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BUSINESS & FINANCE 17

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Grand Slam first for Italy's Schiavone



Francesca Schiavone celebrates Thursday after defeating Russia's Elena Dementieva in the French Open to become the first Italian to reach the final of a Grand Slam tournament. On Saturday she plays Sam Stosur, the first Australian finalist in 30 years.

Stricter rules, but extra time, on bank capital

BY DAVID ENRICH AND DAMIAN PALETTA

International regulators are moving toward an agreement that would require banks to raise vast sums of new funds to cushion against future losses, but in a concession to the industry and some governments, the rules are likely to take effect later than expected, according to people familiar with the matter.

In the aftermath of the banking crisis, regulators and finance ministers are racing to hammer out, by the end of the year, new rules governing bank capital and liquidity, or ready funds for their daily operation. The goal has been for the rules, designed to foster a more-conservative banking system that is less vulnerable to crises, to kick in globally at the end of 2012.

But a consensus is emerging for a more-gradual implementation that may stretch several years beyond 2012. Banks and some governments, notably Japan, Germany and

France, have pushed for slower implementation, arguing that the current deadline could lead to multitrillion-dollar funding shortfalls at a time when much of the banking sector will most likely still be fragile.

The stakes are high. Industry and government officials believe the regulatory overhaul, which is expected to be a focal point of this weekend's Group of 20 meetings in South Korea, will have greater implications for banks and the global economy than the U.S. regulatory changes emerging in Washington. Other crucial details remain unresolved, including disputes over the types of funds banks will be allowed to count toward toughened capital and liquidity requirements.

Bank executives, sometimes with backing from their governments, have been waging an intense lobbying campaign to water down parts of the so-called Basel proposals, known for the Swiss city in which the accords tradition-

ally have been negotiated. Analysts expect that the changes—even if they are relaxed to incorporate banks' feedback—could crimp industry profits by double-digit percentages.

The banks have been trying to use their central role in supporting economies to urge regulators to back off. They are arguing that the new capital and liquidity requirements are so onerous that they will force institutions to curtail already sparse lending, which could imperil fragile economic recoveries world-wide. They have also insisted that they need more time to adjust to new rules.

"In combination, the proposals will inevitably reduce credit availability, increase the cost of borrowing and lead to slower economic growth," warned an April 16 letter from Bank of America Corp.'s treasurer to the Basel committee. The letter called the proposed two-year implementation time frame "too

Please turn to page 4

Israel hints at concessions on Gaza

Israel is considering alterations to its blockade of the Gaza Strip in an effort to allow aid to more easily reach the Palestinian territory, and is also considering allowing a foreign observer of an Israeli probe of the deaths of nine activists on a Gaza-bound flotilla Monday.

By Chip Cummins in Jerusalem and Marc Champion in Istanbul

The two apparent concessions to international pressure over the fatal Israeli commando operation to block the flotilla came Thursday as the U.S. confirmed that an American of Turkish origin was among the dead.

The U.S. had made a new push for a change in Gaza pol-

icy on Thursday. Senior U.S. officials said the Obama administration would "redouble" its efforts to get Israel to ease the siege on the Gaza Strip, which was put in place in 2007 after the Palestinian militant group Hamas seized control of the territory.

But these officials indicated the White House wasn't going to ask Prime Minister Benjamin Netanyahu to formally end the blockade. Rather, they said they believed there were ways to accelerate the introduction of important goods into Gaza, such as construction materials and food, while still allowing Israel to guard against the smuggling of weapons.

"We don't think it's in Israel's interest to maintain the status quo," said State Department spokesman P.J.



Relatives mourn a dead Turkish activist in Istanbul Thursday.

Crowley. But he added: "Given the history and reality, Israel has a very legitimate interest to inspect and control the flow of materials into Gaza."

In Jerusalem, an official familiar with the govern-

ment's thinking said Israel still intends to search "every ship" that could be smuggling weapons into Gaza. But he said the government also wants to allow humanitarian aid to be able to reach the

people of Gaza.

"We are currently exploring additional ways to implement these principles," the official said, without giving details. He didn't say whether the easing of a naval blockade of Gaza was specifically being considered.

Another Israeli official said Prime Minister Netanyahu has agreed to explore "creative solutions" to facilitate the flow of good into Gaza. But this official said Israel hasn't agreed to lift the sea blockade.

Israel also ruled out cooperating in any international probe of its raid to intercept a Gaza-bound flotilla Monday, in which nine people died, eight Turks along with the American of Turkish origin.

The U.S. and U.K. have

Please turn to page 6

The Quirk



Not iron and not brewed. Changes ahead for Scotland's other drink. Page 29

World Watch

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

Editorial & Opinion

The Gaza flotilla's links to terror. Page 12

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PAGE TWO

Out of adversity, City may get its deal

[Agenda]

BY WILLIAM LYONS



It hasn't been a good week for U.K. PLC. With the dust still settling after the collapse of Prudential's failed \$35.5 billion bid for AIG's Asian operations, comes an announcement that one of London's biggest stock-market flotations of the year is to be postponed because of "unfavorable" market conditions. In a statement, Brazilian iron-ore miner Ferrrous Resources said it will "re-evaluate" its options for a London IPO once the market conditions have improved.

This at a time when the eyes of the world looks on in horror as a British corporate giant struggles to deal with the disaster unfolding in the Gulf of Mexico. BP's shares have already dropped by about 34% since the Deepwater Horizon drilling rig leased by the company exploded on April 20. Now the ratings agencies Fitch and Moody's have both downgraded their ratings for the FTSE 100 company. Not a ringing vote of confidence.

The shakeout of the Prudential deal is particularly unfortunate for the City of London. Although the company's board has said it will pay up to £850 million (\$1.24 billion) in costs related to the takeover and the rights issue, the banks will still take a hit on the size of the fee pool they could have expected had the deal gone through.

But the loss in revenue is relatively minor when compared with the broader implications for mergers and acquisitions. Yes, there were specific factors that contributed to the collapse of the Pru deal, most notably the price that was suggested and the effect that would have had on the current U.K. shareholders of Prudential. But the damage to the City is more deep rooted than that. There is increased



The Griffin, symbol of the City of London, was under attack this week.

nervousness surrounding these megadeals at the moment. Who wouldn't be cautious having seen a number of institutions fail on the back of botched M&A activity in recent years? The Royal Bank of Scotland's disastrous purchase of ABN Amro springs to mind.

Two reports have dropped this week that paint a very bleak picture of the European M&A sector.

But there is also increased uncertainty over the strength of the economic recovery. This is reducing the appetite for high-value deals in the financial-services market.

This is not just a U.K. problem. The uncertainty stretches far beyond London's financial sector.

Two reports have dropped this week that paint a very bleak picture of the European M&A sector. According to Zephyr, an M&A database company, the value

of such deals targeting EU and Switzerland fell by almost 30% to €27.6 billion compared with the year-earlier period.

Meanwhile PricewaterhouseCoopers suggests the overall value of European financial-services M&A activity has remained subdued during the first three months of 2010, with disclosed values amounting to €7.8 billion. This is less than 10% of the €80 billion recorded during the whole of 2009 and lower than any recent quarter since Q1 2009.

The figures are in contrast to the confidence shown by bankers at the beginning of the year, when many were predicting a revival in the sector on the back of a recovery in financial markets and the emergence of many economies from recession.

As Nick Page, partner at PricewaterhouseCoopers, says: "The expected pickup in financial-services M&A activity has not yet materialized, with deal levels remaining subdued across Europe."

It is almost inevitable that M&A will pick up from the current

levels but a return to the activity seen in 2006 and 2007 is perhaps more difficult to envisage. With Britain's largest insurance group left licking its wounds after the collapse of its megadeal with AIG, does this open the door for others to encroach on the City of London's territory?

One potential driver of future M&A activity is the continued restructuring of the banking sector across the EU, which is by no means finished.

PricewaterhouseCoopers argues that in the year's second half Spain and German will emerge as potential "hot beds" of activity.

Mr. Page said: "As a number of government-supported groups seek to comply with European Commission state aid conditions, some attractive acquisition targets are likely to come on the market in the next few months."

He argues that EU competition rulings and growing political pressures will continue to drive the resurgence of M&A activity in the German banking sector, noting that Germany offers opportunities for synergies and market development that few other countries of its size can match.

In Spain, the restructuring in the banking sector is likely to be the most pronounced. Mr. Page argues that this will create M&A opportunities as companies look to consolidate and restructure their nonperforming loan portfolios.

PricewaterhouseCoopers argue that, beyond banking, insurers, financial infrastructure companies and asset managers are likely to be major players in the M&A landscape over the coming months.

Maybe so. But as pressure mounts on BP's chief executive, Tony Hayward, to stem the massive flow of crude oil into the Gulf of Mexico and its shares continue to take a battering, there are even suggestions it could become a takeover target.

Who knows? Out of adversity the City might just see that megadeal after all.

What's News

■ **The U.K.'s FSA** said two people accused of insider trading in connection with a 2006 pharmaceuticals deal were acquitted, dealing a blow to the regulator as it strives to showcase a new tough-on-crime persona. 17

■ **Microsoft's CEO** Steve Ballmer said the PC era is far from over, rejecting an argument made by Apple chief Steve Jobs. 17

■ **Irish biotech company** Elan said CEO Kelly Martin will step down in 2012 amid long-running shareholder dissatisfaction over company management. 21

■ **Agricultural Bank of China** is moving ahead with what could be the biggest IPO in history in a test of international investor confidence in China's economic recovery. 17

■ **The U.K.** said it will look at whether it should tighten gun-control laws, after a gunman killed 12 people in the Cumbria region. 5

Inside



Sorting out those airport delays—with water and pretzels. 27



Watership Down: From rabbit warrens to racehorse breeding. 28

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1. 'The Euro Zone Has Failed'
2. Aboard the Mavi Marmara, Skirmish Turns Deadly
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Iain Martin on Peter Mandelson and the future of the U.K.'s Labour Party



Continuing coverage



Follow developments as BP continues attempts to stem the flow of oil in the Gulf at europe.wsj.com

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Previous results

Q: Will Prudential CEO, Tidjane Thiam, be able to survive after the collapse of the AIA deal?

Yes

35%

No

65%

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NEWS

For German football, a lyric debate

By VANESSA FUHRMANS
AND LAURA STEVENS

BERLIN—Germany's national football team has run into a dust-up over the refusal of some of its players to sing the country's national anthem—as if losing its captain to injury weeks before the World Cup wasn't bad enough.

In recent warm-up games before the 2010 World Cup begins in South Africa next week, only a handful of Germany's ethnically diverse starting lineup have been singing, or at least lip-synching, as the national hymn, "The Song of the Germans"—a truncated version of the original that began "Deutschland, Deutschland über alles"—plays before kickoff. The lack of moving lips might have gone unnoticed to most Germans, who since World War II have remained largely dispassionate, even shy, about most overtly patriotic gestures. That is, until World Cup football legend Franz Beckenbauer, known as "Der Kaiser"—"the emperor"—weighed in.

"All of them should sing the anthem," said Mr. Beckenbauer, 64 years old, who won World Cups as both a player and coach, during a videotaped call-in session Monday organized by tabloid Bild-Zeitung.

Mr. Beckenbauer's pronouncement unleashed a flurry of debate on German media and web chat sites and, most prominently, in Bild, Germany's largest daily, known for its populist and often conservative campaigns. Bild singled out some of



The German national team, headed for South Africa, poses for a photo in Frankfurt on Wednesday.

the players who don't sing—and their mostly foreign names.

The national team's trainer, Jogi Löw, weighed in Wednesday, declaring to the tabloid that he wouldn't force players to sing if they didn't want to. "Our boys identify totally with the national team and Germany, but one also has to consider their heritage," he was quoted as saying. The German Football Association, the country's governing football body, said the coach wasn't available for comment.

Behind the flap is a collision of two phenomena: Just as Germans grow more comfortable with exhib-

iting national pride in sports, particularly since hosting the World Cup in 2006, the ethnic makeup of the country and its national football team is becoming more diverse.

The national team considered it a coup in 2009 when it won a much-publicized tug-of-war with Turkey over Mesut Özil, a star German-born midfielder of Turkish descent. In a Thursday warmup match against Bosnia-Herzegovina, Mr. Özil wasn't singing; nor were Sami Khedira, whose mother is German and father Tunisian, or Piotr Trochowski, who was born in Poland but has lived in Germany since age 5.

The football association says it discussed singing the anthem with the national players but doesn't require them to sing. "We're happy if they do, but it's up to them," a spokesman says.

The association declined to make any players available for comment.

Andreas Merx, a German management consultant in diversity and antidiscrimination who describes himself as a passionate football fan, points out that not all of the players' decisions on the anthem cleave to heritage. "For some it's not as emotional a matter as others, and perhaps some just don't like to

The Song of the Germans

Unity and law and freedom
For the German Fatherland
Let us all strive for that
In brotherhood with heart and hand!
Unity and law and freedom
Are the foundation for happiness
Bloom in the glow of happiness
Bloom, German Fatherland

sing—or can't sing very well, for that matter," Mr. Merx said.

While defender Dennis Aogo, who has a Nigerian father and German mother, doesn't typically sing, striker Miroslav Klose, who was born in Poland and whose father is ethnic German, has been joining in.

Explaining to Bild, Mr. Aogo said, "It's a personal matter. I'm still proud that I can play for my country, even if I don't sing the anthem."

That singing the pre-match anthem is considered optional in the first place stems from Germans' longstanding ambivalence toward anything that could be viewed as nationalist. For years after the Third Reich, West Germans debated what to have as a national anthem, and then whether to sing it.

The 2006 World Cup helped change that. Germans happily unfurled flags from windows and saw other fans join in the patriotic spirit, not recoil from it. Now, more people seem to sing at games.

Researchers begin simulated Mars trip

Associated Press

MOSCOW—Six international researchers climbed into a set of windowless steel capsules Thursday to launch a 520-day simulation of a flight to Mars intended to help future space crews cope with the confinement, stress and fatigue of interplanetary travel.

The Mars-500 experiment, conducted by the Moscow-based Institute for Medical and Biological Problems in cooperation with the European Space Agency and China's space training center, aims to reproduce all the conditions of space travel except weightlessness.

The all-male crew will follow a tight regimen of experiments and exercise under surveillance—eight hours of work, eight hours of sleep and eight hours of leisure a day. Three researchers from Russia, one from France, one from China and an Italian-Colombian are participating.

The researchers will communicate with the outside world via the Internet, delayed and occasionally disrupted to imitate the effects of space travel. They will eat canned food similar to that currently offered on the International Space Station and shower only once a week or so.

"Certainly, the crew is largely on its own here, with very limited communications with the outside world," said Martin Zell of the European Space Agency's Directorate of Human Spaceflight. "They have to cope internally with a lot of conditions and to organize themselves."

A mission to Mars is decades away because of huge costs and technological challenges, particularly the task of creating a compact shield that will protect the crew from deadly space radiation. U.S. President Barack Obama said last month that he foresaw sending astronauts to orbit Mars by the mid-2030s.

As part of efforts to keep the crew in good spirits, they will play an "interplanetary" match with former world chess champion Anatoly Karpov at some point.

The mission director, cosmonaut Boris Morukov, said the experiment could be suspended for medical or technical reasons or at a participant's request.

"Each crew member has the right to end the experiment and walk out," he said at a news conference. "We have had such negative experience in the past, and I hope it won't happen during this experiment."

A similar experiment in 1999-2000 at the same institute went awry when a Canadian participant complained of being kissed by a Russian team captain. She also said two Russian crew members had a fist fight that left blood splattered on the walls. Russian officials played down the incidents, attributing them to cultural gaps and stress.

Mr. Morukov said the organizers had considered some female candidates for the current experiment, but they hadn't been chosen for various reasons. "Selecting an all-man crew wasn't our goal," he said.

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EUROPE NEWS



Agence France-Presse/Getty Images

U.K. Business Secretary Vince Cable set out his department's priorities Thursday in his first speech since taking office.

U.K. services sector expands marginally

By ILONA BILLINGTON

LONDON—The British housing and services sectors recorded marginal improvement in May, but researchers warned that doubts over the durability of the recovery are likely to continue.

The services businesses saw demand expanding at a slightly faster pace last month than in April, although new business grew more slowly. The combination highlighted concerns over the sustainability of the recovery, research group Markit and the Chartered Institute of Purchasing & Supply reported Thursday.

They said the services purchasing managers index rose to 55.4 in May from 55.3 in April. That compares with an expected increase to 55.6, according to a Dow Jones Newswires poll last week.

A reading above 50 indicates the sector is expanding, while a reading below 50 indicates the sector is contracting.

tracting.

"Whilst on the surface, the recovery of the U.K. services sector continued at a steady pace, a look under the bonnet reveals some worrying signs and raises concerns about the prospect of a double-dip recession," said David Noble, chief executive officer at the CIPS institute.

The survey showed that respondents were wary of making plans amid concerns about how sustainable the current fragile economic recovery is ahead of new Chancellor of the Exchequer George Osborne's emergency budget scheduled for June 22.

The coalition government has already announced £6.24 billion (\$9.14 billion) of budget cuts and further painful spending cuts are expected, which will weigh on confidence and likely hit company finances. Prime Minister David Cameron's government is firm in its plans to reduce the U.K.'s record budget deficit as

swiftly as possible.

U.K. house prices data published by lender Nationwide reported a 0.5% month-on-month rise in May, a slower gain compared with April's upwardly revised 1.1% rise. On an annual basis, U.K. house prices were up 9.8% in May, down from a 10.5% increase in April.

The data broadly matched expectations. Economists surveyed by Dow Jones Newswires last week had estimated that prices grew 0.6% from April and 9.9% compared with a year earlier.

"Housing market conditions remain characterized by thin transaction volumes and a relative scarcity of properties for sale, despite a slow return of more sellers in recent months," said Martin Gahbauer, Nationwide's chief economist.

"The current supply-demand balance on the market is still consistent with relatively stable to modestly upward trending prices," Mr. Gahbauer said.

Banks to get extra time to raise capital

Continued from first page
brief given the current state of the economy and the magnitude of the effort."

As part of the rule-making process, the banks this spring conducted studies to gauge the likely impacts of the proposals on their capital and liquidity levels. The banks presented their findings to their national regulators, who compiled the data and recently submitted their findings to the panel charged with crafting the rules. They are supposed to discuss the results next month in Switzerland.

The data show that banks worldwide would face capital and liquidity shortfalls under the proposals, according to government and industry officials briefed on the results. In Europe, bank executives say there is likely to be a gap of more than €1 trillion (\$1.2 trillion) between banks' current capital and liquidity buffers and what would be required under the Basel proposals.

In discussions with banks, some

government officials have expressed skepticism about the findings, arguing that the banks have an incentive to be overly gloomy. But officials nonetheless believe that the capital and liquidity holes may be too deep for banks to quickly fill, according to people familiar with the matter.

Those convictions have hardened over the past month, as risk-averse investors have fled European banks due to jitters about the escalating sovereign-debt crisis. Even without the new rules, European banks face the challenge of renewing roughly €800 billion in debt that's maturing by the end of 2012, according to the European Central Bank.

The result is a broadening consensus among several countries that the rules should be phased in over time, rather than by the end-of-2012 deadline that the Basel committee proposed in December when it announced its proposals.

France, Germany and Japan have pushed for as much as a 10-year window before the rules go fully

into effect, and U.S. and U.K. officials recently have indicated that they would support a gradual time frame, according to people familiar with the matter.

"I'm perfectly comfortable with us negotiating a reasonable transition period to help make people more comfortable that they can live with those new standards," U.S. Treasury Secretary Timothy Geithner said Wednesday afternoon in Washington, before leaving for the G-20 meeting.

U.S. and European officials already have agreed to delay new rules that will require banks to hold greater capital buffers to protect against losses from their investment banks' trading businesses. Those rules were scheduled to kick in this year. But after a May 12 meeting between Mr. Geithner and European Commissioner Michel Barnier, the Treasury issued a statement noting that "they will work towards a common implementation date in 2011 for the Basel trading book rules."

Is it a bailout for Greece or for euro-zone banks?

[Brussels Beat]

By STEPHEN FIDLER



Fiscal indiscipline has shaken the euro zone to its foundations. But another failing appears to be taking the euro zone's debt crisis into another worrying phase: the weakness of many of the region's banks.

Since the crisis started, most of the blame for the crisis has fallen on profligate governments such as Greece. Much less attention has been directed toward a different cast of characters: those governments that have failed to take charge of their banking systems.

Chief among the villains here: Germany, which has been preaching fiscal austerity across the euro zone but has done little to shore up its own weak banks. Responsibility for German banks lies with the financial watchdog Bafin, which analysts say is one of Europe's weaker bank regulators, and the Bundesbank, whose head Axel Weber has been a leading critic of steps taken so far to head off the crisis.

"Germany is coming across so high and mighty on many of these issues but where was the Bundesbank on the banking issue?" asks Richard Portes, professor of economics at the London Business School.

There's strong evidence that the €110 billion (\$134 billion) bailout for Greece was driven in part by the aim of avoiding hundreds of billions of dollars of losses at banks in France, Germany and elsewhere that held Greek government bonds. "The bailout of Greece was primarily a bailout of the banks," says Nicolas Véron of the Bruegel Institute in Brussels. The €750 billion package that followed on May 9 for other, weaker members of the euro zone was also aimed at averting a dislocation of the region's interbank market. Jean-Claude Trichet was widely quoted as telling euro-zone leaders they faced a "systemic" crisis. Mr. Véron suggests that euro-zone governments missed a giant opportunity after the financial markets calmed down in early 2009 to strengthen the region's banks.

"If the banking system had been strengthened and cleaned up in late 2009 and early 2010, then it might have been possible to let Greece restructure its debt in March or April," he said. Portugal could also have been allowed to default because banks would have been secure enough to take losses.

Now, he says, governments "are less able to take on the banks than they were a year ago."

Mr. Véron says national bank supervisors "are unwilling to acknowledge the full extent of their massive oversight failures of the past decade." Meanwhile, the explanation for a lack of action is that "Political leaders, including those in France and Germany, are deeply captured by national banking establishments. ...

Insidiously, the same leaders simultaneously adopted a virulent antifinance, antimarket rhetoric, which makes it all the more difficult to explain to their voters how the banking system can be restored to soundness."

One official in Europe who is very close to these issues, speaking on condition of anonymity, says euro-zone banks have done little over the past year to strengthen their financial positions. Figures from Dealogic back up the claim: Euro-zone banks have raised \$4.4 billion in new capital so far this year after \$27 billion in the whole of 2009. U.S. banks, meanwhile, have raised \$14.4 billion this year and \$113.2 billion in 2009.

The official says banks "have been playing a game of chicken with the authorities," failing to strengthen their finances in the expectation that, if matters got worse, they would be bailed out again.

It's a game, he says, they now appear to have won thanks to €860 billion in sovereign debt bailouts, an extension of the European Central Bank's six-month repurchase facility, purchases by the ECB of government bonds from banks, as well as a renewal of the U.S. Federal Reserve dollar-swap lines with European central banks that will help any U.S. dollar funding difficulties.

While this should stave off an immediate banking emergency, it has done nothing to stem the underlying problems of the euro-zone banking systems or to ease uncertainty over the health of some of its weaker banks. That's why, analysts say, interbank lending rates have recently risen—because banks are again worried about counterparty risk—and why many have chosen to build up precautionary liquidity by increasing deposits at the ECB.

The need to deal with this uncertainty explains why pressure is growing for euro-zone governments to carry out transparent stress tests—as the U.S. did last year—with a view to increasing the capital cushions of those banks that need it.

The latest to join this refrain, echoing quieter pressure from the U.S., is British Treasury Minister Mark Hoban. Saying the interventions by governments and the ECB "were in large part due to severe strains in the banking system," he said: "A genuine, rigorous stress testing exercise is urgently needed to answer questions around [bank] solvency in severe market conditions."

The results and methods of the tests should be transparent, he said. "Urgent action should be taken with respect to any institution failing the stress test. Only this way can we restore true stability and confidence to this sector in the near term."

Trouble is, national authorities will resist stress tests if they believe the results will show widespread weakness among banks that could in turn further frighten the financial markets. But until they carry out the tests, proponents argue, there will remain doubts over even the region's stronger banks.

EUROPE NEWS

France's Le Monde seeks a buyer

By MAX COLCHESTER

PARIS—The management of struggling French daily newspaper Le Monde said Thursday it wants to sell a majority stake in the company, ending nearly 60 years of control by journalists.

Le Monde was founded in 1944 on the principles of political and economic independence, and its journalists hold a majority stake in publishing company **Le Monde SA** through a complex shareholding structure. They have the power to dismiss the editor in chief and the publisher.

Amid falling circulation and ad revenues, Le Monde last year borrowed €25 million (\$31.5 million) to finance its operations. From 2012 to 2014 it must repay a further debt of €69 million, the newspaper's publisher, Eric Fottorino, wrote in a front-page editorial. The newspaper recently cut 130 staffers.

"A page in the newspaper's history is about to turn," Mr. Fottorino wrote. "Since 1951 the independence of the newspaper has stemmed from journalists' control of its management and editorial line."

Mr. Fottorino said investors were being invited to take a majority stake in the group by mid-June. Lazard banker Matthieu Pigasse; Xavier Niel, the billionaire founder of telecommunications group **Iliad SA**; and Pierre Bergé, partner of the late fashion designer Yves Saint Laurent, had expressed interest in jointly investing, he wrote. The three are offering between €80 million and €100 million for the stake, according to a letter signed by all



Le Monde last year borrowed €25 million to finance operations. Other debt comes due from 2012 to 2014.

three viewed by The Wall Street Journal.

In addition, Spanish media group **Promotora de Informaciones SA**, or Prisa, and French left-wing weekly **Le Nouvel Observateur** are also considering increasing their stakes in the company, he wrote. However, French media and defense conglomerate **Lagardere SCA**, which owns 17% of Le Monde's publishing company and 34% of Le Monde's website, has said it won't

invest further in the company.

French newspapers have been hit hard by the economic downturn. Ad revenue has declined, and paid national newspaper circulation fell 4.9% in 2009 from the previous year, according to the OJD, France's newspaper circulation audit bureau. France's newspapers have traditionally not sold as strongly as those in Britain and Germany, in part because French people prefer to read weekly magazines.

The quest to find investors in Le Monde comes two weeks after French media baron Alain Weill gave away a 78% stake in French business daily **La Tribune** to its managing director for €1, plunging the paper's future into question.

Le Monde is particularly vulnerable to a downturn because, unlike most other French national dailies, it isn't owned by a large business group. Serge Dassault, owner of business-jet and combat-aircraft

A paper's lively past

1944: Le Monde founded at Gen. Charles de Gaulle's behest so France has a newspaper with no institutional ties to German occupation. Initially conservative, it later moves leftward.

1968: As the newspaper of the New Left, daily print run hits record 815,197 following riots that rocked President de Gaulle's government.

1984: Reporters, who control the paper, force editor to resign over pay-cut plan.

1994: Jean-Marie Colombani engineers a recapitalization that ensures no single shareholder holds sway. (Journalists still own 34% of shares.) He cuts staff and broadens coverage. By 1996 it turns its first profit since 1989.

2001: Le Monde says it will sell 20% of its shares to public but doesn't follow through.

2008: Le Monde workers strike to protest 130 job cuts. Circulation falls to 359,000.

maker **Dassault Aviation SA**, controls **Le Figaro**, the country's biggest daily paper by circulation. Bernard Arnault, chief executive of luxury group **LVMH Moët Hennessy Louis Vuitton SA**, bought the country's leading business daily, **Les Echos**, in 2007.

In his editorial, Mr. Fottorino stated that the publishers of the paper would require potential investors to guarantee the paper's independence.

U.K. weighs tougher laws for guns

By ALISTAIR MACDONALD AND PAUL SONNE

The U.K.'s home secretary said Thursday the government will look at whether the country should tighten what are some of the tightest gun-control laws anywhere, after a gunman killed 12 people Wednesday.

Theresa May said it would be wrong to react before knowing the full facts, but a government-led debate on gun control is "right and proper." Prime Minister David Cameron, though, ruled out a quick review.

On Wednesday, a 52-year-old taxi driver, Derrick Bird, killed 12 people and injured 11 more before killing himself in England's northwest region of Cumbria, in one of the worst acts of gun violence in the U.K., where fatal shootings are infrequent. Among the first victims were his twin brother David Bird, the father of three daughters, and a 60-year-old lawyer, Kevin Joseph Commons. Most media reports suggest the spree was the result of a family argument over a will, though the police have yet to release a murder motive.

After driving his car across the idyllic northwest county, periodically pulling over to shoot victims, Mr. Bird was found dead in a wooded area alongside two firearms Wednesday afternoon.

"Where there are lessons to be learned, we will learn them. Where there are changes to be made, we will make them," Ms. May told Parliament.



A woman in Gosforth, Cumbria, looks at flowers on Thursday to honor victims.

Gun violence is relatively rare in Britain. In 2008 to 2009, firearms were used in just 0.3% of recorded crimes in England and Wales, according to the U.K. Home Office, and there were only 39 fatal shootings. By comparison, 9,484 homicides were committed using firearms in the U.S. in 2008, according to the Federal Bureau of Investigation.

Alan Johnson, the former Labour home secretary, said the government should consider enlisting doctors to check on the continued mental health of gun owners. Currently, the U.K. requires individuals to be vetted by their doctor before applying for a gun license, but regular checks aren't requested.

Some experts say the U.K.'s gun-control laws are the tightest in the

world after Japan. The topic of gun control doesn't stir the same argument in Britain as it does in the U.S. and parts of Europe, and there is no powerful gun lobby. Still, groups representing rural interests have often argued that firearms such as shotguns are needed in the countryside for pest control and hunting. The Conservative Party that leads the current coalition government draws much of its support from the country and may not wish to run into conflict with such groups.

Mr. Cameron cautioned against an overreaction. "You can't legislate to stop a switch flicking in someone's head and this kind of dreadful event taking place," he said.

The killings took place in one of the U.K.'s most rural and sparsely

populated regions, Cumbria, stretching the resources of a local police force that typically deals with one of the lowest crime rates in the country. A hundred police detectives are dealing with about 30 different crime scenes spanning a 25-mile stretch of countryside. Chief Constable Craig Mackey said on Thursday afternoon that authorities had finally finished combing the area. He said police didn't expect to find additional victims. The local force had to borrow a helicopter from a neighboring force and has been helped by police from surrounding regions, including in Scotland.

The 11 wounded were being treated or have been treated in hospitals in Whitehaven and in the northern English cities of Carlisle and Newcastle. Of those individuals, four are stable, four are comfortable and three have been discharged, Ms. May announced.

The Cumbria authorities on Thursday began to release details about the self-employed cab driver behind the rampage. Mr. Bird, who lived in the English town of Rowrah since 1993, left behind two children, ages 16 and 28, as well as a former wife. He worked for British Nuclear Fuels Ltd. for 12 years until he was fired in 1990 after being convicted of stealing from his employer. He received a 12-month suspended sentence, later finding work in construction and taxi driving.

The police also confirmed that Mr. Bird had valid licenses for the weapons he used to shoot his victims, a .22 caliber rifle and a shotgun.

Bishop, a vicar in Turkey, dies after stabbing

By MARC CHAMPION

A Roman Catholic bishop was stabbed to death Thursday on Turkey's Mediterranean coast, shortly before he was to join Pope Benedict XVI in Cyprus on Sunday.

Bishop Luigi Padovese, 63 years old, the pope's apostolic vicar in Anatolia, was resting at his home in Iskenderum when he was attacked by his driver, said Sister Leonora, the bishop's secretary.

Bishop Padovese's death appears to have had no political or religious overtones. Sister Leonora, the bishop's longtime personal secretary, said the suspect, Murat Altun, 27, had been suffering from depression and has been arrested.

"His driver knifed him to death at around 2 p.m.," said Sister Leonora. "He had been in a deep depression and the bishop was trying to help him out. The bishop drove down himself but had invited the driver down to talk to him. They were supposed to have dinner."

A Vatican spokesman said the Holy See is "disconcerted and immensely pained" over the stabbing. He said the Vatican had "no information" on what motivated the attack. The stabbing, he said, "shows that doing the church's work can cost your life in certain regions."

Bishop Padovese had been in Turkey since 2004, following a career spent mostly in Rome.

—Stacy Meichtry contributed to this article.

CONFRONTATION AT SEA

Fracas turned fatal aboard Marmara

Accounts about the skirmish and who opened fire first differ between Israel military and activists in Gaza flotilla

By Chip Cummins

JERUSALEM—As Israeli troops rappelled down ropes onto the deck of the Mavi Marmara in predawn darkness Monday, activists on board sprang into action. They lunged for the descending Israeli soldiers, knocking at least three to the deck.

People “started resisting naturally,” said Abdul Razzaq Maqri, who was watching on the deck of the ship. “Like anyone who feels that his life is threatened.”

It was the start of a deadly melee aboard one of six aid- and activist-laden ships that attempted this week to run the Israeli sea blockade of the Gaza Strip.

The battle, which ended in the deaths of at least nine activists, has plunged Israel into one of its worst diplomatic crises in decades.

In recent days, a handful of activists released from Israeli detention have challenged Israel’s official version of what happened that morning when Israeli naval boats intercepted the flotilla and commandos boarded the ships, dozens of miles from Gaza’s shores.

Israeli military officials have said that their boardings went peacefully on five of the six ships. But on the Marmara, violence ensued.

Many details of the skirmish—and why things went awry on this ship—still aren’t clear.

Israel says it is investigating, and Washington and other capitals have asked for a complete reckoning. This preliminary account, one of the first of the fighting that morning, has been pieced together through eyewitness accounts as well as public comments by Israeli officials. An Israel Defense Force spokesman declined Wednesday to comment about details in this account, saying “The events of the flotilla are under investigation, and we can’t answer specific questions until the end of the investigation.”

On Sunday, just before midnight, Hanin Zoabi saw distant lights from her perch on a lower deck of the Marmara.

The lights, Israeli navy patrol boats, were just specks on the hori-



An image from a video provided by the Israel Defense Force on Monday shows what the IDF says is a commando descending to the Marmara.

zon. “We were sure they wouldn’t come near us” while the flotilla—still far from Gaza’s shore—was in international waters, the Arab Israeli parliamentarian told reporters late Monday after being released from Israeli custody.

For more than four hours, the lights didn’t seem to move any closer. By 4:10 that morning, however, a handful of large and small gunboats had closed in on the Marmara, according to Mr. Maqri, a former Algerian parliamentarian, in an interview after Israel deported him to Jordan early Wednesday.

Israel Defense Force spokesman Brig. Gen. Avi Benayahu, in an interview with Israeli Army Radio, said a boarding operation against the flotilla began about that time.

Mark Regev, the Israeli prime minister’s spokesman, told reporters Tuesday that activists on the Marmara threw Molotov cocktails at Israeli ships nearby. Activists, meanwhile, said they saw gunfire coming from the Israeli ships.

In a video released by the Israel military late Wednesday—which Israel said was taken from the ship’s security camera—a group of men aboard the Marmara appear to be preparing for a boarding, with one man donning a gas mask and another swatting with a metal pole at something over the bow of the ship.

Amid the confusion, Mr. Maqri saw helicopters buzzing overhead. The aircraft started to drop lines to the deck and Israeli soldiers shinned down them.

The soldiers were carrying paint guns, according to one commando, who was made available to reporters in a briefing in the Israeli port of Ashdod late Monday evening. They weren’t expecting violence, the commando said.

“It was a civilian paintball gun that any 12-year-old can play with,” he said.

On another ship in the flotilla, the Israeli boarding went smoothly. Aris Papadokostopoulos, a 51-year-old activist, said soldiers landed on

the ship, seemingly from nowhere. Activists didn’t put up much of a fight.

“We used our bodies to try to prevent them from taking control of our ship, so they used electro-shock on us,” he said in an interview. “They arrested us all and locked us up on lower decks.”

But on the Marmara, things quickly turned chaotic.

During the boarding, out of nowhere, a shot rang out, Mr. Maqri remembers, and a fellow Algerian activist crumpled, his eye bleeding. Panic took over, he said.

He said the activists weren’t armed, and that they lunged toward the descending soldiers and pulled three off their ropes and onto the deck—an account corroborated by another activist aboard. A grainy video released by the Israel Defense Force seems to confirm this account, showing an Israeli soldier being seized by activists and tackled to the deck.

Later, the video shows men whom Israel said were activists

beating others on the deck with rods, using chairs as clubs and, at one point, throwing one soldier over the side of the deck, where he hit a lifeboat before falling to the deck below.

One passenger on the Marmara acknowledged that at least a few of his shipmates brandished sticks.

“I saw 2½ wooden sticks,” German activist Norman Paech told reporters in a news conference in Berlin on Tuesday.

“I came down and saw madness” in the eyes of the activists aboard, said the Israeli commando who briefed reporters.

Amid the fighting, more Israeli soldiers were lowered onto the deck. By one eyewitness’s account, about 100 soldiers ended up aboard.

Israeli officials have said that at one point activists wrested away at least one soldier’s sidearm, and turned the gun on Israeli forces. That is when Israeli soldiers started firing back, officials said.

Mr. Maqri and two other witnesses said soldiers started firing into them unprovoked. He saw four to five activists die in front of him. Some activists have put the death toll much higher than Israel’s official count of nine.

Mohammed Omar Satlah, a Syrian who said he was part of the ship’s medical team, said he counted 16 bodies. He said the bodies of two activists fell into the sea and weren’t recovered.

When the gunfire started, many activists scrambled for cover inside the ship. By six a.m., Israeli soldiers were in full control of the ship, according to Ms. Zoabi.

Shadha Abdulatif Barakat, a Syrian activist who said she was a member of the Syria-based Anti-Zionist Association, said one man died from his wounds next to her after the fighting.

“Look at the blood on my scarf that I am wearing,” she said in an interview after being deported early Wednesday to Jordan. “The blood was from one of the martyred.”

—Joshua Mitnick in Tel Aviv and Nick Skrekas in Athens contributed to this article.

Israel hints at concessions on Gaza blockade

Continued from first page
both recently suggested an international observer play a role in any probe of the incident.

On Wednesday, Britain’s foreign secretary told Parliament that the U.K. believed an international ob-

server was needed for any probe to be deemed “independent, credible and transparent.”

Israeli Deputy Foreign Minister Danny Ayalon said in an interview Thursday that he couldn’t speak for the government, but that he “wouldn’t be averse at all” to allowing an American or German observer on the panel. Such a concession that could ease some of the diplomatic fallout from the operation. Officials say the Israeli government hasn’t made any decision about such a proposal.

Another Israeli official suggested allowing an American to observe such a panel wouldn’t be an aberration of normal information exchanges between Israel and the U.S.

Israel has said it will conduct its own probe of Monday’s boarding of the six-ship flotilla. “It is our standard practice after military operations, especially operations in which there have been fatalities, to conduct a prompt, professional, trans-

parent and objective investigation in accordance with the highest international standards,” said government spokesman Mark Regev.

Israeli commandos boarded five of the ships in the flotilla relatively peacefully, in a predawn raid on Monday. But violence broke out on the last, the Turkish-owned Mavi Marmara, and at least nine activists were killed. Israeli said its soldiers resorted to deadly force only after being set upon by activists. Activists have said they were acting in self-defense.

While a foreign observer may ease some of the diplomatic pressure buffeting Israel, officials here said again Thursday that they would continue to enforce their blockade, justifying it as self-defense. “It’s a red line,” said Mr. Ayalon.

Critics of the blockade, including human-rights groups, say the blockade punishes the entire population of the territory.

Israel appears likely, however, to

avoid another imminent test of its policy. The Free Gaza Movement, a pro-Palestinian group that helped organize the original flotilla, said it was organizing a second, larger flotilla to challenge the Israeli blockade. But a spokeswoman said it wouldn’t send one of its own ships to Gaza alone in the next few days, as originally planned.

Israeli officials had expected the ship, the 225-foot, 1,200-ton cargo ship Rachel Corrie, to approach Gaza in the next few days and vowed to stop it.

Free Gaza spokeswoman Greta Berlin said that the group wants to send a large number of vessels on the next voyage as a deterrent to any aggressive military response by the Israeli army.

“Our boats are small and we don’t want them sunk,” she said.

About 10,000 mourners in Istanbul buried eight of the activists Thursday, including Furkan Dogan, a U.S. citizen who grew up in Turkey,

with a further service due for a Turkish journalist who also was killed on the passenger ship, the Mavi Marmara.

The crowd prayed before eight Turkish and Palestinian flag-draped coffins lined up in a row outside Istanbul’s Fatih mosque in a traditional service for the dead, the Associated Press reported.

“Our friends have been massacred,” Bulent Yildirim, the head of the Turkish Humanitarian Relief Foundation, or IHH, a key organizer of the flotilla, told the crowd.

Earlier, hundreds of humanitarian-aid activists detained by Israeli commandos on their Gaza-bound flotilla returned to Istanbul early in the morning, with crowds waving Palestinian flags and chanting anti-Israeli slogans.

“Turkey is proud of you,” “God is great” and “Zionist dogs will pay for this,” the crowd chanted.

—Margaret Coker in New York contributed to this article.

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CONFRONTATION AT SEA

U.S. moved quickly to keep tensions from rising further

[Capital Journal]

BY GERALD F. SEIB



One of the duties of a superpower is playing the role of therapist for your friends—which is precisely the task the U.S.

performed this week to lower the temperature in a crisis between two crucial allies, Israel and Turkey.

The counseling began before dawn on Monday, shortly after Israeli commandos boarded a flotilla of six ships trying to run a blockade to deliver supplies to Palestinians in the Gaza Strip, and killed eight Turks in the ensuing fracas.

The therapy continued in a flurry of urgent conversations with a senior Turkish official in a hotel room in Washington and a top Israeli official quickly invited to town and in overseas calls by President Barack Obama.

Ultimately, the mediation succeeded in ending what had emerged as the most immediate cause of rising tensions: the detention in Israel of hundreds of Turkish citizens who formed the bulk of the pro-Palestinian activists removed from the ships.

All told, the American response is a case study in international damage control—as well as an illustration of its limits. The story is hardly over, of course. Anger in both nations runs high, and two more aid ships heading for Gaza could become another flash point.

The U.S. response is a case study in damage control—as well as an illustration of its limits. But the story is hardly over. Anger in both countries still runs high.

Still, the strategic importance of both Israel and Turkey to America's Middle East strategy compelled the Obama administration to try to contain the passions. Israel is both America's closest ally in the region and the one Washington most needs to persuade it can rely on international help to end the nuclear threat from Iran without military action. Turkey is a vital bridge between the West and the Mideast, a rare Muslim state that had good ties to Israel, and a potential moderate alternative to Iran as leader in the Islamic world.

"From a geo-strategic issue, I think it's extremely important that those two nations have bilateral relations that are solid and strong," said Gen. James Jones, Mr. Obama's national security adviser, in an interview. Asked whether they can be restored, he replied: "I won't say it's impossible. We're in a rough right now. So it's a question of how far you can climb out of it. All I can say is they both say they want to fix this."

The U.S. intervention began early Monday, when Israeli

Defense Minister Ehud Barak called Gen. Jones to tell him of the Israeli raid. The timing was horrible; both Israeli Prime Minister Benjamin Netanyahu and Turkish Foreign Minister Ahmet Davutoglu were en route to Washington to talk, not about violence at sea, but peace with Palestinians and Iran's nuclear program.

A rapid series of phone calls ensued, with the U.S. playing the role of marriage counselor by talking to Turks and Israelis, who weren't talking to each other. Soon, Mr. Obama called Mr. Netanyahu, who was in Canada, and they agreed the Israeli leader would drop his planned trip to the U.S. and return home.

But, crucially, the U.S. also asked that Mr. Netanyahu send his national security adviser, Uzi Arad, on to Washington so American officials could reach out quickly to a top Israeli as they tried to defuse the crisis. Mr. Davutoglu, who was in New York, caught a plane for Washington to play the same role for Turkey.

Meantime, Mr. Obama also called an angry Turkish Prime Minister Recep Erdogan. The conversation showed that the Israeli-Turkish relationship was in bad shape, but also that the burning issue for Turkey was winning the rapid release of several hundred Turkish citizens who had been taken off the ships by Israeli soldiers. "The immediate tourniquet that could be put on this arterial bleed, if you want, had to do with getting the Turkish citizens home," Gen. Jones said.

So the U.S. set out to make that happen. Gen. Jones went to the Willard Hotel, a few blocks from the White House, to meet Mr. Davutoglu. He then met Israel's Mr. Arad at the White House.

Mr. Netanyahu's government agreed to quickly clear an internal legal hurdle that was standing in the way of an immediate release: It persuaded the country's supreme court to deny appeals by some Israeli groups calling for charges to be pressed against those taken off the ships.

By late Wednesday, planeloads of Turkish pro-Palestinian activists were heading home. Obviously, that doesn't resolve the broader issues. Gen. Jones won't offer an opinion on the continuing Israeli blockade of Gaza—"We're not in the arbitration mode here"—but notes that Turkish officials in his conversations have "bemoaned the fact" that ties with Israel have so frayed, indicating they want improvement.

"There's a lot of water to run under this bridge yet," Gen Jones said. But he added: "All I can say is that in each and every turn in my conversations with Turkish officials they have deplored the fact, and bemoaned the fact, that this relationship is not what it used to be. I've not heard them say, to me at any rate, that they're particularly pleased, that this is something they wanted...a break in the relationship. They've not told me that."

He worries most urgently, he says, about what will happen with those other relief ships approaching Gaza. The counseling sessions will continue.

Israelis question military

BY CHARLES LEVINSON AND MARGARET COKER

The deadly Israeli raid of a Gaza-bound aid flotilla is the latest military operation to backfire on Israel, triggering a flood of criticism both at home and abroad about the country's military decision-making and its broader security strategy.

Israel's reputation for military prowess has been battered in recent years, notably during its war with Lebanon in 2006, which a subsequent government-mandated investigation ruled was mismanaged and poorly planned. Its 2009 campaign in the Gaza Strip resulted in few Israeli casualties but drew international condemnation over allegations that Israel used disproportionate force.

As in those conflicts, the Israeli military commanders who planned the flotilla operation appear to have discounted the potential for political and diplomatic fallout that has overshadowed the military results and endangered Israel's larger strategic goals, analysts say.

"The flotilla incident undercuts Israel's long-term strategic interest and embarrasses the military command, which is struggling with the perception that it plans military operations without strategic purposes or goals in mind, as was the case in the last Lebanon invasion," says Anthony Cordesman, a military expert at the Center for Strategic and International Studies in Washington.

Israeli media have reported that Prime Minister Benjamin Netan-



European Pressphoto Agency

An Israeli protests the raid Monday

yahu's inner cabinet, a group of seven top ministers, met May 26 to discuss how to counter the flotilla of humanitarian activists attempting to break Israel's blockade of the Gaza Strip.

The humanitarian groups taking part in the flotilla say the blockade violates international law and exacerbates hardships for the 1.5 million Palestinians in Gaza. Israel argues it is a national-security priority designed to keep arms out of the hands of Hamas, the Palestinian militant group that controls Gaza.

Despite the extensive preparation time afforded the military, however, Israel failed to adopt an effective strategy against an adversary seeking victories in the court of international public opinion, rather

than on the battlefield, says Yehezkel Dror. Mr. Dror is a former senior Ministry of Defense military planner who served on the Israeli government's inquiry into the failures of the 2006 Lebanon war.

"This belongs to the same family of conflict types as the U.S. faced in Afghanistan and Iraq, but in the case of Israel, the learning curve is too slow," says Mr. Dror.

Within Israel, former army officials and influential columnists have joined a growing chorus of criticism about the perceived failure of the raid. They question why the military didn't resort to alternative methods, such as covertly sabotaging the ships' motors, as it did with Lebanese boats carrying weapons shipments in the 1980s, or allowing the aid ships to quietly land in Gaza, as previous Israeli governments have done. The flotilla's organizer, the Free Gaza Movement, has landed its vessels five previous times in Gaza since 2008, garnering little Western media attention in the process.

Hundreds of smuggling tunnels allow Hamas and other Gaza-based militants to smuggle all sorts of weapons into the territory from Egypt, which critics say makes the decision to stop the convoy despite the risks of a public-relations catastrophe all the more confounding.

Mr. Netanyahu on Wednesday defended the commando operation, saying that relaxing the sea blockade on Gaza would allow Hamas to rearm itself with significantly more weapons than it can smuggle through the Egyptian tunnels.

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U.S. NEWS

California Senate hopeful sets sights on incumbent

By JIM CARLTON

With California's Republican Senate primary yet to be decided, front-runner Carly Fiorina is already setting her sights on the November general election and laying the groundwork for a fight against Democratic incumbent Sen. Barbara Boxer.

Ms. Fiorina's strategy against Ms. Boxer calls for almost no let-up in the campaigning she has waged for months. If she wins Tuesday's GOP primary, Ms. Fiorina said this past weekend, she would challenge Ms. Boxer to "Meet me in Mendota," one of California's most economically stricken cities, with a 45% job-

less rate in April.

Ms. Fiorina accused the senator of not doing enough to free up federal water supplies to California's Central Valley, where farmers around Mendota initially lost as much as 100% of their water allotments over the past year amid a drought and efforts to protect endangered fish, before the U.S. restored some water in March.

"Mendota is emblematic of Barbara Boxer's failure as a senator," Ms. Fiorina said in an interview Tuesday.

The Boxer campaign, which says the senator helped gain more water for communities such as Mendota, also is gearing up for battle. On Sat-

urday, campaign officials launched a drive to enlist volunteers to join Boxer Advocacy Teams, "to help set the record straight about Barbara's record all across the state," according to a campaign website.

Ms. Boxer's campaign also has boosted its fund-raising target to between \$35 million and \$40 million from an earlier goal of about \$20 million. Polls show the senator is politically vulnerable, and nationally, Republicans are targeting her. Ms. Boxer's campaign managers wouldn't say what they plan after the primary, but suggested the senator would come out swinging.

"The primary is a turning point in the campaign for us, and we are gearing up to be able to tell our story and also respond to attacks," said Boxer campaign manager Rose Kopolczynski.

The political jockeying comes as Ms. Fiorina, 55 years old, has surged to a double-digit margin in the polls ahead of her two main GOP challengers, former Rep. Tom Campbell, 57, and state Assemblyman Chuck DeVore, 47.

While a recent poll by the University of Southern California/Los Angeles Times showed Ms. Fiorina trailing Ms. Boxer 44% to 38% in a direct match-up, Ms. Fiorina said she hoped her focus on restoring jobs and the economy would help bolster her standing with voters. "That's why Mendota is so poignant and powerful," said Ms. Fiorina, a former Hewlett-Packard Co. chief executive.

The other GOP candidates suggested Ms. Fiorina's willingness to discuss her general-election plans showed she was overconfident. "The only poll that really counts is the poll on election day," Mr. DeVore said.

Should they win, Messrs. Campbell and DeVore also have plans for the general election.

Mr. Campbell has set aside about \$500,000 of his roughly \$3 million campaign war chest for that contest, and "we would immediately go on the air" against Ms. Boxer after the primary, said Erin Daly, a Campbell spokeswoman.

Mr. DeVore's aides say he also has a plan against Ms. Boxer, which they declined to disclose.

Ms. Boxer has raised about \$2 million since April 1 to bring her total in the bank to about \$10 million. President Barack Obama recently stumped for the senator on two visits to California. "Doggone it, reelect Barbara Boxer," Mr. Obama said at a San Francisco fund raiser on May 27.



Associated Press

Candidate Carly Fiorina, right, talks with Alyse Kolb of Placerville, Calif., last month after a tea-party forum.

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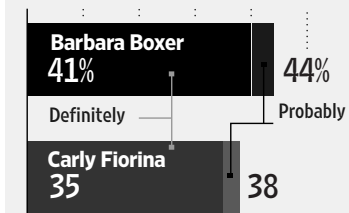
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Early odds

Californians were recently polled about a hypothetical matchup between Sen. Barbara Boxer and Republican Carly Fiorina:



Source: USC/Los Angeles Times poll of 1,506 registered voters, May 19-26; margin of error, +/- 2.6 points

U.S. NEWS

Oil nears Florida Panhandle beaches

Threat from spreading slick in popular resort area could add to political complications for President Obama

BY MIKE ESTERL
AND VALERIE BAUERLEIN

PENSACOLA, Fla.—As oil from the Gulf of Mexico spill neared Florida's Panhandle beaches Wednesday, its effects were already rippling through the politics and troubled economy of the nation's largest swing state.

An oil sheen was spotted "close to the beach if not right on the beach" near Pensacola in the northwest part of the state, according to a spokeswoman for officials monitoring the spill in Mobile, Ala. A larger sheen was also sighted 35 miles off the coast of Pensacola. Officials said they expect oil to wash up on the state's western shores as soon as Thursday as winds push the slick northeast.

Oil could also wash up in other parts of Florida. Recent satellite imagery showed a narrow band of oil sheen within the Loop Current, an underwater movement in the Gulf that could carry oil around the lower part of the state, the National Oceanic and Atmospheric Administration said.

Rick and Sarah Darnell arrived at Pensacola Beach Monday after driving seven hours from Dalton, Ga. They said they swam in the Gulf Wednesday and hadn't seen any signs of oil, but they received about a dozen text messages from friends warning them about the approaching sheen.

"We thought we should come down and enjoy it before it gets bad, if it gets bad," said Ms. Darnell, 46 years old, who works at a carpet manufacturer.

BP on Thursday completed a second cut on a fractured pipe connected to the leaking well in the Gulf of Mexico, paving the way for engineers to install a cap that officials hope will send the majority of the oil to a ship.

U.S. Coast Guard Adm. Thad Allen, the government's point man for the spill, said at a news conference Thursday that the severing of the pipe a mile below the surface marked a "significant step forward."

He acknowledged, however, that the cut wasn't as smooth as hoped, which could complicate attempts to capture the oil. He said the contain-



Florida Gov. Charlie Crist, right, and staffers inspect a boom near Pensacola Pass Wednesday. High season for tourism was getting into full swing along the beaches.

ment cap would be fitted over the pipe and sealed Thursday and that it was too early to say how much of the oil could be captured.

Oil threatened to arrive on Florida beaches just as the high season for tourism was getting into full swing along the Panhandle's beaches. The state was already beset by 12% unemployment, a cash-strapped budget, an agricultural sector wounded by last winter's frosts and holiday cancellations mounting amid oil fears. State leaders are now girding for an economic, environmental—and perhaps political—crisis for which they say there is no playbook.

"A hurricane comes ashore and in three days, the wind has blown out and we're picking up the pieces," said state Sen. Don Gaetz, a Republican whose Panhandle district includes 170 miles of coastline. "The Deepwater Horizon catastrophe is

like a year-long hurricane. The effects will go on and on and on."

Oil along Florida's coastline also potentially complicates matters for President Barack Obama, who carried the state in 2008 but whose popularity has fallen as political sentiment has shifted to the right amid the state's continuing economic malaise.

Unlike Louisiana, where refineries are enmeshed in the economic fabric, Florida has little relationship with oil. Its economy is driven in large part by orange juice, sunshine and pristine beaches.

Florida Gov. Charlie Crist canceled his appointments Wednesday and rushed to the Panhandle to assess the situation. The governor is running for a U.S. Senate seat as an independent after bolting from the Republican Party when he was trailing a more conservative contender in the polls.

Mr. Crist asked U.S. Commerce Secretary Gary Locke to declare a fishery disaster, saying that the widening spill is blocking fishing areas and hurting commercial and charter fishermen.

The National Oceanic and Atmospheric Administration on Wednesday expanded areas in the Gulf closed to fishing, with the most significant expansion in an area of southwest Florida covering waters just west of the Dry Tortugas islands.

Without a personal income tax, Florida relies disproportionately on sales taxes and collection is predicated on a healthy tourism economy.

State budget writers expect that an oil spill could not only damage tourism and tax collection, but also lead to increased need for unemployment benefits and Medicaid, the federal-state health program for the poor.

The creeping oil slick had local officials and residents on edge Wednesday in Panhandle spots such as Santa Rosa County.

While South Florida is busiest during the winter and spring as northerners flock south to thaw out, the Panhandle's busy season runs from late May to early September, with families driving and flying in from Atlanta to Houston.

Panhandle tourism advocates worried that an advertising campaign funded by a \$25 million grant from BP to tout their beaches as clean would come too late.

Vacation-home owners have been getting hit with cancellations for the past few weeks, and county officials said they were having difficulty getting updated information about the oil spill.

—Jennifer Levitz,
Jeffrey Ball and Stephen Power
contributed to this article.

U.S. debated announcing probes

BY EVAN PEREZ
AND DIONNE SEARCEY

Attorney General Eric Holder disclosed the Justice Department's civil and criminal probes of the Gulf oil spill Tuesday after weeks of internal debate.

Some Justice officials were reluctant to make the investigations public as the government pressed BP PLC to plug the well.

Still, Mr. Holder's decision to confirm the probes Tuesday, in a staged appearance on the Gulf Coast, appears to be in line with the department's guidelines in high-profile cases. Mr. Holder stressed that 11 people died in the April 20 rig accident that precipitated the spill and said there was "a wide range of possible violations."

Facing growing criticism over its response as the leak drags on, the

Obama administration has been pushing aggressively on several fronts to show it is in command of the situation and to keep pressure on BP. But it faces a tricky balance as it depends heavily on the company, and its technical expertise, to stop the flow from the crippled well.

Inside the department, some officials feared that the threat of agents of the Federal Bureau of Investigation looking over the shoulder of BP and others could hinder the work to plug the well, people familiar with the debate said.

Mr. Holder sought to at least tacitly address those concerns Tuesday when he said the government's first priority was to stop the spill.

The department usually doesn't discuss investigations until charges are filed.

But Mr. Holder's defenders pointed to guidelines from the U.S.

Attorney's Manual, the Justice Department's bible for handling prosecutions, which allows officials to confirm probes "in matters that have already received substantial publicity, or about which the community needs to be reassured that the appropriate law enforcement agency is investigating the incident."

Most of these companies were aware that a Justice Department investigation was under way. For weeks, the department has been dropping hints that it was taking preliminary steps toward a probe.

Mr. Holder told reporters last month that he had dispatched senior prosecutors to the Gulf of Mexico region. More recently, the department sent letters to companies involved in the accident asking them to preserve all relevant documents.

The question is what will come of it—amid some very real hurdles. The

very fact that there is oil in the water indicates a violation of federal environmental laws, one Justice Department official argued.

Whether that leads to a criminal case for the companies involved in the Deepwater Horizon operation—BP, rig owner **Transocean Ltd.** and other contractors—may depend on whether the government concludes that willful violations of the law led to the rig explosion and spill.

BP didn't return requests to comment on its legal strategy for defending itself in a criminal probe.

Transocean wouldn't comment other than to say through a spokesman: "Transocean has not been named in any criminal investigation. We will not speculate on actions the Justice Department may or may not take."

—Thomas Catan and Amir Efrati
contributed to this article.

Legal environment

2009

ExxonMobil Corp. pleads guilty to killing migratory birds in five states, pays roughly \$7,000 for each bird killed for a total of about \$600,000

2007

Citgo Refining and Chemicals Co. goes to trial and is found guilty of three misdemeanor criminal violations of the Migratory Bird Treaty Act by a judge in Corpus Christi, Texas

2007

BP subsidiary agrees to plead guilty to an environmental crime and pay \$50 million in connection with a deadly explosion at a refinery in Texas two years earlier.

1989

Exxon Valdez tanker crash and oil spill results in criminal and civil charges, lawsuits costing Exxon more than \$4.3 billion, including compensatory and cleanup payments, settlements and fines.

WORLD NEWS

Japan's Kan poised to become premier

Finance chief signals no change on Okinawa

BY MARIKO SANCHANTA
AND TAKASHI NAKAMICHI

TOKYO—Naoto Kan, the man certain to become Japan's next prime minister, underscored the importance of the U.S.-Japan relationship, calling it the "foundation" of Japan's diplomacy, in a signal that he won't backtrack on a recent pact between the two countries to keep a large American military base on the island of Okinawa.

But in a news conference to announce his candidacy, Mr. Kan, the current finance minister, also underscored the importance of China to Japan, calling the relationship with its neighbor as "equally important" as the relationship with the U.S. In terms of an economic policy, Mr. Kan—who is set to succeed Yukio Hatoyama, who resigned abruptly on Wednesday—offered few specifics, but made clear that he wouldn't necessarily place growth over fiscal discipline.

Mr. Kan said he will make a "big and sustained" effort to reduce the burden of the southern island of Okinawa for hosting U.S. military bases. But he also said he would "take into consideration the [recent] U.S.-Japan agreement" to keep a Marine air station in the prefecture. He added: "I believe the Japan-U.S. relationship is the foundation of Ja-

pan's diplomacy. ... The course we need to take is to maintain a trusting relationship with the United States and at the same time to consider China as equally important. I think that's the right course for Japan's future as well."

Mr. Kan is set to become Japan's fifth prime minister in less than four years, an embarrassing statistic for the world's second-largest economy, which has had a procession of new leaders nearly every year since the popular Junichiro Koizumi ended a five-year tenure in 2006. The Democratic Party of Japan swept to power eight months ago, ending a grip on power by the dominant Liberal Democratic Party that lasted for more than a half-century.

Despite a promise to transform the predictable and rigid nature of Japanese politics, Mr. Hatoyama resigned Wednesday amid plunging support over breaking a campaign pledge to move U.S. troops off Okinawa. The base controversy has revolved around where to move a Marine Corps Air Station currently located in a crowded urban area known as Futenma.

"The reason that [Mr. Kan] has distanced himself from the Futenma issue in the Hatoyama administration is that his opinion on that is different from that of Hatoyama. He is an extremely realistic person,"



Japanese Finance Minister Naoto Kan arrives at a news conference at the DPJ's headquarters in Tokyo on Thursday.

said Toshikazu Inoue, a politics professor at Gakushuin University. "So, he has believed that the new government should stick to the deal agreed by the previous government on the diplomatic and security issues."

Mr. Kan, 63, has been a critic of Japan's powerful bureaucrats and is nicknamed "Ira Kan" in Japan, or "irritable Kan," due to his alleged short fuse. But he also has a sense of the irreverent: When he visited Iqaluit, Canada, for February's meeting of the Group of Seven leading nations, Mr. Kan delayed his

closing news conference on Saturday so he and his aides could go dog sledding. Before becoming a politician, the former civic activist shot to fame in the mid-1990s when, as health minister, he exposed the bureaucracy's responsibility for infecting thousands of hemophiliacs with HIV-tainted blood.

Mr. Kan is a virtual shoo-in for the premiership, after the other top two potential candidates—Transport Minister Seiji Maehara and Foreign Minister Katsuya Okada—said they would throw their weight behind him. Democratic Party of Japan law-

makers will vote in a party election Friday morning and announce a leader shortly after lunchtime. That person will assume the premiership. A new cabinet will be formed the same day. On Monday, the winner will make a policy speech.

Shinji Tarutoko, 50, a politician who heads up the House of Representatives Environment Committee, is set to run against Mr. Kan in Friday's elections. His candidacy, however, is seen as symbolic, so Mr. Kan isn't the sole candidate.

—Miho Inada
contributed to this article.



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Korean party's loss continues pattern

BY EVAN RAMSTAD

SEOUL—South Korea's ruling conservative Grand National Party lost some of its ability to drive the country's political agenda after results Thursday showed candidates from opposition parties fared better than expected in local and provincial elections a day earlier.

The results kept with a long-standing pattern in Korean politics, in which opposition parties make gains against the party of the sitting president partway through a presidential term. The gains this year were smaller than those made by opposition candidates in 2002 and 2006, however.

Before Wednesday's election, political analysts and polls suggested that ruling-party candidates might fare better than usual this year because of the popularity of the GNP's hard-line stance on North Korea, which grabbed the spotlight after a recent deadly attack on a South Korean warship that President Lee Myung-bak and investigators blamed on the North.

More than 4,000 offices were decided, but analysts focused on 16 governor and mayoral races in declaring the gains by opposition candidates.

Of those, the leading opposition Democratic Party won seven, the GNP six, independent candidates two and the Liberty Forward Party, which is also conservative, one.

The GNP's chairman and Mr. Lee's chief of staff offered to resign to take responsibility for the party's

performance.

In Seoul, incumbent GNP mayor Oh Se-hoon narrowly won re-election with a 26,412-vote edge, less than 1% of the four million votes that were cast, over Democratic Party candidate Han Myeong-sook, a former prime minister.

Ms. Han conceded defeat but, rather than talking about Mr. Oh, focused on Mr. Lee, saying her strong performance showed that voters are dissatisfied with him as president and the GNP's control of the National Assembly.

More than 4,000 South Korean offices were decided, but analysts focused on 16 governor and mayoral races in declaring the gains by opposition candidates.

A presidential spokesman said Mr. Lee discussed the results with advisers. He quoted Mr. Lee as saying, "We should take this opportunity to reflect on ourselves and focus on reviving the economy."

Analysts say Mr. Lee is likely to change some of his cabinet members in response to the election results and that GNP lawmakers may moderate their agenda with an eye toward retaining power in the 2012 national election.

—Jaeyeon Woo
contributed to this article.