Exporters face bottlenecks as ship firms cut service to U.S.

THE BIG READ 14-15

Revitalized hedge funds expect billions of dollars

BUSINESS & FINANCE 17

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U.S. bill takes aim at banks

By Corey Boles
And Michael R. Crittenden

WASHINGTON—U.S. Senate legislation aimed at overhauling regulation of finance would cost large banks billions of dollars, prevent them from taking certain risks and create a new regulatory infrastructure to oversee their activities.

The draft bill introduced Monday by Senate Banking Chairman Sen. Christopher Dodd of Connecticut is tougher on financial companies than was expected just a few weeks ago.

Mr. Dodd's bill would allow the Fed to examine any bank-holding company with more than $50 billion in assets, and large financial companies that aren't banks could be lassoed into the Fed's supervisory orbit.

One of the most controversial aspects of the plan would see the creation of an entity within the Fed responsible for protecting consumers' financial interests, such as credit cards and mortgages. The unit would be independent within the central bank and would have its own budget and rule-making authority.

That has angered Republicans who have argued the Fed itself should retain responsibility for consumer protections, and doesn't go far enough for many Democrats who wanted a completely new agency. Among the most expensive parts of the overhaul for the largest financial firms would be contributions to a $50 billion fund to pay for future financial collapses and significantly increased capital requirements.

The bill would implement a form of the so-called Volcker Rule that would put in place restrictions on large banks trading using their own capital.

They would also be limited from investing in or sponsoring hedge funds or private-equity funds. It would give discretion to regulators to enforce these restrictions on a case-by-case basis.

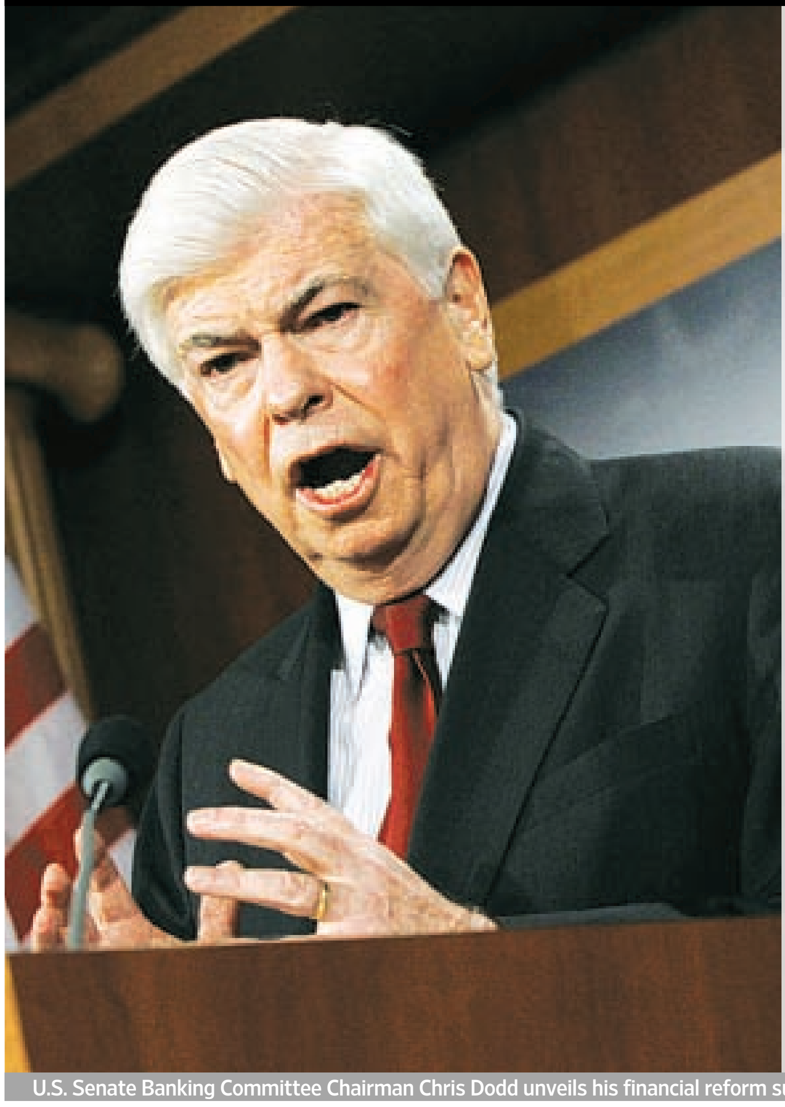
A new systemic-risk council would be responsible for preventing financial firms from becoming "too big to fail." That panel would be headed by the Treasury secretary and would assume responsibility for regulation of large nonbank financial firms.

The bill includes language giving shareholders a nonbinding "say on pay" for company executives, part of a broader shareholder-rights package championed last year by Sens. Charles Schumer (D., N.Y.) and Maria Cantwell (D., Wash.).

For hedge funds, the bill would require those that manage more than $100 million to register with the Securities and Exchange Commission

Please turn to page 8

Banking left | The potential winners and losers from the new legislation



Winners

Federal Reserve: Central bank gets new powers to oversee the biggest financial companies and will house a unit dedicated to consumer financial protection.

Community banks and credit unions: They would be exempt from the new consumer division's enforcement powers and won't have to pay into a $50 billion fund to clean up failed institutions.

FDIC: Regulator would get oversight of all state-chartered banks of a certain size and would play a central role cleaning up the failure of large companies.

Losers

Big Banks: They would face new fees, new scrutiny and new rules to follow in a bill that rhetorically and practically takes aim at Wall Street.

Other large financial companies: Insurers, finance companies and brokerages could face Fed supervision for the first time.

Mortgage brokers: They would be forced to comply for the first time with new federal regulations written by a new consumer agency.

Photo: Reuters

U.S. Senate Banking Committee Chairman Chris Dodd unveils his financial reform substitute on Monday.

The Quirk

Shawarma, ready-to-eat: Arab cuisine invades U.S. Marine base **Page 29**

World Watch

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

Editorial & Opinion

French voters' message for Sarkozy: less drama, more results. **Page 11**

EU power centers diverge over bailing out Greece

By Charles Forelle
And Marcus Walker

BRUSSELS—Euro-zone finance ministers meeting here Monday are set to discuss how Greece could be bailed out if its financial condition worsened, but they are unlikely to adopt any firm measures.

The hurry-up-and-wait attitude reflects a growing divide between Europe's power centers. On one side are some other Southern European countries, the Brussels-based European Commission and, of course, Greece itself, who all fear the nation may be unable to refinance its debt this spring without some measure of support—if only enough to bring down the punishingly high interest rates Greece must pay to buyers of its bonds.

On the other, principally, are Germany and France, the union's two largest economies and the de facto paymasters for any bailout, who are reluctant to pay for Greece's long-time profligacy. Germany, which would have to foot the biggest share of any bill, insists that no specific promises be made to Greece until it is on the verge of defaulting on its debt.

German Chancellor Angela Merkel and Finance Minister Wolfgang Schäuble oppose even reaching a European agreement on how a bailout would work, believing such an accord would be a strong signal that a bailout is imminent. European leaders' promise in February that they would act to protect the euro zone's stability if needed was a clear-enough message to financial markets, German officials say.

That European leaders are moving at very different speeds is evident in the public postures of two of them: economy commissioner Olli Rehn and French Finance Minister Christine Lagarde.

In recent weeks, officials in Mr. Rehn's directorate have been working on possible bailout plans, and "the scope

Please turn to page 6

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11
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PAGE TWO

U.K. needs commitment to low taxes

[Agenda]

By Patience Wheatcroft

As European finance ministers gather in Brussels, there is one phrase unlikely to be high on their agenda: "tax cuts." Spending cuts and tax rises will feature, as the ministers debate, again, the sorry state of the Greek economy.

There will be renewed criticism of evil speculators, who use credit default swaps to destabilize currencies. Regulation of hedge funds and private equity, far beyond what is necessary, may also keep the conversation going over dinner. Mention of tax cuts, however, would be greeted with the same reaction as a surfeit of salt in the soup.

The U.K.'s finance chief, Alistair Darling, will certainly not be mentioning tax cuts. His government already has legislated for an increase in income tax which, from next month, will see all those earning over £150,000 a year paying 50%. There are growing rumors that he is coming under pressure from some in his party to announce in his budget next week that he is lowering the threshold to £100,000.

This would be crazy for the country. All the evidence is that, after a level of around 40%, higher taxes become counterproductive. But while it would be beneficial to Britain's ailing economy to lower taxes, the government, faced with a May election, may be pondering the good of the party rather than the good of the country.

Its polling has, apparently, indicated the imminent increase in income tax is viewed positively by a majority of voters.

Since, according to the Institute for Fiscal Studies, only around 350,000 people in the country earn more than £150,000, most of the electorate is unconcerned by the move. Now some Labour party strategists are arguing that a majority of voters would be happy to see more of what they regard as high earners being hit. After all, there are around 29 million people employed in the U.K., on average earnings of under £30,000. Upsetting the roughly 750,000 of them who earn more than £100,000 would be a risk worth taking, goes the argument.

Associated Press

Ronald Reagan and Margaret Thatcher followed similar tax strategies

Pandering to the politics of envy would plunge the country into even deeper financial woe

There is no denying that the politics of envy stalk the U.K. and the recent furor over bankers' bonuses has propelled them to a new level. But a government that panders to them would be plunging the country into even deeper financial woe.

The "Laffer Curve" provided an academic demonstration of a theory, which, the eponymous economist admitted, had first been outlined in the 14th century. In the past century, both Ronald Reagan in the U.S. and Margaret Thatcher in the U.K., showed it to be a theory that was worth acting upon. Lift taxes beyond a level people deem acceptable, and they will either stop earning or find ways of avoiding the tax. Cut taxes, and the income flows into the government's coffers.

Prime Minister Thatcher cut the basic rate of tax from 33% to 25% and the top rate from a punitive 83% to 40%.

Literally hundreds of economists wrote to tell her that she would further weaken a sickly economy: Instead, she rebuilt it. Economic migrants from the country returned and happily paid their share of the tax bill.

Figures from the Joint Economic Committee of the U.S. Congress show that President Reagan's Economic Recovery Tax Act of 1981, which cut taxes by about a quarter, and the subsequent Tax Reform Act of 1986, which chopped them further, resulted in top earners contributing considerably more to the national pie. By 1988, the top 1% were paying 51% more in real tax payments than they had in 1981. "Lower top marginal tax rates had encouraged these taxpayers to generate more taxable income," concludes the JEC Report.

If Britain's Labour Party chooses to ignore the overwhelming evidence in the hope that it will win a few extra votes, that is simply to further jeopardize an economy that, in the course of its administration, it already has taken to its knees.

But such a callous move should also provide the Conservative opposition leader, David Cameron, to commit wholeheartedly to low taxes.

Mr. Cameron has spent his years as leader detoxifying the image of the Conservative party in a bid to make it electable again. The gripe now being heard from commentators, and manifesting itself in narrowing leads in recent opinion polls, is that they are unclear what a Cameron government would do.

He's said he believes in "people power, not state power" and that he wants "aspiration and opportunity for all." And he's said that he would definitely get to work on Britain's monstrous debt.

"We've got to roll up our sleeves" and get on with it, he told a recent conference, without really explaining what was to be done once the sleeves had been rolled up. He has said that he would trim corporate taxes. Now he needs to go further.

He and his finance spokesman, George Osborne, have said they would aim to do away with Labour's 50% tax rate, but they have failed to convey any conviction that this is something that they are truly committed to, something they absolutely believe to be right for the country.

Labour may be right in judging that the politics of envy have turned Britain into a country that welcomes high taxes.

Mr. Cameron now needs to take the risk that this view is wrong. Instead of trying not to offend those who want to tax the rich to near extinction, he needs to make the case for a wealth-producing economy, in which low taxes fuel the growth to wipe out the deficit. He needs to shout loudly that he believes in low taxes because they work for everyone's good. Many of the voters to whom Labour is cynically tossing a tax hike might warm to a leader who really seems to have a way to restore the nation's finances and pride.

The country has lost its confidence and needs a confident leader to restore it. Leaders don't have to be loved but they have to be brave. No more Mr. Nice Guy.

What's News

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Reader comment

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"How will you find out if your product is competitive unless you try and use the competition?"

Reader **Charlie Goodrich** on the article 'Microsoft Workers Hide Their iPhones'

Continuing coverage

Follow the latest as EU finance ministers meet to discuss options for Greece at **wsj.com/greekdebt**

Question of the day

Vote: Will the absence of David Beckham make the World Cup less appealing?

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Previous results

Q: How does your debt compare to a year ago?

I owe more **9%**

I owe less **56%**

I owe the same **11%**

I don't owe **24%**

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NEWS

Church payouts limit

Financial damage is expected to be lower than in U.S. abuse cases

By Vanessa Fuhrmans
And Dionne Searcey

A quickly unfolding church sexual-abuse scandal in Germany could lead to criminal prosecutions, but it is unlikely to trigger the same level of damages that left parts of the U.S. Catholic Church financially crippled.

Allegations of more than 100 cases of abuse in Catholic institutions across Germany have emerged since January, with more surfacing by the day. Attorneys sorting through the cases say most would-be plaintiffs have little legal recourse because most of the incidents reported this year occurred decades ago, placing them beyond Germany's narrow statute of limitations for civil lawsuits and, in many cases, also for criminal prosecution.

Now, German lawmakers are debating whether to extend the time period in which alleged victims could sue for financial damages, or whether to pressure the church to compensate regardless.

The church can "not hide behind statute of limitations," German parliamentarian Christian Ahrendt, a member of the Free Democrats, Chancellor Angela Merkel's coalition partners, said in a statement. "Compensation is much more a moral question, not a legal one."

Under German law, child sexual-abuse cases must be criminally prosecuted within 10 years of the alleged victim's 18th birthday. The statute of limitations for pursuing civil damages is three years, giving most victims in such cases until the age of 21 to file suit.

A number of lawmakers have called for introducing legislation that would extend the time limits for civil suits to as much as 30 years. Last week, the Archbishop of Bamberg, Germany, Ludwig Schick, called for the statute of limitations for criminal prosecutions to be extended to 30 years. "Most important are the victims," he said. "They are the ones who require justice."

A spokesman for the German Bishops Conference said the church has provided victims and their family members various aid in the past. But it said that it needs to proceed with care on future cases so that each measure is "appropriate and reasonable."

Germany's legal tradition is likely to shield church organizations from the extent of criminal and civil prosecution that rocked the U.S. Catholic Church in the wake of its abuse scandal nearly a decade ago, legal experts say.

The potential blow to its moral standing could be damaging nonetheless. Since January, some 160 people in Germany have reported stories of past abuse at the hands of church elders, still a small number compared with similar scandals in the U.S., Ireland and more recently the Netherlands.

Scores of reports, however, have emanated from some of the church's most elite institutions in Germany, including a boarding school tied to the renowned Domspatzen choir in Regensburg, which Pope Benedict's brother, Georg Ratzinger, directed for 30 years.

Agence France-Presse/Getty Images

Boarding school of the Domspatzen choir in Regensburg, one site of allegations.

In another allegation, which surfaced late last week, a priest who was known to the church as a sex abuser was returned in 1980 to pastoral work at a German archdiocese under Archbishop Joseph Ratzinger, now Pope Benedict XVI. The Vatican has said the pope was unaware of the incident. The archdiocese's then-administrative deputy has taken responsibility.

Though a small percentage of Germans are regular churchgoers, nearly 30% of Germans consider themselves Catholic and many voluntarily pay a tax that supplies the German church with the majority of its revenues.

Individual victims are unlikely, though, to receive the sizable damages some of their U.S. counterparts received. Unlike Germany and most other countries, the U.S. litigation system offers strong incentives for filing lawsuits, giving both victims and lawyers little to lose in pursuing a suit. As a result, thousands of claims were filed in the U.S., targeting bishops or other high-level archdiocese officials.

European Pressphoto Agency

Supporters of United Russia celebrate regional election results at a rally in Moscow on Monday. The ruling party remains dominant but lost some support in Sunday's vote, falling short of its own targets.

Putin's party weakens in Russia poll

United Russia still dominates, but falls short of its goal, as voters blame local officials for rising utility costs

By Richard Boudreaux

MOSCOW—Voters protesting rising utility bills and transportation costs gave opposition parties a boost in Russia's regional elections, weakening the ruling United Russia party's legislative majorities and electing a Communist-backed candidate mayor of the Siberian city of Irkutsk, complete returns showed Monday.

Sunday's vote was a measure of how the global financial crisis, which ended a decade of rapid economic growth, has eroded support for Prime Minister Vladimir Putin's party.

United Russia remained dominant in all eight regional parliaments being elected, but fell short of its goal of 50% of the vote in four of the regions. Russia has a total of 83 regions.

Compared with national parliamentary elections in 2007, the party's share of ballots fell in seven of the eight regions that elected lawmakers Sunday. Its biggest slump was in Sverdlovsk, in the Ural Mountains, where its share of the vote slipped by 25 percentage points.

In Irkutsk, the party's defeat was viewed as a rebuke of Mr. Putin's January decree allowing a paper mill to resume dumping waste in nearby Lake Baikal—a move that prompted a rare street protest by 2,000 people last month—and of the Kremlin-backed removal last year of a popular elected mayor.

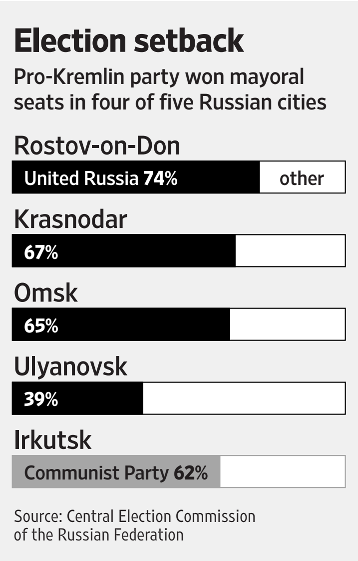
The elections also were a test of President Dmitry Medvedev's pledge to open up the political system following allegations of widespread voter fraud by United Russia in the last round of regional voting in October. Those allegations prompted a brief opposition walkout from the federal parliament.

This time, opposition monitors were given slightly better access to the vote count, but reported election-day violations "at the same level as in October," said Lilia Shibanova, head of Golos, a leading independent watchdog group. Violations included abuse of absentee ballots and participation of unidentified officials during counting, she said.

The liberal opposition Yabloko party, a sharp critic of the Kremlin, was stricken from Sunday's ballots in two regions after officials ruled it had failed to collect the required number of voter signatures. Yabloko was on the ballot elsewhere, but failed to win any parliamentary seats.

The three opposition parties represented in the federal parliament—the Communists, the Liberal Democrats and the Just Russia party—gained ground in Sunday's voting, winning seats in the eight regional legislatures. They offered restrained criticism of alleged fraud. The three parties, while presenting themselves as alternatives to United Russia, rarely criticize the Kremlin.

"There were clearly violations, but nothing that would change the overall picture," Nikolai Levichev, a Just Russia official, told state television.



Masha Lipman, a political analyst at the Carnegie Moscow Center in Russia, said the vote reflected less on Messrs. Medvedev and Putin, who have high approval ratings, than on United Russia candidates, who as local and regional officials are responsible for increases in utility and transport costs in areas of high unemployment.

"They are seen as greedy bureaucrats, distant from the people," she said. "They have alienated people from the party."

In Irkutsk, voters rebelled against a Kremlin-backed move that had the city's popular mayor, Vladimir Yakubovsky, reassigned to the upper house of parliament in Moscow last year. Sergei Serebrennikov was brought in from Bratsk, another city in the region, to run Irkutsk as deputy mayor. As the United Russia mayoral candidate in Sunday's vote, he trailed badly in pre-election polls, behind an independent local contender, Anton Romanov.

A court disqualified Mr. Romanov's candidacy less than two weeks before the election, setting off demonstrations. Public sentiment then shifted behind Viktor Kondrashov, a local businessman running on the Communist ticket. He won 62% of the vote to Mr. Serebrennikov's 27%.

Russia-invasion hoax sparks Georgia anger

Reuters

Georgian opposition leader Nino Burdzhanadze speaks to the media on Monday.

Associated Press

TBILISI, Georgia—Georgia's opposition politicians on Monday denounced the government over a hoax television broadcast that said Russia had invaded and the Georgian president had been killed.

The broadcast Saturday, which simulated a news program, sparked wide anxiety in Georgia, which is still traumatized by the August 2008 war in which Russian troops advanced deep into the country. Cellular-phone networks went down as panicked Georgians phoned one another. The show was identified as fictional only at its beginning and end—which many viewers missed.

Imedi, the station that aired the show, is private, but its director is a former chief of staff for President Mikhail Saakashvili. Opponents characterized the broadcast as government propaganda, aimed at discrediting them. The main opposition, the Democratic Movement for a United Georgia, said "the leadership of Georgia has shown its goal of preserving its power by creating a virtual reality in the country through information terror."

The movement is led by Nino Burdzhanadze, a former Saakashvili ally who led last year's extended protests aimed at forcing the president to resign. The hoax report included the claim that Ms. Burdzhanadze welcomed the Russian invasion and thanked the troops.

"Saakashvili needs to have a permanent threat from Russia; it's the last argument for his staying in power," another onetime ally, former foreign minister Salome Zurabishvili, was quoted as saying in the newspaper Mteli Kvira.

Russian Foreign Ministry spokesman Andrei Nesterenko called the broadcast "irresponsible and amoral ... [it] brought concrete damage to security and stability in the region, substantially raising the degree of tension." He also criticized Mr. Saakashvili for his "approving attitude" to the broadcast. Mr. Saakashvili said that "of course, the film was unpleasant, but the main thing that is unpleasant—and that I want everybody to understand well—was that yesterday's reportage was maximally close to reality, maximally close to what might take place."

Imedi director Giorgi Arveladze apologized for causing distress.

Georgians rallied to Mr. Saakashvili during and after the war, but dismay with his impetuous ways brought weeks of protests last year.

EUROPE NEWS

German exports drive a debate

Trade surpluses with southern neighbors prompt calls for nation to do more to help vulnerable euro members

By Vanessa Fuhrmans

Miguel Villagran/Getty Images

A worker checks a car on the production line at the BMW factory in Munich on Monday. Autos are among the country's major exports.

BERLIN—The German government's stake in leading a potential bailout of Greece despite popular resistance at home has less to do with saving the small country from financial collapse than protecting a key driver of the euro-zone economy—German exports.

Germany ships 43% of its exports to countries within the 16-member euro zone. Shipments to countries on Europe's vulnerable southern tier—a group that includes Greece, Spain, Portugal and Italy—account for about 12% of the total.

That means that if Greece's credit woes spread to larger countries within the currency area, such as Spain, the repercussions for the German economy would be serious.

Germany has "been funding a lot of Europe," says Nick Kounis, chief European economist for **Fortis Bank**, "but it also benefits a lot from the single-currency area."

At the same time, Germany's substantial trade surpluses with its southern neighbors as a result of its export power have prompted calls for it to do more to help resolve vulnerable member states' problems than offer advice on austerity measures.

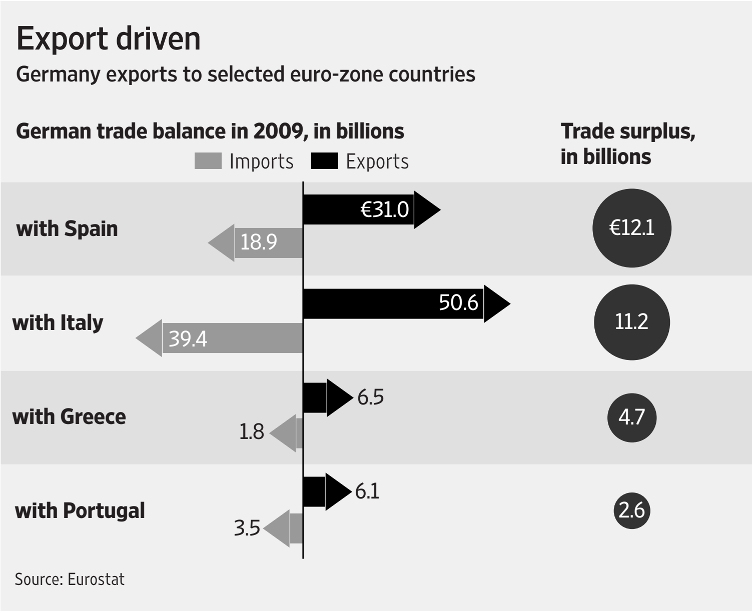
Many economists argue that Germany's trade imbalance with its southern euro-zone neighbors has contributed to their woes. German industry has boosted the competitiveness of its exports over the past decade in part by keeping wages flat.

That's helped German exports, which account for about 40% of the country's economy. Critics say the wage dynamic has also depressed German consumers' spending, hurting other European countries' exports to Europe's biggest economy.

The result is one of the world's biggest trade surpluses, which adds to German gross domestic product but subtracts from its neighbors'.

"I'm not sure it is a sustainable model for the whole of the group," French Finance Minister Christine Lagarde said in an interview in the Financial Times on Monday, referring to these stagnant wages. "Clearly we need better convergence."

Stronger German demand could boost economic growth in Greece, Spain and other struggling economies, making it easier for them to repair their public finances. "If Germans spent more, they'd import more" from the rest of the euro zone, saidHoward Archer, European economist at **IHS Global Insight** in London.



Germany, like China, has come under international pressure since the 2008 financial crisis to rebalance its economy away from reliance on exports, and to contribute more to global demand. But while China has raised its domestic demand through a massive investment program, German policy makers continue to reject criticism of the country's export focus. At a time of economic strain, Germany has been unwilling to take any more stimulus measures because they would increase its budget deficit.

German consumer spending fell 1% in the fourth quarter of last year, while exports jumped 3%, profiting from recovery in other countries' demand.

"To block the export economy now would...go against the concept of competition in Europe," Christoph Steegmans, a spokesman for the German government, told reporters in Berlin on Monday in response to Ms. Lagarde's comments.

Despite Germany's heavy reliance on the euro-zone export markets, polls show that the vast majority of Germans oppose a bailout of Greece. Indeed, many Germans see their country as Europe's perennial rescuer and a paymaster that gives much more in EU aid than it receives.

Germans fund the largest share of the EU budget—about 20%—much of which gets spread to poorer countries such as Greece.

Yet such statistics ignore the many benefits Germany has derived from being part of both the EU and the smaller eurozone, economists say.

The euro has protected Germany more from the euro zone's economic imbalances than poorer members, for example.

Without a common euro, Germany's currency would likely be stronger than its more indebted southern neighbors' and its goods abroad more expensive.

The single currency also has made pricing more predictable, said Dirk Schlotböller, economist at the German Chambers of Industry and Commerce. "It's good for German companies ," he said.

■ See related commentary on Germany's trade surplus 32

EU power centers divide over need for Greek bailout plan

Continued from first page

of possible options has narrowed," says a person familiar with the matter, adding that demonstrating the EU is ready to step in is a "credibility test" of sorts for the bloc. Monday, Mr. Rehn seemed to advance talk of a bailout, saying the commission, the EU's executive arm, is "ready to develop a proposal for a European framework of coordinated assistance."

Ms. Lagarde has tried to reel it in. "There is no such thing as a bailout plan which would have been approved, agreed or otherwise, because there is no need for such a thing," she said in an interview with The Wall Street Journal on Friday. She said she believed Greece's tough budget cuts and tax increases would be enough to persuade investors that it can weather the storm.

Greece has about a month until the next big moment of truth, when it must refinance a chunk of long-term debt coming due. To German officials, that means there is no emergency. Greece still has access to bond markets; it sold €5 billion ($6.88 billion) in debt earlier this month, albeit at a 6.25% interest rate.

Greece's leaders, including Prime Minister George Papandreou, have publicly complained that the rates are too high. Indeed, Greece's aggressive forecast that it can pare a budget deficit equivalent to 12.7% of gross domestic product last year to 8.7% this year are based on its paying rates more than a percentage point lower.

Uri Dadush, an economist at the Carnegie Endowment for International Peace, points out that for a country such as Greece, whose government debt is higher than its annual GDP, paying 6% interest, on average, means interest payments alone add up to more than six percentage points of GDP on the budget line. That creates a giant headwind for a country trying to cut four percentage points from its spending.

Mr. Dadush's conclusion: "They are going to need a bailout. They are under market pressure."

Complaints about rates are falling on deaf ears in Berlin. "We have no interest in bailing out Greece's spreads," a senior German official says. German officials say they know they would have to act if Greece were about to default, in order to prevent a debt crisis from spreading to larger European economies such as Spain, an important German export market.

But acting now, when there is no emergency, would be too risky politically for the chancellor, say people familiar with her thinking. German voters overwhelmingly oppose any financial aid for Greece, which Germans widely view as a profligate and inefficient country that should get its own house in order. Ms. Merkel's center-right coalition faces crucial regional elections in May, which could deprive of the government of its majority in Germany's upper house of parliament.

—Adam Cohen contributed to this article.

Group seeks targeted plans on Greek debt

By Adam Cohen and Matt Dalton

BRUSSELS—BusinessEurope, which represents about 20 million European companies, called for "targeted commitments" toward more concrete action by the European Union to help resolve Greece's debt crisis.

Greece is trying to tame its growing budget deficit. Its debt burden, worth about 113% of gross domestic product, has sparked fears of default, hitting other highly-leveraged euro-zone countries, including Portugal and Spain, and the euro itself.

EU efforts to help Greece "should include a collective assurance to undertake all necessary steps to preserve fiscal and financial stability in the euro area, and in the EU as whole," BusinessEurope said in a report detailing its outlook for the bloc's economy.

EU leaders, meeting in Brussels last Thursday, vowed to take "determined and coordinated action if needed to safeguard stability in the euro zone."

BusinessEurope said the EU and euro-zone economies are still in a 'tentative' economic recovery

BusinessEurope said the EU and euro-zone economies are still in a "tentative" economic recovery, with both expected to expand 1.2% this year after shrinking 4% in 2009. The European Commission, the EU's executive arm, in November said it expects the EU and euro-zone economies to grow 0.7% this year. Its next forecasts are due by the end of February.

The group said major budget cuts are needed to make public spending sustainable - but governments should refrain from reducing expenditure on areas that are key for future growth, such as infrastructure and education.

They said governments should call on independent experts to pinpoint how they could shave 10% off their spending.

Failure to reduce debt means that nations will spend heavily on simply paying the interest on that debt instead of investing in the economy.

Many European nations are planning to borrow heavily from bond markets this year to fund their budgets as tax revenues remain low and they pay out more to stimulate growth and extra welfare and unemployment benefits.

BusinessEurope also said the European Central Bank should gradually phase out measures that helped ease the financial crisis, "while maintaining a supportive monetary policy stance."

The European Central Bank should extend its current policy of accepting lower-rated government debt as collateral at least through the end of the year, BusinessEurope said. The ECB lowered its standard for government debt it accepts as collateral to debt rated BBB- after the financial crisis first hit.

"We would appreciate if the ECB would send a clear signal about the duration of its current collateral policy," Marc Stocker of BusinessEurope said.

European employment drops

Analysts say 2009's decline could repeat this year if economic upturn fails to gain strength

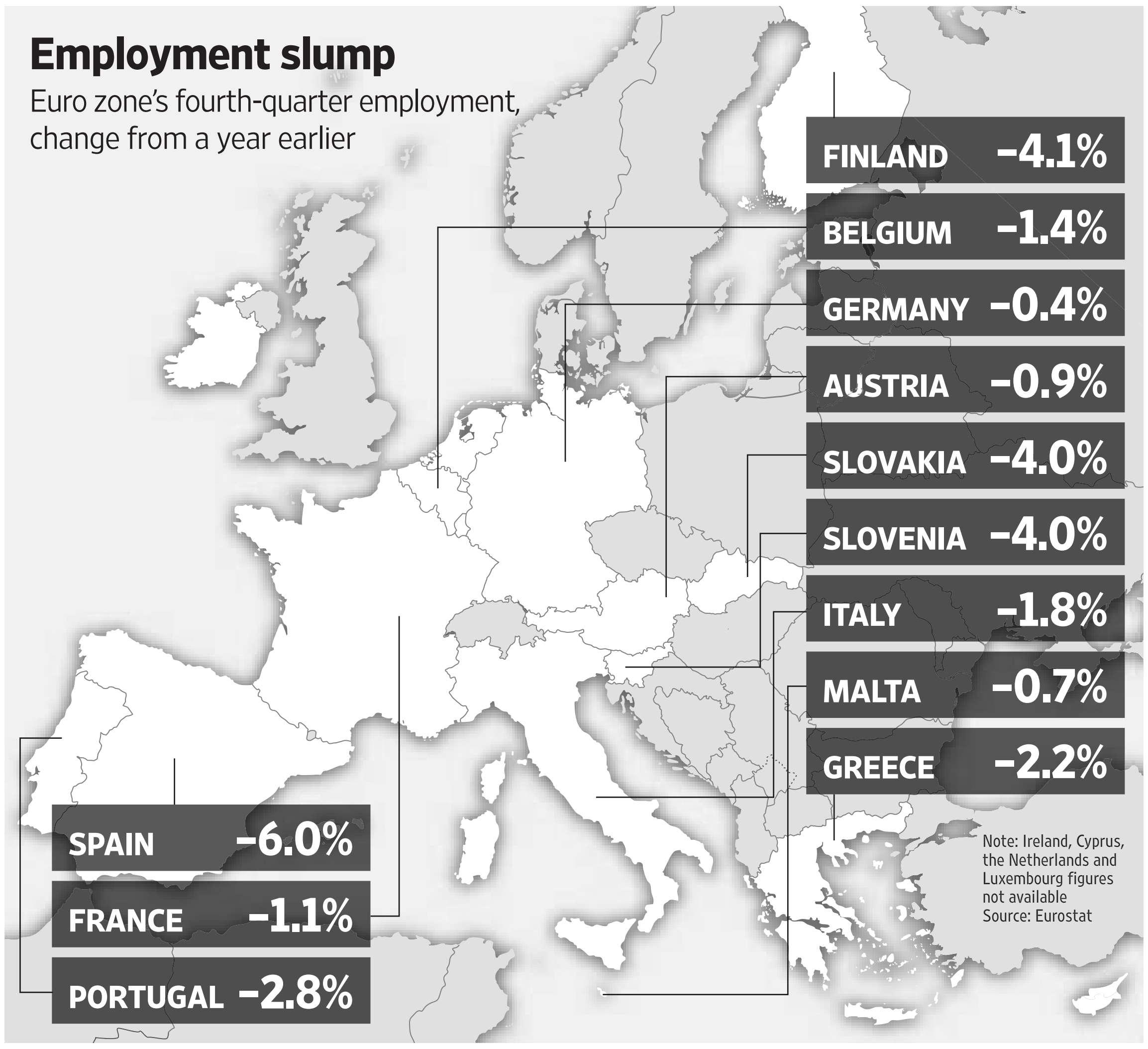
By Ilona Billington And Paul Hannon

LONDON—The number of Europeans with jobs dropped in 2009 for the first time in the 14-year history of the statistic, and could fall again this year if the fragile economic recovery fails to gain strength.

Eurostat reported that the number of people with jobs in the 16-country euro zone declined 2.7 million in 2009 from a year earlier to 144 million, and was down by four million in the 27-country European Union, leaving 221.1 million working in the EU. Those falls follow full-year gains of 1.7 million and 2.6 million, respectively, in 2008.

"We believe that growth in most countries is unlikely to be strong enough to generate net jobs for some time to come and businesses will consequently be keen to keep their work forces as tight as possible," said Howard Archer, chief European and U.K. economist for IHS Global Insight. "Ongoing soft labor markets in 2010 are likely to hold down wage growth and limit the upside for consumer spending."

The euro-zone economy emerged from recession in the third quarter of 2009, although the growth pace slowed in the fourth quarter, when gross domestic product grew 0.1% from the third quarter following a 0.4% expansion in July to September. That slower pace of economic growth has been reflected in various data recently, including still-subdued consumption, shaky business confidence and weaker or unchanged employment expectations.



The employment surveys suggest that while the pace of job cuts has slowed, companies' appetite to take on staff remains limited as many countries begin to face the prospect of massive government stimulus packages being slowly withdrawn amid uneven economic growth.

Manpower's latest global employment-outlook survey reported that the larger European countries, specifically Germany, showed that companies' intention to hire in the second quarter of 2010 is lower than it had been in the first quarter. Plans to add staff in Italy and Spain were also weak, according to the survey.

This hesitation in spending by companies adds to the concerns already shouldered by consumers, many of whom remain thrifty and are spending less than in more buoyant times ahead of widely expected government spending cuts and higher taxes.

Euro-zone retail sales fell 0.3% in January from December while consumer spending as a whole stagnated in the fourth quarter.

While this downbeat level of activity doesn't bode well for GDP growth, it suggests inflationary pressures will remain subdued for some time, giving the European Central Bank room to maintain its ultraloose monetary policy.

ECB President Jean-Claude Trichet said at the latest monthly policy meeting that the economic recovery is expected to continue at a moderate pace and inflation should stay in check. He did, however, urge governments to begin planing exit strategies from stimulus programs.

"Sectoral support schemes implemented to cope with the immediate effects of the crisis should now be phased out," he said.

—Nina Koeppen in Frankfurt contributed to this article.

Brown calls BA strike deplorable

By Kaveri Niththyananthan And Jonathan Buck

LONDON—A planned strike by cabin crew at British Airways PLC has sparked opposition from the British government, even though the union representing the disgruntled workers is a key contributor to the ruling Labour Party.

The industrial action was condemned Monday by Prime Minister Gordon Brown, who said the pending strike "is unjustified, it is deplorable." He said the strike should be called off, as it wasn't in the company's interest, workers' interest and "certainly not in the national interest." Mr. Brown urged the two sides to work together to find a resolution.

His comments echoed those of Transport Minister Andrew Adonis, who told BBC television in an interview Sunday that the strike "will threaten the very existence of British Airways."

The strike, which will comprise a three-day action beginning March 20 and a four-day walkout starting March 27, comes at an awkward time for the government. A general election is due during the first half of the year—possibly May 6, parliamentary observers say—and opinion polls indicate that none of the major political parties has a clear majority.

Mr. Brown's Labour Party has been criticized by opponents for its handling of the economy, which emerged from recession in the fourth quarter of 2009, though growth was tepid. Gross domestic product in the fourth quarter grew 0.3%. At the same time, the budget deficit is set to reach 12.6% of GDP during the current financial year.

Labour is keen to avoid any shocks that could slow economic recovery or dent support for the party ahead of polls. But Labour can't afford to alienate trade unions, which traditionally have been an important source of support and funding for the party, even though the unions' influence has waned in recent years. Unite, which represents the cabin crew, has donated £11 million ($16.7 million) to the Labour Party in recent years and the union's political director, Charlie Whelan, is a former spokesman for Mr. Brown.

That connection was seized upon by the opposition Conservative Party. "The public will want to know why it took Gordon Brown so long to come out and condemn this strike," Shadow Transport Secretary Theresa Villiers said in a statement. "People will naturally draw the conclusion that his delayed response is entirely down to the fact his right hand man, Charlie Whelan, is the political director of the same union orchestrating this strike."

She added: "Gordon Brown cannot have it both ways. Months after the strike was first announced he has come off the fence, but he has refused point blank to stop taking money from the union responsible for this reckless and unacceptable strike."

Unite has avoided strikes over Easter, a popular time for vacations and a busy period for airlines. The union was attacked from all quarters, including politicians and the media, for trying to strike over the Christmas and New Year holidays, but British Airways won an injunction to block the action due to questions over the union balloting.

"I don't blame our PM for trying to help bring together parties to resolve the dispute," said Tony Woodley, joint leader of Unite. "But it is rather unfortunate that politicians of all parties always want to kick the unions and kick the employees when in actual fact it's my members who've been kicked here."

BA welcomed the comments from the prime minister. "We agree with his position that the strike is 'unjustified and deplorable,'" the airline said, adding that it is facing two years of record financial losses.

"Unlike other businesses, we have avoided compulsory redundancies and made changes designed to secure a long-term future for our company and our staff," the company said. "Cabin crew face no pay cut or reduction in terms and conditions—and remain the best rewarded in the U.K. airline industry."

The U.K. carrier said it remains available for further talks with Unite at any time and will do everything possible to protect its customers' travel plans.

—Joe Parkinson contributed to this article.

U.S. NEWS

Fed's influence could be enhanced

Dodd bill would give U.S. central bank lead role in monitoring financial system, while safeguarding consumers

By Sudeep Reddy

The Federal Reserve, battered by the public and politicians for months, emerged a winner in the latest Senate draft of legislation to remake the nation's financial regulatory system.

The bill that Senate Banking Committee Chairman Christopher Dodd (D., Conn.) unveiled Monday would maintain the Fed's position as supervisor over the nation's biggest financial institutions and give it a leading role in monitoring the overall financial system, as Chairman Ben Bernanke wanted. It also would make it the home of a beefed-up regulator to protect consumers.

Mr. Dodd's initial version would have created new agencies to oversee banks, over the objections of the Fed and the Obama administration, as well as a free-standing consumer-protection agency.

But the new Dodd bill, which faces an uncertain future in the full Senate, would take oversight of thousands smaller banks from the Fed and give it to other federal agencies. This would substantially diminish the role of the 12 regional Fed banks, which supervise banks in their regions. Most presidents of the regional Fed banks strenuously object to the change.

The Dodd bill would also institute more political control over the Fed by giving the president—instead of the Fed—the power to name the president of the Federal Reserve Bank of New York, who directly supervises major Wall Street firms and serves as vice chair of the Fed's monetary policy committee, the Federal Open Market Committee.

"I don't necessarily see it as punishing the Fed but rather getting back to core functions and having clear lines of authority," Sen. Dodd said Monday.

The Fed's political standing waned throughout last year as lawmakers attacked its handling of the American International Group Inc. rescue and other bailouts and its failing as a regulator of mortgages and other consumer loans ahead of the crisis. Anti-Fed sentiment nearly toppled Fed Chairman Ben Bernanke's confirmation to a second term as chairman. But the 70-30 vote to confirm him in January appears to have been a turning point.

European Pressphoto Agency

Federal Chairman Ben Bernanke, center, Sen. Christopher Dodd, left, and Sen. Richard Shelby at a hearing on Capitol Hill in February.

"Getting confirmed, albeit by a narrow margin, more or less absolved him of his sins of the past," said Cornelius Hurley, a former Fed lawyer and director of Boston University's Morin Center for Banking and Financial Law.

The Obama administration, banks and many Republican lawmakers fought in recent months to keep more authority inside the Fed instead of newly created agencies. And Fed officials mounted a behind-the-scenes lobbying effort to maintain more of its current authority in the regulatory rewrite.

"It looked like they were really going to be big losers in this," said Brian Gardner, a Washington analyst at the investment firm Keefe, Bruyette & Woods, said of the Fed. "They've had Treasury on their side. They've had the industry on their side. The Fed may not have won every battle, but it was a consistent message coming from various parts of the banking industry that the Fed was the regulator to handle the biggest and most complex issues of the banking system."

Lawmakers also see the Fed as one of the least political agencies in Washington, leading them to question the notion of transferring its staff and starting a new bureaucracy, as Mr. Dodd initially proposed. "There really is no other game in town when it comes to the standing and the credibility to regulate the largest banks," Mr. Hurley said.

The Fed's battered reputation—as an institution that failed for years on consumer regulation, yet remains the strongest bank regulator in Washington—yielded the awkward arrangement for a new Consumer Financial Protection Bureau.

Under the proposal, the Fed will house the new bureau in its buildings. It will even pay the bureau's budget from the interest the central bank earns on its holdings. But the Fed won't have any control over the bureau's rule-writing ability or its authority. That would be the responsibility of a independent director appointed by the president and confirmed by the Senate.

Mr. Dodd acknowledged Monday that he doesn't have the votes in the Senate to make the bureau a standalone entity, as he and the White House originally wanted.

That could create a showdown with the House. The bill it passed in December would create a freestanding consumer regulator, maintain the Fed's role in supervising state-chartered banks and even impose new checks on the central bank by allowing wider congressional audits of the Fed. The latest Senate bill institutes audits on one aspect of the Fed's emergency lending authority, which would be narrowed and subjected to Treasury approval as under the House bill.

The Dodd bill would institute other changes in the Fed's structure. It would create a second vice chairman for the Federal Reserve Board in Washington, one charged with overseeing bank supervision, a role currently filled by Fed board member Dan Tarullo.

The bill also would bar commercial bankers from picking or serving on the boards of the regional Fed banks. The 1913 law that created the Fed gives banks the power to name six of the nine directors on each of the boards.

Those private-sector boards name the banks' presidents, subject to the consent of the Federal Reserve Board in Washington.

Sen. Dodd's financial-regulation bill takes aim at banks

Continued from first page

and to disclose financial data.

Despite months of talks, Mr. Dodd was unable to win the backing for his bill from Republican members of the banking panel, calling into doubt whether he will be successful in moving the legislation forward. The move to make the legislation tougher on the banking industry follows a push from the Obama administration, which sees a political advantage in pushing legislation taking aim at Wall Street.

In other highlights, under the proposed legislation the government would have power to seize and dismantle failing financial companies; complex financial instruments such as derivatives would face more scrutiny; shareholders would have more say in the way publicly traded companies operate; and the government would have more tools to force banks to reduce their risk.

With Mr. Dodd intent on moving quickly, the banking industry will have limited time to try to shape the bill.

The Dodd bill comes nearly 18 months after the height of the financial crisis in 2008. Whether it can quickly gain traction could help determine the fate of the Obama administration's yearlong effort to rein in banks. "There's no question that Treasury is pushing left, and that's what I would expect at this point," said Sen. Bob Corker (R., Tenn.), who negotiated for weeks with Mr. Dodd on parts of the bill.

The U.S. central bank would police previously unregulated sectors of the economy.

The biggest winner in Mr. Dodd's bill appears to be the central bank. It would police previously unregulated sectors of the economy and would have a new division to write consumer-protection policy. The biggest losers appear to be large financial companies, who would face a muscular, centralized regulatory architecture for perhaps the first time in U.S. history.

Democrats opted last week to forge ahead and introduce a bill without Republican support. Central parts of the bill—especially consumer protection and the role of the Fed—could precipitate a clash, making the bill's prospects cloudy. Democrats believe they can rally public support, with many people still angry at the banking industry in the wake of the financial crisis.

Mr. Dodd hopes he can begin holding votes in his committee starting next week. The legislation could come to the Senate floor by late April. The House of Representatives passed its version in December. Any differences would have to be reconciled with a potential Senate version.

Republicans have said they wanted new market rules. They have blamed the White House for forcing Democrats to push ahead before a bipartisan deal could be struck. The party hasn't spelled out a strategy for responding to Mr. Dodd's bill, and it is possible Republicans could try to filibuster it. On Friday, the 10 Republicans on the Senate Banking Committee urged Democrats to slow the process down.

Mr. Dodd, in an earlier proposal, had cut the Fed out of bank supervision. After aggressive lobbying by Treasury Secretary Timothy Geithner and Fed officials, Mr. Dodd agreed to expand the Fed's scope to allow it to monitor any large financial companies.

—Damian Paletta and Fawn Johnson contributed to this article.

U.S. NEWS

Democrats make final pitch to moderates on health bill

[Capital Journal]

By Gerald F. Seib

Imagine you're a moderate Democrat in the House, and you're wavering on health care. Boy, are you in for some heat.

All that rides on your climactic vote on the big health bill this week is the shape of health care in the U.S., your political future and, quite possibly, the fate of the Obama presidency. So you're about to hear a lot of impassioned arguments about which way you should go.

The arguments for voting no on final passage of the health overhaul are pretty obvious. Republicans are pounding away in opposition, to great effect. A compilation of the latest health-care polling data on the Web site Realclearpolitics.com shows Americans opposing it by an average of 48.9% to 41.3%. The drift against the legislation has come mostly from the kind of centrist, independent voters that you, as a moderate Democrat, depend on for your political life.

So what arguments can Democratic leaders muster to push back? Conversations with several key Democrats suggest a handful of the closing arguments they will make, some about policy and some about politics. The safe path for a moderate Democrat would appear to be to simply lower his or her head and vote no. So these counter-arguments are tougher, and their impact is the key to the outcome.

First, a quick look at why you, as a moderate House Democrat, are pivotal. The Democrats' plan for this week is for the House to pass the Senate's version of the health overhaul—a bill that is less costly than the House version and unpopular with many in the House—and then immediately pass a separate measure tweaking that Senate version to make it more acceptable to House members.

Those tweaks would be passed in the Senate under so-called budget-reconciliation rules, which require just 51 votes. So Democrats should have a relatively comfortable margin for error there, provided senators live up to their part of the deal; the original bill passed with 60 votes.

The bigger question now is in the House, where the health bill passed with 220 votes originally—a mere two over the minimum—and where some centrist Democrats who voted yes have signaled they intend to reverse course now. So the whole yearlong effort rests on the ability of House leaders, and President Barack Obama, to hold as many of those original centrist supporters as possible, and turn a few no votes into yes ones.

One essential task for Democratic leaders is to figure out how to defuse an abortion dispute with moderates who seek assurances the final bill won't allow federal financing of abortion services. If that gets done—still a big if—here are the other arguments leaders will be making to two dozen or so House Democratic moderates in the balance:

■ You've won. The bill has evolved in the way you wanted. Moderates worried above all that the original House bill was too big and costly; the new version will be trimmed down and cost less. This is why the release of a new Congressional Budget Office cost analysis on Monday is so important. Democratic leaders need to show House centrists that the changes being made will lower the price tag and actually reduce projected deficits.

In addition, Democratic leaders will point to specific items that moderates like in the new version. The public option—a government-run insurance plan to compete with private insurers—has been stripped out, a commission to hold down Medicare costs is included and a tax on so-called Cadillac health plans, which many analysts argue would hold down costs by reducing over-use of the health system, is included. Liberals hate all of those ideas, which actually may help convince moderates they should be happy to have them.

■ You'll be able to tell middle-class constituents they get benefits right away (in time for this year's midterm election), while the messier and costlier parts of the overhaul go into effect more slowly. This is the argument Mr. Obama has been stressing: As soon as the legislation is signed into law, new regulations on the insurance companies that everybody loves to hate will kick in, restricting their ability to deny coverage for pre-existing conditions or because payout limits have been hit.

■ This bill isn't perfect, but it's better than the status quo on health. Republicans argue the bill will drive up insurance premiums. The Democratic counter-argument will be that, without change, premium increases are certain. If nothing is done, "it's 40% premium increases as far as the eye can see," says one senior administration aide.

■ Politically speaking, you need an accomplishment to point to, and something is better than nothing. This has been Democratic leaders' trump-card argument all along. The worst outcome for Democrats, individually and collectively, would be to have nothing to show for waging this epic struggle over health. Those who hate what Democrats are trying to do on health would still hold it against the party, while those who want change would either blame the party for failing, or judge it to be simply incompetent. Failure, Democratic leaders will argue, is all downside, no upside.

■ The very vehemence of Republican opposition proves there is political gain to be made in getting this done. If Republicans didn't fear this might actually turn into a plus, why would they be protesting so much?

Are those arguments enough? Hard to say. The balance is so fine that nobody with any sense claims to know the outcome.

Industrial output slows

Severe weather held U.S. production to a 0.1% gain in February

By Conor Dougherty And Darrell A. Hughes

Associated Press

Crews work to restore electricity last month in Bow, N.H.

Output at U.S. factories, mines and utilities grew a scant 0.1% in February, as harsh winter weather slowed the recovery in manufacturing and other industries, the Federal Reserve said. Industrial production gained 0.9% in January.

Manufacturing production in February fell 0.2%, compared with a 0.9% increase in the month earlier, largely a function of a 4.4% decline in the production of autos and parts.

Output of business equipment was up 0.4% in February; output of machinery and construction supplies both increased 0.3%.

A separate report Monday showed that the winter weather and a still-ailing housing market weighed on the home-building sector. The National Association of Home Builders' Home Building Index, a measure of builders' sentiment, fell to 15 in March from 17 a month earlier, the fourth decline in six months.

A separate report Monday showed that the winter weather and a still-ailing housing market weighed on the home-building sector.

One encouraging in the Fed report: Output of high-tech products like computers and semiconductors rose 1.2% in February and has increased 11.1% from a year ago.

"It says we're still doing well and high-tech is out in the lead," said Brian Bethune, an economist at forecasters IHS Global Insight. "Manufacturing is still in recover mode."

The industrial recovery has given the economy a lift in recent months. Factories have added jobs two months in a row, and increased production has helped consume some of the vast production slack left over from the recession.

Monday's report showed that industry operated at 72.7% of capacity in February, up 0.2 percentage point from the month before. That is well-above the recession lows but still weak by historical standards: Capacity utilization averaged 80.6% between 1972 and 2008.

Economists say the slowdown in production is likely to be temporary, as harsh weather forced some factories to curtail shifts last month.

More than one million workers were unable to work in the week of Feb. 7-13 because of the weather, according to the U.S. Labor Department's household employment survey. While many of those workers were counted as employed, they weren't producing.

Utility output grew 0.5% in February in part because of storm-induced demand for power. Mining output grew 2.0% in February.

Slowed by snow

The U.S. index of industrial production rose slightly in February for an eighth straight month of gains.

Source: U.S. Federal Reserve

WORLD NEWS

Sadr surprises in Iraq ballot

Preliminary results show anti-U.S. cleric with stronger-than-expected showing in election

By Charles Levinson

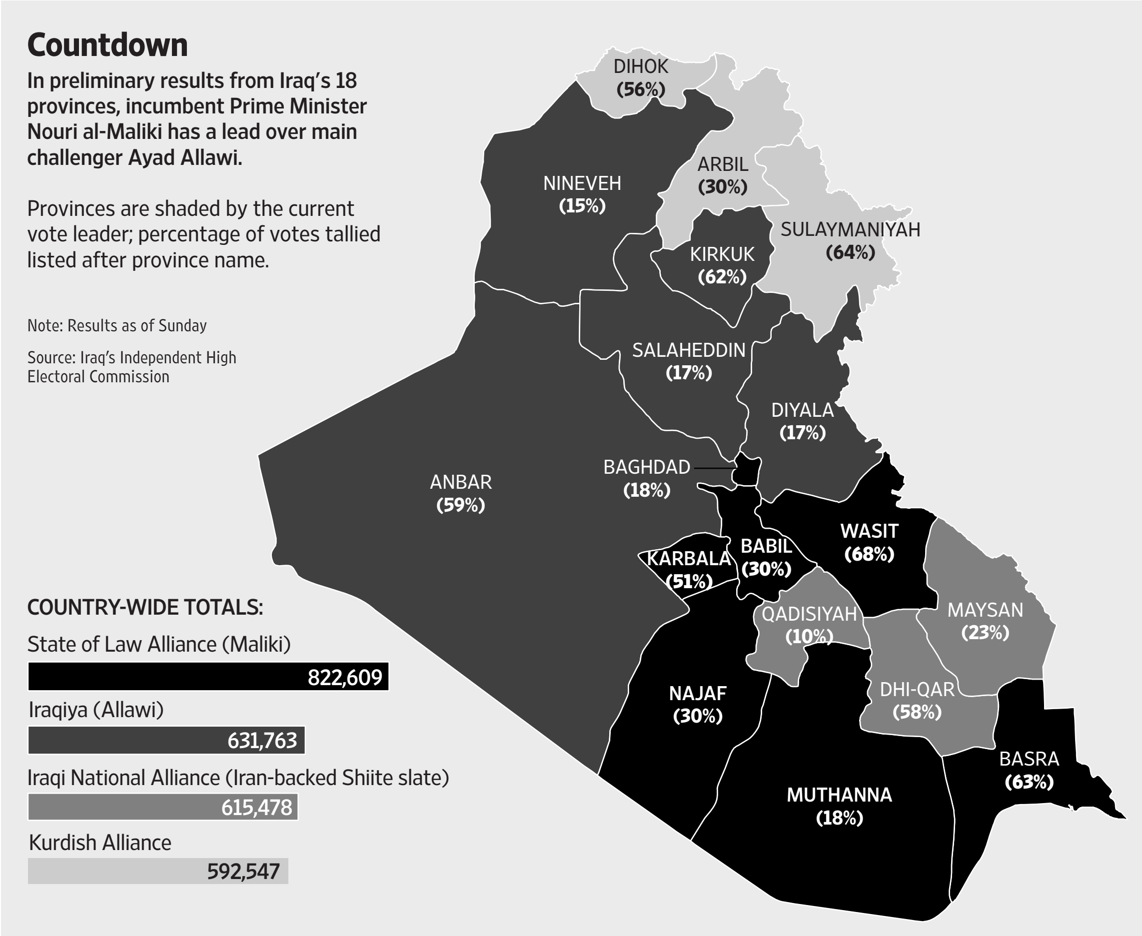
BAGHDAD—Anti-U.S. cleric Muqtada al-Sadr appears to have upended the traditional hierarchy of Shiite politics in Iraq with a stronger-than-expected showing in the March 7 parliamentary vote.

The results came as a suicide car bomber in western Iraq killed four people and wounded 29 others when his vehicle exploded in a busy street Monday during the morning rush hour in Fallujah. The city was once at the heart of the Sunni insurgency in the western Anbar province until tribal leaders turned against al Qaeda in Iraq, a turning point of the war.

Preliminary results for the country's 325-seat parliament have shown incumbent Prime Minister Nouri al-Maliki narrowly leading his chief rival Ayad Allawi, a secular Shiite who has emerged as the preferred candidate for most of Iraq's Sunni voters. An alliance of Shiite religious parties that includes Mr. Sadr's looks set for a third-place finish.

But amid that Shiite alliance, early results show the Sadr party emerging as the dominant player. Though final results aren't expected until later this month, Sadr candidates look set to pick up over half of the seats from the Shiite slate, preliminary results indicate.

That could mean a more prominent role in Iraqi politics for a leader who has vacillated between political participation and armed struggle against U.S. and Iraqi forces. Mr. Sadr continues to publicly support the right to attack U.S. forces and refuses any contact with American or British officials. An empowered Sadr party will likely take a tough line on enforcing U.S. troop-withdrawal timelines and oppose any residual force the U.S. may want to leave behind.



But the strong performance by Mr. Sadr isn't all bad news for Washington. Sadr followers tend to be far less cozy with Iran than other Shiite parties, many of whose leaders sought shelter in Iran during exile from Saddam Hussein's regime. Mr. Sadr has been living in Iran for most of the past three years, but historically he has been a vocal critic of Tehran's meddling in Iraq.

His impoverished Shiite base constituted the bulk of recruits who died and suffered in the trenches fighting Iran during the 1980s. Indeed, many of Mr. Sadr's current followers are outspoken critics of Tehran.

In contrast, ISCI, the once-dominant Shiite party and rival to Mr. Sadr's party, remains Iran's closest rival in Iraq. Party leaders acknowledge the ties, but also maintain that Tehran doesn't dictate policy.

Coupled with the polling strength of Mr. Allawi—who advocates re-establishing close ties with Arab rivals to Iran—Mr. Sadr's performance could be part of a broader setback for Iran in this month's polls, some observers said.

"Iran will look at these results, they'll see the strength of Ayad Allawi ... and the relative strength of Sadr versus ISCI, and they'll reach the conclusion that Iran will not have as easy pickings in Iraq as they used to," a senior Western diplomat said. "On the other hand, having a large bloc of lawmakers who won't even talk to the U.S. is a definite issue of concern."

The Sadrists' strong showing could give the party considerable influence over negotiations to form the next government.

Blasts rock Nigeria amnesty talks

By Will Connors

ABUJA, Nigeria—Two bombs exploded early Monday outside a government building in the city of Warri, a Nigerian oil hub, officials and witnesses said, dealing a blow to a peace pact that aimed to prevent militant attacks on the nation's oil infrastructure.

The attacks occurred just minutes before state governors were to convene to discuss a government peace program with Niger Delta militants. Several state governors had already taken their seats for the event when bombs in two nearby vehicles were detonated, say witnesses and officials. Although several people were injured, there were no immediate reports of deaths.

Oma Djebah, information commissioner of Delta State, which includes Warri, said the explosions occurred about 200 meters from the meeting and the venue was then evacuated.

The militant group the Movement for the Emancipation of the Niger Delta claimed responsibility for the attack. On Monday, MEND sent an email warning to media organizations before the attack.

"The deceit of endless dialogue and conferences will no longer be tolerated," the group's statement read. The militant group accused oil companies and government of stealing land "with the stroke of a pen."

The group threatened further attacks against oil infrastructure in the region, singling out facilities operated by France's Total SA. MEND didn't explain why it would be targeting Total. Other oil companies, such as Exxon Mobil Corp., Chevron Corp. and Royal Dutch Shell PLC, also operate in the Niger Delta.

A Total spokesman, Paul Floren, said the company is "monitoring the situation very closely" and that the security of personnel is the company's "number one priority."

The attack marks another setback for the government's amnesty program for former militants from the oil region.

The program began in October when several thousand militants turned in their weapons in exchange for avoiding arrest. The wide-ranging amnesty aimed to shore up Nigeria's oil production, which began to increase late last year after three successive years of declining production.

But MEND—one of the biggest militant groups—called off the cease-fire in January because of its dissatisfaction with the government.

The latest attack adds to the troubles of Nigeria, Africa's biggest country by population and one of the world's biggest oil producers. The country's president, ill from heart and kidney problems, hasn't been seen in months. His vice president has taken the reins, but has been grappling with deadly sectarian violence and political infighting with aides loyal to the president.

A spokesman for Nigeria's military task force in the Niger Delta said the military "will certainly join other security agencies in determining what the cause of the explosion was and who was behind the explosion."

Shadrak Otuaro, a local businessman, said two explosions went off just after three state governors arrived. "We heard the explosions and everyone started running for their lives," he said.

■ Economic jitters buffet oil C7

India gives foreign schools the green light to expand reach

By Arlene Chang

India's cabinet approved a proposal on Monday to allow foreign universities to set up branches here, potentially opening a huge market to international educational institutions.

The cabinet plans to introduce the Foreign Education Providers (Regulatory) Bill in parliament next month. The bill would then have to be passed by parliament before becoming law.

"This is a milestone which will enhance choices, increase competition and benchmark quality in education," said Minister of Human Resources and Development Minister Kapil Sibal, who handles education.

A similar bill introduced earlier was blocked by the government's former leftist coalition partner, the Communist Party of India (Marxist).

The chances for the bill becoming law this time are greater because the left is no longer a part of the ruling coalition.

About 160,000 students a year leave India to study abroad, according to the National Knowledge Commission, an advisory group to the prime minister.

More than 100 foreign educational institutions offer programs in India, but most are vocational or technical and run for only a few weeks or months.

Universities around the world have been trying for years to find ways to expand into India's untapped education market.

Analysts say the bill could help accelerate India's economic growth, which has been powered in part by its best-educated programmers, engineers and managers.

"This would give stimulus to quality education and the knowledge economy," says Anwarul Hoda, the chair professor of trade policy at the Indian Council for Research on International Economic Relations, a New Delhi think tank.

According to the bill, foreign colleges and universities will be granted "deemed" university status, which will enable them to also offer degree courses in India.

Duke University's Fuqua School of Business—which has a tie-up with the Indian Institute of Management, Ahmedabad, for a corporate program—plans to expand its reach in India.

Any relaxing of restrictions that prevent foreign institutions from running full-fledged graduate-degree programs in the country, will aid that process, says Jaivir Singh, adviser to Duke University in India. "There is a huge base of students from India who travel abroad and also a large number that are interested in coming to India. We are trying to gain access to all those students."

If the foreign universities bill becomes law, Duke University would like to set foot in India by establishing its own business school.

"If we have the liberty to run our own programs locally, we will most likely start with a business school," Mr. Singh says.

"To become a truly global manager one has to understand the diversity of India," he added.

"That in itself is a very important learning curve for us and our students."