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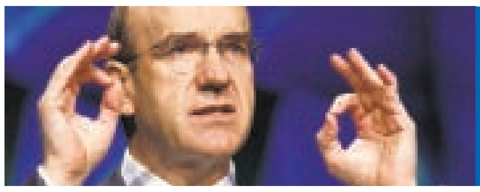

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Staffing of rig in Gulf spill is questioned

The chairman of a U.S. congressional committee investigating the Gulf of Mexico oil spill is questioning whether key personnel aboard the Deepwater Horizon oil rig were tired or off duty in the hours before the explosion that triggered the massive spill.

By Stephen Power, Russell Gold and Neil King Jr.

U.S. Rep. Nick Rahall a Democrat from West Virginia, sent a letter Monday to rig owner **Transocean** Ltd. asking the company to explain company records submitted to his committee that he said suggested there was "a shortage of technical personnel" on duty at the time of the explosion, which sank the rig and killed 11 workers.

Mr. Rahall is chairman of the House Natural Resources Committee, one of a half-dozen U.S. congressional panels probing the circumstances surrounding the disaster.

Transocean says the rig was properly staffed. "The Deepwater Horizon was properly and professionally manned," said a Transocean spokesman. "The company is collecting the documents that reflect the actual hours worked by rig personnel and will provide that data to Chairman Rahall with the additional information he requested."

Testimony by some rig workers who said they were working during the hours leading up to the explosion, even though payroll records don't list them, appeared to contradict the documents cited by Mr. Rahall.

BP PLC, which had contracted the rig, didn't respond to messages seeking comment on Mr. Rahall's letter.

According to records cited by Mr. Rahall and reviewed by The Wall Street Journal, 18 Transocean personnel were listed on payroll data as working during the noon-midnight shift on April 20, when the explosion occurred. In his letter, Mr. Rahall said this was "the smallest number listed in this time period for the month of April."

For the same noon-midnight shift on the three previous days, April 17-19, 21 employees were listed as being at work, according to company documents reviewed by The Wall Street Journal. This compares with 23 for April 15-16; 25 for April 14; 26 for April 3-13; 27 for April 2; and 28 for April 1.

In his letter, Mr. Rahall also said information his panel had received and documents from an ongoing internal investigation by BP suggested that "inattentiveness" may have contributed to the explosion.

"I have serious questions about whether enough people were working on the night of April 20th to adequately handle the complex operations that were being performed, or if crew fatigue caused by extended shifts may have played a role," Mr. Rahall said in his letter, which was addressed to Transocean's CEO, Steven Newman.

Investigators for the Coast Guard and Minerals Management Service have separately questioned rig personnel about activities on board on the day of the explosion.

During the final few hours before the explosion, several top Transocean managers were off the rig floor, involved in meetings with visiting officials. Jimmy Wayne Harrell, the offshore installation manager and the top-ranking Transocean official on the rig, helped give several BP and Transocean executives a two-hour tour of the Deepwa-

Please turn to page 8

Kerviel faces court over €4.9 billion trading loss

Reuters

Jérôme Kerviel arrives at a court in Paris on Tuesday for the start of his trial to face charges of breach of trust, computer abuse and forgery. The French bank Société Générale blames the former junior trader for €4.9 billion ($6 billion) of losses in early 2008.

The Quirk

Big cats obsess over Calvin Klein's 'Obsession for Men.' Page 29

Editorial & Opinion

The news of German austerity has been greatly exaggerated. Page 11

Swiss vote throws UBS tax deal into doubt

By Deborah Ball

A deal to resolve the U.S. government's tax battle with **UBS** AG was jeopardized Tuesday when Switzerland's lower house rejected a bill that would have allowed the government to provide the U.S. with the names of UBS account holders allegedly dodging American taxes.

Last August, the U.S. and Switzerland reached a deal to settle a case involving hidden offshore accounts at the banking giant. U.S. authorities accused UBS of having helped thousands of Americans avoid paying taxes at home by setting up the offshore accounts. UBS admitted wrongdoing and agreed to hand over the names of 4,450 American account holders to the U.S. Internal Revenue Service by August.

However, in January, a Swiss court ruled that the deal broke domestic laws. In April, the government presented a special bill that would have laid the legal groundwork to enable it to hand over the names. Last week, the Swiss Senate approved the bill.

The IRS said Tuesday it is prepared to re-open the case against UBS should the Swiss miss the August deadline.

"We expect that the Swiss government will continue to honor the terms of the agreement," said a statement from IRS spokesman Frank Keith. "We stand ready to pursue all legal options available to us should the Swiss fail to provide the required information."

The lower house's rejection is a defeat for the Swiss government, which had hoped to put the dispute with the U.S. behind it. If an agreement isn't reached before the Swiss parliament adjourns later this month, the deal between the U.S. and UBS could be voided.

It also complicates UBS's efforts to rehabilitate its image and revamp its wealth-management unit, which has seen an exodus of clients in part due to the U.S. tax squabble.

The U.S. Department of Justice had no comment on the development. UBS said in a statement that it has taken note of the vote, without elaborating.

The bill was rejected 104 to 76, with 16 abstentions. It has been the subject of a heated debate in Switzerland for months and became caught up in a separate controversy regarding bankers' bonuses, which have roused public ire over the last two years. Left-leaning parliamentarians opposed the UBS bill because they wanted to attach an amendment establishing a special tax on bankers' bonuses. Conservative parties oppose such an amendment.

Following the rejection, Swiss parliamentarians will now seek a compromise that, if successful, would lead to another round of voting on the bill in both chambers. However, there is considerable time pressure.

The current parliamentary session ends at the end of next week, while the U.S.-

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PAGE TWO

Time for Cameron's international call

[Agenda]

By IAIN MARTIN

It is Henry Kissinger who is credited with asking: "Who do I call if I want to call Europe?" What the king of realpolitik meant more than 30 years ago was that Washington had no single point of contact on the Continent, no leader or diplomat who could speak authoritatively on behalf of Europe. It was a good question when he posed it, and it still is when one considers that the answer today is supposed to be Baroness Ashton. Despite lacking any experience she was chosen late last year as the European Union's high representative on foreign affairs. It is unlikely that she is quite what Mr. Kissinger had in mind.

But while the "who do I call?" question is so often asked one way, it is rarely if ever reversed. If Europe wants a sensible conversation with America right now, who should it call? It is not an inquiry that is as glib as it perhaps sounds. President Barack Obama has been known to speak on the phone to European leaders. But it could not be claimed with any credibility that relations are good.

Sure, voters in Europe are still enthusiastic about him. However, almost 18 months into his presidency any early excitement among his fellow leaders here has long since faded. What is left is a sense that the president cares little for Europe, has no more than a passing interest in its leaders and, to the limited extent that he is interested in foreign affairs, he is focused on wooing emerging powers such as India.

Mr. Obama only very briefly became concerned about matters European when it seemed that the euro-zone bailout package might be in difficulty last month. If the deal had collapsed there would have been consequences for

Agence France-Presse/Getty Images

U.S. President Barack Obama makes a speech in Wheaton, Md., Tuesday.

American banks and the world economy. But other than that intervention, seen as heavy-handed in some quarters, he has taken an overwhelmingly inward-looking approach.

Of course, he has an excuse: he has a joblessness recovery on his hands and political problems multiplying. But previous presidents have managed to deal with similar difficulties and still

China, India and other rising stars of the world economy are there to be cultivated.

manage better relations with old allies. Not this time.

The tension with Angela Merkel has deep roots. Der Spiegel says the German chancellor, avowedly pro-American, is vexed at the apparent fluctuation by Mr. Obama between "disregard" for Germany and a desire to "dominate." The pair have never found a way of working comfortably together.

President Nicolas Sarkozy of France had some success in calling on Mr. Obama to lobby Germany and others for the completion of the bailout deal. But that was a rare moment of cooperation. Beyond that, he considers Mr. Obama weak in his attitude to Iran.

The Spanish didn't take kindly to Prime Minister José Luis Rodriguez Zapatero being phoned during the bailout crisis to be told that Spain should curb its spending. Considering what is likely to happen to the U.S. deficit on the back of runaway spending there was a degree of cheek in Mr. Obama's intervention. The White House's decision to snub the summit planned for last month between the U.S. and the EU hasn't helped either.

The new government in Britain has had an early taste of disappointment too. On the surface, the choreography of announcements and platitudinous statements has been handled smoothly. Mr. Obama was on the line almost as soon as David Cameron crossed the threshold of Number 10. Mr. Cameron's spin doctors were touchingly rather excited about the resulting invite to cross the Atlantic. "Barack and Michelle" want to see "David and Samantha" in Washington at the earliest available opportunity.

William Hague, the U.K. foreign secretary, was also quick to visit U.S. Secretary of State Hillary Clinton. For lunch, warm words were on the menu.

But this is standard Anglo-American fare. When a new leader in either the U.K. or the U.S. takes over, the president or secretary of state is primed by officials to use the term "special relationship" with portentous emphasis. Failure to do so, Washington believes, will result in a British national breakdown and full-blown existential crisis rooted in postimperial angst. The truth about this now traditional little diplomatic dance is that the Brits know they are being spun but officials are much too polite to tell the Americans that it's no longer strictly necessary.

Beneath the surface all is not well. The incoming Tory team had expected to be able to forge strong relations but beyond the public statements it is hitting a wall of indifference.

The crisis involving **BP** isn't helping. For officials in London Mr. Obama's strong attacks on BP and extraordinary demand that it reduce its dividend as some kind of punishment for its oil spill are a particular headache. Soon, Mr. Cameron is likely to be asked in a press conference or interview what he thinks of the White House campaign against BP. He will have to choose his words very carefully to avoid offending both parties. There will be others who argue that he should be bolder in defending a U.K.-based company and British pride.

Perhaps the reality is that Mr. Obama and Europe are destined not to get along. He may realize in a future crisis the advantages of being nice to old friends. Equally, he may not. There is very little that European leaders can do about it until there is a president who thinks differently.

In the interim they may take a leaf out of Mr. Obama's book by caring about it a little less. China, India and other rising stars of the world economy are there to be cultivated far more intensely than the Europeans are currently doing. We are moving from a multilateral world, dominated by a single super power and fixed blocs, into an increasingly unilateral age in which all manner of new relationships will have to be managed. There are, thinking of Kissinger again, all sorts of other people now worth calling.

What's News

■ **EU finance officials** pronounced the need for more-centralized planning of national budgets after two days of meetings in Luxembourg. But getting there will be the hard part, as politicians were clear to draw a line. **4**

■ **Fitch warned of the need** for bigger austerity measures in the U.K., in a report that rattled investors but could help Prime Minister Cameron justify severe spending cuts to a worried public. **4**

■ **Greek inflation** accelerated to a 5.4% annual rate in May, more than three times the average for the euro zone, lifted by higher fuel costs. **6**

■ **ABB bid $1.24 billion** for Chloride Group, potentially triggering a battle for the U.K. company with Emerson Electric of the U.S. **21, 32**

■ **Emirates Airline ordered** 32 Airbus A380s and announced the deal in Berlin, ramping up a trade fight with Deutsche Lufthansa. **17**

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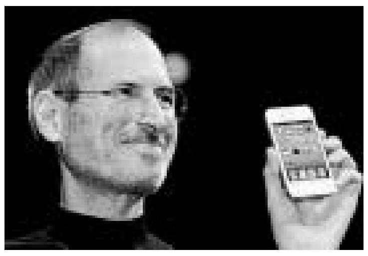

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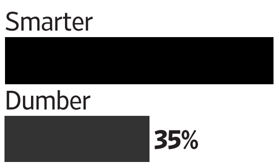

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NEWS

France opens up gambling market

Online betting licenses given to foreign firms

BY MAX COLCHESTER

PARIS—France opened up its online horse-racing and sports-betting industry to competition Tuesday, relaxing a state monopoly on gambling that traces back to the 16th century as it looks to stabilize tax revenues from online bets.

The move, timed to coincide with the World Cup, is an attempt to crack down on illegal betting websites while answering European Commission's demands to liberalize national online gambling monopolies.

So far 17 licenses have been awarded to 11 operators, including Austria's **Bwin Interactive Entertainment** AG's and **BetClic Enterprises** Ltd. of Malta, France's Authority for Online Gaming Regulation said in a statement. Online poker will be authorized later this month, the regulator added. The number of licenses will be limited.

In recent years, France's system has been undermined by the emergence of offshore Internet gambling companies.

As of Tuesday, online gambling companies operating in France without a license could face steep fines.

Since a 1539 edict passed by King François I, France's successive governments have maintained a strict monopoly on lottery and sports betting.

All lottery games are operated by state-controlled company **Française des Jeux**, or FdJ, while Pari Mutuel Urbain, or PMU, a consortium of racing organizers, is in charge of horse betting. Privately owned casinos are allowed to offer chance games, such as roulette, and skill games, like poker.

In recent years, however, the system has been undermined by the emergence of offshore Internet gambling companies.

When FdJ started offering online sports betting in 2002, it was hampered by competition from offshore rivals that paid lower taxes in the respective countries. The company only gained 5% market share in France's €1 billion ($1.19 billion) online sports betting market, says Jean-François Vilotte, president of France's Authority for Online Gaming Regulation. "It was the worst possible situation," he said.

In an interview, Mr. Vilotte said France needed to face up to the illegal websites and regulate the online gambling market.

Under pressure from the European Commission, France has followed the lead of Italy and issued online betting licenses to private companies. Spain and Denmark could soon follow suit with a similar system.

France's online sports betting revenue could double in the next three years because of the licenses, Mr. Vilotte said.

However, for the new betting companies, France may not prove a jackpot.

France is one of the few countries that tax the total amount bet as opposed to the revenue garnered by the gambling company. Given this standard, France's tax is relatively high. For example, total tax on sports bets stands at 8.8% in France compared to 3.8% in Italy.

The relatively high taxes, strict regulation over what bets can be placed and the presence of PMU and FdJ could make generating profit a long-winded process, analysts say.

"France is a big market," says Lorien Pilling, the head of research at Global Betting & Gaming Consultants based on the Isle of Man. "Whether it is profitable is yet to be seen."

Another issue for new entrants is online casino games, such as online roulette. Those games are a very lucrative segment of the market but remain banned in France, except for online poker.

Local behemoths PMU and FdJ will maintain their monopolies over betting in shops, where the majority of gambling revenues are made. This combined with local brand recognition could give them an early advantage over competitors, analysts say.

Other bookmakers hope that once licenses have been granted, France will gradually lower tax rates and loosen regulatory demands.

"The key thing is to be there at the beginning," says Antonio Costanzo, the head of betting company Bwin's French operations. "Hopefully things will improve with time."

Agence France-Presse/Getty Images

France relaxed a state monopoly on gambling, opening up its online horse-racing and sports-betting industry to competition.

Warhol still in the big numbers

Reuters

With Andy Warhol's work apparently recession-proof, this 1963 'Silver Liz' portrait of Elizabeth Taylor, unseen in 20 years, went on view at Christie's in London Tuesday. It could fetch as much as £8 million ($11.6 million) at auction on June 30.

EU aides urge joint planning

Finance ministers stress ‘economic governance’; governments are likely to resist on budgets

By Charles Forelle

LUXEMBOURG—Top finance officials from the European Union pronounced the need for more-centralized planning of national budgets after two days of meetings here. But getting there will be the hard part.

Even as officials carried on discussions about “peer review” of one another’s budgets and heightened sanctions for fiscal scofflaws, politicians were clear to draw a line.

“It’s not about submitting the French budget to the European Commission before the [French] parliament,” said French Finance Minister Christine Lagarde, on her way out of an EU finance chief’s conclave.

“The budget will be presented to parliament first,” said Mark Hoban, the financial secretary to Britain’s Treasury. “Once the chancellor has presented it to Parliament, it is of course publicly available.” Britain doesn’t use the euro.

The degree of common fiscal management has been a sore point since the founding of the euro. Countries that share the currency submit to a single monetary policy but manage their own fiscal affairs.

A deluge of ideas for joint fiscal management has emerged to address a key issue at the root of the euro zone’s financial crisis: fiscal indiscipline by governments such as Greece. There has been a chorus of calls from European policy makers, economists and the International Monetary Fund to plan more taxing and spending at a European level, and to find ways to bring profligate governments into line.

However, the ideas are meeting resistance, reflecting a deep tension within the 16-nation euro zone and the broader EU.

Ceding any control over government budgets runs hard into fiercely cherished national prerogatives, as well as into popular opposition to shifting decision-making to other governments or the European Commission, the Brussels-based bureaucracy that comprises the union’s technocrats and administrators.

The result: Efforts toward greater “economic governance,” in EU argot, will likely be baby steps.

Reuters

Italian Premier Silvio Berlusconi, left, arrives with EU President Herman Van Rompuy for a meeting in Rome Tuesday.

“We certainly are moving on some of the less-controversial issues,” says Fabian Zuleeg, the chief economist at the European Policy Centre in Brussels. As for matters like peer review of budgets, “I would expect that there would be hard political negotiations before compromise is found.”

One of the less-controversial issues approved Tuesday was the granting of audit-like powers to Eurostat, the bloc’s statistics agency. Eurostat now has limited authority to question numbers reported by national governments, and it has no ability to dig into books and records.

The new measure, if approved as expected by the European Parliament, lets the agency have access to “all necessary information,” said the Spanish finance minister, Elena Salgado.

A similar measure was rejected by finance ministers in 2005, but it became difficult to resist after revelations of years of numbers-massaging by Greek authorities.

Outside observers say the EU—and particularly the euro zone—needs to do far more than clean up statistics. The IMF has staked out aggressive ground, calling Monday for measures like more common EU budgeting, which would see some money being routed through Brussels before being disbursed, and a common bond that could be tapped for financing by well-behaved countries, as an incentive to be disciplined.

A task force led by EU President Herman Van Rompuy and including national representatives as members is also charged with coming up with new economic-governance ideas. Mr. Van Rompuy late Monday said “rapid progress can be made.”

He advanced several ideas, including graduated sanctions and penalties that could kick in before a country was in full violation of the EU’s budget rules.

He also pressed for a peer review, in which countries would present their budget plans to one another each spring, before national approval later in the year.

But he said the spring plans would be broad outlines of spending, revenue and economic assumptions, “of course, not to be checked in detail or to be decided upon by the European institutions.”

U.K. should slash debts, says Fitch

By Neil Shah

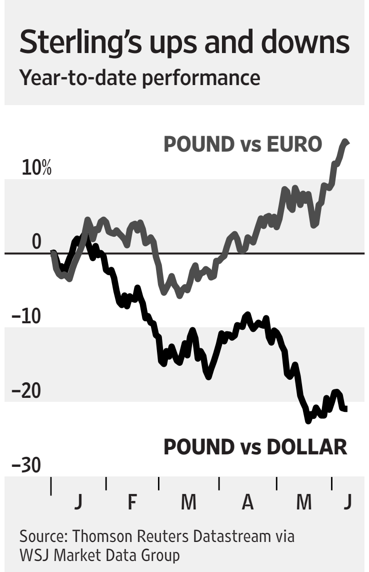
Britain’s debt problems returned to the spotlight Tuesday after Fitch Ratings warned of the need for bigger austerity measures in a report that rattled investors but could help new Prime Minister David Cameron justify severe spending cuts to a worried public.

In its first major statement since Britain’s Conservative and Liberal Democrat parties formed a coalition government last month, Fitch said the U.K. “faces a formidable fiscal challenge” and should be more ambitious in cutting its debts. The warning comes as new U.K. Treasury chief George Osborne prepares to unveil June 22 emergency measures to cut Britain’s budget deficit, which, at more than 11% of gross domestic product, ranks among the largest among advanced countries.

While Fitch’s report didn’t raise any fresh problems with Britain’s finances, it could boost Mr. Cameron’s efforts to rally public support for a campaign of austerity measures that could rival those under Margaret Thatcher in the U.K.’s blighted 1980s. “It helps politicians get the message across,” said James Knightley, an economist at Dutch bank ING Groep NV in London. “If third parties are saying this is what is required, then that might be helpful in supporting the politicians’ message that aggressive austerity needs to happen.”

Fitch commended Britain’s new government for acting quickly to make deficit-cutting a priority. But it also raised flags over plans to cut taxes and the possibility that a newly created Office for Budget Responsibility could soon revise Britain’s economic-growth forecasts lower, requiring even heftier spending cuts. The office releases its forecasts June 14.

Fitch urged Britain to cut its borrowing by an additional 1% of its GDP for the next few years to ensure that its finances can withstand any external economic or financial shocks, given worries about government debts in Europe.



“As more European countries respond to market pressure by tightening fiscal policy more aggressively than originally planned ... there is a risk that the U.K.’s existing deficit-cutting targets begin to look distinctly weak,” Fitch analysts said.

Fitch has a “stable” outlook on Britain’s top-notch triple-A credit rating, which means the agency isn’t expecting to lower it anytime soon. Recent data also suggest Britain’s economy is beginning to pick up, while the latest borrowing numbers show signs of improvement.

Fitch’s warning hit the U.K. pound, which traded at $1.4382 mid-afternoon in New York, down from $1.4474 Monday. At the same time, London’s blue-chip FTSE-100 stock index briefly dipped below 5000 before recovering to end down 40.91, or 0.81%, at 5028.15.

A U.K. Treasury spokesman responded by saying the government agrees with Fitch’s push for an accelerated deficit-cutting program.

—Laurence Norman contributed to this article.

Spain’s government workers begin strike

By Daniel de la Puente And Jonathan House

MADRID—Spain’s public-sector workers went on strike Tuesday in what could be a run-up to a wider general strike in response to spending cuts the government has announced to reduce its large budget deficit.

According to Comisiones Obreras, Spain’s largest union, 75% of Spain’s 2.6 million state employees stayed away from work, while the government estimated 12% of workers didn’t show up.

The strike is a challenge against austerity measures totaling €15 billion ($17.88 billion) this year and next, including a 5% cut in public-sector wages this year and a freeze in pensions next year. Socialist Prime Minister José Luis Rodríguez Zapatero won parliamentary approval for the measures last month by a single vote.

Financial markets are watching to see whether Spain and other highly indebted euro-zone countries have the political muscle to overcome popular resistance to austerity plans.

At the end of the workday, union leaders led a short march that ended at the Puerta del Sol, at the center of the Spanish capital.

Ignacio Toxo, head of Comisiones Obreras said the government’s austerity measures will prolong the country’s economic crisis. “This will result in an increase of our already dramatically high unemployment rate,” Mr. Toxo said in a speech.

Spain is grappling with a 20% unemployment rate following the collapse of its labor-intensive construction industry.

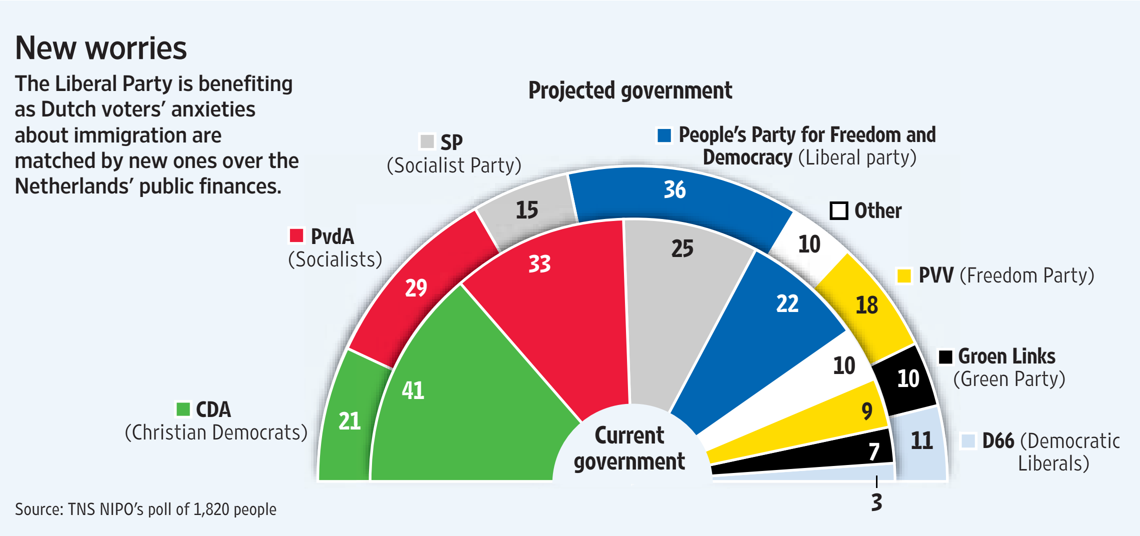
The public-sector strike is the first step in a series of protests labor unions have prepared and could lead to a general strike, which Comisiones Obreras has said it has started preparations for. In addition to the austerity measures, unions are concerned that an upcoming overhaul of labor laws could harm workers’ rights.

The Spanish government, on the other hand, is under intense international pressure from financial markets and the European Union to rein in a double-digit deficit as the Greek-centered financial crisis has spread to other fiscally frail countries.

Institutions such as the International Monetary Fund say a radical overhaul of labor laws is necessary to spur growth in Spain and to lower the country’s historically high unemployment rate.

Mr. Zapatero has pledged to approve a labor-market overhaul June 16, with or without an agreement with unions and business groups, a move that represents a break with previous policy. The Socialist leader had previously said his government wouldn’t make any changes to labor regulations unless those changes were agreed upon by the so-called social partners.

“If the government approves a reform that is harmful to workers’ rights, let there be no doubt there will be a general strike, and the government should know it will be massive,” Mr. Toxo said.



Associated Press

Cyclists pass election posters in Amsterdam Tuesday. The vote is Wednesday.

Budget fears take over Dutch voting

By Anna Marij van der Meulen And Anton Reijinga

AMSTERDAM—The Netherlands, home of the "Dutch model" welfare economy, is set to become the next European country to move toward fiscal conservatism after general elections Wednesday.

Fears over the budget deficit have eclipsed concerns about immigration and the growing reach of Islam after warnings from domestic economists and the European Union about a looming debt problem.

For decades, the Dutch government has been led by either the Christian Democrats or the Socialists. But both are set to lose seats in Wednesday's elections, according to recent polls.

Instead, the shift favors the center-right People's Party for Freedom and Democracy, more commonly known as the Liberal Party, led by Mark Rutte. He has pushed for the most aggressive agenda of economic changes and budget cuts, as deficits have grown to over 5% of gross domestic product.

But the anti-immigration policies of the far-right Freedom Party will linger. Party leader Geert Wilders, who was branded an extremist by the British government for his anti-Islamist rhetoric and initially denied entrance to Britain last year before the decision was overturned, is expected to double his vote, albeit from a low base.

The Netherlands has often been envied as a balance between enterprise and a welfare state, whose largess ranged from free child care to generous health care and jobless benefits. But government spending is estimated to rise to 51% of Dutch gross domestic product this year, from 45% of GDP 10 years ago, and tax rates on higher incomes have been ratcheted up to 52%.

Having traditionally had as stern a reputation as Germany for fiscal responsibility, the Dutch have seen the recession open up big budget deficits.

The population of 16.6 million is aging, and in a state where all individuals over 65 receive a pension guaranteeing 70% of the net minimum wage, worries are building as to how to meet future pension liabilities.

Dutch demographics have troubled the European Commission, the executive arm of the European Union. Last year, its economists included the Netherlands among a group of countries deemed to have high risk in terms of the long-term sustainability of public finances.

The Liberals are leading in the polls with projections to win 36 out of 150 parliamentary seats. But Mr. Rutte would still have to work with a patchwork of other parties to gain a parliamentary majority.

Even a fragmented Liberal-led coalition would find the Netherlands joining a wider European electoral trend to vote in center-right governments preaching stark fiscal changes, taking a cue from fears of a European debt crisis coming from financial markets.

Mr. Rutte's Liberals have adopted some anti-immigration policies, such as limiting the intake of unskilled workers and restricting social services. But Mr. Wilders is unlikely to feature in government led by Mr. Rutte because of the Freedom Party's populist economic aims, which differ widely from Mr. Rutte's.

The previous Dutch government, a three-party coalition of center- and left parties, collapsed in February after internal disagreements on the deployment of Dutch forces in Afghanistan.

Industrial output grows in Germany

By Patrick McGroarty

BERLIN—Germany's roaring export economy continued to benefit from the global recovery in April, when the country posted a €11.8 billion ($12.4 billion) account surplus and a 13.3% rise in industrial output from a year ago.

Government data showed on Tuesday that foreign trade continued to help offset sluggish domestic demand.

While the recovery is gaining traction in Germany, it isn't spreading equally across the euro zone. The share of German exports that go to the 15 other euro-zone countries is steadily declining.

"The strong momentum since the end of the harsh winter has been sustained," said Carsten Brzeski, an economist at ING Bank. "With filling order books, the weak euro, business expectations back at precrisis levels and increasing recruitment plans, the near-term future for the German economy looks bright."

Industrial output was also up 0.9% in April from the previous month, building on a 4.3% monthly surge in March.

The new data followed news on Monday that April manufacturing orders rose 2.8% from a month earlier and 29.8% from a year ago, foreshadowing further output gains in the months ahead.

"Sustained vigor in domestic and foreign orders points to expectations of continued recovery for industrial production," the economics ministry said in a statement.

The strong production and output figures suggest that gross domestic product could grow robustly in the second quarter, and support the government's current forecast of 1.4% growth for 2010.

While the recovery appears to be gaining traction in Germany, however, it isn't spreading equally across the euro zone.

The share of German exports that go to the 15 other countries that use the euro is steadily declining, the statistical office's data showed, as is the share of German imports that come from those countries.

German exports were up 13.2% in the first four months of 2010, while exports to the euro zone rose just 7.9%.

Total imports from January to April increased 9.2%, while imports from the euro zone gained just 7.4%.

There were some hopeful signs in France, where the economy also benefited from recovery abroad.

France's trade deficit narrowed unexpectedly to €4.25 billion from €4.41 billion, helped by strong aircraft exports and the weak euro, according to the French customs office.

EUROPE NEWS

Hungary moves to close budget gap

New prime minister, addressing concerns about nation's economy, plans to tax banks and trim state spending

By Gordon Fairclough

BUDAPEST—Hungary's populist new leader said he will trim state spending and levy a hefty new tax on banks to help close the government's budget gap, in a speech aimed largely at reassuring jittery international markets that the country's finances are sound.

"It's plain to see that our debt must be reduced," Prime Minister Viktor Orbán, who took office at the end of May, told parliament Tuesday. If the nation's fiscal policies aren't responsible, he warned, "investors and lenders will turn away from Hungary."

Mr. Orbán's fledgling administration last week got a taste of the consequences when markets lose confidence. After aides said Hungary could significantly exceed budget-deficit limits set by its lenders and follow in the footsteps of Greece, the country's currency and stock market plummeted.

The government in Budapest has been in damage-control mode since then, with officials coming out over the weekend to insist that Hungary would stick to its agreements with the International Monetary Fund and the European Union, which stepped in to bail out the heavily indebted country in 2008.

Mr. Orbán's Fidesz party won an overwhelming victory in April elections after a campaign calling for tax cuts to spark economic growth. Fidesz politicians also said austerity measures imposed by the previous government were unnecessary. Mr. Orbán said Hungary deserved better terms from lenders.

But Mr. Orbán's address Tuesday indicated he had reformulated his plans for fiscal easing in the face of opposition from EU leaders, the IMF and unforgiving markets already spooked by the situation in Greece and fearing contagion effects.

After deficit spending over the past eight years under previous administrations, Mr. Orbán said, "Hungary is not standing on its own feet, but is living off loans."

Standing in the ornate meeting chamber of the parliament house built during the Reform Era heyday of the Austro-Hungarian Empire, he said the government had to decrease its reliance on borrowing. He also said Hungary wouldn't seek to "renegotiate" the terms of its debt.

Instead of the immediate, broad changes to the tax system the Fidesz party had suggested during the election campaign, Mr. Orbán on Tuesday put forward a plan to shift toward a flat tax on incomes, starting in about two years. He called for an immediate cut in the corporate-income tax, but only for smaller companies.

He also said he plans to significantly—but temporarily—increase the amount of taxes paid by banks. Mr. Orbán said he expected to raise 200 billion forint, or nearly $840 million, from levies on financial institutions. Those banks now pay about 13 billion forint in taxes each year, he said. He said the banking tax would stay in place for three years. Details of how the new tax would be assessed are still being discussed, he said.

In addition, Mr. Orbán said the government would look to cut government spending by about 120 billion forint, or about 1.3% of the planned 2010 budget.

After Mr. Orban's remarks, the forint held steady against the euro, after a sharp drop last week and a partial rebound Monday. Yields on Hungarian bonds fell, in a sign of rising investor confidence.

—Veronika Gulyas contributed to this article.

Associated Press

Hungarian parliamentarians applaud Prime Minister Viktor Orbán after his speech announcing his government's new economic program in Budapest on Tuesday.

Vote throws UBS deal into doubt

Continued from first page

Swiss deal last year requires that the Swiss hand over the names to American officials by August.

Swiss Foreign Minister Micheline Calmy-Rey expressed hope that an agreement could still be reached. "It's not over," she said.

In an interview, Ms. Calmy-Rey declined to speculate as to what the Swiss government might do if the bill fails. "I hope it will find a majority," she said. The Swiss government has pushed hard for the deal, with Economy Minister Doris Leuthard recently saying, "There is no plan B" in case of rejection of the bill.

The U.S. has said it won't extend the August deadline. If Switzerland fails to hand over the names, the U.S., which alleged that UBS helped Americans hide about $20 billion, could launch a new tax case against the bank.

Carl Levin, a Democratic senator from Michigan who has led several committee hearings on the UBS case, called on U.S. authorities to reopen the case immediately. "The United States should reject any further attempts by the Swiss to delay the UBS case," he said in a statement. "It is time to move forward with the summons in court and force UBS to provide the names."

Even if parliament approves the bill, there is still the risk that a political party or a civic group will push to subject it to a popular referendum. That would likely mean a failure by Switzerland to meet the August deadline because of the months it takes to hold a signature drive to launch a referendum in Switzerland.

UBS shares fell 2.2% in Zurich on Tuesday.

The tax case has been particularly damaging to the bank's wealth-management business. The aggressive action by the U.S. opened the door to pressure from Switzerland's European neighbors, which have urged the nation to loosen its bank-secrecy laws and give up its status as a tax haven. Since the start of 2008, UBS has lost about 1,500 private bankers and its wealth-management unit has seen net outflows of 231 billion Swiss francs ($198.5 billion).

Swiss banks are also getting tougher with European clients they suspect of dodging home-country taxes as Germany and France step up their search for those using Switzerland to avoid tax.

European Pressphoto Agency

Switzerland's House of Representatives voted 104 to 76 against a measure that would enable UBS to release the names of its account holders to the U.S.

Greek inflation jumps, lifted by fuel costs, taxes

By Alkman Granitsas And Nick Skrekas

ATHENS—Greek consumer inflation accelerated to a 5.4% annual rate in May, more than three times the average for the euro zone, compared with April's 4.8% annual rise, the National Statistics Service said Tuesday.

The figure, the highest year-to-year inflation rate since August 1997, comes as Greece's recession is deepening, with rigorous spending cuts aimed at closing wide budget gaps. Economists say galloping inflation will further weigh on already depressed consumer sentiment.

"The higher inflation rate will definitely hit disposable income," said Nikos Magginas, a senior economist at National Bank of Greece.

"I do worry about dampening consumption via this high inflation and it poses a higher recessionary risk," he added.

In monthly terms, consumer prices were up 0.8% in May, compared with a 1.2% increase a month earlier, the statistics service said.

Higher gasoline and heating-fuel costs, along with increases in tobacco and alcohol costs, drove annual inflation in May—mainly due to increased excise taxes imposed by the Greek government as part of its austerity plan.

Transport costs jumped 20.3% and accounted for almost half the overall rise in May inflation. Housing prices, which include home heating costs, jumped 7.8%, while alcohol and tobacco prices were up 16.9% on year.

The country's recession is deepening with rigorous spending cuts aimed at closing a wide budget gap.

Those increases will likely be short-lived as the recession weighs on demand and as the one-time increase in excise taxes is embodied in the new price level.

"Consumer prices are increasing for technical reasons, such as higher energy and oil prices, as well as the hike in excise taxes," said Mr. Magginas.

The Greek inflation rate will peak in July and start to decelerate from October onward, and then will drop below a 1% rate next year because of the base effects of higher inflation this year, Mr. Magginas said.

U.S. NEWS

Hitting the machines in Las Vegas

Associated Press

Nevada Republican Senate candidate Danny Tarkanian votes in a primary election in Las Vegas as 11 states held ballots Tuesday to determine party candidates for November congressional elections.

Candidates target Wall Street ties

Politicians stress rivals' work in finance, seeking to capitalize on voters' economic anxiety and hostility to banks

By Naftali Bendavid

In a year of anger over big bank bailouts and hefty banker bonuses, candidates are aiming the "Wall Street insider" epithet at their rivals with a new aggressiveness and intensity.

Candidates who have worked for Wall Street firms or banks elsewhere are seeing their rivals try to tie those stints to voters' economic anxieties.

The tactic has forced several of the targets to spend valuable time explaining their work histories.

They include Democrat Alex Sink, who is trailing in the polls in her bid for Florida governor, and Republican John Kasich, who is in a close race for governor of Ohio.

Earlier this year, the Wall Street label had a role in shaping the primary-election field in New York. When former Rep. Harold Ford was contemplating a challenge to Democratic Sen. Kirsten Gillibrand, her campaign highlighted his position as a vice chairman at Bank of America Merrill Lynch, suggesting Mr. Ford was more aligned with Wall Street than with taxpayers. He ultimately decided not to run.

Mr. Kasich, like some other candidates with ties to banks or investment firms, has responded to criticisms by stressing he is no Wall Street baron.

He notes in his campaign biography that he is the son of a mailman and grew up in a "blue collar neighborhood."

His Democratic opponent, Gov. Ted Strickland, would rather focus on another part of Mr. Kasich's background: his work as a managing director at an Ohio office of Lehman Brothers Holdings.

Mr. Kasich was with Lehman from 2001 through 2008, when the big investment bank collapsed.

The Strickland campaign has aired an advertisement in which a woman who lost her job asks, "Does Ohio really need a congressman from Wall Street for governor?"

The Kasich campaign is pushing back hard, noting that Mr. Kasich worked mostly in a two-person office in Columbus. "Blaming me for Lehman Brothers is like blaming a car dealer in Zanesville for the collapse of General Motors," Mr. Kasich has said.

Ms. Sink served as president of Florida operations for Bank of America. Republicans have aired ads saying, "As bank president, Alex Sink eliminated thousands of Florida jobs while taking over $8 million in salary and bonuses."

Kyra Jennings, Ms. Sink's spokeswoman, said the candidate was a respected banker. "Alex Sink left the banking industry 10 years ago, long before the big banks started treating consumers the way they do today," she said.

Alexi Giannoulias, a Democratic Senate candidate in Illinois, took a political hit in April when federal regulators shut his family's troubled Broadway Bank, where he had worked as a senior loan officer.

With Democrats controlling Congress and the White House, the party's candidates are often under attack for being Washington insiders. Calling some of their opponents Wall Street insiders gives them a way to answer back. Polls suggest voters are angry at big government, but also hostile to banks and big business.

In California, GOP gubernatorial candidate Meg Whitman plays up her role as former chief executive of eBay Inc., but her adversaries are focusing on her time as a board member of Goldman Sachs Group Inc. in 2001 and 2002.

An Internet video by an anti-Whitman group called "Level the Playing Field 2010" shows an animated version of Ms. Whitman dismissing questions about "insider stock deals" when she was at Goldman.

Whitman spokesman Tucker Bounds said critics were distorting the candidate's business record. "She is part of a California success story that created 15,000 jobs," he said.

Pat Toomey, the Republican Senate nominee in Pennsylvania, was an investment adviser at Chemical Bank from 1984 to 1986, then spent four years at Morgan, Grenfell & Co., a British investment bank.

Mr. Toomey is "a creature of Wall Street," said Democratic Gov. Ed Rendell of Pennsylvania. Democrats have released a video saying, "He was part of the same Wall Street culture that nearly took down our economy."

Toomey spokeswoman Nachama Soloveichik said that what mattered was a candidate's positions.

"Pat can't deny his resume. He did work for some banks 20 years ago," Ms. Soloveichik said. But she noted that Mr. Toomey opposed bailouts for Wall Street, while his Democratic opponent, Rep. Joe Sestak, supported them.

"Let's talk about policies, not where Pat worked 20 year ago," she said.

Blagojevich judge sets tone

By Douglas Belkin

CHICAGO—A judge on Tuesday told the courtroom at the outset of former Illinois Governor Rod Blagojevich's corruption trial that he was prohibiting anyone in the court from using Twitter during the trial or making public statements.

Judge James Zagel said "an adverse influence may be created by making public statements outside of the courtroom."

Mr. Blagojevich has written a memoir and hosted a radio show since his arrest in December 2008. Both he and his wife, Patti, have appeared on reality television shows, and both have Twitter accounts.

Judge Zagel also said opening arguments would be finished Tuesday, even though Mr. Blagojevich's daughter has an eighth-grade graduation ceremony Tuesday evening.

Mr. Blagojevich's attorneys earlier Tuesday filed motions to dismiss the case on First Amendment grounds. Mr. Blagojevich was arrested on Dec. 9, 2008, and charged with, among other things, trying to sell the U.S. Senate seat vacated by President Barack Obama. Mr. Blagojevich denies wrongdoing.

The Associated Press reported that Judge Zagel named 18 jurors—a panel of 12 and six alternates—and postponed a decision on the request to dismiss the charges.

Flanked by his wife and newspaper columnist Jimmy Breslin, Mr. Blagojevich walked into federal court and called the beginning of his trial a historic day. "Patti and I are really happy this day has finally come," Mr. Blagojevich said.

Mr. Breslin signed a deal last year with Walt Disney Co.'s Hyperion publishing unit to write a book on Chicago politics using the Blagojevich scandal as a starting point.

Getty Images

Ex-Illinois Gov. Rod Blagojevich spoke to reporters at the courthouse Tuesday.

BP increases oil collection

Efforts put company near processing limit; CEO Hayward set to testify on Capitol Hill

BY SUSAN DAKER
AND STEPHEN WISNEFSKI

Reuters

A sea turtle is mired in oil Tuesday on Grand Terre Island, La. BP has collected 42,500 barrels of oil in the past four days.

HOUSTON—**BP** PLC said Tuesday that it collected 14,800 barrels on Monday from a leaking deepwater well in the Gulf of Mexico, a sharp increase from the previous day's rate that puts the company close to the limit of how much oil it can process in the near term.

U.S. Coast Guard Admiral Thad Allen, who is overseeing the federal response to the spill, said a second ship should arrive in two to three days and should add 5,000 to 10,000 barrels of additional processing capacity. The current ship can only process 15,000 barrels of oil a day.

Officials continue laying the groundwork for what is meant to provide a more permanent cap than the one that was installed last week.

Any oil that can't be processed will continue leaking into the Gulf, and live feeds from the well site show a sizable amount continues to gush from the area of the containment cap. The inability to more fully contain the spill and the lack of clarity on how much oil is leaking is putting additional pressure on BP as oil encroaches further on U.S. Gulf Coast areas.

"I've never said that this has been going well. We're throwing everything we've got at it. We knew this was catastrophic from the beginning," Adm. Allen said at a news conference in Washington.

He has directed BP to provide a longer-term containment plan, particularly one that will ensure the viability of the effort during the hurricane season.

BP Chief Executive Tony Hayward, who has been criticized for his handling of the response, was asked to testify on Capitol Hill next week before a committee that is scrutinizing the company's actions. The House Energy and Commerce Committee said that it is planning a June 17 hearing. Mr. Hayward's appearance will be his first on Capitol Hill since the explosion.

Meanwhile, Jane Lubchenco, the head of the National Oceanic and Atmospheric Administration, confirmed that water samples have found subsurface oil. "There is oil subsurface—we have always expected that, but it's good to have confirmation," Ms. Lubchenco said.

The small underwater concentrations were found in three locations, though the findings at only one—40 nautical miles northeast of the well site—was consistent with the BP spill. She noted that they are very low concentrations, less than 0.5 parts per million. She said NOAA will continue to study and release the data as they become available.

In the past four days, BP has collected 42,500 barrels of oil, increasing the total steadily since the containment cap was installed. Monday's figure was up from 11,100 barrels the day before.

However, neither BP nor the government has provided an updated estimate of how much oil is actually spilling into the Gulf since the containment effort began on Thursday.

Two weeks ago, scientists led by the U.S. Geological Survey estimated a minimum of 12,000 to 19,000 barrels a day were gushing into the Gulf. The scientists also estimated that when BP chopped off a pipe connected to the broken well as part of its latest containment effort, it could have increased the flow rate by about 20%, at least temporarily.

A BP spokesman said after the call that the company believed the cut to the pipe was worth it because it has increased the amount of oil it has collected from previous methods.

"We're collecting more oil and gas from the containment cap," Mark Proegler said.

Adm. Allen said Tuesday he was directing scientists to come up with an updated estimate that would show flow rates pre-cut and post-cut and that information should be released to the public "sometime later on this week or early next week."

Also, later on this week, Adm. Allen said he will be meeting with BP about how they are handling claims from small business and individuals on the Gulf Coast.

"We're not comfortable with," how it's been going, Adm. Allen said.

"Working claims is not something that is part of BP's organizational competency or capacity and they are relying on subcontractors," he said.

Separately, in an interview on NBC's "Today" show which aired Tuesday, President Barack Obama said his talks with Gulf fishermen and oil-spill experts aren't an academic exercise. They're "so I know whose ass to kick."

The interview with Matt Lauer was part of a stepped-up White House effort to show Mr. Obama is actively engaged in dealing with one of the worst oil spills in U.S. history.

Mr. Lauer also asked Mr. Obama about Mr. Hayward's past comments in which he said, "I want my life back," that the Gulf was "a big ocean" and that "the environmental impact of this disaster is likely to be very, very modest."

"He wouldn't be working for me after any of those statements," Mr. Obama said.

—Siobhan Hughes and the Associated Press contributed to this article.

Norway sticks to its current drilling-permit plans for 2011

BY GUY CHAZAN

Norway said Tuesday that it was "not appropriate" to allow new deepwater drilling until the Deepwater Horizon incident has been fully investigated, but said it would still award new exploration licenses in its territorial waters next year.

Norway's petroleum and energy minister, Terje Riis-Johansen, said he wanted to have "more knowledge" about what had happened in the Gulf of Mexico and what it meant for Norway's regulatory regime before the country handed out more deepwater licenses.

But, in any case, Norway wasn't intending to allocate new permits anytime soon. The next licensing round is planned for late next year, likely months after any investigation into the Deepwater Horizon disaster has delivered its findings.

Governments across the world are trying to digest the ramifications of the Gulf disaster, which was touched off in April when the Deepwater Horizon drilling rig exploded, killing 11 men. The rig later sank, unleashing the worst offshore oil spill in U.S. history.

But Norway's move shows that few regulators are willing to take the step of closing off their deepwater acreage to oil exploration.

The move shows that few regulators are willing to close off their deepwater acreage to oil exploration.

The U.K. said Tuesday it saw no need for a moratorium on drilling for oil and gas to the West of Shetland—one of the most promising deepwater provinces in Europe. Officials did, however, announce plans to double the number of annual environmental inspections of drilling rigs in the wake of the Gulf spill.

Trude Borge Iversen, a spokeswoman for the Norwegian Petroleum and Energy Ministry, said an announcement on which areas will be awarded in next year's exploration licensing round, Norway's 21st, will be made before July. "Today's statement won't change anything," she said. "The round will still go ahead as planned."

Norway is the world's 11th largest oil producer and fifth biggest exporter, with an output of roughly 2.5 million barrels a day in 2008, and it has welcomed most of the global oil majors to explore in its territorial waters.

But even before the Gulf disaster, there was strong opposition in some quarters to opening up areas of Norway's far north such as the Barents Sea and the Lofoten Basin—considered pristine wildernesses—to oil exploration.

A spokeswoman for **Statoil** ASA, Norway's state oil company, said the minister's announcement wouldn't have any impact on its activities in Norway. "Learning from the accident in the Gulf of Mexico is very important for the whole industry, but we would also underline the need for predictability for the industry going forward," said Kjersti Tvedt Morstøl.

—James Herron contributed to this article.

Lawmaker questions staffing on rig

Continued from first page

ter Horizon between 4 p.m. and 6 p.m.

Mr. Harrell testified at a Coast Guard-MMS hearing that he was concerned with certain aspects of drilling operations but said he did not spend any time monitoring the drilling operation during the afternoon because he was tending to the visiting executives. He visited the drilling area later that night. The explosion occurred just before 10 p.m.

"The tour lasted a long time, just getting everything set up, seeing what people they wanted to meet with, speak with while they were out there. It pretty much took the whole day," he testified last month.

Mr. Harrell told the investigators he felt free to break free from the tour whenever he wanted to attend to rig operations. He denied the visits were distracting. "Not really. If it was, I would prioritize what I needed to do," he said.

Mr. Harrell has declined to comment further.

Mr. Rahall also asked Transocean in his letter for a more detailed explanation of its staffing practices during the days and hours leading up to the explosion.

Mr. Rahall said the payroll data for April 20, the day of the explosion, showed that there was also "a shortage of technical personnel on duty, with zero engineers, electricians, mechanics or subsea supervisors listed in the report."

But testimony by Transocean personnel to the Coast Guard-MMS investigative hearing appears to contradict the records Mr. Rahall cites.

For instance, Christopher Pleasant, a Transocean subsea supervisor, testified last month that he was working the evening of the explosion. He wasn't listed as one of the 18 people on duty at the time of the explosion, according to the company documents reviewed by The Wall Street Journal.

Other supervisors have testified that there was no reduction in work force. Chad Murray, the rig's chief electrician, told Coast Guard and MMS investigators last month that the rig had no reduction in personnel during the nearly three months of drilling.

Last month, BP representatives briefed congressional investigators on their internal investigation of the disaster. According to a memo written after the briefing by Reps. Henry Waxman and Bart Stupak, BP identified several mistakes aboard the rig, including possible contamination of the cement meant to seal off the well from volatile natural gas and the apparent failure to monitor the well closely for signs that gas was leaking in.

The memo also described a breakdown in communications aboard the rig that made it tough for workers to monitor how much mud was coming out of the well—a key measure of whether gas is leaking in, according to the memo. An immense column of natural gas, erupting from the oil well, fueled the fireball that destroyed the rig.

When the memo was made public by Messrs. Waxman and Stupak, a Transocean spokesman said in response that "A well is constructed and completed the same way a house is built—at the direction of the owner and the architect. And in this case, that's BP."

—Miguel Bustillo contributed to this article.

WORLD NEWS

Reuters

Prime Minister Naoto Kan, center, at the Imperial Palace in Tokyo Tuesday.

Kan signals push to curb Japan debt

Prime minister backs consumption-tax boost

By Yuka Hayashi
And Takeshi Takeuchi

TOKYO—Japan's new prime minister unveiled a cabinet picked to signal a heightened resolve to curb the country's public debt and cleanse his party's scandal-tainted reputation.

Four days after taking the helm of the ruling Democratic Party of Japan, Naoto Kan emphasized the goal of his administration is to pull Japan out of its two decades of malaise by achieving "a strong economy, strong fiscal conditions, and strong social security simultaneously."

"The time has come to have a serious discussion about whether we should keep borrowing for fiscal spending or we should create a new source of revenue before spending more," Mr. Kan said at a news conference before he was sworn in by Emperor Akihito, along with his new ministers.

To ensure a smooth transition of power, Mr. Kan has retained 11 of 17 members from the cabinet of his predecessor, Yukio Hatoyama, who resigned last week amid slumping poll ratings.

As finance minister under Mr. Hatoyama, Mr. Kan, 63, has developed a sense of urgency toward curbing Japan's ballooning government debts—a transformation for a lawmaker who started out as a grass-roots activist and toiled for decades as an opposition politician at small left-leaning parties.

To turn his conviction into action, the new prime minister named Yoshihiko Noda, his deputy at the finance ministry, to take over his position to lead fiscal consolidation. Messrs. Kan, Noda and other new cabinet members have expressed their support for raising the nation's consumption tax from the current 5% level. The step is unpopular among voters but advocated by many economists as essential for reining in the country's outstanding public debt, which, at nearly twice the size of gross domestic product, is the largest of the world's advanced economies.

With his emphasis on curbing debt, Mr. Kan, Japan's fifth prime minister in less than four years, is betting that voters will see the DPJ as a ruling party serious about rebuilding Japan's economy, having matured from its former status as an opposition party focused on criticizing the long-ruling Liberal Democratic Party.

Mr. Kan's immediate task as party leader is to lead the DPJ to a victory in elections in July and solidify its hold on power.

The center-left party scored a historic win in August, breaking nearly half a century of one-party LDP rule. But support has fallen to perilously low levels in recent months, generating fear of a major defeat in upper-house elections.

In addition to Mr. Hatoyama's botched effort to relocate a controversial U.S. military base in Okinawa, campaign-funds scandals involving the party's top leaders have also hurt the DPJ's popularity.

—Takashi Nakamichi and Yoree Koh contributed to this article.

WORLD NEWS

U.S. increases its Afghan command

As American troop numbers rise, influence gains, too; fighting for a win in Kandahar now, not just a draw

By Yaroslav Trofimov

Reuters

A Canadian soldier passes an Afghan man during a patrol outside the village of Nakhonay in southern Afghanistan. Canada will withdraw troops by late next year.

KABUL—The influx of American forces into southern Afghanistan is redrawing the coalition's command structure there, giving Washington a decisive say in the unfolding campaign at the expense of allies such as Canada and Britain.

Under a division of labor implemented in 2006, the U.S. military had concentrated on eastern Afghanistan while Britain was responsible for the southern province of Helmand, and Canada for neighboring Kandahar. These allies, however, lacked the strength to check the insurgency's spread in the south, the Taliban's historic cradle.

Betting that a military setback to the Taliban on their home turf would defang the insurgency in other parts of the country, the coalition's commander, U.S. Gen. Stanley McChrystal, has since ordered into Kandahar and Helmand most of the 30,000 additional American troops authorized in December by President Barack Obama. Now, the preponderance of U.S. forces on the ground is translating into American control of the battle space and of key command slots.

The change is most notable in Kandahar province, where the campaign's most critical offensive is planned this year. The Canadian military—currently in charge of coalition forces in Afghanistan's second-largest city and in surrounding districts—will see its battle space shrink mostly to one rural district, Panjway, by the end of the summer, U.S. officials say.

In Helmand, British forces have already pulled back to the central part of the province, transferring much of the rest to the U.S. Marines. As of June 1, the British contingent in Helmand reports to U.S. Marine Maj. Gen. Richard Mills, the commander of the coalition's new Regional Command South-West. A British general is supposed to follow him in that position next year.

The Kandahar-based commander of Regional Command South, British Maj. Gen. Nick Carter, is expected to be followed by the commanding general of the U.S. Army's 10th Mountain Division once Gen. Carter's term runs out in the fall, coalition officials say. With Regional Command East traditionally headed by the U.S., this would put American generals in charge of all three coalition commands in the insurgency's main areas of operations.

Until now, command of allied forces in southern Afghanistan rotated between generals from Canada, Britain and the Netherlands. U.S. commanders say these reshuffles are natural given the shifting balance of forces and the planned troop withdrawals by the Netherlands this year and by Canada in late 2011. Allied nations have matched the latest U.S. surge of 30,000 troops with only some 9,000 soldiers.

"None of this was driven by politics," U.S. Army Lt. Gen. David Rodriguez, the day-to-day commander of coalition forces in Afghanistan, says about the changes in the command arrangements. "It's just natural based on resourcing."

Canadian commanders say their country will still play a prominent role in the Kandahar offensive, while Britain's defense secretary, Liam Fox, welcomed the new arrangements as "based on sound military rationale and in the interests of the overall coalition strategy and mission."

Still, the reshuffle marks a major shift in how the war will be handled and led at a crucial time. Mr. Obama has set July 2011 as an inflection point when the U.S. wants to begin withdrawing troops from Afghanistan. In December, he will assess the success of the new counterinsurgency strategy, implemented after years when the coalition has been losing ground and backed up by the surge of American troops.

"It's becoming an American-led war in the South, though not an American-only war," says Malcolm Chalmers, a fellow at the Royal United Services Institute in London.

In Kandahar province, the 2nd Brigade Combat Team of the U.S. Army's 101st Airborne Division is slated to take over the insurgent-affected districts of Zhari and Arghandab north of Kandahar city from the Canadian-commanded Task Force Kandahar in the next month or two. Then, in August, the 1st Brigade Combat Team of the U.S. Army's 4th Infantry Division is scheduled to assume responsibility over Kandahar city itself, coalition officials say.

Task Force Kandahar, which currently commands thousands of American troops in the area, has had to deal with embarrassing distractions over the past few weeks. Its commander, Brig. Gen. Daniel Menard, who had pledged to "break the Taliban's back" by May, was fined 3,500 Canadian dollars (about US$3,300) at a court martial that month for negligently firing rifle rounds on the Kandahar airfield, an incident that occurred in the presence of the Canadian military's chief of staff. Days later, the Canadian military announced that it was relieving Gen. Menard of his command and sending him home because of separate allegations of an improper personal relationship with a female subordinate.

A spokesman for the Canadian Forces in Ottawa said it would be improper for Gen. Menard to comment on the allegations while an investigation is under way.

Canada's shrinking role in Kandahar, where the provincial governor holds a Canadian passport, is a sensitive issue for Ottawa, which launched several large "signature projects" to develop the province and leave long-lasting influence. Similar sensibilities exist in Britain, where the government is eager that London's smaller role in Helmand not be seen as "Americans doing the job that we were not capable to do," Mr. Chalmers says.

Canada has lost 147 troops in Afghanistan, and Britain 292—the vast majority of them in the South—since the war began.

"When the scale of your commitment diminishes in relative terms, influence diminishes and you lose political positions," said Stephen Biddle, a senior fellow at the Council on Foreign Relations and a member of the Pentagon's Defense Policy Board. "This tension is inevitable when you have such a swing in the preponderance of resources."

Few in the two allied nations, however, dispute that American reinforcements are indispensable and that the British and Canadian forces were simply too small to tackle the Taliban in the South on their own.

In Kandahar, "Canada was put in a position of having to fight for a draw instead of going for a win," says retired Canadian Maj. Gen. Lewis MacKenzie. "Now, we'll be able to do the job the way we want it because we have allies with us."

U.N. is set to approve new Iran sanctions

By Joe Lauria

UNITED NATIONS—The United Nations Security Council will vote Wednesday on a raft of new sanctions designed to halt Iran's nuclear program after council members agreed Tuesday on a list of Iranian companies and individuals to be sanctioned, said Mexican Ambassador Claude Heller, the current Security Council president.

The text of the resolution had been agreed to on Monday but negotiations over the names to be put on the sanctions list lasted another day. Both Russia and China had disputed some of the listings, but that was resolved with other council members Tuesday morning, the diplomats said.

The resolution is expected to pass on Wednesday with at least 12 votes in favor and no vetoes from the five permanent council members—the U.S., Britain, China, France and Russia.

The five agree on the package of measures, which would be the fourth round of sanctions against Iran since 2006.

Iran insists its nuclear program is purely for civilian purposes, while much of the international community suspects Tehran is developing nuclear weapons.

Lebanon, which is ruled by a coalition government split between support for the U.S. and Iran, is expected to abstain. Brazil and Turkey, which tried to head off sanctions by attempting to revive a last-minute nuclear fuel-swap deal with Iran, may vote no, diplomats said.

The new measures will include a prohibition of sales on a wide range of conventional weapons—from fighter planes to missile systems—as well as a ban on countries from providing harbor to ships suspected of carrying contraband goods headed to Iran.

Overall they are significantly weaker than earlier drafts circulated by the Obama administration. Many provisions contain loopholes allowing countries to evade their intent: The measures only urge, rather than require, countries to comply.

U.S. officials have acknowledged the new resolution alone won't likely halt Iran's nuclear ambitions; instead, they said it could lead other countries to enact unilateral financial sanctions that could have more bite.

U.S. Secretary of Defense Robert Gates said he expected U.N. sanctions to be followed by even stricter penalties by Washington and others, the Associated Press reported.

"The strategy here is a combination of diplomacy and pressure to persuade the Iranians that they are headed in the wrong direction in terms of their own security, that they will undermine their security by pursuit of nuclear weapons, not enhance it," Mr. Gates told the AP after a meeting in London with new British defense chief Liam Fox.