Brito sets out on revival mission for Budweiser and Bud Light
INTERVIEW 10

Marathon meeting settles bill on U.S. financial rules
BUSINESS & FINANCE 19-21

THE WALL STREET JOURNAL.

VOL. XXVIII NO. 102 | EUROPE | Monday, June 28, 2010

DOWJONES A NEWS CORPORATION COMPANY | europe.WSJ.com

THE WALL STREET JOURNAL. £1.50
Bahrain BD 1.50 - Egypt $1.75 (C/V) Jordan JD 2 - Kuwait KD 1 - Oman OR 2 Qatar QR14 - Saudi Arabia SR 14

G-20 focuses on paring debt

By Bob Davis

TORONTO—The wealthiest among the Group of 20 countries are lining up behind a commitment to halve their deficits by 2013 and ensure their debt loads start to decline three years later, a signal to international markets and domestic political audiences that they are starting to ease stimulus spending.

The main debate at the G-20 summit of industrialized and developing countries focused on how fast to reduce government spending in an uncertain global economy. Moving too fast, the U.S. has warned, could risk a repeat of the global recession if private demand didn't pick up the slack. Moving too slowly could produce unsustainable debt loads, which could boost interest rates and even threaten sovereign debt defaults, as nearly happened in Greece earlier this year.

The U.S., Japan and European nations agreed to the 2013 deficit commitment, which was suggested by Canada. An early draft statement from the G-20 characterized the pace of debt reduction as "growth friendly." That means it is supposed to demonstrate a will to reduce deficits, but didn't envision a rapid slowdown in spending.

"The G-20's highest priority is to safeguard and strengthen the recovery and lay the foundation for strong, sustainable and balanced growth, including strengthening our financial systems against risks," said an early version of the statement.

The Obama administration had already pledged to reduce its deficit in this way, but had been urging the G-20 to focus on stimulus spending.

Tiff Macklem, a senior finance official who will become senior deputy governor at the Bank of Canada next month, acknowledged the dual risks facing the G-20 nations. "There is a risk that failure to commit, communicate and move forward on clear, credible fiscal plans could undermine the recovery," he said. "There's also a risk that if there is a very rapid, synchronized fiscal consolidation across many G-20 countries, that could adversely impact the recovery."

At his first major international meeting new U.K. Prime Minister David Cameron chalked up both wins and losses over the weekend, but will depart having overall enjoyed a good first conference. Among the losses is the U.K.'s failure to get other G-20 members to impose their own bank levies. Mr. Cameron may feel pleased, though, that the G-20 communiqué contains language about the importance of countries getting large deficits in order quickly, having campaigned on this issue.

Please turn to page 8

European Pressphoto Agency

German Chancellor Angela Merkel, left, and U.K. Prime Minister David Cameron, right, watched the World Cup soccer match between Germany and England during the G-20 summit at the Toronto Convention Center in Canada on Sunday. Germany won the match, 4-1..

The outcome

Bonds volumes drop 29%

By Michael Wilson

LONDON—The volume of bonds sold in Europe in the first half of 2010 fell to $1.2 trillion, down 29% from the $1.69 trillion sold in the year-earlier six months, as the sovereign-debt crisis kept issuers on the sidelines following last year's bumper bond-market run. According to data company Dealogic, the volume of bonds issued fell across the sovereign, corporate and financial sectors amid concerns over the level of European government debt.

European companies led the decline, selling $150.3 billion of debt in the first half of the year—63% less than the $404.2 billion sold in the first half of 2009. Part of the reason is that 2009 was the best year on record for corporate bond markets: yhe total volume of bonds sold hit $607.8 billion.

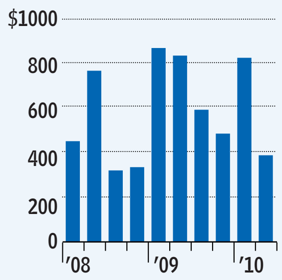
Unable to sell regular bank debt, many issuers looked to covered bonds—a highly rated product backed by mortgages that remain on the issuing banks' balance sheet—as a way of raising cash. The volume of covered bond sales rose 60% in the first half of the year.

However, issuance has been split almost entirely by region. While German, French and Scandinavian players have been able to issue with ease, issuers from Southern European countries such as Spain, Greece and Portugal have struggled.

The expiry of the European Central Bank's covered-bond buying plan, a program set up about a year ago to support the market through the financial crisis, could slow issuance significantly. José Sarafana, head of covered-bond strategy at Société Générale, said covered-bond issuance has been strong over the past five trading days as banks look to take advantage of the final days of the ECB's purchase program, which ends June 30.

Slowing down

Quarterly volume of bonds sold in Europe, in billions



Source: Dealogic

The Quirk

'Young Imam' reality show creates a buzz as aspiring mullahs in Malaysia show off their stuff. Page 29

World Watch

A comprehensive roundup of news from around the world. Pages 30-31

Editorial & Opinion

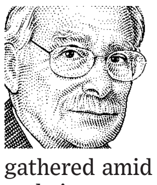
Liam Fox: Why we must win in Afghanistan. Page 13

PAGE TWO

For all the talking G-20 leaders do, the bond vigilantes are in charge

[Agenda]

By Irwin Stelzer



The leaders of 20 nations representing more than 90% of the world's gross domestic product gathered amid the security, pomp and circumstance they consider appropriate to their exalted positions. Exalted, but hardly permanent — witness the absence of deposed Australian Prime Minister Kevin Rudd and Gordon Brown, the father of the anti-crisis measures that most of the nations present relied on for their survival. The leaders met, they ate, they pronounced, they posed. Signifying nothing, or at least not very much because the most important players were not at the table. The bond vigilantes were nowhere to be seen.

Look at it this way. The European leaders present organized a package they confidently announced would halt the spread of the Greek contagion. It didn't. Greek, Irish, Italian, Portuguese and Spanish bonds still sell at substantial premiums over safer German bunds, with Greece leading the parade at a 5 percentage point premium, a huge increase from the quarter point premium it paid at around this time last year. Europe's banks remain reluctant to lend to one another, and investors are looking elsewhere to deploy their funds, forcing banks in the troubled countries to borrow from the European Central Bank. Banks in Greece, Portugal, Ireland and Spain, representing 18% of euro-zone GDP, account for 68% of the €332 billion ($441 billion) increase in ECB lending since last June according to the **Royal Bank of Scotland**. The markets and the bond vigilantes are unimpressed by the €750 billion rescue fund euro-zone leaders are amassing. Something is missing, and it isn't more bail-out money.

European Pressphoto Agency

Students of history: Barack Obama, Angela Merkel and Nicolas Sarkozy

Equally inconsequential are the pronouncements of the G-20 leaders. This impotence is due in part, but only in part, to the shaky domestic position of three of the most important players. Barack Obama's approval rating has dipped below 50%, and he was unable in advance of the meeting to persuade his own Democratic congress to pass a second stimulus package of the sort he is proposing other nations adopt.

The sterile debate of austerity vs. stimulus, diverts attention from what really needs to be done

Angela Merkel lost an important local election and saw the approval rating of her coalition plunge to 35% after she reluctantly agreed, in effect, to make Germany's balance sheet available to profligate Greece. And Nicolas Sarkozy's popularity isn't what it once was as he nervously prepares for an electoral challenge from long-time rival Dominique de Villepin's new political party and, perhaps the International Monetary Fund head, Dominique Strauss-Kahn.

Add to that the failure of these weakened leaders to agree how to fashion a sustainable recovery. Mr. Obama wants continued stimulus spending by surplus nations such as Germany to boost demand now that Americans are too deeply in debt to be the world's consumers of last resort. He is joined in that view by Mr. Strauss-Kahn and Indian Prime Minister Manmohan Singh. Mrs. Merkel prefers austerity, which she argues will create confidence and stepped-up consumer spending. She has ECB President Jean-Claude Trichet, European Commission President José Manuel Barroso and China's President Hu Jintao in her corner. Mr. Sarkozy would like to see a bit of inflation to help pay down the debt his nation has run up with 30 years of unbalanced budgets, and push the euro exchange rate down further to make France more competitive outside the euro zone and help it grow out of its indebtedness. Absent that, he fears, France, already paying a 0.5% premium over German bunds, will lose its Triple-A rating, which would have a negative effect on "La Gloire Française," even more important to Mr. Sarkozy's constituents than higher interest rates.

All three leaders are victims of their countries' histories. Mr. Obama fears a repetition of the double-dip depression caused by premature tightening by the Federal Reserve Board in the 1930s. If he forgets, he has the premier student of that period, Fed chairman Ben Bernanke to remind him. Mrs. Merkel is also in thrall to her country's history in the 1930s: runaway inflation caused by large debts wiped out thrifty German savers and added to the attraction of Adolph Hitler. And Mr. Sarkozy is mindful of the civil strife produced by students, trade unions and ordinary folks when some entitlement is taken away from them. This is a polity that considers it a violation of human rights to extend the retirement age from 60 to 62.

This contributes to the sterile debate of austerity vs. stimulus, diverting attention from what really needs to be done—"prune to enable healthy shoots to grow", as Robert Zoellick, the seemingly horticulturally inclined head of the **World Bank** puts it. Austerity for the financially anemic, spending support from the robust. Less regulation of entrepreneurial activity. More freedom for employers to fire so that they feel more comfortable to hire. More reliance on consumption taxes, less on business taxes. More support for a Schumpeterian wave of creative destruction, even if it washes away national champions.

That would appease the market vigilantes, who won't wait for the November meeting in Seoul to remind the G-20 just who is in charge of the world economy.

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

What's News

■ **Romania said** it would raise taxes to shore up state finances as it seeks to qualify for continued help from the IMF and other lenders and to reassure jittery markets focused on government spending and debt. 4

■ **Banks are marshalling** their forces to lobby the U.K. government on ways to minimize the impact of a planned levy, just days after the proposal was announced. 17

■ **Some analysts are looking** to the coming earnings season and wondering whether U.S. stock investors have gotten a little too bearish. 17

■ **Kyrgyz voters appeared** to endorse a new constitution, legitimizing the country's interim government after months of political turmoil. 4

■ **Carrefour has started** to cut the number of products its sells, in a bid to make the French supermarket operator's stores more appealing to shoppers. 18

Inside

Videogame upgrades are in motion for sales revival. **27**

Loyal fans stunned as England is humiliated by Germany. **28**

ONLINE TODAY

Most read in Europe

1. Merkel Rejects U.S. Call to Spend
2. Opinion: The Keynesian Dead End
3. BP's Oil Recovery Improves
4. The World Cup Doesn't Need Us
5. Ghana Beats U.S.

europe.WSJ.com

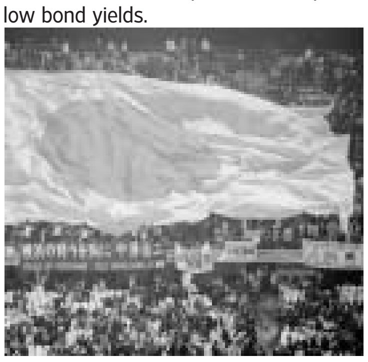
FREE daily access for every reader
First time users please register at:
wsj.com/accesstoday
Once registered, redeem future daily codes at:
wsj.com/accessrenew
Today's code is: **EUROPE-6JZ-857**

The Source

blogs.wsj.com/source

"The Japanese government carries more debt than any other major country in the world."

Alen Mattich on the paradox of Japan's low bond yields.



Continuing coverage

World Cup: Track the latest as Holland and Slovakia play today

Question of the day

Q: Would you pay extra to watch 3-D television at home?

Vote online today at europe.wsj.com

Last weekend's results

Q: Will the change in command in Afghanistan help or hinder the war effort?

Help 34%

Hinder 66%

THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Commodity Quay, East Smithfield,
London, E1W 1AZ

SUBSCRIPTIONS, inquiries and address changes to: Telephone: +44 (0) 20 3426 1234. Calling time from 8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com. Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones International. Frankfurt: 49 69 9714280;
London: 44 203 426 1111; Paris: 331 40 17 17 01.
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Baslnevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

Actor to guide snack firm's ad push

BY SUZANNE VRANICA

Popchips Inc. is creating a new social-media campaign, but Madison Avenue won't be devising it. Instead, the three-year-old snack-food maker has turned to actor and producer Ashton Kutcher.

Known for his avid use of Twitter, Mr. Kutcher will oversee the San Francisco-based company's social-marketing efforts, including helping to create content to promote the young brand on social-networking sites. However, he says he won't appear in Popchips ads.

As part of the arrangement, the 32-year-old actor, who created the MTV prank show "Punk'd," has taken a minority stake in Popchips and has been named president of pop culture. Terms weren't disclosed.

The company's deal with Mr. Kutcher shows the novel ways marketers are teaming up with Hollywood to use star power to promote their brands.

Beyond simply taking fees to endorse products or to star in ads, celebrities increasingly are looking for broader agreements that offer a bigger piece of the action.

"Listen, I'm going to eat these chips anyway....If I can, why not actually own a piece of the company," Mr. Kutcher says. "As my image is being leveraged, I am participating in the upside."

People in the endorsements business say the trend is being driven by the growing sophistication of consumers, who are becoming skeptical of celebrity pitchmen. "The deeper relationship, that has more authentic layers to it, helps validate the relationship" in the eye of consumers, says Steven Lashever, co-head of the commercial-endorsement division at **Creative Artists**

Reuters

Actor Ashton Kutcher, shown at an awards show in January, was named president of pop culture at Popchips.

Agency, a Hollywood talent agency. These types of deals, says Mr. Lashever, are the "next wave of the merging of celebrities and brands."

In a similar deal earlier this year, Lady Gaga was named chief creative officer of Polaroid, recently acquired by a venture led by Gordon Brothers Brands LLC and Hilco Consumer Capital LP.

Not only will the pop star, known for her over-the-top outfits, appear in ads for the camera company, but Polaroid says she will help it develop new products. She also has a financial stake in the company, but a Polaroid spokeswoman wouldn't disclose details.

In another deal forged this year by CAA, actress Sarah Jessica Parker was named the chief creative officer of fashion brand Halston, also owned by Hilco. In 2008, talk-show host Ellen DeGeneres took an estimated 15% stake in Halo Purely for Pets, a pet-food company owned by Pegasus Capital Advisors LLP.

As part of that deal, which was brokered by William Morris Endeavor, the comedienne is involved in many facets of the business, including helping to select new pet-food flavors.

Deeper alliances between Hollywood and Corporate America began to gain traction several years ago, when rap artist 50 Cent bought a stake in Energy Brands Inc., maker of the Glaceau line of waters, including Vitaminwater. The company was later sold to **Coca-Cola** Co.

So far, the alliances have largely involved smaller or start-up brands that in many cases don't have much money to invest in marketing or hiring big-name celebrities. However, ad experts say they expect bigger corporations to strike such deals.

For Popchips, the pact with Mr. Kutcher is part of an effort to grab a bigger piece of the market for healthy snack foods, which market-research firm Mintel values at $30 billion a year. Instead of frying its chips, Popchips applies heat and pressure to slices of potato to produce a "popped" chip.

"I can't image a better evangelist for our brand" Keith Belling, Popchips' chief executive, says of Mr. Kutcher. "He is a pioneer in social media, and he has his own platform."

"I'm going to create new ways for consumers to connect to the product," says Mr. Kutcher who has more than five million followers on Twitter, more than Oprah Winfrey or President Barack Obama.

Popchips says it had about $19 million in sales last year, and expects to top $40 million this year. But it faces fierce competition, including from Frito-Lay, the snack giant owned by **PepsiCo** Inc., which has been aggressively pitching healthier snacks to consumers.

"It's a David and Goliath situation, and I think people like the underdog," Mr. Belling says.

Rolling Stone article boosts sales, reputation

BY RUSSELL ADAMS

In the wake of Gen. Stanley McChrystal's ouster last week, one prevailing question was how much the article that brought down the U.S. commander would lift the magazine that published it.

Readers flooded the magazine's Web site when the article was posted last week, attracting 2.2 million unique visitors in the first two days, according to the magazine's owner, **Wenner Media** LLC. The article itself, written by Michael Hastings, was viewed by 1.6 million people. The site had been attracting about 650,000 unique visitors in the U.S. a week, according to Quantcast, a Web-measurement firm.

Based on early figures from New York and Los Angeles, where Rolling Stone went on sale Wednesday, the publisher estimates the biweekly magazine was about five times its average. Those figures weren't yet available when the magazine hit newsstands nationally Friday. Rolling Stone sold about 105,000 copies per issue on the newsstand in the second half of last year, according to the Audit Bureau of Circulations.

Rolling Stone continues to battle perceptions that it is merely a window onto popular culture, rather than a serious, agenda-setter for a sophisticated audience, publisher Matt Mastrangelo said. A value of the McChrystal article rests in its potential to burnish the magazine's reputation.

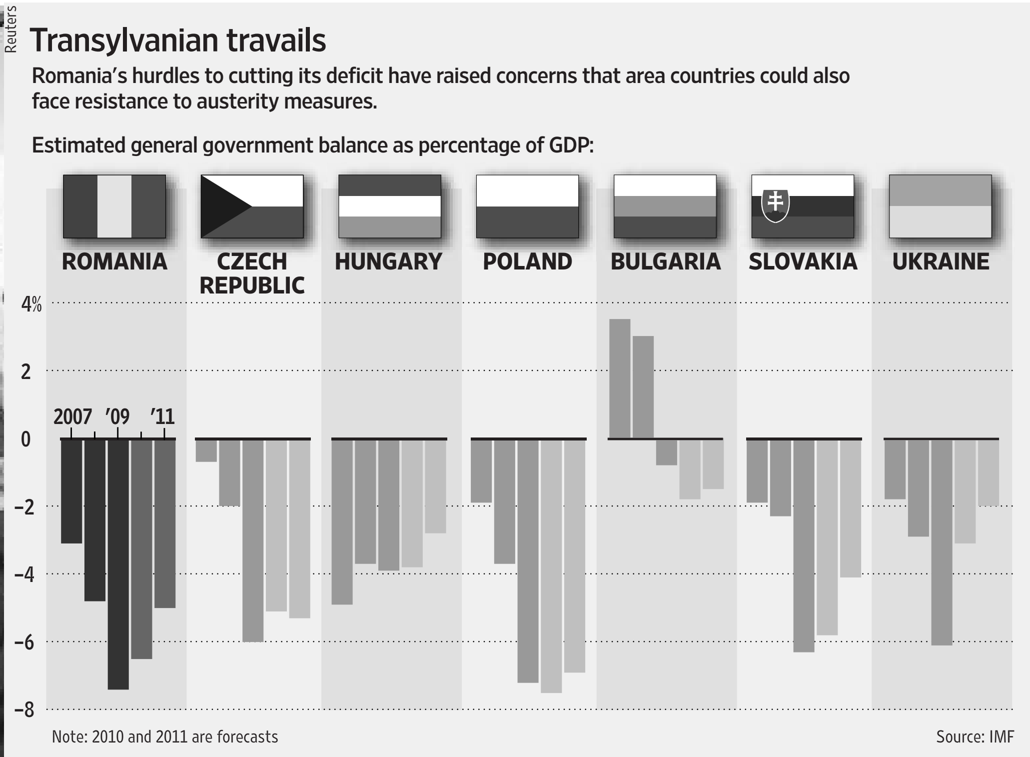
Rolling Stone's ad-sales team was energized by an article about Goldman Sachs, in which the writer described the bank as a "great vampire squid wrapped around the face of humanity." That article is credited with helping to turn up the heat on Goldman for its role in the financial crisis, and is used to illustrate to advertisers the magazine's depth.

Like most of the industry, Rolling Stone has been battered by a decline in ad spending. The number of ad pages in the 1.5 million-circulation magazine declined 19.1% last year from 2008. The first three months of this year were no better as ad pages fell 19.5%, according to the Publishers Information Bureau.

Mr. Mastrangelo said the tide is turning, noting that ad pages are up 3% through July and up by double digits in three of the past four issues.

For now, the focus is simply on keeping Rolling Stone in the news for as long as the modern media landscape will allow.

"Being in this business, it's so hard to live past the 24-hour news cycle," Mr. Mastrangelo said. "The amazing thing is this has lasted beyond the 48-hour news cycle."



Protesters clash with riot police outside Romania's presidential palace in Bucharest on Friday. The country's highest court rejected government-imposed austerity measures that were created to qualify for aid from the IMF.

Romania to raise taxes in bid for aid

By Gordon Fairclough

Romania said it would raise taxes to shore up state finances as it seeks to qualify for continued help from the International Monetary Fund and other lenders and reassure jittery markets focused on government spending and debt.

Cabinet ministers approved the tax increase at an emergency meeting Saturday in order to plug a hole in the budget created Friday when the country's highest court declared that government-imposed pension cuts were unconstitutional.

Romania—the European Union's second-poorest member after Bulgaria, with an ailing economy—has struggled to meet government budget-deficit targets set as part of bailout-loan agreements with the IMF and EU, and prevent any delay in receiving its much-needed next installment of funds.

The IMF on Friday postponed a board meeting, originally set for Monday, at which it was to review Romania's compliance with its lending terms. Romanian officials said they expect the meeting to be reset for Wednesday. If the board approves, funds could arrive by Friday, they said.

"Our objective," Prime Minister Emil Boc told reporters in the Romanian capital, Bucharest, on Saturday, is "to get a positive result when the board meets Wednesday."

Friday's court ruling, which called into question the government's ability to carry out its austerity plans, jolted markets and pushed the Romanian currency, stocks and bonds sharply lower. The currencies of neighboring Hungary and Poland also lost ground on fears those countries could have trouble curbing deficits.

The cabinet's decision to boost the value-added tax to 24% from the current 19% will solve the immediate problem of holding the government budget deficit to the promised 6.8% of gross domestic product. But it is also likely to serve as a further brake on economic expansion in a country where GDP fell more than 7% last year.

Efforts by Romania's right-leaning coalition government to rein in government spending have provoked public protests and strikes by state employees. The government narrowly survived a no-confidence vote in parliament earlier this month. The Constitutional Court's decision Friday was another serious political blow.

"The uncertainty around the government is big and growing," said Ovidiu Fer, an analyst following the Romanian market at investment bank Wood & Co., in a telephone interview from Bucharest. "It will be harder for them to implement further structural changes. That's a big problem."

The government's austerity package also includes a cut of 25% in public-sector wages, a provision that was left in place by the Constitutional Court. Officials have said that by the end of next year they also need to trim the number of government employees by nearly 200,000.

Romania's public sector is large—with 1.36 million workers in a population of 22 million. Unemployment is around 8%. And even before the weekend move to raise taxes, the economic outlook for this year was far from rosy. Neil Shearing of Capital Economics in London was forecasting a 1% decline in GDP for 2010.

Bucharest's success or failure in meeting its austerity goals is also likely to affect other Central and Eastern European countries as markets remain focused on government debt in the wake of the Greek crisis, even though deficit and debt problems in the region are generally less severe than in southern Europe.

"Investors are concerned about fiscal sustainability," said Mr. Shearing, a London-based emerging-markets economist.

Any significant delay in Romania's receiving IMF funds could pose problems. Last year, Romania needed to use loan money to pay government salaries. And the government has lately struggled to raise money in the markets. Earlier this month, the finance ministry failed to sell $340 million in one-year Treasury bills after bidders sought yields higher than the government was willing to pay.

In neighboring Hungary, populist politicians were forced to retreat from campaign rhetoric about easing austerity programs there and taking a firmer stance in negotiating loan terms with the IMF and EU. Officials there spooked markets and pulled down the euro and other Central and Eastern European currencies with remarks indicating Hungary could miss its deficit targets and follow in the footsteps of Greece.

In an effort to restore confidence, the new Hungarian government reiterated its commitment to deficit targets set with the IMF and outlined a plan to boost tax revenue and cut spending.

Kyrgyz voters endorse new constitution

By Kadyr Toktogulov
And Richard Boudreaux

BISHKEK, Kyrgyzstan—Voters in Kyrgyzstan appeared Sunday to have endorsed a new constitution, reducing the power of the presidency but legitimizing the country's shaky interim government after months of political turmoil.

Interim President Roza Otunbayeva rushed to declare the referendum a success when just a fraction of the votes had been counted. "The people have put a full stop to the epoch of authoritarian, nepotistic management," she said at a news conference. "Today we reached victory on the path to a true government of the people."

The Central Election Commission said later that with more than half the precincts counted, almost 90% voted for the new constitution. Some 2.77 million people were eligible to vote, it said.

Election officials said two-thirds of the electorate went to the polls despite a spasm of deadly ethnic violence that had shaken the country just two weeks earlier. Calm prevailed in the southern part of the country on Sunday, enabling the Uzbek minority, whose urban neighborhoods there were hit hardest by the violence, to take part in large numbers.

If confirmed by full results Monday, the "yes" vote would usher in a parliamentary system of governance, making Kyrgyzstan the first of the region's former Soviet republics to shed a tradition of strong presidential rule. It would solidify the authority of opposition leaders who took control of the country in April following the second successful popular uprising in five years against an autocratic president.

The new constitution would limit the president to a single six-year term. Presidential power would be balanced by that of a strong prime minister chosen by a parliament elected every five years. Parliament would be expanded to 120 seats, from the current 90, and no single party would be allowed to control more than 65.

A Kyrgyz soldier casts his ballot in the city of Osh on Sunday.

Parliamentary elections are scheduled for October, but officials said they might be held a month earlier to speed the transition. Several of Ms. Otunbayeva's top aides said Sunday they would resign from her administration to run for parliament and jockey for the post of prime minister.

Ms. Otunbayeva would remain in her post until the end of next year and wouldn't be entitled to seek another term. While the interim leaders are generally well-accepted in most of the country, they have struggled to assert control in the south, the stronghold of recently ousted President Kurmanbek Bakiyev. Four days of ethnic clashes this month in the southern cities of Osh and Jalal-Abad left as many as 2,000 people dead, most of them Uzbeks whose neighborhoods were attacked by Kyrgyz gangs that were led in some cases by army vehicles and men in combat uniform.

The interim government has accused the exiled Mr. Bakiyev and his relatives of stirring up the violence in the south, an assertion they have denied. It is investigating whether military forces took sides.

Election officials accompanied by armed guards carried transparent ballot boxes to Uzbeks who were too afraid to visit the polling stations.

But Izatulla Rakhmatullayev, an Uzbek who monitored the election for an ethnically mixed group of nongovernmental organizations, said the government effort fell short.

EUROPE NEWS

Germany is world's new punching bag

[The Outlook]

By Marcus Walker

Bashing Germany is the new favorite sport for policy makers and economists who want a more balanced world economy.

Now that China has promised a loosening, albeit limited, of its tightly controlled exchange rate, the U.S. and other countries want to see Germany do something about its large trade surplus.

President Barack Obama has said he is "concerned by weak private-sector demand and continued reliance on exports by some countries with already large external surpluses." He didn't need to name Germany and China.

That Germany's economy is unbalanced is clear. Household incomes and consumer spending have stagnated for a decade, and economic growth has come almost entirely from exports and related investment.

Consumption is set to drop 1.4% this year, even though the overall economy will grow 1.9%, according to the Organization for Economic Cooperation and Development. Exports are rebounding, but households are becoming even thriftier in anticipation of government austerity.

Long-term stagnation in the non-traded part of the German economy—mainly service sectors—means the share of exports in gross domestic product has risen from 27% in 1991, just after German unification, to a peak of 48% in mid-2008, before the collapse of Lehman Brothers. No other large, advanced economy is so dependent on exports, and on other nations' demand.

The question is what to do about it. Unlike China, Germany doesn't intervene heavily to keep its exchange rate artificially low: The euro is a freely floating currency.

Germany's critics, which include the French government in candid moments, usually argue Germany needs to drop its obsession with fiscal discipline and wage restraint. Tax cuts and more generous pay deals would help German consumers, and the benefits would outweigh slightly higher inflation and public borrowing, the argument goes.

But paltry pay raises aren't that easy to influence. "This is a market outcome. Wages are not set by the government," says Dirk Schumacher, an economist at Goldman Sachs in Frankfurt.

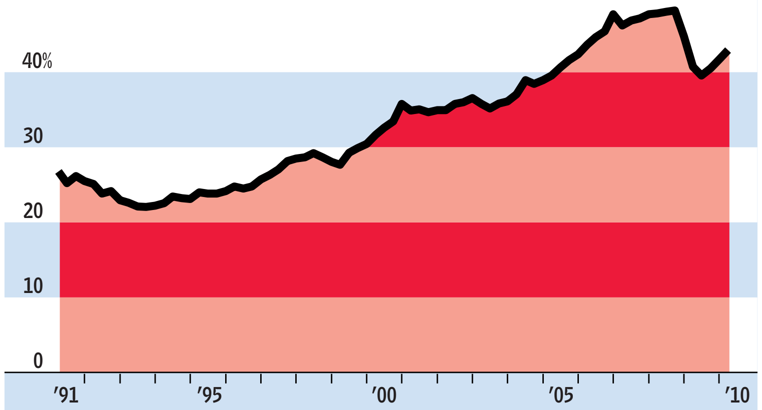
Besides, restrained wage deals between unions and businesses have helped cut Germany's unemployment rate to 7.7% in May this year from 12% in 2005. Economists say higher employment matters more for consumption than slightly higher raises.

Everyone accepts Germany needs to stabilize public debt in the medium term, to prepare for the rising pension and health-care costs of a fast-aging population. And looser German fiscal policy could only be sustained a short while. Even the U.S. is merely asking Germany to delay its budget cuts until after 2011.

German Chancellor Angela Merkel argued in an interview last week that balancing the budget could even unlock consumers' wallets—whereas deficit spending might only lead to even-higher household saving. Germans save because they are worried the public pension and health-care systems will run out of money, and would save less if they had confidence in sustainable public finances, she argued.

Rising dependence

Germany's exports as a percentage of gross domestic product



Source: Goldman Sachs

Ms. Merkel's first term doesn't offer good evidence for that view, however. Germany cut its budget deficit from 4% in 2005, when she took office, to nil in 2008, before the financial crisis struck. In that time, Germans' household savings rate rose rather than fell—to 11.2% of disposable income, from 10.5%.

The core problem is lack of growth in Germans' disposable income, not high savings rates which are largely justified for an aging population, say most economists.

The answer lies in unlocking job creation in the services sector, says Philipp Ehmer, an economist at Deutsche Bank in Frankfurt. More jobs means more consumers.

Germany's cars, machinery and other manufacturing industries are continually trimming their work forces through automation and offshoring, so that they stay globally competitive. Services are more labor-intensive than technology-heavy industries such as engineering.

The OECD says Germany could spur competition, investment and jobs in services through deregulation, such as scrapping a culture of professional guilds that dates back to medieval times.

But German services are already much less regulated than five or 10 years ago, says Mr. Schumacher of Goldman Sachs.

Part of the problem is Germany's cherished welfare state, which deters less-educated people from working in low-skilled jobs. "The wages for less-productive jobs are less than unemployment benefits, so why take such jobs," says Mr. Ehmer. That explains, for example, why German supermarkets have nobody to pack customers' shopping bags, he says.

Cutting jobless benefits further is politically tough, but the government could bring more low-paid jobs into existence by supplementing low wages with benefits, Mr. Ehmer says. That could lead to greatly expanded employment in stores, bars, hotels and restaurants, he says.

Higher up the pay scale, Germany's biggest problem may be a lack of college graduates to work in services such as IT, consulting or law. Only about 20% of high-school graduates get a college degree, versus more than 40% in many other advanced countries, according to the OECD.

For years, education has been a victim of Germany's quest to rein in spending. Recognizing this, Ms. Merkel has at least exempted education from her new austerity package. That probably won't suffice to make up lost ground.

Pope slams Belgium for sex-abuse raids

By Stacy Meichtry

ROME—Pope Benedict XVI escalated the Vatican's criticism of Belgian authorities investigating allegations of sexual abuse by priests, calling on civil investigators to respect the "autonomy" of church officials.

"I want to express my closeness and solidarity to you for the surprising and deplorable way the searches were conducted," the pope wrote in a letter issued Sunday to Archbishop André-Joseph Léonard of the Mechelen-Brussels archdiocese.

Pope Benedict was reacting to a series of raids Thursday morning by Belgian police in Mechelen, the seat of the Roman Catholic Church in Belgium.

Police broke up a monthly meeting of bishops at the palace of Archbishop Léonard, confiscated their cellphones and held the top clerics for nine hours of questioning.

Police also seized the records of a church commission in charge of reviewing sex-abuse cases and searched the tombs of two Brussels archbishops buried at the Cathedral of Mechelen—an act the Vatican on Friday criticized as a "violation" of the burial site.

No one was charged or arrested during the raids, and prosecutors who ordered the searches have declined to comment on the probe other than to confirm that police unsealed a section of the cathedral's crypt to search for evidence.

The raids cut to the core of one of the most sensitive questions in the clerical sex-abuse crisis: Can the Catholic Church be trusted to police its own ranks?

In past decades, top church officials used internal investigations to cover up allegations of abuse rather than bring them to light. The Vatican says those practices are no longer tolerated, and that the church has the right to conduct independent investigations without getting in the way of civil investigators.

"Many times I myself have called for these serious matters to be dealt with by civil and canonical authorities with mutual respect for autonomy," Pope Benedict wrote Sunday.

Some victims' groups have called on the Vatican and local dioceses to immediately report all allegations.

On Thursday, police seized the commission's records, including those of victims who wanted their cases to remain confidential, the archdiocese said.

Judging an oil spill's size isn't that easy

[The Numbers Guy]

By Carl Bialik

Even after **BP** PLC's broken well under the Gulf of Mexico stops spewing, we might never know how much oil spilled.

The extent of earlier spills of comparable magnitude remains disputed, even though they were easier to analyze. Oil companies don't have much incentive to measure spills accurately, and government officials haven't always needed to get a reliable count. Exxon knew how much oil its Valdez tanker held when it ran aground 21 years ago. And yet some Alaskan scientists and environmental advocates who have studied it say the true amount spreading through Prince William Sound was two or three times the accepted total.

Determining the size of the BP spill will be crucial because under a federal law passed in the wake of the Valdez disaster, oil companies pay penalties that are directly proportional to the amount of oil released into the water. Yet the size of the current disaster is far more difficult to calculate than previous spills, because no one knows for sure how much crude was contained in the reservoir thousands of feet below the water's surface, nor whether the oil has been spewing at a constant rate.

"Based on the history of past large spills, I am sure there will be differences of opinion on the exact amount that was spilled," says William J. Lehr, senior scientist in the National Oceanic and Atmospheric Administration's Office of Response and Restoration, and a member of the federal group estimating the amount of oil spilled in the Gulf.

To put the Gulf oil spill in perspective, it often is compared with the Exxon Valdez disaster. But the scope of the 1989 event is still up in the air. Soon after the spill, Exxon put the total volume of oil released into the water at 10.8 million gallons, or 250,000 barrels.

The company came up with that figure by subtracting the volume of remaining liquid offloaded from the tanker after the accident from the total size of the initial cargo. The problem with this approach, say some scientists and environmental advocates, is that the removed liquid contained a lot of seawater, potentially diminishing the estimated spill size.

Craig Tillery, deputy attorney general for the civil division of Alaska's Department of Law, confirms that the 10.8 million figure didn't take into account water. An Exxon Mobil spokeswoman says only that 10.8 million gallons "is the number that was agreed upon at the time." She declined to comment on claims that it is an underestimate.

Associated Press

The BP spill is often contrasted with the 1989 Valdez disaster, above.

Other massive spill totals also come with big question marks attached. A half century of small spills in the Niger Delta added as much as to 1.5 million tons of oil (nine million to 13 million barrels), according to a 2006 report by scientists from Nigeria, the U.K. and the U.S. But that widely reported total was based on extrapolations from incomplete Nigerian government records covering only a third of the relevant years.

"It is very difficult to get accurate figures," says Clive Wicks, a consultant for the environmental group WWF UK and a study co-author. Indeed, a follow-up study conducted two years later found that the total amount over 50 years could have been as little half the size previously thought.

Despite scientists' efforts, the true size of the BP spill likely will remain elusive. Early estimates were based on low-quality video and rough approximations from plume sizes. And in the early days of the spill, there were no reliable numbers at all.

One problem with coming up with a definitive number is that assessments of how much oil is flowing from the runaway well are in flux. The scientists assigned by the federal government to measure the rate of flow put that number at 35,000 to 60,000 barrels per day in their latest estimate last week. That is a big increase from a projection of 12,000 to 19,000 barrels a day a few weeks earlier. NOAA's Dr. Lehr said these estimates are intended solely to aid recovery efforts. A separate federal team will assess the damage for purposes of fines and litigation.

The spillage total is critical because BP can be charged $1,100 to $4,300 a barrel spilled, under the Clean Water Act.

The amount spilled also informs the Natural Resource Damage Assessment, which will be used to determine how much BP will have to pay for environmental damage. A BP spokesman referred questions about potential fines to the government, saying the company is focused on recovery efforts. Several government agencies didn't respond to requests for comment.

"We're focused really hard on cleaning up, and making things right," says BP spokesman John Curry.

States weigh claims directly against BP

Gulf Coast states are gearing up to follow shrimpers and hotel owners in seeking significant payouts from **BP** PLC for lost revenue and other damages stemming from the Gulf of Mexico oil spill.

*By **Neil King Jr., Dionne Searcey** And **Vanessa O'Connell***

The demands could far exceed the $305 million BP has already given the states of Louisiana, Mississippi, Alabama and Florida to help pay cleanup costs, promote tourism and begin building sand berms off the coast of Louisiana, state officials say. Lawyers advising the states say they will eventually seek multi-billion dollar payouts, but it is still too early to estimate an overall tally.

BP declined to comment on the states' legal strategies. The British oil company agreed nearly two weeks ago to honor claims for damages and lost business revenue from individuals and businesses through a $20 billion, independent fund. The fund is also meant to cover payments for states to defray cleanup costs, but not necessarily claims for the larger economic damages that Florida and the other states say they plan to present directly to BP.

"We don't want to in anyway diminish that fund," said Steve Yerrid, a private attorney picked by Florida Gov. Charlie Crist as a special counsel for the oil spill. Mr. Yerrid met Friday with Florida Attorney General Bill McCollum. "We are looking at much more global and larger losses to the state, which would be covered separately," he said.

Mr Yerrid is assembling a team of private attorneys to prepare for what he predicts will be "a very large reparations request." The other Gulf states have similar efforts underway, although the legal strategies among them differ.

Florida's intention is to seek payments from BP to cover lost tax revenue, unemployment benefits and other damages to the state's coastal economy, Mr. Yerrid said. He and Mr. McCollum said the state plans to seek significant periodic payments, similar to those that some businesses are already receiving, starting sometime this summer. The hope is to avoid costly and time-consuming litigation.

"We think the state's losses are going to be very large, and that we shouldn't have to wait for final payment," said Mr. McCollum.

Mississippi Attorney General Jim Hood has sought advice from state university researchers, economists and lawyers to assess the environmental and economic damage the spill has caused to the state.

Louisiana's attorney general's office has hired plaintiff attorney Brad Marten of Seattle, who represented Alaska in the Exxon Valdez oil-spill litigation.

Texas, which has not been hit by any oil from the spill, is nonetheless "considering any and all possible legal avenues regarding the oil spill," said Jerry Strickland, a spokesman for the Texas attorney general.

U.S. NEWS

When Democrats fought Democrats

The financial-rules package came together after a standoff in which pro-business Democrats stood their ground

By Devlin Barrett
And Damian Paletta

WASHINGTON—As lawmakers wrestled in a conference room over details of a historic overhaul of financial regulation Thursday night, some of the toughest arm-twisting was happening in the hallway outside, where a group of Democrats battled against their own party establishment.

A small group of pro-business Democrats, many of them from New York, where the biggest economic engine is the financial industry, mounted a furious rear-guard effort to reduce the impact of the bill on U.S.-based derivatives trading.

In the days leading up to the showdown, members of the so-called New Democrats and members of New York's congressional delegation had threatened to derail the entire bill if they didn't get concessions. In the final hours, the Obama administration stepped in and offered its own alternative, defusing the lawmakers' threat and keeping the legislation on track to pass.

Shortly after midnight, it became clear that the Democrats fighting hardest against the derivatives language had seen their proposal largely replaced by language suggested by Treasury Department officials. The change still gave a lot of what they wanted—U.S. banks will be able to keep much of their derivatives business—but they apparently weren't involved in some key talks that produced that compromise.

"Are you flippin' kidding me?" Rep. Melissa Bean (D., Ill.) exclaimed as she huddled with colleagues. She was incensed at the latest version of the derivatives language, according to people involved in the conversation.

Associated Press

After some furious negotiations, Sen. Blanche Lincoln eventually ended hugging Rep. Gregory Meeks

Less than 15 minutes later, Ms. Bean and the rest of the group—Rep. Joseph Crowley (D., N.Y.), Rep. Scott Murphy (D., N.Y.) and Rep. Michael McMahon (D., N.Y.)—walked out of the Senate office building where the conference continued its work, convinced that their part in any deal-making was done.

The day had started more hopeful for them, as they sought an amendment from Rep. Gregory Meeks (D., N.Y.) that would have reduced the force of the derivatives legislation offered by Sen. Blanche Lincoln (D., Ark.).

Around noon, Sen. Charles Schumer (D., N.Y.) had an awkward embrace with Ms. Lincoln in the middle of the conference room. The conversation appeared heated, as the New York senator pleaded with her to meet with other lawmakers from his state. Yet the New York delegation—viewed by the banking industry as its last best hope to limit the most punishing effects of the bill—was itself split on how tough the bill should be.

Toward the end of the day, Messrs. Murphy and McMahon, and Ms. Bean—the most active opponents of the derivatives measure—arrived. At the same time, a group of Treasury officials also appeared and the negotiations hit high gear.

In the midst of all the high-profile lawmakers, one relatively obscure freshman congressman stood out. Mr. Murphy, a former venture capitalist who represents a rural-suburban district in upstate New York, became an important player in the talks, shuttling between lawmakers and Treasury Department officials in search of a compromise.

But an agreement with Mr. Murphy and his cohort remained elusive.

Approaching the 12th hour of talks, the conference was a cluster of red eyes and wrinkled jackets. Around midnight, the House Democratic leadership and the Obama administration let the opponents know they had crafted a separate agreement with Ms. Lincoln and were done negotiating on derivatives, the last big sticking point in the legislation.

Mr. McMahon, who Thursday had threatened to vote against the bill, on Friday called it a "much more reasonable package." His district includes 70,000 people who work in New York's financial industry. Though he knew the banking industry was unpopular, said Mr. McMahon, "I came to fight for it."

As the clock edged past 3 a.m. Friday, with hours of conference work still left, Mr. Meeks got up to stretch his legs and stopped to greet Ms. Lincoln. The two hugged and laughed.

■ A look at how the new rules will change finance 19-21

Washington prepares to tussle in Kagan hearing

By Jess Bravin

WASHINGTON—The fight at next week's Supreme Court confirmation hearings is less about wounding Elena Kagan, who is likely to survive intact, and more about Democrats and Republicans scoring points against each other with November in mind.

President Barack Obama nominated Ms. Kagan, the solicitor general, to succeed Justice John Paul Stevens, the 90-year-old leader of the court's liberal wing who is retiring after 35 years on the Supreme Court. With several Senate Republicans likely to join the 59 Democrats and independents in supporting her, Ms. Kagan is all but certain, barring a major gaffe, to be confirmed well before the Supreme Court's next term begins Oct. 4. For Republicans, however, the nomination of Ms. Kagan, a former Harvard Law School dean and aide to President Bill Clinton, is a chance to attack the Obama administration over issues they hope will resonate with conservative and swing voters in the fall elections. What Ms. Kagan's nomination "says about President Obama will be part of the discussion," Alabama Sen. Jeff Sessions, the Senate Judiciary Committee's top Republican, said Thursday.

Mr. Sessions has spent weeks painting Ms. Kagan, 50, as a ruthless political operative bent on abusing judicial power to elevate gay rights above national security, help criminals beat the rap and crack down on gun owners instead.

United Press International

High court nominee Elena Kagan

Democrats, meanwhile, aim to focus attention on the conservative Supreme Court majority led by Chief Justice John Roberts, which they portray as a coterie of plutocrats seeking to protect robber barons from popular outrage.

In "decision after decision... corporations are winning over ordinary citizens," Sen. Charles Schumer (D., N.Y.), a Judiciary Committee member, said this past week, "The current conservative bloc," he said, is bending "the Constitution to suit an ideology."

Amid the dueling accusations of judicial activism, however, is the reality that Ms. Kagan is unlikely to alter the current divide among the justices. An establishment liberal who has served in two Democratic administrations, she almost certainly will track most of Justice Stevens's positions.

That will line her up with three other liberal-leaning justices who have ended up on the losing end of cases involving gun rights, campaign finance and school integration. On some issues—including gay rights, cruel and unusual punishment, and Guantanamo detainees—Justice Anthony Kennedy has split from fellow conservatives to hand liberals a victory.

Ms. Kagan has been preparing for the hearings by fielding likely questions, White House aides said Friday. But if Ms. Kagan follows recent nominees' practice, she will avoid letting slip her actual views on constitutional issues, instead describing legal precedents or promising to follow the law when future cases arise. Nonetheless, senators of both parties plan to treat the hearings as if the court's ideological balance were at stake.

Mr. Sessions says that because Ms. Kagan, never a judge, has no judicial record to scrutinize, he must draw inferences from her actions in other capacities. While she personally is "engaging and fun to be with," he said, virtually everything she ever has done gives him grave reservations, including working in the Clinton White House and clerking for Justice Thurgood Marshall.

Democrats aim to focus attention on the conservative Supreme Court majority, which they portray as a coterie of plutocrats seeking to protect robber barons

As dean of Harvard Law School, Ms. Kagan opposed the military ban on open homosexuals, joining dozens of other scholars in signing briefs opposed to the law, and while the issue was pending before the Supreme Court, restricting military recruiters from career fairs and related services.

"Perhaps to some in the elite, progressive circles of academia, it is acceptable to discriminate against the patriots who fight and die for our freedoms," Mr. Sessions said in a recent speech. "But the vast majority of Americans know that such behavior is wrong."

Democrats, for their part, dismiss such criticisms as a desperation move.

"I've never seen such an effort to grasp at straws to defeat somebody," Senate Judiciary Committee Chairman Patrick Leahy (D., Vt.) said this week. "And after a while, it starts to tell you there is nothing there. There's no 'there' there."

Democrats note that beyond her high-powered service in government and academia, Ms. Kagan has been endorsed by prominent legal conservatives, including former Republican solicitors general Kenneth Starr, Theodore Olson and Paul Clement. Two former George W. Bush administration officials are scheduled to testify for her next week.

Democrats plan to raise the January decision known Citizens United, which struck down limits on corporate political expenditures, as emblematic of what Sen. Richard Durbin (D., Ill.) called an "out of touch" court majority.

Sen. Leahy said a court filled with Elena Kagans would never have handed down a series of "wrong-headed decisions" limiting employee rights, capping punitive damages for the Exxon Valdez oil spill and making it harder to file antitrust or stock manipulation lawsuits.

WORLD NEWS

Despite security effort, protests rock Toronto

By Phred Dvorak
And Monica Gutschi


Agence France-Presse/Getty Images
A protester smashes a window in downtown Toronto on Saturday.

TORONTO—Toronto, site of the weekend's Group of 20 leaders' summit, was rocked by some of the most violent protests to hit a global gathering in recent years, despite one of the most lavish security outlays in summit history.

Small bands of activists ran through Toronto's downtown Saturday, bashing windows and setting several police cars ablaze, halting public transit and causing officials to lock down hospitals and a major shopping mall. Police responded with teargas and pepper spray, arresting nearly 600 people over the weekend, in addition to 32 detained before the summit began.

The violence had Canadian politicians and police wringing their hands after the country spent around $1 billion on security for the back-to-back G-20 summit and the Group of Eight summit in rural Huntsville, three hours to the north. Those precautions included a 20,000-strong security force in Toronto and a 2.4 mile-long chain-link fence surrounding a "yellow zone" that enclosed the area where the G-20 leaders met.

"We have never seen that level of wanton criminality and destruction on our streets," said Toronto police chief William Blair, at a weekend news conference.

But observers said such disruptions have become a fixture of international gatherings since 1999's "Battle of Seattle," when clashes between protesters and police stopped some proceedings at the World Trade Organization meeting.

In Toronto, the biggest protest went off peacefully Saturday. The group that organized the march—which included Greenpeace, Oxfam and the Canadian Labour Congress—bused workers in from neighboring cities. Organizers negotiated with police over how close to the yellow zone fence they would go and how they would demonstrate. In the end, an estimated 10,000 to 30,000 demonstrators people showed up in the pouring rain.

More problematic for police was the Toronto Community Mobilization Network, a loose coalition of activists. The network neither condemns, nor does it encourage, the use of violence. Police blocked most of those groups from getting to the yellow-zone fence on Saturday. Later that evening, many of the activists were arrested during protests at a park and downtown hotel.

Critics say Toronto police were slow to catch up to fast-moving destructive bands, and heavy-handed in their arrests before and after the violent incidents.

The police response "seems to have spiraled out of proportion," said Nathalie DesRosiers, general counsel with the Canadian Civil Liberties Association.

In his news conference, Mr. Blair, the police chief, acknowledged the response to the looting was sometimes slow, saying his forces were monitoring bigger protests elsewhere in the city.

China bank leaders urge overseas push

By Dinny McMahon

Bloomberg News
Yi Gang, central bank vice president

SHANGHAI—As the U.S. Congress prepares to vote on the financial-overhaul bill, China's financial regulators and top executives gathered over the weekend to celebrate the success of China's economic model and urge greater international engagement.

"Since the crisis, China has seen its status in the international financial system rise. China's banks should take a bigger role in international markets," Niu Ximing, president of **Bank of Communications** Co., China's fifth-largest bank by assets, told the annual Lujiazui Forum.

"We shouldn't just set up branches overseas, but also explore M&A. Two approaches should be combined," he said.

In contrast to their U.S. counterparts, China's financial institutions emerged from the financial crisis largely unscathed, mainly due to limited exposure to overseas markets and a hands-on regulatory regime that allows only gradual innovation. With China now boasting some of the largest and best capitalized banks in the world, the message from the finance-sector leaders was that financial services need to play a greater role in the economy and that financial institutions should further expand overseas.

China Life Insurance Co. President Yang Chao warned of the challenges facing Chinese companies moving overseas, such as cultural differences and finding the expertise to make M&A work. But his overall message was that the time is ripe for Chinese investment abroad.

"We're optimistic about China's firms going global," he told the forum, named for Shanghai's towering financial district. "But we need government support to streamline procedures and approvals to help efficiency. Market conditions are always changing, and if we wait too long we might lose the opportunity."

Although Beijing some years ago launched a policy to encourage Chinese firms to expand overseas, state-owned companies in particular face scrutiny for any M&A deal as Chinese regulators try to ensure state assets aren't squandered.

For their part, China's regulators expressed a greater willingness to help redefine the global financial framework. People's Bank of China Deputy Gov. Yi Gang said China should take a significant role in setting the "new rules of game" in the global financial market. He didn't elaborate. But in a caveat, Mr. Yi questioned whether China has the needed soft skills to help lead the process. "Do we have enough talented people to talk to key counterparts on an equal footing in the international environment?" he asked.

—Rose Yu and Wynne Wang contributed to this article.

G-20 members focus on paring debt, deficits at summit

Continued from first page

sue in the general election and recently releasing an aggressive budget statement to this effect.

At the conference, Mr. Cameron won praise from U.S. President Barack Obama for his handling of the deficit, a fact likely to be reported widely at home, while indulging in good-natured banter with other leaders such as German Chancellor Angela Merkel.

Germany used the weekend meeting to take some potshots at the U.S., with the Germans seeking to burnish their credentials as tough on deficits and debt. In an interview with French newspaper Le Monde, German Finance Minister Wolfgang Schäuble threw a jab at the U.S., saying Mr. Obama's giant stimulus spending has had little effect on the country's jobless rate, which remains well above 9%.

By Sunday, Chancellor Merkel was declaring solidarity with the U.S. and other nations. "We are very happy that it is being made clear—and the Canadian presidency has supported us very much here—that the developed industrial countries should halve their budget deficits by 2013 and begin reducing debt levels from 2016," she said.

According to documents passed among G-20 countries, the U.S. and Germany, as well as France, Britain and Canada, are on similar paths of halving their deficits; the G-20 summit gave them a way of making those commitments more clear.

The U.S. estimates it will reduce its deficit to 4.2% of gross domestic product by 2013 from 10.1% currently, while Germany is looking at a 3% deficit in 2013, down from 5.5% in 2010. But the U.S. depends more on economic growth to reach its goal than Germany, which is expected to grow at a slower pace.

"Historically, summit commitments have helped countries to do what they wanted to do anyhow," said Ted Truman, a former Obama administration official who is now an economist at the Peterson Institute of International Economics. In the 1990s, he said, U.S. commitments in international forums to reduce its budget deficit "was widely viewed as maintaining the focus of deficit hawks on the issue," he said, although similar pressure didn't work in the 1980s.

The Toronto summit was striking in a number of ways. First, it was dogged by some of the largest demonstrations targeting an international economic summit since the Seattle World Trade Organization riots of 1999.

About 500 people were arrested in protests that started off as a peaceful march led by a coalition of labor and social-justice groups, but disintegrated into roving bands of violent youths. Some news briefings were interrupted by the violence, but the fights were well away from where the leaders were meeting and didn't disrupt negotiations, as occurred in Seattle.

The G-20 session also focused little on big emerging markets such as China, India and Brazil. At the Pittsburgh G-20 summit in September 2009, countries with trade surpluses, especially China, were expected to commit to policy changes to reduce exports and boost domestic consumption. Countries with big deficits, especially the U.S., were expected to do the opposite. Nations' progress on those commitments was simply reviewed in Toronto.

For China and India, the most significant part of the summit may have been its presence on the global calendar. Both were able to use it as a deadline to press for changes out of concern they would be embarrassed in Toronto if they didn't.

In the case of China, both Washington and central-bank officials in Beijing were able to use the specter of the global session to win Chinese government approval to let the country's currency, the yuan, appreciate. U.S. Treasury Secretary Timothy Geithner made clear the U.S. expected a currency move by the June G-20 summit when in April he delayed issuing Treasury's twice-yearly report on international currency practices. That report could have accused Beijing of manipulating the yuan to gain an edge in international trade.

In Beijing, says Eswar Prasad, a Cornell University economist who was the International Monetary Fund's chief China hand, the G-20 deadline helped officials in the central bank, who favored currency flexibility, in their fights with trade officials who wanted to keep the currency undervalued.

In the case of India, the government said Friday, just ahead of the summit, it would sharply reduce consumer subsidies for gasoline and kerosene. That would reduce government spending and boost energy efficiency, complying with a G-20 goal of lowering energy subsidies. Both India's and China's moves "show that international consideration played a role," said Arvind Subramanian, a former IMF official who is now a researcher at the Peterson Institute of International Economics.

In late negotiations, the G-20 members were looking to toughen their expectations for changes in financial regulation, including tightening capital and leverage standards.

They were also finalizing language committing themselves to continue to oppose trade protectionism, a pledge that hasn't halted the erection of trade barriers but kept them at what was considered a manageable level during the global recession.

For the most part, negotiations on financial matters were pushed off until the next G-20 summit in Seoul, where countries are scheduled to agree on new standards.

—Alistair MacDonald, Nirmala Menon and Monica Gutschi contributed to this article.

WORLD NEWS

Obama lauds U.S.-South Korea ties

American president says handover of wartime control will be postponed, and promises to push free-trade accord

By Evan Ramstad

SEOUL—U.S. President Barack Obama took two steps this weekend to tightly embrace South Korea in the wake of the alleged attack by North Korea on a South Korean ship and the reluctance of China and Russia to acknowledge Pyongyang's perceived wrongdoing.

At the summit of top economic powers in Canada, Mr. Obama stood with South Korean President Lee Myung-bak to announce that the U.S. would postpone a handover by the U.S. to South Korea of wartime control of South Korean forces to 2015 from 2012. Mr. Obama also said he would lobby the U.S. Congress to ratify a free trade agreement, a deal the two countries signed three years ago but that has languished in the U.S.

Agence France-Presse/Getty Images

South Korean President Lee Myung-bak, left, meets with U.S. President Barack Obama Saturday on the sidelines of the G-20 Summit in Toronto.

Both actions have been top priorities for Mr. Lee since he took office two years ago. For Mr. Obama, they provided an opportunity to reinforce U.S. influence in northeast Asia amid the country's economic and military squabbles with China and uncertainties in Japan after leadership upheaval there.

For South Korea and Mr. Lee, the moves are important as Seoul tries to persuade Beijing and Moscow to acknowledge that their ally North Korea is responsible for an attack on a South Korean warship in March that killed 46 sailors. The matter is now before the United Nations Security Council, where China and Russia hold veto power.

South Korean officials hope the council will produce an official statement of blame, but they don't expect China and Russia to go along with penalties against Pyongyang.

North Korea has denied involvement in the sinking, which it has repeatedly blamed on South Korea and the U.S. Over the weekend, it repeated a call for Seoul to invite its military officials to see the evidence South Korea had collected, including remnants of a North Korean torpedo.

In Toronto, Mr. Obama called South Korea "one of our closest friends" and said Mr. Lee handled the ship sinking and subsequent public-relations battle with North Korea "with great judgment and restraint." "Both on the security front and on the economic front, our friendship and alliance continues to grow," Mr. Obama added.

His comments came after he attended a meeting of the Group of Eight countries, the eight leading economies, on Saturday and ahead of a bigger meeting on Sunday of the Group of 20 large economic powers. The G-8 countries agreed to endorse the international investigation led by South Korea that found North Korea responsible for sinking the ship, called the Cheonan.

In a separate meeting Saturday, Mr. Obama urged Chinese President Hu Jintao to support strong action by the Security Council, said Jeff Bader, a senior director of Asian affairs at the U.S. National Security Council, after the meeting.

For South Korea, the wartime control transfer became a particularly urgent matter after the Cheonan sinking exposed command and communication problems in the South's military.

Seoul took peacetime control of its 600,000-person military from the U.S. in 1994 and the two countries agreed in 2006 that South Korea would take wartime control of its military from the current joint command led by a U.S. general. A transition plan took effect in 2007 with 2012 scheduled for the handover.

The transition is popular with U.S. military planners who believe it will give the Pentagon more flexibility to move American troops in and out of South Korea. But it has always received a mixed reaction in South Korea, with people divided by a belief that their military should be able to handle the job and worry that they'll lose some of the safety net the U.S. military leadership is perceived to provide.

South Korea's conservative establishment throughout last year pressed Mr. Lee to seek a delay of the wartime control transition. Messrs. Lee and Obama were content to let the matter stand until the Cheonan sinking.

"Neither side wanted to make this a burning issue, but the Cheonan incident on top of the nuclear test that North Korea conducted after Obama took office last year, really showed that the U.S. had to do something to beef up South Korea's security," said Lee Chung-min, a dean at Yonsei University in Seoul and advisor to South Korea's foreign ministry.

To help promote the free trade deal, White House officials this weekend cited South Korea's progress toward a similar deal with the European Union and said U.S. companies may lose market share in South Korea if that deal is ratified first.

The U.S.-South Korea FTA is expected to boost the countries' roughy $75 billion annual trade relationship by 10% to 15% over five years, analysts say. It would narrow South Korea's trade surplus, which is already one of the smallest among major U.S. trade partners.

Mr. Obama said trade negotiators should hammer out problems the U.S. sees in exporting beef and autos to South Korea before he visits Seoul in November for the next G-20 summit, which Mr. Lee's government is hosting. Once that is done, Mr. Obama said he will present the FTA to Congress for final ratification.

—Elizabeth Williamson, Tom Barkley and Ian Talley in Toronto contributed to this article.

Afghans to begin debate on seven new ministers

By Yaroslav Trofimov

KABUL—The Afghan parliament Monday is scheduled to debate the nomination of seven new ministers, including the minister of interior overseeing the nation's police forces, whose names President Hamid Karzai submitted to lawmakers over the weekend.

Mr. Karzai on Saturday designated as interior minister the Army Chief of Staff, Gen. Bismullah Khan, a former commander of the anti-Taliban Northern Alliance. The president pushed out the previous interior minister, Hanif Atmar, and the country's intelligence chief, Amrullah Saleh, last month in a surprise decision that disheartened Western diplomats and coalition commanders. Both men had voiced reservations about Mr. Karzai's planned outreach to the Taliban.

European Pressphoto Agency

President Hamid Karzai on Saturday.

The selection of Gen. Bismullah Khan, an ethnic Tajik, allayed some of these concerns about Mr. Karzai's commitment to fighting the insurgents. Some Afghan lawmakers said they expect the energetic general to be easily confirmed in parliament, possibly as soon as Monday.

"Bismullah Khan is the only person to whom we can trust such a critical post," said Ahmad Behzad, a parliamentarian from Herat.

Mr. Karzai made the nominations as Adm. Mike Mullen, chairman of the U.S. Joint Chiefs of Staff, flew into Kabul to reassure the Afghan leader that America's counterinsurgency policy and commitment to the war remain unchanged following the ouster of the former coalition commander, Gen. Stanley McChrystal.

INTERVIEW

Bryan Derballa for The Wall Street Journal

Carlos Brito has made a point of instilling a no-frills culture among employees and executives while pursuing grand beer acquisitions

Trying to restore Bud back to health in its U.S. homeland

[Carlos Brito]

By David Kesmodel

Over two decades, Carlos Brito helped transform a Brazilian beer maker into a giant that swallowed America's dominant brewer. Now, the chief executive of **Anheuser-Busch InBev** NV is trying to revive the iconic Budweiser and Bud Light brands amid one of the worst slumps in the U.S. that the industry has seen.

Mr. Brito, a 50-year-old native of Rio de Janeiro, plans to revamp the marketing of Budweiser, whose sales have slipped for 21 years even though it remains the second-largest U.S. beer brand after Bud Light. He wants to halt the brew's decline in its largest market while expanding sales in such countries as China and Russia.

Mr. Brito, a father of four who goes by "Brito," joined Brazilian brewer Brahma two decades ago after earning an M.B.A. at Stanford. He helped instill a no-frills culture in which executives eschew individual secretaries and company cars. Frugality helped finance a deal-making spree that culminated in the $52 billion purchase of Anheuser-Busch Cos. in 2008 by InBev NV, a Brazilian-Belgian hybrid.

Mr. Brito sat down for an interview at the company's New York office. Excerpts:

WSJ: How will you shift your marketing of Budweiser to revive the brand in the U.S.?
Mr. Brito: We have to do a better job of reinforcing the foundations of the brand. We haven't reminded people that it's a different brewing process than all other beers out there. In the U.S., we haven't talked much about [beechwood aging] for years.

WSJ: The big mass-market beer brands in the U.S. are struggling. Do you think mega brands are in long-term trouble?
Mr. Brito: If you look at Bud Light, together with Bud Light Lime and Bud Light Golden Wheat, that brand grew last year in market share. The mega-brand theory—I don't buy into it.

The [poor] economy got a lot of our consumers, and some of them down-traded. On the other hand, you see the interest that consumers have, even in tough times, in the craft beers. And we have many brands in that territory. Can we do a better job there? Yes, of course.

WSJ: You have developed a strong no-frills culture. Why does that work for you?
Mr. Brito: If you are doing anything that you think a consumer would not be willing to pay a premium for—think twice before doing it.

That's why a chauffeured car for me doesn't make sense. I come to work by train. I tell the guys, "Being efficient is what our consumers would do." When I travel with my family, I don't go for five-course meals, five-star hotels.

WSJ: Where do you see the best prospects for expanding the Budweiser brand globally?
Mr. Brito: We want to really develop Budweiser as a true global, iconic, flagship brand.

The premium segment in Brazil is still very small compared to most countries, and we have a strong share in that small segment. But we think that a brand like Budweiser can enlarge the segment. So we have launched it in Russia, and Brazil is a candidate as well.

WSJ: Brazil has been growing rapidly for you. Why is it such a hot market?
Mr. Brito: The macro economy is very positive. And we started expanding in terms of package and price combinations, and also with some very interesting line extensions of Brahma and Antarctica, and that started to appeal to more consumers.

> 'When I'm watching a sports event, I'll enjoy a Budweiser. If I'm out having dinner, I might order a Stella Artois...'

WSJ: You've lost market share in Russia, where you're No. 2 after Carlsberg. How are you addressing the challenges there from higher beer taxes and economic strains?
Mr. Brito: We looked at the business four years ago and said we need to shift our portfolio from low-price brands. We invested in brands that we think in five or 10 years will be the winning horses. That's why we added Budweiser.

We have stabilized the business. Now we want to start growing the right brands.

WSJ: China is a big beer market, but profits have been challenging for global brewers because a lot of the beer is cheap. Are you seeing improvements?
Mr. Brito: The way we're getting our prices to move up is by enhancing our mix, so we're selling more Budweiser and Harbin instead of our local brands. It is a tough market price-wise, but the Chinese are very open to premium brands.

WSJ: What do you like to drink?
Mr. Brito: When I'm watching a sports event, I'll enjoy a Budweiser. If I'm out having dinner, I might order a Stella Artois or one of our other Belgian beer brands.

WSJ: Analysts have often said that your company is very good at cost-cutting and improving profit margins, but they question your ability to build brands. Is that fair?
Mr. Brito: I think it's unfair criticism because, first, just look at the numbers. If we were just good at cost management, we wouldn't be here today. Our numbers show you that the top line and costs evolved—both—to better places.

I also have to be humble and admit that we have learned a lot [through acquisitions]. Our marketing and people tool kit evolved a lot.

Some investors have known us for 20 years, and they still think of us as that local company in Brazil.