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# U.K. ousts Israel official over passports

The U.K. expelled an Israeli official Tuesday after a probe suggested that Israel copied British passports allegedly used in the killing of a top Hamas official in Dubai.

By Alistair MacDonald in London and Charles Levinson in Jerusalem

The move significantly heightens the diplomatic furor sparked by an international investigation into the January slaying. It also represents the most specific implication of Israel involvement in the assassination by a country friendly to the Jewish state.

British Foreign Minister David Miliband announced the move in Parliament on Tuesday, a day after British officials called in Israel's ambassador to London. The expelled official, who wasn't identified, worked for Israeli intelligence service Mossad, one person familiar with the matter said.

Israeli officials, as is customary, have neither con-

firmed nor denied involvement in the assassination, but officials have said there is no evidence implicating Israel.

"We attribute great importance to our relations with Britain," Israeli Foreign Minister Avigdor Lieberman said in a statement from Brussels, where he was meeting with European Union officials. "We hold a number of different and sensitive dialogues with them, and regret the British decision," Mr. Lieberman said. "We have never been given proof that Israel was involved in this affair."

Mr. Miliband didn't directly accuse Israel of the killing, saying that the remit of the British investigation was only into the passports that were allegedly used in it.

The British allegations and the official's expulsion come as Israeli Prime Minister Benjamin Netanyahu struggles with a separate diplomatic standoff with the U.S. Ties between the two countries have suffered their worst strain in

decades after Israel announced the building of new homes in East Jerusalem during a visit by Vice President Joe Biden this month, complicating U.S. efforts to restart indirect talks between Israel and the Palestinians.

"The expulsion of a senior diplomat from our embassy back to Israel is a big deal," said Alon Liel, former director general of Israel's ministry of foreign affairs. "It's terrible timing for Israel. After 16 months with no peace process, after a stormy week with the United States, now you add this problem, which could very easily spill over to other countries, and you get the feeling that Israel is under siege."

The current Dubai probe has also washed up on U.S. shores. Dubai police named two U.S.-based financial institutions that authorities say issued and distributed credit cards used in the operation. A person familiar with the

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## Obama signs historic health-care bill



President Barack Obama signs the health-care reform bill in the White House on Tuesday, watched by House Speaker Nancy Pelosi, right, with officials and campaigners. Article on page 7.

## Euro-zone leaders are seeking compromise plan for Greece

By Marcus Walker and Charles Forelle

BERLIN—Euro-zone leaders on Tuesday were working on a deal that could secure German backing for a financial rescue plan for Greece in return for an agreement by other countries to let the International Monetary Fund play a substantial role, according to senior European officials.

But Germany, which has been pushing for IMF involvement in any bailout, is demanding tough conditions: Chancellor Angela Merkel insists that aid could come only to prevent a Greek default. That means Greece must first have exhausted all ways of

raising the funds it needs from capital markets, say people familiar with her thinking.

And Berlin is insisting that European Union governments take a step toward more centralized economic control by agreeing to beef up the bloc's rules for disciplining a wayward euro member.

In Germany, the euro zone's largest economy, voters and lawmakers strongly oppose paying the cost of a Greek bailout, should it come to that. France and other powers on the Continent, however, are reluctant to let a fellow euro-zone member take what they see as the humbling step of turning to the IMF—a move they see as potentially damaging the com-

mon currency's credibility.

But with deadlines looming for new Greek government debt sales and expectations rising ahead of this week's EU summit in Brussels, a compromise position appeared to be emerging, officials said. One described the bloc as "near an accord." Across the Continent, EU leaders intensified a drumbeat of calls for Greece's problems to be addressed at the summit—and hinted strongly that they would open the door to the IMF if that is what it took to get Germany on board.

"There might be a twin-track approach," Luxembourg premier Jean-Claude Juncker said Monday, adding quickly

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In a California desert, a banana museum has lost its appeal Page 29

### World Watch

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

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Remembering a Cold War hero. Page 12

## Insider-trade probe yields 6 U.K. arrests

LONDON—U.K. authorities on Tuesday arrested six men—including an employee of U.S. hedge fund **Moore Capital Management LP**, an-

By David Enrich, Cassell Bryan-Low, and Sara Schaefer Muñoz

other from Germany's **Deutsche Bank AG** and a third from a company affiliated with French bank **BNP Paribas SA**—in what the government billed as a major crackdown on insider trading in London's financial center.

Some 143 agents from the Financial Services Authority and the Serious Organised

Crime Agency fanned out across London and southern England at dawn Tuesday to arrest the suspects at their homes and to execute search warrants on 16 homes and businesses, where the agents seized documents and computers.

The FSA, the U.K.'s primary regulator of financial institutions and markets, trumpeted the insider-trading case as its largest ever. The agency, which has been under fire for its *laissez-faire* oversight of the City, as the financial district is called, and is trying to establish its crime-fighting credentials, said the raids targeted "a sophisticated and long-running insider-dealing

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## PAGE TWO

# French lessons and global diplomacy

## [ Agenda ]

BY IAIN MARTIN



When Catherine Ashton was the surprise choice for the post of the European Union's first foreign minister, it was said she lacked any experience in the basics of diplomacy.

She is clearly a quick learner. There have been repeated attempts by French officials to denigrate her and provoke a reaction. The latest, earlier this week, involved suggesting she should go back to school to improve her French. Rather taking the sting out of the insult she instantly accepted the offer from Pierre Lellouche, France's Europe minister, and expressed herself delighted. She will spend a week as the guest of the Organisation Internationale de la Francophonie at a residential school.

Baroness Ashton told the Times: "I am going to Avignon, which is a wonderful place to be... As you may have noticed I understand French very well. It is harder with some of the technical terms."

But the mini-row over her language skills is just the latest problem to hit her since she emerged from the post-Lisbon Treaty ratification horse-trading. When she didn't go to Haiti in the aftermath of the recent earthquake, she faced criticism. Her enemies wondered whether she understood how to project supposedly burgeoning EU power. Shouldn't she have rushed to Port au Prince in the manner of a trainee Nicholas Sarkozy?

This is all rather overshadowing the birth of the organization she heads: the European External Action Service (EEAS). It houses the diplomatic corps and foreign ministry functions established in the Lisbon Treaty. There are EU embassies.

It even has its own intelligence



EU High Representative for Foreign Affairs Baroness Catherine Ashton

arm, although it's hardly a rival to the CIA. At the EEAS, a few more than a hundred officials from member states sit together and are supposed to share intelligence. How meaningfully they do this must be in doubt. We should expect France's Direction Générale de la Sécurité Extérieure and Direction Centrale du Renseignement Intérieur and the U.K.'s MI6 and MI5 to continue to

## What is all this new policy machinery for? What on earth is Europe's foreign policy?

share only the intelligence that suits them, directly between themselves, without needing Baroness Ashton's organization to facilitate the exchange.

The EU does seem squeamish about the biggest component of a successful policy in this area: the willingness to use serious force to achieve foreign-policy objectives. Just ask the Americans in Afghanistan.

But beyond the jostling over Baroness Ashton's role, questions remain: What is all this new policy machinery for? What on earth is Europe's foreign policy?

It is hard to discern one. A foreign policy is about the promotion and protection of

interests. Often they are national interests, but that isn't always the case (as the great collective security endeavor that was NATO proved from its birth after World War II). But NATO then had a cause (freedom and security), a defining mission and a set of values guiding the participants.

What is Baroness Ashton and the EEAS's equivalent? The rather lame answer so far seems to be there isn't one, but until it emerges the focus should be on being nice to unfortunate people who have been the victims of various disasters. Baroness Ashton's critics are approaching this from the wrong end of the problem: Running to Haiti or the scene of the next disaster is actually the easy part.

## Republicans and Obama

U.S. politics is singular, a glorious argument around the American idea that outsiders only attempt to join at their peril. The system stands so much apart that it is usually unwise to make comparisons with Europe.

But as I watch Republicans struggle to find a response to their greatest legislative defeat at the hands of liberals in four decades, my thoughts turn to Tony Blair and the effect he had on his Conservative opponents. Mr. Obama's victory on healthcare reminds me quite a lot of Mr. Blair's triumphs against the center-right in Britain. Much like

Mr. Obama does to his critics, Mr. Blair drove enemies to distraction. Some he drove almost demented. The resulting anger often clouded judgments.

At this stage, the Republican response to defeat on healthcare looks equally confused and divided. There are voices such as George W. Bush's ex-speechwriter David "Axis of Evil" Frum calling for a period of reflection and asking whether the party handled it as well as it might have. Should negotiations have been pursued? There are others volunteering to die in a ditch for the idea of repeal of the healthcare legislation that has just passed.

One suspects the commitments in the bill will quickly mushroom so it becomes difficult for any opposition hoping to win on any serious scale to be seen to be in favor of removing entitlements from voters. That's certainly the European experience of socialized medicine.

I hear it said this victory will be short-lived for Mr. Obama. Perhaps that is the case. All I would observe is this is what was said on the right in Britain every time Mr. Blair did anything of consequence.

Massive change such as new parliaments in Scotland and Wales and all manner of constitutional upheaval under the banner of modernization? "The country will hate the unfairness, the English will revolt." They still haven't.

Rocketing taxes by stealth? "Voters won't stand for it." They did. War declared on rural Britain with extremely nasty anti-hunt legislation? "The countryside will rise up." It didn't.

No weapons of mass destruction discovered in Iraq in 2003 after the invasion? "Now his goose is really cooked," said his enemies. It wasn't, or at least not for another four years.

Mr. Blair's opponents were saying similar stuff as he left office undefeated after 10 years. The lesson for Republicans: It's a better idea to focus on getting even (winning) rather than getting angry (losing).

## What's News

■ **Daimler will pay \$185 million** to resolve a U.S. probe into allegations that the auto maker paid bribes to secure business overseas. 17

■ **A U.S. senator threatened** retaliation if EU proposals curbing access of American fund managers to the European market become law. 8

■ **The EU's highest court** said Google has the right to sell ads linked to the Louis Vuitton name and other famous brands. LVMH said it protects its trademark by policing advertisers. 17

■ **Shell will develop** natural-gas reservoirs in western China with state-owned CNPC, as global oil firms move to tap the country's unconventional reserves. 19

■ **Diageo plans to unveil** a Swedish vodka called Rökk in the U.S. in a direct assault on Constellation Brands' Svedka, a fast-growing "cheap chic" brand that has stolen market share. 21

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### The Source

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"For all the ink and breath expended just on Greece, a solution to its problems remains elusive."

David Cottle on the tendency to leave hard choices to the next administration



### Continuing coverage



Get complete coverage of the U.K. budget, including analysis, interactives and video, at [wsj.com/uk](http://wsj.com/uk)

### Question of the day

**Vote and discuss:** Which factor do you think drives Google's decisions more — principle or profit?

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### Previous results

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NEWS

# Six arrested in U.K.

*Continued from first page*  
ring” that netted participants “significant profits.”

The investigation, under way since late 2007, marked the first time that the FSA and the Serious Organised Crime Agency, or SOCA, have worked together on a case.

The FSA didn't provide details on the scope or operations of the alleged insider-trading activities. An FSA news release on Tuesday morning didn't disclose the men's names or firms but said two are “senior City professionals at leading City institutions” and that a third works at an unidentified hedge fund.

One of the men works for Deutsche Bank, according to a person familiar with the investigation. The German bank has 8,000 London-based employees. Its U.K. operations include sales and trading in bonds, equities, commodities, derivatives and rates, as well as advisory, debt finance and corporate broking.

“We are cooperating with the authorities as they look into this matter,” a Deutsche Bank spokesman said.

Clive Roberts, an employee of Exane SA, a Paris-based brokerage firm, was among those arrested, according to people familiar with the matter. Exane's parent is half-owned by BNP Paribas but is controlled by Exane management. Exane specializes in cash equities, equity derivatives and asset management.

“Exane Ltd. confirmed that an employee of the firm has been questioned by the FSA in connection with allegations concerning insider trading,” Andrew Melrose, Exane's chief executive officer, said. “It would be inappropriate for Exane to comment further at this stage; however, we will provide whatever assistance we can to the authorities during the investigation.”

Also arrested was Julian Rifat, a London-based execution trader for Moore Capital, according to people familiar with the matter. Mr. Rifat couldn't immediately be reached for comment.

In a statement, Moore Capital, a New York-based hedge fund with about \$14 billion in assets under management, said U.K. authorities had executed a search warrant for documents related to an employee on its London equity-execution desk. Moore said that the investigation doesn't involve any of the hedge fund's capital and that the firm “is cooperating fully with the FSA in its investigation.”

The six suspects were being held in police stations in London, Kent and Oxfordshire, where agents were questioning the men. They haven't yet been charged with any crimes. The government generally has 24 to 36 hours from the time of the arrests to decide whether to charge or release suspects.

The raids were the latest evidence of a global crackdown on insider trading. In the U.S., securities regulators and law-enforcement agents have exposed and are prosecuting what they allege is a vast insider-trading ring that centered on New York hedge fund Galleon Group.

The FSA gained the power to criminally prosecute such cases in 2001 but only brought its first criminal case in 2008. Excluding Tuesday's raids, the agency has launched about a half-dozen criminal actions, generally targeting relatively small-scale insider-trading operations, according to former FSA employees.

Of the three insider-trading convictions secured under FSA enforce-

ment director Margaret Cole, the largest case resulted in illegally obtained profits of about £110,000, or about \$166,100. Most recently, the agency won a conviction against a former Cazenove stock broker, who earlier this month was found guilty by Southwark Crown Court of making £103,883 in profit on trades that took place between June 2003 and October 2004. Malcolm Calvert, a former partner with the firm, was sentenced to 21 months in prison.

Insider trading appears to be a persistent problem in the U.K. The FSA said in its 2008-2009 annual report that it had found 29.3% of corporate announcements in 2008 were preceded by abnormal movements in the companies' share prices, up from 28.7% in 2007 and 23.7% in 2005.

The FSA's chief executive, Hector

Sants, has been striving to overcome the agency's reputation as a toothless overseer of the financial district. He has been beefing up the agency's supervision of the banking sector and hedge funds and is trying to strike a tougher posture against white-collar crime.

“There is a view that people are not frightened of the FSA,” Mr. Sants said last March. “I can assure you that this is a view I am determined to correct. People should be very frightened of the FSA.”

Ms. Cole, a former partner at law firm White & Case who joined the FSA in 2005, has championed the policy of pursuing criminal cases to serve as a “credible deterrence” to other potential wrongdoers.

—Susan Pulliam in New York and Adam Bradbery in London contributed to this article.



FSA Chief Hector Sants has beefed up supervision of the U.K. banking sector.

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## EUROPE NEWS

## BOE policy makers hit the data gap

BY NATASHA BRERETON

LONDON—British policy makers face no shortage of complications in trying to reverse monetary and fiscal policy as the economy turns a corner, but one that may be underestimated is the gulf between survey and official data.

To pick the right time to raise interest rates or start cutting the budget deficit, policy makers need to know exactly how secure the economic recovery is. But their two main sources of information—surveys and official data—are telling them very different things.

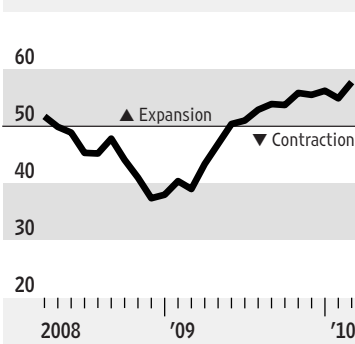
That goes some way to explaining why economists hold such diverse views about when the BOE will start to tighten policy. Some expect the central bank to raise rates as early as this year's third quarter, while others as late as the second half of 2012.

Surveys and official statistics are both attempts to measure economic activity. But there is a trade-off between timeliness and comprehensiveness. So while surveys are published close to the time they describe—often in the same month—they don't attempt to be comprehensive. Official statistics do, but are often released long after the period they cover.

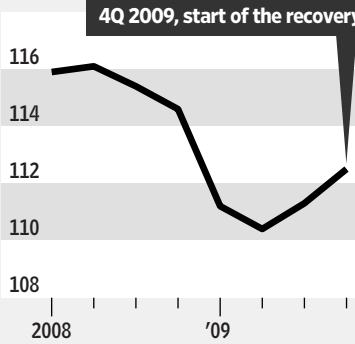
"Economic policy-making can be difficult enough at the best of times. In this cycle, though, the complications are being compounded by the

**Diverging views** | U.K. data give different pictures of economic recovery, making life difficult for policy makers.

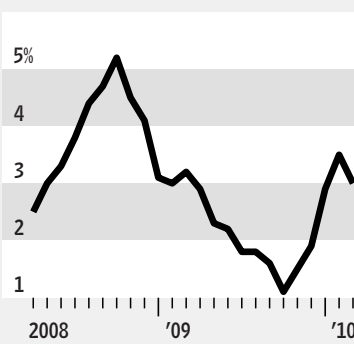
**PMI, weighted average of services, manufacturing and construction sectors**



**Gross domestic product, quarterly index**



**Consumer-price inflation, change from a year earlier**



Sources: Markit Economics and the Chartered Institute of Purchasing & Supply (PMI); U.K. Office for National Statistics (GDP, inflation)

need for the banking sector to repair its balance sheet and bigger discrepancies between official and survey data," said Philip Shaw, U.K. economist at Investec Securities.

Usually, surveys and official statistics tell roughly the same story about the economy. But during the past year, they have diverged in the U.K. Figures from the Office for National Statistics show the U.K. economy finally started growing again in the final quarter of 2009, after a six-quarter slump that saw the sharpest contraction in output in more than 50 years.

But survey data signaled a turnaround as early as the 2009 second

quarter, with the composite purchasing-managers index for the services, manufacturing and construction sectors showing that activity started to increase again in May.

One camp of economists stresses that official figures from previous recessions have frequently been revised substantially—often long after the event—and says that survey data provide a more accurate estimate once cyclical extremes have passed.

"Official estimates are prone to significant revision for several years after the event, and the bulk of the important changes come only after some time," said Ben Broadbent,

U.K. economist at Goldman Sachs.

BOE governor Mervyn King highlighted this tendency in a speech Monday, when he noted that economic data are frequently revised over time—sometimes heavily.

In the other camp are those economists who say that the strength of survey data is more an indication of relief at the stabilization of conditions, rather than a sign that the economy is picking up rapidly.

"It would not be surprising if, after the near-death experience the capitalist system underwent in 2007 to 2009, those who survived now feel a sense of considerable relief,"

said Stephen Lewis, chief economist at Monument Securities.

Data published Tuesday supported the view that the BOE is likely to keep monetary policy loose for some time, to compensate for expected aggressive fiscal tightening, strains in the banking system, and weakness in the U.K.'s key trading partners.

Annual consumer-price inflation slowed more than expected in February, to a year-on-year rate of 3.0% from 3.5% in January, reflecting weaker inflation across a broad range of products, with prices rebounding less than usual after muted start-of-year sales, figures from the Office for National Statistics showed.

While that leaves inflation well above the BOE's 2.0% target, the decline should provide some reassurance to members of the Monetary Policy Committee, who have expressed concerns that persistently strong price growth could push up public inflation expectations.

Also, a survey by the Confederation of British Industry showed that sales volumes at U.K. retailers dropped back in March. And net mortgage lending by U.K. banks was little changed in February from a month earlier, raising concerns over the longer-term health of the housing market, data from the British Bankers Association showed.

—Ilona Billington  
contributed to this article.

## U.K. says Israel copied passports

Continued from first page  
probe has also said that two of the suspects identified by police appeared to have entered the U.S. shortly after the killing. The U.S. Homeland Security Department has no record of the two people entering the U.S., according to a U.S. law-enforcement official.

In Israel, the official's expulsion provoked furious reactions from the Israeli right. One lawmaker, Arieh Eldad of the right-wing National Union Party, compared the British people to dogs in an interview with Britain's Sky television network. "The goat may be righteous, the cat may be evil, but you are the dog. You Briton, who gave you the right to judge?" Mr. Eldad said in the interview.

Hamas lieutenant Mahmoud al-Mabhouh had been sought by Israel for his alleged involvement in the killing of two Israeli soldiers in the 1980s. His body was found in a Dubai hotel room on Jan. 21. A few weeks later, Dubai released photos, credit-card and phone details and closed-circuit TV footage of suspects who, officials said, used passports from several European countries and Australia to enter the United Arab Emirates.

Footage initially released by Dubai showed 10 men and one woman who authorities believed orchestrated the killing. At one point, two suspects shared an elevator ride with their alleged victim, the video showed.

Dubai's police chief has said he is 99% certain of involvement by Mos-

So far, Dubai has released passport details of 12 Britons, six Irish, four French, three Australians and one German. Most of the passport holders, including several dual Is-

raeli citizens, quickly emerged, and the governments involved said they suspected identity theft. All of the passport holders have denied involvement in the killing. The U.K. tasked its Serious Organised Crime Agency with investigating how the British passports may have been fraudulently issued.

A spokesman for the German foreign ministry said Germany has no plans to expel any diplomats. Public prosecutors in Cologne are currently investigating the reported use of the German passport, the spokesman said. A spokesman for Ireland's Department of Foreign Affairs said the Irish investigation into the use of six of the country's passports was still under way.

Mr. Miliband told Parliament on Tuesday that the investigation revealed that the 12 British passports had been copied when handed over for inspection "to individuals linked to Israel," either in Israel or other countries. The investigation found no link to any other country.

The foreign secretary said that the sophistication of the operation and high quality of the forgeries suggest a state intelligence service was involved. "We have concluded that there are compelling reasons to believe that Israel was responsible for the misuse of the British passports," he said.

The SOCA investigation is continuing, though the bulk of it has now been concluded, a spokesman said. All 12 of the British passports were copied from the passports of dual U.K.-Israeli citizens, whom SOCA interviewed in the British Embassy in Israel.

All 12 said that when their passports passed into the hands of Israeli officials during travel, their documents were examined "exten-

sively, and beyond the normal" by these officials, a person familiar with the matter said. On at least one occasion, the passport was examined by an Israeli official while the passport holder was outside Israel, this person said.

Mr. Miliband said that the SOCA findings had been "taken together with other inquiries." These inquiries included those made by U.K. intelligence services, another person familiar with the matter said.

Philip Carr, a 36-year-old copy-machine technician whose British passport was identified by Dubai officials, said in a brief phone interview Tuesday in Israel that he didn't know how his identity was stolen.

"That it was stolen is pretty clear," he said. "Who did it doesn't interest me that much. I know nothing about that." He has denied involvement in the assassination. Mr. Miliband said the U.K. had no evidence to suggest that any of the 12 passport holders took part.

Mr. Miliband said he has written to his Israeli counterparts seeking assurances from Israel that they won't copy British passports again. In a further embarrassment for Israel, the U.K. will update its travel advice on the country with a warning of the risk that visitors' passports may be copied.

This isn't the first time the U.K. and other countries have clashed with Israel over alleged copied passports. In 1987, Britain said it received an apology from Israel over the misuse of forged U.K. passports by Israeli authorities and that it had received assurances that it wouldn't happen again.

—Joshua Mitnick in Tel Aviv,  
Marcus Walker in Berlin  
and Chip Cummins in Dubai  
contributed to this article.

## U.K. wants big cuts in its back offices

BY ALISTAIR MACDONALD  
AND LAURENCE NORMAN

LONDON—Britain's Chancellor of the Exchequer is set to deliver a low-key budget Wednesday, sticking to the Labour government's plan to halve its budget deficit over the next four years.

With an election at most just 10 weeks away, Alistair Darling is unlikely to make major changes to current tax and spending plans.

Still, the budget will detail some ways in which the U.K. will cut government spending, including speeding up a shake-up in the government that could eventually see departments' back-office functions such as human resources, procurement and accounts bundled off into private companies.

Prime Minister Gordon Brown said this week he expects to achieve £4 billion (\$6 billion) of savings from back-office functions by 2012-13.

The government wants to establish some back offices as a number of so-called trading companies—organizations that generate half of their revenue from services supplied to other government departments as well as private interests.

For instance, Mr. Darling will announce that the Ministry of Justice will merge its service center with the Prison Service with the combined entity eventually becoming a trading company, according to a person familiar with the matter.

Mr. Darling is likely to announce the creation of a team of experts to look into getting private expertise into back-office functions. The team

will have the power to name and shame departments that haven't pushed through savings and reforms after 12 months, the person said.

Mr. Darling is also likely to say the Treasury will compile a report to be completed before this year's prebudget report—usually given in the fall or winter—on more ways to involve the private sector and commercialize back-office functions.

Advisers want the government to consider privatizing any government function also performed by private industry, people familiar with the matter say. The companies, in theory, would eventually compete for contracts outside government, though the government believes that this is some way off.

More broadly, Mr. Darling and Mr. Brown have sought to frame the budget as one that will "nurture" the economy's fragile recovery from the deepest recession in decades, but be shaped by prudence. The budget is likely to contain some spending measures to help encourage private enterprise, including a measure to unlock private investment in low-carbon infrastructure.

"What government can do is help unlock private sector investment so that we can get the new investment that will bring the jobs we need in the future," Mr. Darling said in a statement on the Treasury Web site.

On the tax side, the chancellor has already set out plans to lift income tax on higher earners to 50% from April and an increase in social security taxes for employers and employees next year. He isn't expected to yield to calls from business groups to soften those plans.

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## EUROPE NEWS

# French strike hits transport, schools

Sarkozy's government vows to stay the course with belt-tightening measures intended to modernize the economy

Associated Press

PARIS — President Nicolas Sarkozy's government vowed Tuesday to stay on track with belt-tightening changes meant to modernize France's economy, despite nationwide strikes and a significant week-end electoral defeat.

Trains, schools and other public services were hobbled by the strike, culminating in around 180 protest marches around France, according to the CGT union. The biggest march was expected in Paris, where police said 31,000 turned out Tuesday afternoon. The CGT union put the number at 60,000 and said 650,000 demonstrated around France.

Unions hoped their joint action would put the brakes on retirement changes and public-sector job cuts promised by Mr. Sarkozy, who has made lifting France's economic competitiveness a priority.

Unions say that Mr. Sarkozy has failed workers, slashing jobs, particularly in education, and hurting purchasing power and that he now plans to attack the precious but costly pension system.

Polls show barely one in three French want Mr. Sarkozy to run for a second term in 2012. Yet the government response was defiant. Prime Minister François Fillon told parliamentarians the changes were needed, and would continue despite the poor showing in Sunday's regional elections for the governing conservative party UMP.

"We will not compromise the need to modernize our country," Mr. Fillon said. "Our duty is to adapt our economic and social organiza-



ArcelorMittal workers march in Marseilles Tuesday amid protests against retirement changes and public-sector job cuts.

tion to protect the French way of life."

He said France would continue to reduce the number of civil servants, the country's largest employment roll, by not replacing one employee in two who retire or quit.

The incoming labor minister, Eric Woerth, vowed to move ahead with an overhaul of the "extremely fragile" pension system—the most critical change expected and Mr.

Sarkozy's biggest political challenge this year.

"We must maintain the goal, which is that of reform. The nation needs to be competitive, to [create] the jobs of tomorrow," Mr. Woerth said, a day after his appointment in a cabinet shuffle following Sunday's election setback.

The UMP lost all but three of 26 regions to the Socialists and their ecology allies in the vote. Mr.

Sarkozy dropped his labor minister, Xavier Darcos, and brought in ministers of various persuasions within the conservative movement, itself divided over Mr. Sarkozy's policies.

An ally of former President Jacques Chirac, François Baroin, replaced Mr. Woerth as budget minister. An ally of former Prime Minister Dominique de Villepin, expected to launch his own party Thursday, was also added to the government, law-

maker Georges Tron, as junior minister for civil service.

François Chereque, head of the CFDT union, said the cabinet changes were a bad sign. "They zap the labor minister as if it were a technical ministry with less importance," he said on France-Inter radio, noting that Mr. Woerth is France's fourth labor minister since Mr. Sarkozy took office in 2007.

In another concession to Mr. Sarkozy's conservative base, the government plans to suspend an expected law to tax carbon-dioxide emissions, leading UMP legislator Jean-François Cope said Tuesday.

The carbon tax had been a central plank of Mr. Sarkozy's push for a more prominent role in the global fight against climate change. But it was criticized within Mr. Sarkozy's own party, with many arguing it would disadvantage French companies compared with their European rivals.

In Tuesday's strike, the French capital saw only minimal disruptions to the subway system, and fast trains to Britain and Belgium ran normally. But only about 65% of train traffic was guaranteed within France.

An estimated 30% of primary-school teachers failed to show up for class nationwide, the Education Ministry said, with around 18% out in junior high schools and 11% out in high schools.

Nearly 16% of employees of the Finance Ministry also skipped work and more than 37% were no-shows at the Budget Ministry, according to midday estimates by the Labor Ministry.

## Greece compromise is in the works

Continued from first page  
that such a resolution wasn't his first choice. Mr. Juncker, president of the council of euro-zone finance ministers, had long insisted that the euro zone handle its problems internally.

"We need a Greek compromise," Italian Foreign Minister Franco Frattini, said Tuesday, according to Agence France-Presse. "When a euro-zone country goes through a difficult phase, we have the moral and institutional duty to step in."

But an accord this week is far from certain. And European officials caution that EU leaders aren't expected to decide at this week's much-watched summit to give aid to Greece—rather, the discussion is centered on how, and under what

conditions, help could come at a later date.

Germany and other countries remain at odds over a host of conditions, say people familiar with the matter. Among them: what or who could trigger an aid package, who would take the lead role in implementing it, and how much EU leaders should disclose to the jittery capital markets from which Greece has been trying to raise money.

At this point, Germany is merely willing to compromise on the mechanism for aid but isn't ready to give a green light for a rescue. Germany fears that putting a detailed plan on the table would encourage Greece to use it instead of suffering through tough budget cuts, people familiar with the matter say.

How much IMF presence France and others would accept remains an open question. French President Nicolas Sarkozy has said in recent weeks he wants the EU, not the IMF, to take the lead in crafting aid measures. Most euro-zone leaders have opposed IMF loans so far.

Nevertheless, French Foreign Minister Bernard Kouchner said on Monday that a solution involving the IMF is "on the table." The EU's executive arm, the European Commission, has also signaled it is open to the IMF.

Greek Prime Minister George Papandreou has repeatedly said his government doesn't need money from the euro zone at present. But he has called on European govern-

ments to declare that Greece has a fallback option of borrowing from them, in order to reassure bond markets that Greece won't default and to bring down the country's borrowing costs.

Negotiators are now working on language for the rescue mechanism that would give Greece the assurances it is looking for, while meeting Germany's condition that the mechanism would be used only in the last instance, and preferably not at all.

Ms. Merkel acknowledged on German public radio on Sunday that "Greece would like to have a certain clarity for an eventuality it can't completely rule out," even as she stressed that Greece hasn't asked for money. She said Greece should solve its own budget crisis by enacting its promised austerity measures.

Germany is also seeking an agreement that the euro zone's fiscal stability pact needs bolstering with new measures to prevent countries from running excessive deficits, and new sanctions against rule-breakers. The German demand for an overhaul amounts to a recognition that the bloc's existing penalties—such as fines for fiscal rule-breakers, which have never been imposed—haven't worked. New enforcement tools could include stronger supervision of national budgets by EU authorities or a loss of voting rights in EU meetings, analysts say.

—David Gauthier-Villars  
contributed to this article.

## German court convicts man in Nazi murders

Associated Press

AACHEN, Germany—A German court on Tuesday convicted an 88-year-old of murdering three Dutch civilians as part of a Nazi hit squad during World War II, capping six decades of efforts to bring the former Waffen SS man to justice.

Heinrich Boere, No. 6 on the Simon Wiesenthal Center's list of most-wanted Nazis, was given the maximum sentence of life in prison for the 1944 killings.

During the trial, which began in October, Mr. Boere admitted to killing a bicycle-shop owner, a pharmacist and another civilian in 1944 as a member of the "Silbertanne" hit squad—a unit of largely Dutch SS volunteers responsible for reprisal killings of their countrymen.

He said he had no choice but to follow orders to carry out the killings. "As a simple soldier, I learned to carry out orders," Mr. Boere testified in December. "And I knew that if I didn't carry out my orders I would be breaking my oath and would be shot myself."

But the prosecution argued he Boere was a willing member of the fanatical Waffen SS, which he joined shortly after the Nazis had overrun his hometown of Maastricht and the rest of the Netherlands in 1940. Though sentenced to death in absentia in the Netherlands in 1949—later commuted to life im-



Heinrich Boere

prisonment—he has managed to avoid jail until now.

One German court refused to extradite him because it ruled he might have German nationality as well as Dutch. Another wouldn't force him to serve his Dutch sentence in a German prison because he was absent from his trial, having fled to Germany.

Born in Eschweiler, Germany, on the outskirts of Aachen, where he lives today, he moved to the Netherlands as an infant. He has testified he decided to join the SS as an 18-year-old after he saw a recruiting poster signed by Heinrich Himmler.

THE WALL STREET JOURNAL.

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U.S. NEWS

What happens next | Where U.S. health care goes now

The House voted to pass:

**A** Senate health-care legislation by a 219-212 vote

President Obama is expected to sign this bill.

**B** Reconciliation bill, making changes to main legislation, by a 220-211 vote

Reconciliation rules allow 20 hours of debate in the Senate. Republicans could delay by introducing amendments or challenging some parts of the package. The bill needs 51 Senate votes to pass.

**Scenario 1** Republican tactics fail and Senate passes reconciliation bill this week; President Obama signs it and health-care overhaul becomes law.

**Scenario 2** Senate forced to amend reconciliation bill, and it must go back to the House. Presidential signing must wait until after Easter break.

**Scenario 3** Republicans derail reconciliation bill and main bill stands unamended. Democrats say this is unlikely because they have enough Senate votes.

Sunday Monday Tuesday Wednesday Thursday Friday Saturday

# Obama signs landmark health bill

White House ceremony seals big political victory but Republicans hope to tap discontent over issue to rouse voters

BY PATRICK YOEST AND HENRY J. PULIZZI

WASHINGTON—President Barack Obama signed the sweeping \$940 billion health-care overhaul into law Tuesday, sealing the biggest victory yet of his presidency, but opening the door for what could be a bitter midterm congressional campaign.

“Today, after almost a century of trying. Today, after over a year of debate. Today, after all the votes have been tallied, health insurance reform becomes law in the United States of America,” Mr. Obama said.

Mr. Obama was joined at the signing table in the East Room of the White House by the late Sen. Edward Kennedy’s widow, Vicki, as well as Democratic leaders from the House and Senate, and three members of the public who had appealed for changes to the health system.

But it was Vice President Joe Biden who caused the most immediate stir. Mr. Biden heaped praise on the president for achieving what had eluded predecessors since Theodore Roosevelt. Then, just before the president took the podium, a Fox News microphone picked up Mr. Biden, as he leaned into Mr. Obama, telling him, “This is a big f— deal.”

Within hours, Mr. Biden’s gaffe had been emblazoned on T-shirts for sale on the Internet.

Messrs. Obama and Biden later led a celebration at the Interior Department—a venue big enough to host all of the Democratic lawmakers who backed the overhaul, health-care advocates and administration officials, a throng of around 600 people.

“Today, we are affirming that essential truth, a truth every generation is called to rediscover for itself, that we are not a nation that scales back its aspirations,” Mr. Obama



President Obama at a rally at the Interior Department in Washington Tuesday after he signed health-care bill into law.

said at the White House. “We are not a nation that falls prey to doubt or mistrust. We don’t fall prey to fear. We are not a nation that does what’s easy. That’s not who we are. That’s not how we got here.”

The House passed the measure on a 219-212 vote, with Republicans voting as a bloc against it. Though it has been signed into law by Mr. Obama, legislative action is continuing on Capitol Hill, where Senate Democrats hoped to move a companion bill designed to make a number of changes to the broader package, including increasing the value of insurance subsidies and narrowing the impact of a tax on high-cost insurance plans.

Senate Republicans planned to tie up the process with a series of amendments that could send the companion bill back to the House. That scenario, however, appeared unlikely.

Mr. Obama said he was confident the Senate would make improvements to the bill quickly.

Nonetheless, Republicans were counting on public discontent over health care to help carry them to big victories in November, potentially even congressional majorities. Some Republican lawmakers were pushing for a repeal of the legislation, while officials in some states were mulling court challenges over the bill’s constitutionality.

House Republican Leader John Boehner of Ohio said Republicans would fight for a repeal.

“With the stroke of a pen, President Obama has signed away another share of Americans’ freedom,” Mr. Boehner said on his Twitter account. “We will take it back.”

The White House expected to step up an effort to ease public concerns over health care and the legislation’s messy path through Congress by focusing on the bill’s benefits.

Mr. Obama planned to travel to Iowa City, Iowa, on Thursday for a rally on the issue.

At the Interior Department, Mr. Obama previewed the public sales

pitch, assuring that people who like their insurance can keep it and denying that the measure amounts to a government takeover.

“Those fighting change are still out there, still making a lot of noise about what this reform means,” Mr. Obama said. “So I want the American people to understand it, and look it up for yourself. Go on our Web site, whitehouse.gov, or go to any credible news outlet’s Web site and look in terms of what reform will mean for you.”

The scene at the White House was celebratory, with lawmakers chanting “Fired up, ready to go” before Mr. Obama took the podium. Many lawmakers brought their own cameras to capture the moment.

Thanking the members of Congress, Mr. Obama acknowledged that many had “taken their lumps” during the bruising debate over the legislation.

“Yes, we did!” Rep. Gary Ackerman (D., N.Y.) shouted back, generating laughter.

The American Medical Association, which lent critical backing to the overhaul, called Tuesday’s bill-signing “a monumental moment in the health of our nation.”

“While more still needs to be done, this bill makes real progress toward providing coverage to all Americans and improving our nation’s health-care system,” AMA President J. James Rohack said in a statement.

Mr. Biden credited the president’s “fierce advocacy” and “clarity of purpose” in helping to deliver the legislation.

“Mr. President, you’re the guy that made it happen,” Mr. Biden said. “You’ve done what generations of not just ordinary but great men and women have attempted to do, Republicans as well as Democrats.”

# Several states sue U.S. to block health law

Associated Press

TALLAHASSEE, Fla.—Attorneys general from 13 states sued the U.S. government Tuesday, claiming the landmark health-care overhaul was unconstitutional just seven minutes after President Barack Obama signed it into law.

The lawsuit was filed in Pensa-

cola after the Democratic president signed the 10-year, \$938 billion bill the House passed Sunday night.

“The Constitution nowhere authorizes the United States to mandate, either directly or under threat of penalty, that all citizens and legal residents have qualifying health-care coverage,” says the lawsuit.

Legal experts say the suit has lit-

tle chance of succeeding because, under the U.S. Constitution, federal laws trump state laws.

Florida Attorney General Bill McCollum is taking the lead and is joined by attorneys general from South Carolina, Nebraska, Texas, Michigan, Utah, Pennsylvania, Alabama, South Dakota, Idaho, Washington, Colorado and Louisiana. All

are Republicans except James Caldwell of Louisiana, a Democrat.

Some states are considering separate lawsuits—Virginia filed its own Tuesday.

Mr. McCollum, who is running for governor of Florida, argued the bill would cause substantial harm and financial burden to states. It expands Medicaid, the state health

program for the poor and disabled, to cover more low-income people.

The lawsuit claims the bill violates the 10th Amendment, which says the federal government has no authority beyond the powers granted to it under the Constitution, by forcing the states to carry out its provisions but not reimbursing them for the costs.



## U.S. NEWS

# Hedge-fund dispute heats up

Schumer threatens retaliation if EU blocks U.S. money managers from European markets

BY STEPHEN FIDLER

A U.S. senator threatened retaliation if European Union proposals curbing access of American fund managers to the European market become law.

In a sign that a European effort to increase regulation of hedge funds and other alternative-investment vehicles could escalate into a broader trans-Atlantic dispute, Sen. Charles Schumer (D., N.Y.) described the European proposals as “protectionist rules that discriminate against U.S. firms and activities.”

In a letter to Treasury Secretary Timothy Geithner, Mr. Schumer said he stands ready to call on Congress to pass legislation that would prohibit funds not based in the U.S. from marketing and raising money in the U.S. It also would require funds operating in the U.S. to use custodian banks based in the U.S.

This would mirror a European proposal, supported by a majority of the 27 EU governments, that would include requirements making it all but impossible for non-EU fund managers to gain access to the European market. It also would increase requirements to make it more difficult to market inside a

single EU country.

Sen. Schumer said in a telephone interview that the EU proposal, backed by France and Germany, was about keeping out competition from the U.S. and elsewhere “so they can catch up.”

“Reciprocity has to be the watchword here,” he said. “We hope that Germany and France will see how serious we are.”

The senator’s communication follows a letter Mr. Geithner sent to European officials on March 1, in which he expressed concerns that the proposed regulations could discriminate against U.S. fund managers, denying them access to markets that they now enjoy.

The differences are emerging as governments of the Group of 20 industrial and developing nations delve into details of financial regulation following agreement last year on many broad principles.

Mario Draghi, chairman of the Financial Stability Board, a global regulatory body that handles G-20 initiatives and that is playing a leading role in coordinating technical discussions, warned in Brussels last week of “the risk...that countries and regions will go their own way, and that the [financial] system



Sen. Charles Schumer called the EU proposals ‘protectionist.’

will fragment, with very significant global costs.”

Sen. Schumer urged Mr. Geithner “to ensure the adoption of provisions that will not discriminate against U.S. firms. Just as EU-based funds and custodian banks currently have full access to our market, U.S.-based funds and custodian

banks should similarly not arbitrarily be denied access to the European market.”

The senator said concerns about the threat to U.S. interests had been raised by many constituents.

European officials have denied that the proposed rules are discriminatory or protectionist. A representative for the European Commission didn’t immediately respond to a request for comment, and a Treasury representative wasn’t immediately available to comment.

The U.K., home to more than 70% of the funds covered by the planned legislation, also opposes the proposal because it would hit many London-based fund managers who keep funds in offshore locations.

Britain has been bracing for defeat because it is likely to be outvoted by other governments. A decision by finance ministers was delayed last week until after the U.K. general election, likely May 6.

However, the final law won’t emerge until this version is reconciled with a different plan being considered by the European Parliament. As the parliament’s bill stands, foreign fund managers would be able to obtain an EU “passport” to access the entire bloc.

## Housing data show market still struggling amid recovery

BY JEFF BATER  
AND CONOR DOUGHERTY

The latest data on the U.S. housing market underscored its fragility as the overall economy recovers, and showed that a glut of homes for sale and a wave of foreclosures and fire sales are holding down housing prices.

**The median sales price for an existing home was down 1.8% in February from a year ago. Distressed homes, generally sold at discount, accounted for 35% of sales last month.**

Sales of existing homes fell 0.6% in February from a month earlier to a seasonally adjusted annual rate of 5.02 million, the National Association of Realtors said. Severe winter weather hurt sales in February. In December and January, sales suffered a hangover from a surge in sales in the autumn as buyers moved to take advantage of an expiring tax credit, which since has been extended.

“The expiration of that tax credit [and severe winter weather] has caused home sales to crash,” Steven Wood of Insight Economics wrote in a research note. “Because the tax credit has been extended and expanded, there should be a recovery in sales over the next two months.” The tax break now covers sales through April 30 that close before July 1.

The median sales price for an existing home was \$165,100 in February, down 1.8% from February 2009, the Realtors said. Distressed homes, generally sold at discount, accounted for 35% of sales last month.

A separate report Tuesday from the Federal Housing Finance Agency showed house prices fell 0.6% in January. The FHFA index—which tracks the prices of the same houses over time, but only those sold to or guaranteed by Fannie Mae, Freddie Mac or the Federal Home Loan Banks—is 13.2% below its April 2007 peak.

Inventories of existing homes increased 9.5% at the end of the month to 3.59 million available for sale, the Realtors said. That represented a 8.6-month supply at the current sales pace, compared with a 7.8-month supply in January.

—Darrell A. Hughes  
contributed to this article.

# Mortgage-market plan still divides

BY MICHAEL R. CRITTENDEN  
AND DAMIAN PALETTA

WASHINGTON—U.S. lawmakers and Treasury Secretary Timothy Geithner agreed Tuesday that policy makers should overhaul the U.S. housing-finance market and the role of mortgage giants Fannie Mae and Freddie Mac.

But how best to do that remains a highly contentious issue, eliciting strong opinions from U.S. House lawmakers during a hearing with Mr. Geithner on Capitol Hill. The hearing came a day after the Senate Banking Committee advanced legislation to rewrite financial rules without Republican support.

“It’s unacceptable...that the Treasury Department does not have a plan for Fannie and Freddie,” Rep. Spencer Bachus (R., Ala.) said at the top of the hearing.

Rep. Gary Miller (R., Calif.) likewise said the current scenario, with Fannie Mae and Freddie Mac under government control, is “not acceptable” but said he hadn’t heard any good suggestions about how to address the situation.

“I have yet to see a viable alternative from this administration or this Congress,” Mr. Miller said.

Mr. Geithner agreed with lawmakers that changes need to be made, but warned that moving too quickly could disrupt still fragile housing markets.

“There are a lot of challenges ahead,” Mr. Geithner said. We have to be “very careful that we’re still helping to facilitate this process of recovery while we transition.”

Rep. Barney Frank (D., Mass.), chairman of the House Financial Services Committee, said policy makers need to accomplish two goals: winding down Fannie Mae and Freddie Mac, and rethinking a housing-finance system that was created “without any overall vision.”



Timothy Geithner, during a hearing Tuesday in Washington, talks about the challenges in reshaping the mortgage market.

Doing one without the other could hurt a key part of the economy, he said. “All agree that simply abolishing Fannie and Freddie will not be enough for this committee’s role,” Mr. Frank said.

The difficulty surrounding how to deal with Fannie Mae and Freddie Mac, which have been under government control since September 2008, is one of the reasons the Treasury has missed self-imposed deadlines for releasing a proposal. The administration left the two government-sponsored enterprises out of their broader effort to overhaul regulation of financial markets in part because of the political difficulties surrounding the two firms.

Mr. Geithner said dealing with Fannie Mae and Freddie Mac, which

have received roughly \$127 billion in government aid to stay afloat, is a critical part of overhauling markets in the wake of the financial crisis.

But while eliminating the two firms today is impossible, Mr. Geithner said it should take months, not years, to contemplate and draft legislation that could receive broad support on Capitol Hill.

Also contentious is a financial-overhaul plan designed to shore up Wall Street and create new consumer protections. On Monday, the Senate Banking Committee advanced a broad overhaul measure on a 13-10 committee vote with no Republican support. The move came as Republicans and business groups rethink their strategy about how to shape or derail the financial bill.

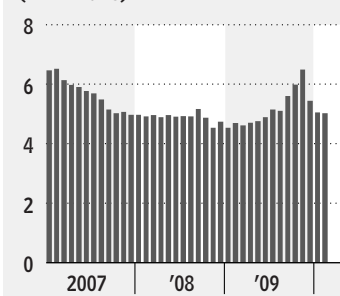
Some Republicans have faulted the White House for pressuring congressional Democrats to push forward without a bipartisan deal.

“Have things been about as dysfunctional as they could be as far as things coming out of committee?” asked Sen. Bob Corker (R., Tenn.). “Yes, and certainly there’s plenty of fault to go around.”

Mr. Geithner, in some of his most forceful comments to date, warned on Monday to “be careful whose voice you listen to” in the debate over new financial rules. His comments, in a speech at the conservative American Enterprise Institute, appear squarely aimed at Wall Street executives and other business leaders who have warned about the unintended consequences of the bill.

### Fragile structure

Existing home sales, seasonally adjusted at an annual rate (in millions)



Source: National Association of Realtors



WORLD NEWS

# Rare China deficit could back policy

First monthly data pointing to strong imports is seen as supporting Beijing's position on fixing currency to dollar

By Andrew Batson  
and Terence Poon

BEIJING—The prospect that China may report its first monthly trade deficit in six years could offer an unexpected boost to the nation's position in the increasingly heated international debate over its currency policy.

Top Chinese officials have in recent days said trade numbers for March could show China imported more than it exported this month—its first monthly deficit since April 2004. The official numbers for March aren't scheduled to be reported until April 10, but the rush to add supportive data to their talking points highlights how Chinese officials are stepping up their defense of a policy that has drawn criticism from trading partners.

Officials from the U.S. and Europe have argued that China's persistently large trade surpluses show its currency, which has been held fixed to the U.S. dollar since mid-2008, is undervalued to give Chinese exporters a competitive advantage. Chinese officials counter by pointing out that their nation's trade surplus has declined sharply in the past year, and argue that China's large stimulus program helped it keep buying from the rest of the world, thereby supporting global economic growth.

China's economic growth last year "was achieved mainly by relying on domestic demand," Premier Wen Jiabao said in a meeting with foreign executives Monday. China's trade surplus thus has been narrowing, and in the first one-third of March, China ran a trade deficit of about \$8 billion, he said.



### Down, but not out

China's trade balance, 12-month total in billions of U.S. dollars



Pictured, a bulk carrier cargo ship at an iron-ore transfer and storage center in Shanghai.

Sources: China's General Administration of Customs; Bloomberg News (photo)

"To be honest with you, I am pretty happy about this development," Mr. Wen said.

The premier's remarks followed comments from Minister of Commerce Chen Deming at a conference Sunday that he expected a trade deficit for the full month of March. Mr. Chen argued that the strong growth in China's imports helps foreign businesses, and he noted that in the first two months of 2010, imports from the U.S. were up 37%, from Europe up 35% and from Japan up 48%. China's trade surplus for January and February already was down 50% from a year earlier.

An actual trade deficit in March, rather than just a smaller surplus, could give more weight to China's arguments that the global economy

is improving without an appreciation of the yuan. China's trade surpluses stand out during the current global downturn because they show the country is adding to its own growth by selling to other countries. By the same token, a deficit would be a welcome sign that other countries are boosting their growth by selling to China.

"A trade deficit in March, if realized, would be positive and likely would help reduce international political pressure on China in relation to currency and trade," Barclays Capital economists said in a note Tuesday. Offshore currency markets were pricing in marginally less future appreciation of the yuan Tuesday after Mr. Wen's comments were publicized by state media.

Still, many economists don't expect any trade deficit to last long, and China is likely to post a large trade surplus this year.

The World Bank forecasts that China's current-account surplus, the broadest measure of its trade position, will increase this year to \$304 billion, after falling to \$284.1 billion in 2009 from a record \$426.1 billion in 2008.

Many U.S. lawmakers are pressing President Barack Obama's administration to take action against China on the currency.

The U.S. Treasury Department on April 15 is scheduled to issue its semiannual report on currency policies, in which it must decide whether to formally label China a currency manipulator. Some sena-

tors also have introduced legislation that could lead to tariffs on Chinese goods if Beijing doesn't change its policy.

But domestic politics in China don't make it easy for Mr. Wen's administration to move on the currency. Export manufacturers are major employers and have a strong voice in China's commerce ministry. They argue that a strengthening of the currency would derail their nascent recovery.

"We hope our government can bear the pressure and stabilize the exchange rate," said Bai Ming, a deputy general manager of Zhejiang Mingfeng Car Accessories Co., which makes car cushions and covers.

—Ian Johnson  
contributed to this article.

# Rio Tinto case shows industry chaos

By James T. Areddy  
and Alex Wilson

SHANGHAI—A startling courtroom admission of bribe-taking by some Rio Tinto PLC employees on trial here has highlighted the topsy-turvy world of iron-ore trading in China, which can provide ample opportunity for unscrupulous activity.

In resource-rich countries, exploration firms are sometimes pressured to give bribes, often in exchange for extraction rights. In China, corruption tends to work differently. The Rio Tinto employees, including Australian national Stern Hu, are charged not with making payments but receiving them.

In China, high-grade mineral is in short supply, shipping prices are volatile and hundreds of steel companies compete against each other to buy ore to meet their aggressive production targets. The difficulty in locking in supplies at predictable prices opens the door to bribery.

On Tuesday, the Shanghai court wrapped up testimony about the alleged bribery, but attending Australian consular officials and lawyers declined to provide details. The final half of the case, expected to conclude Wednesday, is closed to spectators. It is related to allegations the four Rio Tinto executives stole commercial secrets. No charges or responses have been made public.

Rio Tinto has denied wrongdoing

by its employees but hasn't addressed details of the case. It has called broadly for a transparent trial.

Few details have emerged of how the alleged bribery was structured, including the identities of the executives' purported co-conspirators and the timing of the alleged activity.

What is known is that on the opening day of the trial Monday, prosecutors alleged that about \$11.25 million in bribes were accepted by the Rio Tinto employees, according to lawyers who attended the sessions. That figure is about one-third of a single day's sales in 2009 in China, where Rio Tinto reported \$10.69 billion in revenue, or 24% of its global total.

China also charges the executives stole corporate secrets. That aspect of the case, set to conclude Wednesday, is closed to outsiders.

The four defendants include Mr. Hu, born in Tianjin, China. He was hired to run Rio Tinto's iron-ore sales business in the country's north in the mid-1990s, became an Australian citizen in 1997 and about four years later took charge of the miner's national sales team.

Two of the three Chinese nationals, like Mr. Hu, challenged the allegations, including the amounts of the alleged bribes and the characterization of the action, according to lawyers. The final executive didn't challenge charges, his lawyer said.

### Tricky terrains

Transparency International scored listed companies based on information they provided on their policies and measures to combat corruption. The average scores for companies, by location:

Score	Country
Highest standard: ★★★★★	
Lowest standard: ★	
★★★★	U.S.
★★★	Switzerland
★★★	Netherlands
★★★	U.K.
★★	Italy
★★	Germany
★★	Sweden
★	France
★	Japan
★	China
★	Russia

\*Average of 486 companies  
Source: Transparency International, 2009 report on corporate practices

Members of Rio Tinto's mineral-sales team are paid straight salaries and bonuses based on corporate, not individual, performance.

Statements of guilt by the executives may be a courtroom tactic aimed at winning sympathy, legal

analysts said. They contend it is unlikely the four will escape punishment. Few cases in China that make it to trial end in acquittal, and the best the accused may hope for is leniency in sentencing.

In China, Rio Tinto's business puts its executives face to face with the world's largest steel industry, one with more than 800 companies that together produce about 40% of world output. None control more than 5% of the market, or have much negotiating leverage with suppliers of iron ore.

China spent \$50.14 billion importing ore last year, more than any nation. The government concedes it has been unable to negotiate pricing, buy in a systematic way or allocate the mineral effectively.

Until recently, benchmark worldwide ore prices were established in high-stakes but established annual negotiations between sellers and major customers in Japan and South Korea. This benchmarking system has been undercut by the explosion in demand from China's diffuse steel industry. Today, many Chinese steelmakers approach sellers directly to negotiate prices, and have frustrated various strategies by Beijing to translate national demand into bargaining power.

Efforts are under way to restructure the global pricing system. But in China, brutal competition and price uncertainty leave steelmakers

jostling for access to ore.

Ore can take 45 days to arrive in China from Australia, Brazil, India, Mauritania and a handful of other nations where it is extracted. During that time, its price is subject to volatility, including in the cost of shipping and of unexpected delays in offloading at ports. A 150,000-metric-ton cargo can be subject to negotiation as it sails port to port, with minor dollar amounts per ton adding up to big money.

Under a kickback scenario outlined by a Shanghai-based minerals dealer, a potential buyer might tell a would-be supplier's representative that he will pay him \$2 a ton personally for every ton sold at a certain price. "That's essentially a bribe," says the dealer.

At the trial this week, Rio Tinto officials highlighted an ethics code on its Web site that includes antibribery provisions, including translation into Chinese. But beyond the idiosyncrasies of China's iron-ore trade, the nation is a difficult one in which to monitor executives.

"Companies like Rio Tinto rely heavily on people like Stern Hu, who were brought up in China or are citizens of China, who understand the cultural complexity of the system," said Pradeep Taneja, who lectures on Chinese business and politics at the University of Melbourne.

—Devon Maylie in Geneva  
contributed to this article.



## WORLD NEWS

# South Africa is 'ready' to play host

Provincial leader hits back at those who have criticized the country's ability to complete its World Cup timetable

By PETER WONACOTT

JOHANNESBURG—South Africa is ready to host this year's World Cup, said a top official, countering what she described as "known and unknown sources that are hell-bent" on sully the nation's image ahead of the massive sporting event.

Nomvula Paula Mokonyane, the premier of South Africa's powerful Gauteng province, rejected recent criticisms of South Africa, saying that negative reports about its readiness for the World Cup came from opposition politicians as well as journalists inside and outside the country. These people fail to recognize the progress that has put South Africa on par with previous hosts, according to the government official.

"Who is besmirching South Africa? We've got a number of South Africans doing that," she told a group of foreign reporters Tuesday. "We think we're on a world standard, like other places."

With only 79 days to go, South Africa is racing to ensure a smooth World Cup and allay concerns that could scare off football fans and tourists.

The monthlong event, to be held at venues around the country, is the first time an African nation has hosted the world football championship. But South Africa is struggling to complete roads and venues on time; set aside sufficient electricity for stadiums; tamp down violent crime and minimize potential terrorism threats.



Construction workers take a break in November outside the Mbombela stadium, one of the 10 tournament venues

Meanwhile, the Gauteng government is also dealing with disruptive protests over the lack of water and power in some outlying areas as well as strikes and shootings by informal mini-bus operators who oppose a new high-speed bus system.

"We aren't concerned about protests—we are living in a vibrant multi-racial democracy," said Ms. Mokonyane. "The concern is when

protests are accompanied by violence."

Coupled with the global economic downturn, such concerns pose challenges to ticket sales. After three of five sales phases, about two-thirds of the available tickets for the World Cup have been sold, according to the global football body FIFA.

Officials at FIFA have repeatedly

expressed confidence in its World Cup host.

"Now it is time for the whole world to put its trust in South Africa's ability to host the 2010 FIFA World Cup," the organization's president, Joseph S. Blatter, said earlier this month.

The capital of Gauteng, Johannesburg, will be front-and-center during the World Cup. The city will

host the opening and closing ceremonies as well as the first game June 11 and the championship July 11. It will also serve as the main point of entry for foreign tourists arriving in South Africa for the World Cup.

Gauteng province is home to mining conglomerates and banks, and accounts for about two-thirds of South Africa's economic output—as well as one tenth of Africa's total. Some government critics say the predominant role South African business plays in the country improves the prospects for a successful World Cup. The event's sponsors, building contractors and hotel operators are largely private and unburdened by government's problems with efficiency, says Moeletsi Mbeki, a businessman, author and the brother of former president Thabo Mbeki.

"The South African World Cup will be delivered by the private sector," he said.

Ms. Mokonyane, Gauteng's top official, said her government has assumed a central role in World Cup preparation. She's been fielding requests from backpacker groups eager to travel the country and Christian evangelists eager to speak to large crowds of football fans. She said the province has shown it can stage global sporting events in rugby and cricket, and isn't daunted by what awaits with the largest of them all: the World Cup.

"We sound very ambitious, but that's because we are a very ambitious nation," she said.

## Malaysia adjusts racial policies amid unrest

By PETER STEIN

HONG KONG—Malaysian Prime Minister Najib Razak said his government is planning to adopt new affirmative-action policies that are "more market friendly" but said the pace of reforms will depend in part on "people's buy-in to the changes."

In an interview Tuesday, Mr. Najib also addressed concerns about religious unrest in Malaysia, the trial of opposition leader Anwar Ibrahim and the use of oil revenue to subsidize domestic fuel prices.

After taking power in April 2009, Mr. Najib announced a relaxation of restrictions in the country's services sector, including moves to encourage foreign investment in tourism and legal and financial services.

"The market, I must say, has not appreciated the significance of those changes," the 56-year-old Mr. Najib said in Hong Kong, where he spoke at a Credit Suisse investor conference. Also underappreciated, he said, were "the political risks we have to take to examine some of these policies and reform these policies."

Malaysia retains longstanding policies aimed at promoting the role of ethnic Malays, who make up 60% of Malaysia's 27 million population, and which leave many ethnic Chinese and Indians feeling disadvantaged.

However, his government plans to announce new overhauls in coming weeks. "And the new approach towards affirmative-action will be more market friendly, more transparent and more merit-based," Mr. Najib said, without disclosing any details.

The British-educated Mr. Najib, the son of Malaysia's second prime minister, took power in April 2009 after big losses at the polls for the governing National Front coalition precipitated the resignation of his predecessor, Abdullah Ahmad Badawi. The opposition, led by former Deputy Prime Minister Anwar Ibrahim, has gained ground in part by drawing on support from disaffected ethnic groups.

Mr. Anwar is currently on trial for allegedly sodomizing a young male aide in 2008, the second time such charges have been brought against him in little more than a decade. Mr. Anwar, 62, says the charges are a fabrication aimed at destroying his reputation and political career. He was jailed on similar charges from 1998 to 2004, when his conviction was overturned on appeal.

Asked how he responds to criticism that Mr. Anwar is being tried for political reasons, Mr. Najib said that it "has nothing to do with the government. It's an individual matter. It just so happens the person concerned is the head of the opposition." He added: "Let us allow the process to take place and the international community can judge for itself."

This year, Malaysia has been hit by religious unrest. Tensions between Muslims and non-Muslims escalated after the country's High Court ruled on Dec. 31 that Roman Catholics could use "Allah" as a translation for "God" in a Malay-language church publication. That



Malaysian Prime Minister Najib Razak: 'To change people's attitudes and values, it does take time.'

sparked protests among Muslims demanding that Islam be protected, and led to attacks on a number of churches and the desecration of two mosques. Mr. Najib's government has appealed the court decision, arguing that the Arabic word should be reserved for use by Muslims.

Mr. Najib blamed the violence on extremists. "In any society, there will be the whole spectrum of views," he said. "You will get the extremists on the far right and also the far left." He noted that "to change people's attitudes and val-

ues, it does take time."

Weaning Malaysia off dependence on royalties earned from its oil reserves is one of the nation's longer-term challenges, Mr. Najib acknowledged. Currently, the government uses that income to subsidize public fuel prices but "we've realized it's not sustainable." However, he noted that "there's a political cost to taking away subsidies," which will make it difficult to remove them quickly. He also stressed the need to strengthen Malaysia's social safety net to help poor people

most affected by any changes.

The prime minister confirmed that Malaysia is "quite keen" on joining an Australian-backed proposal for a trans-Pacific free trade zone. Last week, representatives of the U.S., Australia, China, Brunei, New Zealand, Peru, Singapore and Vietnam held preliminary talks on the idea of such a grouping in Melbourne.

Malaysia's policy is pro-free trade, he said, "so any kind of arrangement that helps to promote trade is something that we would be very supportive of."