital LLC, a Los Angeles real-estate investment firm, bought the note and put the property into a joint venture with Mr. Jackson.

EUROPE NEWS

De Villepin launches political party

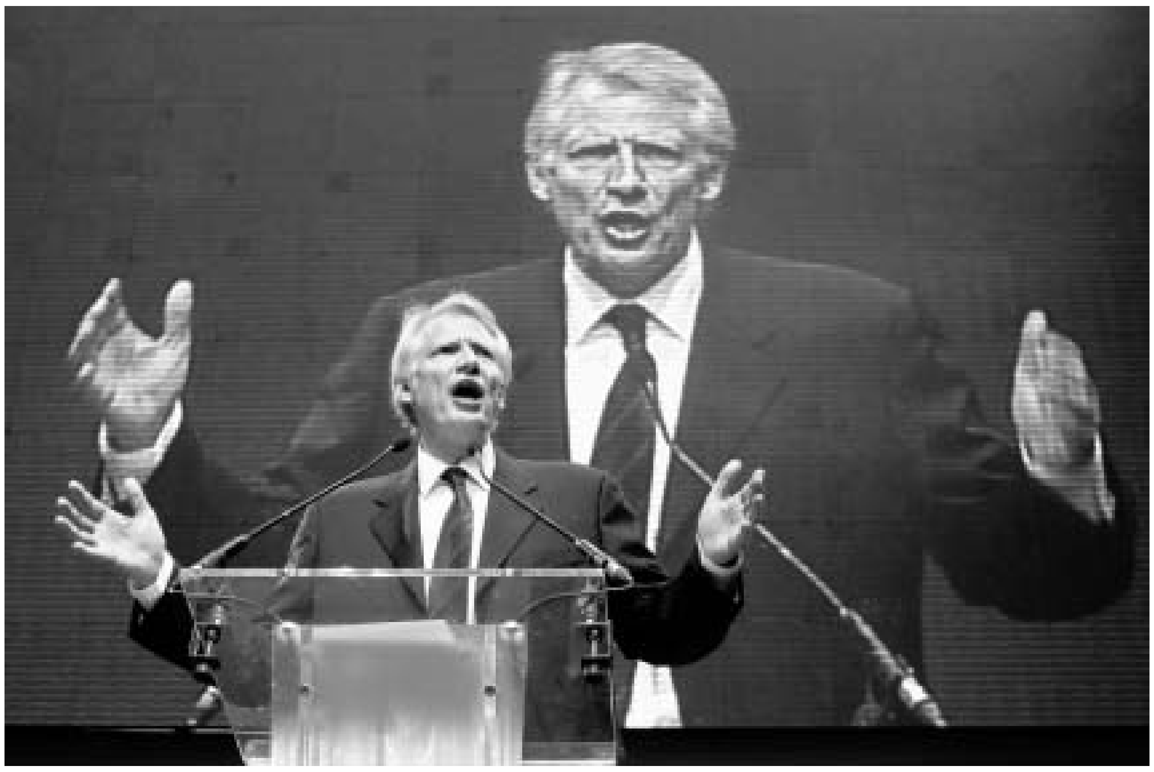
By David Gauthier-Villars

PARIS—Former Prime Minister Dominique de Villepin launched a new center-right political party, a move that could sow division within France's conservative camp ahead of the 2012 presidential election.

Although he didn't formally announce plans to run in two years, Mr. de Villepin presented himself as a moderate alternative to President Nicolas Sarkozy.

"I am starting this because I think the French people need another way," Mr. de Villepin said on Saturday, after delivering a speech rich in historical references to an audience of about 3,000 gathered in a Paris hall.

Mr. de Villepin said his creation of République Solidaire was an attempt to pick up the flame lit by Charles de Gaulle in 1940 with the "Appeal of June 18," when the French general called on the French people to resist the German occupation.



Associated Press

Dominique de Villepin, in Paris Saturday, says République Solidaire is an alternative to the policies of President Sarkozy.

The 56-year-old Mr. de Villepin, who is still a member of the president's ruling UMP party, is returning to politics half a year after he was acquitted in a slander trial in which Mr. Sarkozy was a co-plaintiff. Paris prosecutors have appealed the ruling and a high court will again level charges of complicity in forgery and complicity of slander against Mr. de Villepin in a new trial that could take place next year. Mr. de Villepin denies the charges and says he never plotted to tarnish Mr. Sarkozy's image.

Mr. de Villepin's comeback could spark confrontations within the UMP and complicate Mr. Sarkozy's efforts to push through unpopular measures, such as cuts in public spending and an increase in the retirement age.

"I don't adhere to decisions made today by the government," Mr. de Villepin said, adding that if spending cuts were needed, it was also time to increase taxes.

UMP leaders said Mr. de Villepin was motivated by revenge over the slander trial and that his decision to start his own political movement was aimed at "disrupting" Mr. Sarkozy's party, which holds a majority of seats in France's parliament.

"Mr. de Villepin is creating his party with the intention to do harm," UMP spokesman Dominique Paillé said on French television.

French politics is dominated by two big parties—the UMP and the Socialist Party—but there are also dozens of smaller groupings whose leaders usually participate in the presidential election.

Mr. de Villepin didn't have to create a party to run for president, but it makes running far easier for him because Mr. Sarkozy is almost certain to be the UMP candidate. Creating a party will also make it easier for Mr. de Villepin to collect donations.

Mr. de Villepin's posh, intellectual image contrasts with that of the hard-nosed Mr. Sarkozy. Born in Rabat when Morocco was still a French protectorate, Mr. de Villepin, whose full name is Dominique Marie François René Galouzeau de Villepin, worked as a diplomat before moving into politics. In his spare time he writes books, including works on Napoleon. He sometimes gives poetry readings.

He has never been elected to office, instead being directly appointed to cabinet positions. He is known for a speech to the United Nations in 2003, when he was foreign minister in the administration of then-President Jacques Chirac, calling on the U.S. not to invade Iraq.

In 2005, Mr. Chirac named him prime minister. He quickly lost popularity after a bungled proposal aimed at reducing France's high level of youth unemployment. The Contrat Première Embauche, or CPE, was designed to make it easier for employers to hire and fire young workers. But students took to the streets to protest the measure, and it was eventually withdrawn.

On Saturday, Mr. de Villepin, who makes a living working as an international lawyer, said he had learned the lesson: "It's not enough to believe that an idea is right; it's not enough to decide from above for an idea to be accepted."

Aides said he was now facing a more immediate, less theoretical challenge: raising funds for his new party.

Osborne readies the U.K. for harsh cuts

By Laurence Norman
And Paul Hannon

LONDON—U.K. Chancellor of the Exchequer George Osborne on Sunday said his June 22 emergency budget will include measures that ensure that "all parts of society are going to have to make a contribution" to cutting the government's huge debt.

Mr. Osborne has pitched Tuesday's emergency budget as a turning point in grappling with a budget deficit that reached £156 billion ($231 billion) in the last financial year. The chancellor has said the key danger to the U.K. economy isn't early fiscal consolidation and spending cuts but inaction on the budget deficit; if it lost its AAA credit rating, the U.K. would suddenly face spiraling borrowing costs.

Michael Sanders, U.K. economist at Citigroup, said Mr. Osborne will announce an extra £25 billion in fiscal tightening, split between £10 billion in tax increases and £15 billion in spending cuts. Around half those cuts have already been outlined by the new government. Other economists have predicted the cuts could be even deeper.

Mr. Osborne said a cabinet minister in the former Labour Party government will head a new Independent Pensions Commission that will find ways to cut the cost of providing retirement benefits to public-sector workers, one of the burdens that is likely to weigh especially heavily on the government as the U.K.'s population ages.

The budget will also see the coalition go ahead with its promise to freeze local council tax payments for the next financial year, which starts in April 2011, a person familiar with the situation said on Sunday.

Reuters

George Osborne: 'I don't want the question asked, can Britain pay its way?'

The Conservatives had initially promised a two-year freeze before the election but after the coalition negotiations with the Liberal Democrats, the new government said it will freeze the tax for at least a year and "seek to freeze it" for a second year if possible. It is expected that those councils that abide by the freeze will be compensated for lost revenue by the government.

Among the measures Mr. Osborne discussed on Sunday were a levy on banks and a rise in the rate of capital-gains tax, a move that Mr. Osborne acknowledged in an interview with the BBC was "controversial" in his own party. The tax is now charged at 18%, whereas income tax rates go as high as 50%.

Mr. Osborne refused to rule out a freeze of longer than a year on public-sector pay, stressing that there is a choice between higher pay and keeping jobs.

The government's debt has soared since the start of the financial crisis as tax revenue from the once-thriving financial sector has evaporated. According to the European Commission, the U.K. government will have the largest budget deficit in the 27-member European Union this year.

"We are in a truly awful financial situation," Mr. Osborne said. "Unless we take determined action, we will find our country on the road to ruin." Mr. Osborne said the loss of investor confidence in some euro-zone member countries that have failed to take decisive action to tackle their problems is a warning for the U.K.

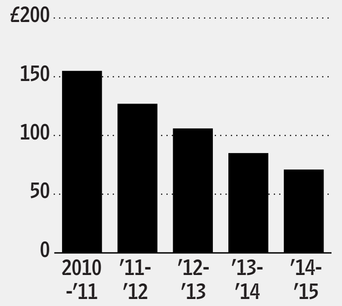
"I don't want the question asked, can Britain pay its way in the world," he said. "I want to prove it can on Tuesday."

On the pensions front, Mr. Osborne said John Hutton will make a preliminary report in September, and a full set of recommendations in time for the spring budget next year. Mr. Hutton was a close ally of former Prime Minister Tony Blair, and served as secretary of state for work and pensions in Mr. Blair's last government.

His recruitment is a coup for the Conservative-led coalition government, which has traditionally been viewed as hostile to the public sector. Attempts to reform the pension system are likely to involve bitter confrontations with public-sector unions. "We can approach this issue in a fair and equitable way," Mr. Osborne said, adding that balancing pension benefits in the public and private sectors "is very important for keeping our country together."

On loan

Office for Budget Responsibility net borrowing forecasts*, in billions of pounds



*Based on the budget plans laid out by the previous government in March
Note: Financial years end in March
Source: OBR

EUROPE NEWS

Interim president leads Polish voting

By Gordon Fairclough

WARSAW—The standard-bearer of Poland's ruling party, which seeks closer ties with other members of the European Union and wants to curb the state's role in the economy, won the first round of the country's presidential election Sunday, according to exit polls cited by national broadcasters.

Bronislaw Komorowski, the candidate of Civic Platform, won 40.7% of the vote, putting him ahead in the race to succeed Poland's late head of state, Lech Kaczynski, who was killed in a plane crash in Russia in April, public-television station TVP reported Sunday night.

The late president's identical-twin brother, Jaroslaw Kaczynski, representing the conservative Law and Justice party, finished in second place, with 35.8% of the vote, according to TVP, which cited nationwide exit polls by survey firm TNS OBOP. Other exit polls gave Mr. Komorowski a wider lead. Official tallies weren't expected until some time Monday.

If the exit polls are proven correct, a final round of voting on July 4 will pit Mr. Komorowski against Mr. Kaczynski. Eight other candidates, who finished far behind the two leaders, would be of the race.

Support for Mr. Kaczynski—buoyed, analysts say, by sympathy for his late brother, who received a hero's burial after he and dozens of other Polish dignitaries were killed in the crash of the presidential jet—has climbed in the weeks before the voting.

During the next two weeks, the contest between Mr. Komorowski and Mr. Kaczynski, is expected to heat up. Campaigning has been muted as Poles grieved the loss of the president, first lady and other important figures and faced severe flooding in parts of the country.

Mr. Komorowski said late Sunday that the second round of voting was shaping up to be a tight contest. "I want to reach the hearts and minds of all voters," he said at a party rally. Every vote "may be worth its weight in gold," he said.

Agence France-Presse/Getty Images

Jaroslaw Kaczynski, twin brother of the late President Lech Kaczynski, signs in after casting his vote in Warsaw Sunday. Exit polls Sunday night showed him trailing Bronislaw Komorowski, Poland's interim president and parliamentary speaker.

Mr. Komorowski, who as speaker of parliament has been acting president since the crash, has promised to work hand in hand with Prime Minister Donald Tusk, who is also a member of Civic Platform, and his cabinet as the government seeks to pare its budget deficit and lay the groundwork to adopt the euro.

Analysts say markets would react more favorably to a Komorowski victory, which investors believe would mean more rapid progress on government spending cuts, privatizations of state enterprises and other measures. The European Commission estimates Poland will have a budget deficit of 7.3% of gross domestic product this year. The government aims to cut it to 3% of GDP by 2012.

Still, there is unlikely to be a big market bounce if Mr. Komorowski does emerge on top in July, analysts said, since investors have already been betting he will win, as predicted by public-opinion polls. A victory by Mr. Kaczynski, who is seen as more skeptical of efforts to trim state involvement in the economy and opposes cuts to welfare benefits, could cause some investors to sell Polish assets.

Polish presidents have the power to veto legislation. The late President Kaczynski used his veto against several acts of parliament, including a bill that sought to commercialize the ailing public health-care system. A Komorowski presidency would remove that obstacle to Mr. Tusk's legislative efforts.

Civic Platform voters are predicted likely to turn out in larger numbers on July 4.

Trichet to push for new fiscal surveillance

By Nina Koeppen

FRANKFURT—European Central Bank President Jean-Claude Trichet on Monday will urge politicians to tackle yawning inefficiencies in the governance of the euro zone to restore investors' confidence and prevent another debt crisis from happening.

In what could be a groundbreaking speech Mr. Trichet is expected to push proposals to the European Parliament that the ECB had released on Thursday.

That document called for enhanced fiscal surveillance, which could also see the creation of an independent agency that monitors and also shapes fiscal developments in the region. The text called for a "quantum leap" in policy making and "a new framework for for crisis management."

"Strengthening economic governance in the euro area is of the utmost importance to prevent a similar crisis occurring in the future," ECB Governing Council member Athanasios Orphanides said following the ECB's policy-setting meeting in June. "It should be high on the euro area's political agenda," he added.

EU officials have acknowledged the need for greater economic governance and centralized planning as they work their way out of the debt crisis. But they have also resisted ceding control over national budgets or shifting decision-making to the European Commission.

Countries that share the currency submit to a common monetary policy but manage their own fiscal affairs.

He will probably also urge politicians to step up surveillance of relative competitiveness of the countries in the euro bloc. A traffic-light system could signal the buildup of economic imbalances.

"In order to strengthen the independence of budgetary surveillance, an independent European fiscal agency could be set up under a mandate from the Eurogroup/Council, acting as its watchdog," the ECB said in the document last week.

"It would preferably be located within the Commission, would bring together eminent fiscal experts and draw on independent national budget offices or fiscal institutions," the ECB said.

European Central Bank officials hit the road Friday last week, taking advantage of positive investor reaction to Thursday's interest-rate decision, and relative calm in financial markets, to project an aura of stability for the beleaguered euro.

In speeches from the ECB's home city of Frankfurt to as far away as Finland, Italy and Poland, the message from ECB officials was clear: The economic recovery is on track and the euro is here to stay.

"There is no alternative to the euro; there is no alternative" to monetary union, ECB board member Jurgen Stark said in Frankfurt. "Other approaches will lead nowhere."

Associated Press

Jean-Claude Trichet

A proposal for the ECB's bondholdings

By Nina Koeppen And Alkman Granitsas

ATHENS—The European Central Bank should consider selling billions of euros of government bonds to the euro zone's new stabilization fund, said George Provopoulos a member of the bank's governing council in an interview.

Mr. Provopoulos's proposal would unite two parallel props that the euro zone has put in place to prevent the debt crisis from worsening, while also ridding the ECB of some of the risks associated with the accumulation of government bonds. In early May, Europe's leaders agreed to set up European Financial Stability Facility, or EFSF—a €440 billion ($544 billion) fund intended to provide loans to euro-zone governments that face problems borrowing from private bond investors.

At the same time, the ECB agreed to step in to help prop up government bond markets. Although the yields on bonds issued by Europe's peripheral governments have remained high, the program has reduced the volatility in markets and helped Europe's banks, which are heavily invested in government bonds.

Mr. Provopoulos said that while the purchase of bonds by the EFSF isn't part of the plan for the EFSF, "the idea merits further consideration."

The ECB hasn't yet said what the ECB will do with the bonds when financial markets stabilize and in the meantime it is taking on some risks. The central banks' bondholdings are now large enough that a euro-zone nation defaulting on its debt could seriously diminish the capital and reserves held by the Eurosystem of central banks, which amount to €77 billion.

Were the EFSF to buy bonds from the ECB it would transfer that risk back to governments.

The EFSF will raise money by selling bonds to international investors under a guarantee provided by all euro-zone governments in proportion to the relative sizes of their economies.

U.S. NEWS

Chris Ison/Press Association

BP Chief Executive Tony Hayward's attendance over the weekend at a British race in which his yacht competed drew heated criticism as insensitive, the latest of several PR missteps by Mr. Hayward.

Focus Starts to Shift to BP's Dudley

BY GUY CHAZAN
AND JOANN S. LUBLIN

As **BP** PLC Chief Executive Tony Hayward continues to provoke outrage in the U.S., the spotlight is shifting to Managing Director Bob Dudley. He is taking on a bigger role in daily management of the Gulf of Mexico oil spill and gaining attention as a possible successor to the beleaguered Mr. Hayward.

Despite its problems, BP has kept calls for Mr. Hayward's ouster at bay. But even after the British energy company struck a deal with the White House last week, meant to settle the storm by providing clear evidence that it will pay for damages from the spill, pressure has continued to mount on the BP chief.

The latest episode to stir anger was Mr. Hayward's attendance at a yacht race around the Isle of Wight, off the coast of southern England, over the weekend, in which a racing yacht he co-owns came in fourth. White House Chief of Staff Rahm Emanuel described it as the latest in a "long line of PR gaffes and mistakes." "To quote Tony Hayward, he's got his life back," Mr. Emanuel added, referring to an earlier controversial comment by the BP boss.

A BP spokesman said it was the CEO's first day off since the spill began some two months ago.

Mr. Hayward has become a lightning rod for criticism ever since the Deepwater Horizon, a drilling rig BP was leasing, exploded and then sank in the Gulf in late April, unleashing one of the worst oil spills in U.S. history. Last week, Mr. Hayward faced the wrath of a congressional committee investigating the disaster, with one member claiming he had presided over a culture of "corporate complacency." Mr. Hayward provoked the ire of lawmakers, and accusations of stonewalling, after he denied any involvement in the ill-fated decisions that led to the disaster.

Mr. Hayward, 54 years old, is also under pressure from shareholders, after the company announced it was eliminating its dividend for this year, reducing capital spending and setting aside $20 billion in an escrow fund to cover damages claims arising from the spill. The company's shares have lost nearly half of their value since oil first started to spew from its leaking well, nearly a mile below the surface of the Gulf. Moody's downgraded BP's credit rating three notches as estimates of the cost of the cleanup to BP continued to grow.

BP said Sunday it had captured about 21,000 barrels of oil from the leak on Saturday, lower than Thursday's record of more than 25,000 barrels a day because of technical problems and bad weather. So far the containment effort has recovered a quarter of a million barrels of crude, approximately the amount of oil leaked by the Exxon Valdez in 1989.

The well is estimated to be leaking between 35,000 and 60,000 barrels of oil a day into the Gulf's waters. The closely watched figures for oil recovery reflect the intense pressure BP is under to contain the spill.

BP is laying plans to raise cash to shore up its balance sheet and cope with the financial fallout from the spill, people familiar with the matter said. The package may reach into the tens of billions of dollars and include bank debt, commercial paper, bonds and convertible bonds, the people said, adding that the fund raising could get under way within the next two weeks. BP said it doesn't comment on its financial arrangements.

Some investors now think Mr. Hayward should step aside. The CEO is "damaged goods at the moment," said Jerry Davis, head of the New Orleans Employees' Retirement System, in an interview Friday. The oil spill "seems to be an annoyance to him."

The municipal retirement system has sued BP officers and directors on behalf of shareholders in a state court in New Orleans. BP has declined to comment on pending litigation. The fund holds a small stake in BP, of at least 1,500 shares.

With the heat continuing to build on Mr. Hayward, some investors are starting to turn their attention to Mr. Dudley, 54, a senior executive and board member to whom Mr. Hayward is handing day-to-day responsibility for oversight of the oil spill.

That decision was flagged in a June 4 conference call with investors, when BP said Mr. Dudley would head up a new, stand-alone organization to manage BP's long-term oil spill response, including dealing with its financial obligations and helping to "restore trust and confidence in BP America." But over the weekend, BP stressed that Mr. Hayward is "still very much leading the response."

Mr. Dudley is no stranger to corporate crises. As boss of TNK-BP Ltd., BP's 50-50 joint venture with a group of Russian billionaire businessmen, he was on the front lines of one of the oil patch's great power struggles of recent times, as BP warred with its Russian oligarch partners for control of the company. During his five-year stint as head of TNK-BP, he delivered the highest total return among major Russian oil companies, paying more than $18 billion in dividends and increasing production by 26%.

In the end his stewardship there was overshadowed by an escalating feud between BP and its Russian partners that ended with his fleeing Russia in the summer of 2008, after the authorities refused to renew his work visa. TNK-BP is now run by a Russian, and BP's influence over the company has diminished.

Mr. Dudley was rewarded with a place on the BP board and a new job, managing director, with oversight of the company's activities in the Americas and Asia.

A soft-spoken and easygoing American, he spent nearly 20 years working for Amoco before it was acquired by BP in 1998. In 2007, he narrowly lost out to Mr. Hayward in the battle to succeed legendary CEO John Browne, for whom he had worked as a "turtle," or executive assistant.

Some observers say that as an American, Mr. Dudley would have an advantage as the public face of BP's spill response over Mr. Hayward, whose even, English-accented tones have irked lawmakers and Gulf Coast residents affected by the disaster.

Some even predict he will end up succeeding Mr. Hayward as CEO, once the leak has been stopped. His elevated visibility "is a golden opportunity for Dudley to reform his name" following the Russia mess, said Sydney Finkelstein, a management professor at Dartmouth College's Tuck School of Business, who added that in his view "Hayward is as good as gone."

—Dana Cimilluca and Ángel González contributed to this article.

On-the-spot aid for spill victims is goal

BY DEBORAH SOLOMON
AND COREY BOLES

Victims of the Gulf of Mexico oil spill will be able to get quick, emergency payments from **BP** PLC's $20 billion compensation fund without waiving their right to litigate future claims, Kenneth Feinberg, the government-appointed administrator of the fund, said.

Mr. Feinberg, in an interview on NBC's "Meet the Press" on Sunday, said his immediate goal was to get initial, emergency payments to victims who have "legitimate" claims and then later to compensate those individuals with longer-term payments.

Individuals and businesses whose livelihoods have been affected by the spill "will get an emergency payment without any obligation," followed by "a program that will provide ... compensation," he said.

Under an agreement with the Obama administration, BP said it would pay $5 billion a year over the next four years into an escrow account. Mr. Feinberg said he would make decisions independently.

"I'm not beholden to the administration. I'm not beholden to BP," he said.

On Sunday, Gulf Coast politicians from both sides of the aisle welcomed the establishment of the fund, saying it would help compensate those suffering from the spill.

"BP's got to pay," Mississippi Gov. Haley Barbour, a Republican, said on "Meet the Press."

Also on Sunday, White House Chief of Staff Rahm Emanuel indicated that the president was willing to compromise to get climate-change legislation passed. In the aftermath of the spill, the Obama administration has sought to marshal momentum to pass a bill.

U.S. NEWS

Fed clout intact in U.S. overhaul of regulations

Central bank to retain much independence

By Jon Hilsenrath

As the House and Senate move to finalize regulatory-overhaul legislation, the Federal Reserve has emerged as likely to retain most of the power and independence Fed officials have feared they might lose.

On Thursday, senators on a panel meant to reconcile competing versions of the bill voted 10-2 to kill a provision that would have made the president of the Federal Reserve Bank of New York a White House appointment. The position is now an internal Fed appointee. Fed officials said the change would have politicized the institution.

Lawmakers' efforts to remake the Fed come amid popular angst directed toward the central bank for its failure to head off the financial crisis and for the dramatic corporate rescues it engineered.

A rethink of the Fed has been part of the broader financial-overhaul legislation expected to be completed in Congress this month. The House-Senate conference also has resisted a House attempt—popular in Congress but adamantly opposed by the Fed—to subject the Fed's interest-rate decisions to regular audits by the Government Accountability Office, which Congress oversees.

In a tentative compromise, the GAO would gain limited authority to scrutinize the Fed's crisis decisions and the Fed would disclose, with a two-year lag, details of loans it makes to banks through its discount window. The Fed now doesn't disclose discount window loans.

Rep. Ron Paul (R., Texas), who championed wider audits, described the compromise that has been worked out as a partial victory for Fed critics like himself. "We will hopefully get more information than we were able to get before," he said in a telephone interview. But "the fact that the Fed is allowing this to get through means there could be some roadblocks for us ... there is no way the Fed is going to allow us to know exactly what they do."

Escape artist

The central bank avoided the most severe proposed changes.

NEW PROVISIONS FOR THE FED:

- Congressional audits of crisis decisions
- Lagged disclosure of discount window loans to banks
- Commercial banks barred from picking Fed bank presidents

WHAT THE FED AVOIDED:

- Congressional audits of monetary policy decisions
- Presidential nomination of New York Fed presidents
- Loss of role as supervisor of small banks

The Fed earlier beat back proposals to strip it of authority to regulate small banks. Both House and Senate versions of the legislation establish the Fed as the key financial regulator.

Lawmakers still have several days of legislative debate ahead. Among the proposals still alive is a provision to restrict the Fed from making emergency loans to derivatives clearinghouses. Fed officials say that could handcuff them in a crisis. Lawmakers are also still debating whether to restrict some of the Fed's emergency lending powers.

Bloomberg News

Rep. Barney Frank (D., Mass.) participated in a House-Senate panel Thursday debating the Fed's role.

The bill likely to emerge from Congress could impose some new limits on the Fed. One proposal agreed to Wednesday would bar the representatives of commercial banks on each of the Fed's 12 regional bank boards from playing a role in selecting regional Fed bank presidents.

Each regional Fed bank has nine board members, comprised of three commercial bankers and six others representing business and the broader public. Under the compromise, selections of new Fed bank presidents would come from the six non-bank board members and the Fed board in Washington.

The Fed has aggressively pressed its case for months. It has support of key allies—including Rep. Barney Frank (D., Mass.), chairman of the House Financial Services Committee, and Treasury Secretary Timothy Geithner, formerly president of the New York Fed—and has marshaled its own substantial political clout.

Fed Chairman Ben Bernanke has met privately with many lawmakers to make his case against audit proposals and to preserve the Fed's role as a key bank supervisor. Presidents of Fed's regional banks from Dallas, Kansas City and Richmond, among other cities, also have pressed their cases to members of Congress from their districts.

Obama rips Republicans for blocking bills

By Jared A. Favole

WASHINGTON—President Barack Obama on Saturday used his weekly radio address to blast Republicans for blocking attempts to allow votes on legislation that would extend jobless benefits and raise the liability for oil companies that harm the environment.

Mr. Obama, in a twist to his frequent business-as-usual criticism of Washington, said he is disappointed to see a "dreary and familiar politics get in the way of our ability to move forward on a series of critical issues that have a direct impact on people's lives."

Republicans, along with some Democrats, on Thursday voted to defeat a move to end debate on a bill that would extend jobless benefits and renew a series of tax credits implemented in 2009. Attempts to vote on a bill that would raise a liability cap for oil companies from $75 million, a figure considered outdated and low, have also been blocked.

Mr. Obama said Americans deserve a simple up-and-down vote. He said more than 100 of his nominees to work in a host of federal positions are also awaiting Senate approval.

His call for a spirit of greater cooperation comes as he is set to meet with a group of bipartisan senators at the White House this week to discuss energy and climate legislation. He said he realized there would be differences but that the public deserved to see that Republicans and Democrats could at least discuss important issues.

Republican Sen. Wicker criticized Mr. Obama's six-month moratorium on deepwater drilling in the Gulf, saying it was a third wave of the disaster.

Mr. Obama said passage of the jobless bill is necessary to help Americans who lost jobs through "no fault of their own." He added, "It would provide relief to struggling states that would help save the jobs of thousands of teachers and cops and firefighters."

Republicans used their weekly radio address to criticize Mr. Obama's response to the Gulf oil catastrophe. Sen. Roger Wicker (R., Miss.) said the country needs to continue to learn "more and more disturbing information about gross negligence on the part of **BP**—and about some proposals from the Obama administration that will do more harm than good."

Mr. Wicker pointed to Mr. Obama's Oval Office address to the nation on the Gulf oil disaster as a basis for criticism. He said Mr. Obama used a third of the speech to address advocating a new national energy strategy. He added, "Now is not the time to push a controversial, job-killing, partisan agenda through Congress."

Mr. Wicker also criticized Mr. Obama's decision to put a six-month moratorium on deepwater drilling in the Gulf, saying it was a third wave of the disaster. "If left in place, the moratorium will permanently eliminate thousands of jobs and drive up the cost of energy for all Americans," he said.

Mr. Obama has said he wants a presidential commission to look quickly into whether deepwater drilling can continue safely.

Mr. Wicker also blasted Democratic proposals to increase oil cleanup fees. He said the proposals would take the country in the "wrong direction." Democrats' plan to "raid those funds to pay for unrelated programs," he said.

Mr. Wicker's comments come as the Republican Party encountered intense pressure for comments Rep. Joe Barton (R., Texas) made at a House Energy and Commerce Committee hearing with BP PLC Chief Executive Tony Hayward. Mr. Barton apologized to the chief executive for the way the White House was treating the company. He said he found it shameful that the White House asked the company to set aside $20 billion to compensate Gulf residents whose economic livelihoods were affected by the disaster.

Mr. Barton later apologized for the comments after heavy pressure from Republican leadership.

WORLD NEWS

Surplus of grain sows trouble for farmers

[The Outlook]

By Scott Kilman

Two years after the global food crisis peaked, grain shortages are turning into surpluses that could create their own problems.

Some traders and economists are speculating that if the U.S. and world economies don't heat up soon, surpluses could turn into price-depressing gluts. While cheap grain is good news for consumers and livestock producers, excessive supplies increase a government's cost for farm subsidies and tend to ignite trade fights between the big farming powers.

This tension is growing partly because many of the farmers in the U.S. Midwest who were plagued by rainy growing seasons in recent years are having few problems so far this year.

Although the corn harvest is months away, farmer Clay Mitchell of Buckingham, Iowa, is preparing his storage bins for what's shaping up as a record-large crop. The corn plants are already as tall as his chest, helped by a warm spring that permitted early planting, followed by well-timed summer rains.

Growers from Latin America to the former Soviet Union have expanded rapidly in recent years.

"So far, this has been the best growing season ever," says the 37-year-old newlywed, who planted 1,600 acres of corn.

In some northern Texas towns, the unfolding wheat harvest is so big that farmers delivering grain to local elevators in recent weeks have had to wait all day in long lines of trucks. Some elevators are so full that wheat is being stored in cotton warehouses.

"There's probably never been this much wheat in our county before," says Steven Sparkman, Texas A&M agricultural extension agent in Hardeman County. "We've got a glut."

This is a big change from most of the last decade, when farmers' inability to keep up with expanding global demand for grain set the stage for what became known as the food crisis of 2007 and 2008.

World grain stocks—what's left by the time new harvests can replenish supplies—shrank as the growing middle-class in emerging nations such as China demanded more meat from livestock fattened on grain. Industrialized nations, stung by soaring oil prices, were increasing support for fuels made from crops. In the U.S., the ethanol industry began consuming one-third of the nation's biggest crop, corn.

Grain prices skyrocketed as some panicked governments disrupted trade by husbanding domestic supplies, increasing the numbers of hungry people around the world by millions and fueling street protests and riots. It took a global recession to cool grain prices in late 2008.

Two years later, however, farmers world-wide are working harder than ever. Growers from Latin America to the former Soviet Union have expanded so quickly that the global acreage devoted to the 16 biggest grain and oilseed crops has climbed 82 million acres since 2006—akin to creating another U.S. corn belt, according to U.S. Department of Agriculture statistics.

Grain traders in Chicago expect U.S. farmers to produce record-large corn and soybean crops for the second straight year. Farmers in Brazil and Argentina are wrapping up record-large soybean harvests. Asian farmers are poised to produce a huge rice crop. According to forecasts by the United Nations' Food and Agriculture Organization, this year's global cereal reserves—the buffer against shortages—will probably be 24% bigger than just two years ago, and the largest in eight years.

With world grain production this year expected to exceed demand for a third consecutive year, many grain traders and farm economists are beginning to debate the prospects for two starkly different outlooks.

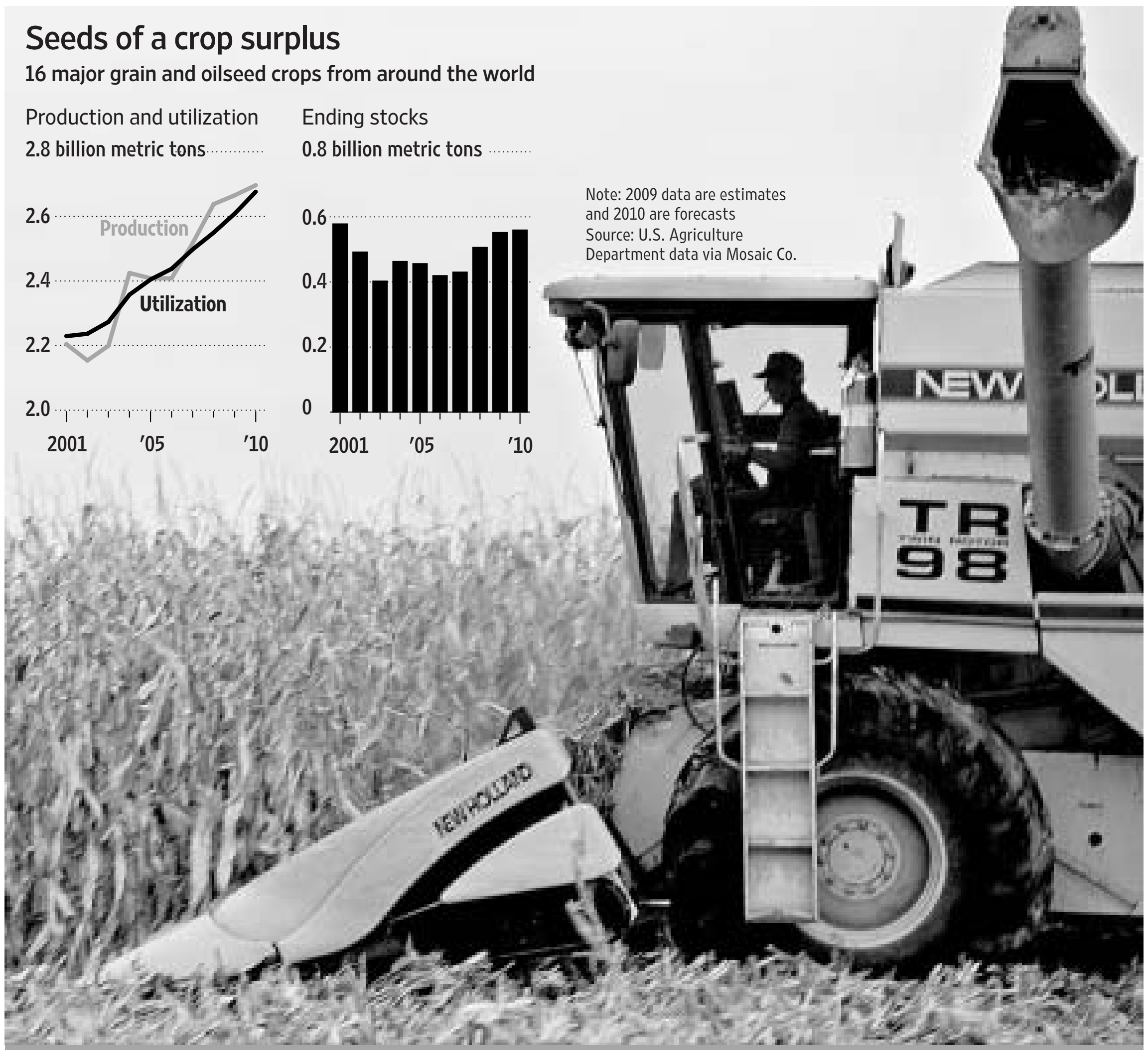
If an economic recovery doesn't gather steam soon, says one group, price-depressing grain gluts could materialize in a few years, dragging down farmers' profits and chilling farmers' demand for everything from tractors to genetically modified seed.

This argument has history on its side: the 1970s grain-price rally ignited a production boom that swamped the 1980s farm sector. Indeed, U.S. wheat reserves by next year are forecast to swell to their highest levels since 1987, thanks largely to plunging U.S. exports in the face of competition from resurgent wheat farmers in the former Soviet Union.

Others, however, worry that the world's farmers won't be able to keep up with demand again once the economy does recover, which would increase costs for food manufacturers and create the environment for another food crisis. China's and India's appetites are expected to grow strongly.

For now, Daniel Basse, president of AgResource Co., a Chicago commodity forecaster, is leaning toward the first camp. He thinks the genetically modified seeds that have saturated U.S. corn and soybean farms are increasing yields faster than anyone expected. Mr. Basse cites the fact that U.S. corn and soybean farmers harvested record crops last year despite a rain-delayed planting season.

At the same time, some important demand is slowing. The federally supported ethanol industry is growing more slowly as it bumps up against federal limits on the amount of ethanol allowed to be blended into gasoline for traditional cars. The U.S. ethanol industry's annual consumption of corn, which had been expanding by several hundreds of millions of bushels in recent years, is expected by USDA economists to grow just 150 million bushels during the year ending Aug. 31, 2011.



A New Holland combine harvests corn in Amanda, Ohio.

WORLD NEWS

Estimates of sex trafficking are suspect

[The Numbers Guy]

By Carl Bialik

For the second consecutive World Cup, dozens of media organizations world-wide have reported that 40,000 sex workers are being trafficked into the host nation to meet increased demand for prostitution from visiting soccer fans.

Yet researchers haven't been able to track down the basis for that claim. Those who have studied prostitution and sporting events say the number is inflated, probably heavily so.

Some flaws with the number are obvious, says Patrick Belser, a senior economist with the International Labour Organization, a United Nations agency. Of the hundreds of thousands of people expected to visit South Africa for the World Cup, not all are men, and most men probably wouldn't seek to pay for sex anyway. An additional 40,000 sex workers, says Dr. Belser, "would represent some kind of oversupply."

In addition, say researchers, such a big jump in cross-border trafficking likely would generate a significant increase in arrests by law enforcement, among other measures. There is little evidence so far that that has happened, either during the 2006 World Cup in Germany, or during the current tournament in South Africa.

The claims spotlight a hidden form of prostitution that is notoriously difficult to measure. Sex trafficking—the transportation of individuals for sex work who have been induced by force, fraud or coercion—is a widespread problem, including in South Africa. Some experts say there is evidence sex trafficking and prostitution might increase at sporting events that draw hundreds of thousands of men away from their homes.

Those fears likely prompted the South African government to sound the alarm about sex trafficking tied to the World Cup. In a warning cited in dozens of news stories, the South African Central Drug Authority suggested that some 40,000 sex workers could be trafficked into the country during the tournament. An ad against human trafficking featuring local celebrities that has run online and on South African cable television warns that "as many as 100,000 victims are expected to fall prey" to the sex trade during the Cup.

Advocates who fight trafficking point out that the 40,000 figure is identical to the one used ahead of the World Cup in Germany four years ago. Researchers at the International Organization for Migration, a Geneva-based intergovernmental agency, looked into the number following the 2006 event. Officials they interviewed said they saw no jump in measures related to sex trafficking, including police cases and calls to hotlines, says Sarah Louise Craggs, a project officer with the IOM. The IOM's findings were largely corroborated by a 2007 report from Germany's delegation to a European Union group fighting organized crime.

The IOM couldn't even identify where the 40,000 figure originated, despite extensive searches. Similar confusion surrounds the re-emergence of the same figure for the 2010 World Cup. The South African Central Drug Authority and the country's embassy in Washington didn't respond to numerous requests for comment.

Chandre Gould, a senior researcher at the Institute for Security Studies, a think tank based in Pretoria, South Africa, who has studied the country's sex trade, says the figure seems to have originated in a "throwaway comment" by an official at the agency in a public session with journalists. "I don't think at any stage it was really a serious answer," Dr. Gould says. But initial reports attributed the figure to the agency, and the number took on the sheen of an official estimate.Already, there are indications that trafficking hasn't risen in South Africa during the World Cup. "We have not seen an increase or any cases that are directly linked to the World Cup," says Mariam Khokhar, a researcher with the IOM in South Africa.

Agence France-Presse/Getty Images

There is scant evidence to support claims of enormous increases in sex trafficking tied to the World Cup.

Part of the difficulty in studying sex trafficking is that researchers and advocates agree only a small fraction of cases are identified by the legal system. And police statistics might reflect changes in enforcement strategies rather than underlying shifts.

Earlier this decade, the U.S. State Department included an estimate of 800,000 people trafficked across international borders for any purpose each year in an annual report on the problem, but the last two reports, including one out last week, didn't include the figure.

"We had the sense toward the end of the time I was ambassador that it was time to start being careful about using that estimate," said Mark P. Lagon, former ambassador at large and director of the State Department's Office to Monitor and Combat Trafficking in Persons, in the George W. Bush administration. Still, adds Mr. Lagon, trafficking is a massive problem. "The questions about the numbers for human trafficking are, are they large or are they immense?" (A State Department spokeswoman didn't return a call seeking comment.)

Some social scientists are attempting to come up with more reasonable numbers. Marlise Richter, a researcher at the University of the Witwatersrand in Johannesburg, is working on a study that will follow 60 sex workers in three World Cup host cities, and survey hundreds of others.

She hopes the study will yield insights into demand and perhaps the total number of workers in the trade, though she is confident the 40,000 figure is "completely ridiculous."

In the meantime, advocates who fight trafficking say they are worried about the unintended consequences of using misleading numbers.

"The problem with the estimates is, they may put the issue on the agenda, but when they're found to not be founded, it falls off the agenda very quickly," says the IOM's Ms. Craggs.

Learn more about this topic at WSJ.com/NumbersGuy. Email numbersguy@wsj.com

Kyrgyz government tears down barricades

By Richard Boudreaux

OSH, Kyrgyzstan—The government of Kyrgyzstan began removing barricades that ethnic Uzbeks had built to protect themselves from Kyrgyz mobs, but kept the country's tense southern region under a state of emergency to avoid a resurgence of ethnic clashes.

Police and army soldiers met no resistance Sunday as armored personnel carriers cleared away burned-out vehicles, concrete pillars, large boulders and felled trees from the perimeter of largely homogeneous Uzbek neighborhoods in the center of Osh. In some places the removal was assisted by residents who had put up the makeshift barriers.

As night fell, however, some neighborhoods on the city's outskirts, including one where Uzbeks were thought to be holding Kyrgyz hostages, remained sealed off.

Uzbek neighborhoods bore the brunt of casualties and damage in the conflict, which started June 10 and claimed as many as 2,000 lives. The violence subsided after four days, but the barricades remained in place, guarded by residents distrustful of the government and its security forces. Interim President Roza Otunbayeva instructed local officials during a Friday visit to Osh to take them down by Sunday night, using force if negotiations failed.

Officials said the decision was aimed at speeding the passage of emergency vehicles and humanitarian aid to battered Uzbek neighborhoods, and allowing police to search for ethnic Kyrgyz who went missing during the rioting.

Ms. Otunbayeva acted after some Kyrgyz politicians and civilian groups had threatened to organize militias to remove the barriers and search for hostages.

Her government also extended by five days a state of emergency that had been due to expire Sunday in Osh and three neighboring regions.

The measure gives the army the power to impose a curfew and arrest civilians. A separate state of emergency is in force until Tuesday in Jalal-Abad, a southern city also hit by ethnic violence.

Agence France-Presse/Getty Images

Ethnic Uzbeks remove pieces of a barricade in Osh on Sunday.

Prosecutors said they had charged Azimzhan Askarov, head of a prominent human-rights group, with inciting ethnic hatred. Mr. Askarov was arrested Tuesday, several days after he had filmed police standing by while a Kyrgyz gang engaged in looting and arson.

Kyrgyzstan's human-rights ombudsman, Tursunbek Akun, joined international rights groups in protesting the arrest.

While moving to open up Uzbek neighborhoods, the government was trying to persuade residents who fled that it is safe to return home. The United Nations estimates that 400,000 people have left their homes in Kyrgyzstan since June 10 and that about 100,000 have entered neighboring Uzbekistan.

Uzbek community leaders warned in recent days that removing the barriers in Osh could reignite the conflict. But when police and army removal crews turned up over the weekend, they found Uzbeks in no mood for a fight.

At the entrance to the Shakhid-Tepe neighborhood, where the first large-scale rioting had erupted, Uzbek men stared impassively from a block away as soldiers attached a chain to a shipping container obstructing a major intersection. The soldiers then towed it away with an armored vehicle.

Kamil Sadykov, a 21-year-old customs official who lives in the neighborhood, said its residents had decided not to resist the soldiers, but were nonetheless apprehensive. He and many other Uzbeks have said the Krygyz military took part in the attacks.

"Who will bear responsibility for our security?" he asked. "We no longer trust those patrols."