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THE BIG READ 18-19

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BUSINESS & FINANCE 21

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Mr. Sarkozy goes to Washington

Agence France-Presse/Getty Images

French President Nicolas Sarkozy meets with U.S. Speaker of the House Nancy Pelosi in the Capitol building in Washington prior to a meeting with President Barack Obama. See article on page 7.

Ireland sets plan to repair bank system

By Quentin Fottrell, Neil Shah and Patricia Kowsmann

Ireland's government hopes its latest moves to help its banking sector will be the final chapter in a rescue effort that has already cost taxpayers huge sums of money.

The government announced details of its "bad bank" program, which it set up to acquire toxic assets from Irish lenders. The National Asset Management Agency said it would spend €8.5 billion ($11.5 billion) to acquire more than 1,200 loans valued at €16 billion from various lenders. The government expects NAMA to ultimately acquire loans valued at €81 billion by the end of February 2011.

In addition to acquiring nonperforming loans via the bad bank, the government issued tougher capital directives that could place more banks under government ownership. The government owns **Anglo Irish Bank** and has effective 25% stakes in **Bank of Ireland** PLC and **Allied Irish Banks** PLC.

The government hopes the combination of tougher capital rules and purchases by the bad bank will put the Irish financial system back on firm footing and encourage banks to start lending again.

"The cost of this banking crisis is obviously bad news for everyone," said Dermot O'Leary, chief economist at Goodbody Stockbrokers in Dublin. "But the process [of fixing the banks] has to be carried through so that you have a stable banking system and one that spurs economic growth. If you don't, the downturn will last even longer."

Ireland's bad-bank program is based on the Swedish model. In the early 1990s, Sweden transferred toxic assets to a bad bank, allowed some banks to go into liquidation, nationalized other banks and devalued its currency. As a member of the euro zone, Ireland doesn't have the last option.

The U.S. considered a similar bad-bank program but ultimately opted to stick with capital injections as the primary means of rescuing its own financial system. The U.K. has also injected capital and owns more than 80% of Royal Bank of Scotland Group PLC and more than 40% of Lloyds Banking Group PLC.

In acquiring Ireland's toxic assets, NAMA paid steep discounts, underscoring just how damaged the portfolios of many banks had become in the wake of the financial crisis and a real-estate collapse. The highest discount will be 58% for loans from **Irish Nationwide Building Society**, while the lowest will be for Bank of Ireland loans, at 35%. The discount for loans from Allied Irish Banks will be 43%. The average discount of 47%

Please turn to page 22

Gartmore suspends star

By Margot Patrick

LONDON—Shares in U.K. fund manager **Gartmore Group** Ltd. plummeted more than 30% as the company said it has suspended one of its top portfolio managers, Guillaume Rambourg, but denied that the firm is connected to an insider-dealing investigation by the Financial Services Authority that resulted in seven arrests last week.

The shares were down 53 pence (79 cents), or 31%, at the close of Tuesday's session, at 116 pence.

In a statement, Gartmore said it suspended Mr. Rambourg while it makes an internal investigation of potential breaches to its procedures on "directing trades." said assets managed by Mr. Rambourg will be handled by Roger Guy, Gartmore's other star manager. The men control about 20% of Gartmore's £22 billion ($33 billion) in assets under management.

Neither Mr. Rambourg nor Mr. Guy could immediately be reached for comment.

"Gartmore has not identified any information to date which suggests that Gartmore's clients have suffered any loss as a result of these breaches," the company said.

Earlier this month, Mr. Rambourg, Gartmore and a former Gartmore employee were fined €300,000 ($404,000) by Consob, Italy's market regulator, for allegedly using privileged information to trade in Banca Italease SpA stock in 2006. Gartmore in its annual report said it had set aside £1.9 million to cover that charge and an expected fine from the U.S. Securities and Exchange Commission after receiving an information request regarding "certain trading." A person familiar with the matter said the Italease trade had also attracted the attention of the U.K. Financial Services Authority, Gartmore's regulator, but it didn't take action.

The internal investigation isn't related to those trades, the person said. Messrs. Guy and Rambourg were among the Gartmore employees who got a payout when the company went public in December. Before the initial public offering, Mr. Rambourg held about 9% of Gartmore's shares and Mr. Guy had 13%.

Push starts to revive Iraq's oil industry

By Russell Gold

BP PLC awarded about $500 million in contracts Tuesday to drill wells in Iraq's giant Rumaila oil field, kicking off a huge push by foreign oil companies to revive the country's troubled energy industry.

If successful, the effort at Rumaila and several other fields near the southern city of Basra could yield the largest expansion of crude-oil production ever achieved, with a potentially global impact.

But the undertaking faces tremendous obstacles, including security risks and the country's fractious politics.

The drilling contracts represent a small first step in what oil-industry officials expect to be a long and closely watched campaign by a dozen of the world's largest oil companies to rebuild Iraq's decrepit oil infrastructure and transform the country into a rival to Saudi Arabia as the world's biggest oil exporter.

"It could change the map of oil," said Paolo Scaroni, chief executive of Italy's **Eni** SpA, which is preparing to begin work on Iraq's giant Zubair field.

The program's success—or failure—could be the difference between a tight oil market struggling to meet rising Asian demand and triple-digit prices and a well-sup-

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PAGE TWO

The EU is in crisis mode—once again

[Agenda]

By Iain Martin

It is easy to overcook the idea of the European Union being in crisis.

It is always said—by its supporters and its critics alike—to be approaching one sort of exciting dénouement or another. But then it passes, the caravan moves on, and in time another potential disaster that can be negotiated around swings into view.

This has long been the pattern. The EU is forever having supposed make or break moments that turn out to be no such thing. The Nice summit in December 2000 was presented in those terms, but only denizens of the European Commission, civil servants in foreign ministries and journalists who make it their business to care can really remember what it was all about. The answer is that it was about slimming down decision making in the commission ahead of the admission of various accession states, reducing the representation of national governments on the commission and extending majority voting in several areas.

The EU is forever having supposed make or break moments that turn out to be no such thing

In Nice, for several days, we journalists, many hundreds of us, were housed in the large conference center in town and fed rather agreeable French food and wine. We barely saw any real politicians or officials. Occasionally they appeared in the hall to give us briefings, which made it clear that this was a make or break moment. We nodded in sage fashion and wrote pieces explaining why this was make or break for the EU. And then—surprise, surprise—in the early hours of the last morning of the summit a deal was done. It was make, not break, as it was always going to be.

Reuters

Are they ready for another full blown political crisis for the EU?

Even the death of the EU constitution, which seemed like a serious impediment to the progress of the project, wasn't much of a setback in the end. It was simply reborn as the Lisbon Treaty.

The motive force behind the EU is integration and the creation of a continent-wide power block. National governments and the Brussels-based bureaucracy have so much invested in advancing that cause that any obstacles will not be allowed to cause more than temporary interruptions. They have become expert at improvising ways to press on regardless.

It is assumed that opponents of this process are too thinly scattered, and probably too disillusioned by this point, to make a real difference. It all looks unstoppable.

But, and you knew there was "but" coming of course, just because the EU establishment has overcome all problems in the past and kept to its course, it isn't preordained that it will in perpetuity.

The Greek crisis has been the real deal, a proper emergency for the European project.

The architects of the euro were warned that, on its own, a currency union wouldn't magically encourage southern European states to start producing, saving and managing their nation's affairs in the manner of the Germans.

Those offering warnings have been proved correct and the flaws in the euro's design are now apparent to even those who insisted at the time that there were none.

Yes, after much wrangling a deal to support stricken Greece is in place, but only with the Germans enforcing strict conditions. This is a sticking plaster solution. What must come, logically, is something close to a form of economic government by those states that want to stay as the inner core of the euro. It might be called by another name, but that is what it will be.

And that leads to a full-blown political crisis for the EU itself. The choice for various countries then is between trying to be part of an inner core organized around the euro with coordinated fiscal policy, or standing outside it in a trading zone built on cooperation rather than coercion.

The Eurosceptics, in countries such as Britain, are just starting to realize this. The euro's problems will force its strongest members into much closer integration than even they currently envisage. Other than breaking up the euro they can do nothing else—standing still isn't an option. In this way that old discussion about there being two distinct Europe's inside the EU is coming back rapidly into fashion. Sounds like it has the makings of a proper crisis.

Blair on campaign trail

Tony Blair was back on the campaign trail Tuesday and the focus of much attention and many questions in Britain. Would his intervention on behalf of Labour as it fights against the odds for a fourth term in office help his old party? Was his backing of Gordon Brown enthusiastic or a little perfunctory? Why didn't he attack the Tory leader David Cameron directly; does he think he might need good relations with him if the young Tory is about to join the global leaders' club? And why, many will have wondered, was Mr. Blair's skin so orange?

He has certainly been abroad of Europe a lot recently, and why not?

But his electioneering speech was a reminder of what an accomplished operator he is. It was a cleverly constructed hatchet job on the Conservatives claims to have changed. Mr. Blair claims they are confused, hiding their true intentions or do not know what they are doing.

Most impressive of all was the way in which he managed to tell a version of the New Labour story in which there wasn't enough room for a mention of base suggestions that the party spent all the country's money on the basis that boom and bust had ended when it hadn't. Masterful.

What's News

■ **Leaders of the U.S.**, Canada, South Korea, Britain and France, looking to spur efforts to remake the international economic system, urged other G-20 leaders to recommit themselves to the overhaul objectives. 7

■ **Putin vowed** to "drag out of the sewer" those behind the deadly terror attacks on the Moscow metro, as officials pledged to stiffen penalties for terrorists. 6

■ **Greek government bonds** were under pressure as markets questioned the country's borrowing power after Monday's $6.71 billion bond issue drew slim demand. 4

■ **Google said** a glitch on its part caused China's Internet censorship mechanism to block nearly all China-based searches on its sites. 14

■ **Universal has re-entered** talks for a distribution deal with EMI that could help the British music company stave off a default. 21

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It's in the blood. But is plasma therapy really that good? **31**

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"It's time countries set aside differences and tremendously increase cooperation to fight the enemy."

Deepak Gupta in response to bombings in Moscow that killed 39 people

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Question of the day

Vote and discuss: Do you think "bad banks" are a good solution to Ireland's financial problems?

Vote online and discuss with other readers at **wsj.com/dailyquestion**

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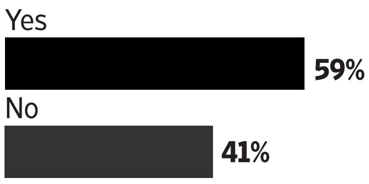
Q: Do you think the Dow Jones Industrial Average will hit 11000 this week?



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NEWS

Thieves tunnel way into Paris bank vault

By Max Colchester

PARIS—French police are hunting for a gang of robbers who tunneled their way into a Parisian bank vault and emptied as many as 200 safe-deposit boxes.

On Saturday night, a team of thieves drilled their way into an underground vault of a Crédit Lyonnais SA bank in central Paris, Isabelle Montagne, spokeswoman for the Paris prosecutor's office, said Tuesday. After taking a security guard hostage, the thieves spent several hours rummaging through safe-deposit boxes before setting fire to the vault and leaving. The security guard said he saw at least three people, Ms. Montagne said.

The damage caused by the fire and the automatic-sprinkler system that put it out has made estimating the amount stolen difficult, a bank spokesman said. There were about 200 boxes in the vault, and the bank has begun an investigation to determine the cost of the robbery.

The bank, located near Paris's gilded Opéra Garnier, was being renovated and was empty except for the security guard at the time of the heist, the bank's spokesman added. The security guard heard the robbers drilling through a neighboring cellar and went to investigate. He was then taken hostage and made to sit facing a wall while they emptied several boxes, according to Ms. Montagne.

All clients affected are insured against theft, the bank spokesman said.

Police were alerted Sunday morning when the robbers set fire to the vault, triggering fire alarms. All clients affected are insured against theft, the bank spokesman said.

Last New Year's Eve, thieves pulled off a similar heist at a bank just east of Paris in the suburb of Montreuil. After drilling into the vault, the robbers emptied 117 safe-deposit boxes. That bank was also closed for renovation and it took several days before the police were alerted. No arrests have been made. Ms. Montagne said she was unaware of any direct link between the heists.

France's most notorious robbery in modern times was in 1976, when a team of criminals tunneled into a bank vault in the southern city of Nice and stole 50 million francs—€7.6 million converted at the rate used when France joined the euro zone, or about $10.2 million. The gang spent nearly three months digging a tunnel under a Société Générale bank. The leader of the group, Albert Spaggiari, was arrested several months later but escaped by jumping out a courthouse window. He was never caught again, and died in Italy in 1989.

Reuters

A police vehicle parked next to the Grand Hyatt hotel in Berlin on March 6.

High crimes

Brazen robberies have made headlines in recent years

Feb. 27, 2009
Irish bank heist:
€7.2 million
A gang carried out the biggest bank raid in Ireland's history, stealing €7.2 million. The gang took staff hostage and forced an employee to remove money from a vault. Two men were charged and €2 million was recovered.

Aug. 6, 2009
Jeweler heist:
£40 million
Robbers in London stole almost £40 million worth of jewels. Two well-dressed men with handguns threatened staff and fired shots before taking 43 items from a jeweler in New Bond Street. The police later charge nine men.

March 6, 2010
Berlin poker raid:
About $1 million
A group of robbers wielding machetes and handguns stormed a televised poker tournament in Berlin escaping with around $1 million of the prize money. Four suspects have been arrested.

March 28, 2010
Basel casino raid:
Less than $1 million
Attackers smashed their way into a casino at 4 a.m. They failed to break into the safe but took what was in the cash registers (less than $1 million) before fleeing across the Swiss-French border. The perpetrators are still at large.

Europe's dramatic heists seem to be getting bigger

By Javier Espinoza

The break-in at Crédit Lyonnais in Paris Saturday night highlights what insurers and security consultants say is a rise in the level of organization, weaponry and sophistication of heists across Europe.

Last weekend, about 10 masked raiders stormed a busy casino near the Swiss city of Basel, making off with hundreds of thousands of francs, according to early prosecutors estimates. This month a group of robbers wielding machetes and handguns stormed a televised poker tournament in Berlin. Despite the scare, the poker playing resumed within a few hours.

"In the past, we used to see reasonably well-known groups carry sporadic heists in banks or places where cash could be potentially stolen," said Will Geddes of London-based ICP Group Ltd., a 15-year-old company that provides personal and corporate security to companies in various sectors, including retail and finance services. "But we are now seeing even more professional groups with a quasi-military ability. They are super slick."

According to Pascale Rauline, a senior underwriter at Bermuda-based XL Insurance, there has been an increase of "larger cash in transit robberies throughout Europe and particularly France, where explosives have been used against premises and armored vehicles over the last year or so. We are concerned that we are witnessing a similar trend against banks," she said.

Earlier this year, in Ireland a violent north Dublin gang carried out the biggest bank raid in Ireland's history, stealing €7.2 million ($9.7 million). Separately, two well-dressed men with handguns stole almost £40 million ($60 million) of items from a jeweler in London last summer, staging the second biggest robbery in British history.

But Mr. Geddes said members of the public shouldn't be concerned of heists taking place in greater numbers. "I don't think people generally should be greatly concerned apart from those who are connected with the robbery.

"These groups try to avoid involving the general public because it becomes massively problematic and it increases the chances of a possible capture," he said.

Particle accelerator a smash hit—at last

By Robert Lee Hotz

After two false starts Tuesday, the Large Hadron Collider—a $10 billion particle accelerator near Geneva—smashed together its proton beams for the first time, marking a new era in physics with a clash of subatomic "cymbals."

It was a critical milestone in a troubled project that has brought together scientists from 34 countries. They are drawing on money and material from 150 universities and dozens of government agencies in a 15-year scientific gamble designed to reveal secrets of the universe hidden since time began.

Collider operators steered the proton beams, comprising billions of particles accelerated almost to the speed of light, into their first collision just after 1 p.m. Geneva time. The beams collided with a combined energy of seven trillion electron volts, about 3.5 times more powerful than the previous world record.

As the collider becomes fully operational, project scientists hope to discover additional subatomic particles.

Associated Press

A scientist celebrates in control room.

"We'll address soon some of the major puzzles of modern physics like the origin of mass, the grand unification of forces and the presence of abundant dark matter in the universe," said physicist Guido Tonelli from the University of Pisa in Italy, who is working on the collider experiments.

Push begins to revive Iraqi oil industry

Continued from page 1

plied market with oil steadily trading below today's roughly $80 a barrel, some experts say.

Iraq sits atop the world's third-largest supply of oil, after Saudi Arabia and Iran, but two decades of war, sanctions and neglect have left its production relatively low, at about 2.5 million barrels a day, and its oil fields in disrepair. They are in need of investment, including new wells and massive amounts of water to restore underground pressure and revitalize reservoirs.

Iraqi officials say they plan to add 10 million barrels a day of oil production. Most industry watchers consider that goal too optimistic and say the country would be doing well to boost production by three to four million barrels a day.

Even that would be a historic feat, lagging only Saudi Arabia's expansion in the 1970s.

Still, many potential pitfalls remain, not least of which are the internal security of the country and its politics.

Ayad Allawi's Iraqiya bloc, which won the most seats in the recent parliamentary election, said it would like to review oil contracts signed with foreign companies.

However, as the nation's leading parties engage in the contentious political horse-trading necessary to form a new coalition government, oil hasn't emerged as a galvanizing issue. While forming a new government will likely be a drawn-out affair, oil companies aren't delaying their plans to push ahead. "It makes commercial sense for us to increase production as quickly as we can," said Toby Odone, a BP spokesman.

BP and Iraq's state-run South Oil Co. awarded contracts to drill 49 wells to Weatherford International Ltd., a partnership between oil-service giant **Schlumberger** Ltd., the state-run Iraqi Drilling Co. and China's **Daqing Oil Field** Co., according to Abdul Mahdy al-Ameedi, a senior official in Iraq's oil ministry.

Mr. Ameedi said BP plans to increase production at Rumaila to 1.23 million barrels a day within a year from about 1.07 million barrels a day.

These contracts are the first of what is expected to be a wave of oil-field-related work awarded by BP, **Exxon Mobil** Corp., **Royal Dutch Shell** PLC, Eni, OAO **Lukoil Holdings** and state-owned **China National Petroleum** Corp. over the next few months. The companies have been awarded contracts to boost production at various Iraqi fields.

Energy analysts at Sanford C. Bernstein recently wrote that developing seven major Iraq fields, including Rumaila and Zubair, could cost $102 billion, but they said they said they were "skeptical" all of the plans would be carried out.

Foreign oil companies have begun preparing for major projects in Iraq. Schlumberger, the world's largest oil-field-services company, is building a camp to house 300 workers near Basra. Exxon said it recently concluded meetings in Iraq and is drafting plans to begin work.

The development of so many big projects, most of which are clustered within 80 kilometers of one another, will create an enormous demand for workers, engineers and drilling rigs. It will also require a massive construction program for roads, ports, oil-export facilities and water plants.

The growth of Iraqi oil production and exports will play a "decisive role in shaping global oil markets," said Fatih Birol, chief economist of the Paris-based International Energy Agency, a watchdog for industrialized nations.

Doubling Iraqi production is "a very important factor for getting the heat out of the global oil markets," he said.

—Hassan Hafidh and Margaret Coker contributed to this article.

EUROPE NEWS

City unleashes lobbying blitz

As U.K. election approaches, banks try to ward off taxes; the 'prawn cocktail offensive'

By Sara Schaefer Muñoz
And Alistair MacDonald

LONDON—British financial firms have launched a frenzy of political lobbying aimed at muting the impact of potential taxes and regulatory proposals aimed at their industry.

But as a too-close-to-call national election approaches, the banks may be wondering: Is anybody listening?

The ruling Labour government recently slapped the industry with an unexpected tax on bankers' bonuses and has been calling for a global bank levy. The opposition Conservative Party, the favorite to win an election that must be held by June, also jumped on the bank-tax bandwagon this month, saying it, too, planned to hit the banks with a tax to repay the public for the bailouts during the financial crisis.

Meanwhile, European Union regulators are weighing new rules on everything from complex financial instruments to banks' risk exposure.

Banks, brokerages and hedge funds are well aware that they are disliked in the wake of the financial crisis and realize no politician wants to be seen cozying up to them.

In recent years, U.K. financial firms could take it easy at election time. While they were hit with heavy taxes for a spell under Prime Minister Margaret Thatcher, in the past decade they enjoyed the "light touch" regulation and support of Labour. The industry's position was buttressed by the fact that it is the source of 25% of the U.K.'s corporate tax take. A national election, says the head of government relations for a large London bank, was typically regarded with "a very broad yawn."

But the financial crisis—and the political effort to capitalize on anti-bank sentiment—has changed that. U.K. firms are now marshaling their forces as never before, not just in the U.K. but increasingly in Brussels, where regulators have targeted things like complex financial instruments and banks' size. **Lloyds Banking Group** PLC, for example, this year added two people to its team that monitors EU legislation. Other firms are working through a new body, the Association for Financial Markets in Europe, formed largely to lobby lawmakers in Brussels.

Reuters

Chancellor of the Exchequer Alistair Darling speaks in Scotland on Saturday. He would keep his position if Labour wins the election.

Banks, brokerages and hedge funds are well aware they are disliked in the wake of the financial crisis, and realize no politician wants to be seen cozying up to them.

So they are channeling their concerns through trade groups such as the new financial-market association and the British Bankers' Association, as well as through private consultants such as **Cicero Consulting** and **Hanover Communications**.

Financial executives are still taking some traditional routes. Last fall, the U.K.'s Conservative Party leader, David Cameron, held a cocktail party at the Grange Hotel in central London to liaise with London's business community, where 1,400 people crowded in. Several dozen more were turned down.

"I've never known a period so close to an election where the lobbying is as strong and active as we are currently seeing," said Iain Anderson, director and chief corporate counsel at Cicero Consulting.

Campaign-finance records in the U.K. don't detail contributions to each party by sector. But in the past several elections, the financial sector generally supported Labour, especially after the party courted business leaders in a series of lunches and conferences known as the "prawn cocktail offensive" in the 1990s, said Karel Williams, director of the Centre for Research on Socio-Cultural Change at Manchester University.

This time, banks and other financial firms have cautiously backed the Conservatives. But they are far from sure the right-leaning party will prove to be an ally, people close to banks and financial firms say. The banks worry that the Conservatives haven't publicly promised they won't repeat December's bonus tax, and Mr. Cameron's recent bank-levy proposal doesn't signal bank-friendliness, either.

Banks and financial firms also fret over how much influence the traditionally "Euro-skeptic" Conservative Party would wield amid other European leaders in Brussels. Mr. Cameron broke away from the mainstream conservative European People's Party, and U.K. financial firms are looking for assurance that their interests won't be steamrolled as the EU finalizes new regulations.

The Conservatives say that senior officials such as George Osborne and Mark Hoban have already been meeting with key decision makers in Brussels and have signaled they will install a semipermanent minister in Brussels. Still, banks and financial firms are pushing for more details, such as how many hours a week this minister will spend there, people close to the efforts say.

"David Cameron has to walk a delicate act between hard European skeptics and a pragmatic approach, and he has some work to do to show the political leadership in Europe that he wants to work with Europe," said Jonathan Chenevix-Trench, former chairman of Morgan Stanley International who runs the fund management company African Century. Mr. Chenevix-Trench is also a donor to the Conservative Party.

Conservative leaders say they have good relations with the financial sector. Conservative member of Parliament Richard Spring helps to run both the Conservatives' City Circle, an organization aimed at getting support and feedback from the City's finance professionals, and the City Futures group for younger professionals. Events include lunches attended by Mr. Osborne, the Conservative Party's top finance official.

The closeness of the race this year is also adding complexity to the activity. The possibility that there will be no majority party in the U.K. Parliament could give a smaller party, the centrist Liberal Democrats, significant power.

"For the past 18 months or so, [clients] have been asking what the Conservatives think, and for the first time they are becoming interested in what the Liberal Dems are doing," said Laura Chisholm, a senior account director at Hanover, the consulting firm.

Banks and financial firms are also worried about a level playing field when it comes to taxation. They realize that the government may need to raise taxes, say political advisers, but they would like ample warning and an opportunity for legislative input. **Barclays** PLC is one firm that has been making it clear to both Labour and Conservative leaders that "a stable tax environment" is key for doing business in the U.K.

Greece suffers as demand for new bonds turns weak

By Emese Bartha
And Nick Skrekas

ATHENS—Greek government bonds were under pressure as markets questioned the country's borrowing power after Monday's €5 billion ($6.71 billion), seven-year bond issue drew slim demand.

And in a surprise move Tuesday, Greece's public-debt agency reopened a 20-year bond that matures in 2022. It sought up to €1 billion in new sales; it sold €390 million.

Market watchers said Greece's standing on capital markets weakened after the bonds failed to attract the same interest as previous issues and after Athens needed to pay a high price to fill its order books. "It was negative that the order book was, by far, not as high as at the previous deals and the number of investors was also sharply down," David Schnautz, strategist at Commerzbank AG in Frankfurt, said of Monday's debt issue.

That offering attracted €6.25 billion in orders—less than sales earlier in the year. The banks working on the deal said in a joint news release Tuesday that 43% of the bonds were sold to domestic investors.

Greece is under the gun to sell bonds. More than €20 billion of debt comes due in April and May, and market participants say Greece will probably need to borrow an additional €10 billion to cover refinancing and budgetary needs.

Athens is wrestling with a budget deficit and mounting debts that have investors worried that it may not be able to meet its obligations. European Union countries agreed last week that they would step in with aid to Greece if needed but that Greece would also have to take a humbling loan from the International Monetary Fund.

Greek officials, including the prime minister, say the high yields Greece must pay to attract investors aren't sustainable—and that it has little hope of getting its interest costs and debt pile under control if they remain elevated.

The yield spread between 10-year Greek bonds and equivalent German government bonds, or bunds, shot up to 3.35 percentage points before the announcement of the auction Tuesday from 3.16 percentage points at Monday's close. That brought the yield Greece must pay on 10-year debt to 6.485%—more than twice Germany's 3.13% interest payment. Following the auction, the yield spread was at around 3.30 percentage points.

The additional volume on the market may have added to pressure on Greek bond prices. But Jan von Gerich, senior analyst at Nordea in Helsinki, said Tuesday's auction was a "smart move," since the October 2022-dated bond is trading at a "notably" lower yield than the 10-year benchmark, at 5.960% versus 6.46% for the June 2020-dated bond.

Currency analysts said they were still concerned that the long-term picture for Greece and the euro zone as a whole remained shaky, constraining the currency's rally. By evening in Europe, the euro had reversed much of its early climb after opening the day at $1.3538.

—Mark Brown, Katie Martin and Clare Connaghan in London contributed to this article.

U.K. consumers' confidence falls

By Nicholas Winning

LONDON—British consumer confidence deteriorated in March, dealing a blow to Prime Minister Gordon Brown as he prepares to call what promises to be one of the closest general elections in years.

But Mr. Brown may take some heart from the latest statistics, which show that the economy grew a little more strongly in the final three months of last year than initially thought. The latest monthly survey by polling firm GfK NOP showed its consumer-confidence index slipped to minus 15 in March from minus 14 in February.

"With the election only weeks away, the government will be disappointed that consumer confidence has slipped this month," said Nick Moon, the managing director of GfK NOP social research.

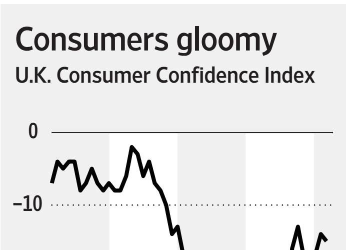
GfK surveyed 2,000 people from March 5 to March 15, or before U.K. Chancellor of the Exchequer Alistair Darling delivered his annual budget on March 24.

Mr. Darling repeated his pledge to halve the budget deficit in four years, but steered clear of announcing any new spending cuts or major tax increases.

The GfK survey showed that although the consumer confidence index has risen from minus 30 in March 2009, it remains weak.

The index measuring expectations for the economy over the next 12 months dropped four points to zero, but has recovered from minus 30 in March 2009. The index measuring expectations for personal finances over the next 12 months dropped two points to 4, although it too has recovered from minus 6 in March 2009.

That weakness in the survey comes despite the U.K. economy returning to growth in the final three months of 2009 following six consecutive quarters of contraction triggered by the global credit crunch. The Office for National Statistics' final reading for fourth-quarter gross domestic product showed the economy grew 0.4% from the third quarter, a revision from the previous estimate of 0.3% growth.



Although the revision is further confirmation of the government's view that the economy would be growing by the end of 2009, economists predicted a sluggish recovery now that measures like a temporary cut in value-added tax and the cash-for-clunkers measures have passed. U.K. GDP contracted 4.9% in 2009 as a whole.

"We are forecasting slower growth in the first quarter of this year, and a slow and fragile recovery for some time," said Ian McCafferty, chief economic adviser at the Confederation of British Industry.

—Laurence Norman and Ilona Billington —contributed to this article.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EUROPE NEWS

Russia chases Caucasus terror links

Bomb scares and mourning mark the day in Moscow as officials pledge to tighten security and stiffen penalties

By Greg White

MOSCOW—Prime Minister Vladimir Putin vowed to "drag out of the sewer" those behind Monday's deadly terror attacks on the Moscow metro, as officials pledged to stiffen penalties for terrorists and tighten security.

The rush-hour blasts—the first major terror attack in the Russian capital in six years—left the city nervous on Tuesday's official day of mourning. Several reports of suspicious objects led police to evacuate buildings, including the city's largest cathedral, news agencies reported.

Monday's attacks raised questions about Kremlin claims of success in its decadelong war against Islamist rebels in Russia's south. The lull in attacks outside that region in recent years had led many Russians to believe the threat had receded, analysts said.

In a meeting with top officials to discuss steps to tighten transport security, Mr. Putin continued the tough tone that he set out immediately after the attacks.

"We know that they are lying low," Mr. Putin said of the masterminds, "but it is already a matter of honor for law-enforcement agencies to drag them out of the sewer and into broad daylight."

In a separate appearance, President Dmitry Medvedev echoed the tough talk. "We've been destroying terrorists and will continue to destroy them," he told a meeting with a human-rights adviser.

The Kremlin also plans to set up a warning system to alert citizens of potential threats, along the lines of the alerts used in the U.S., a spokesman said.

But Gennady Gudkov, deputy chairman of the Security Committee in the State Duma, however, questioned the effectiveness of such an approach in Russia.

"Given how bad the situation in the North Caucasus is, we'll have an elevated level of terror threat every day, so people will get used to it and stop paying attention," he said.

Top officials also called for raising criminal penalties for terrorism, as well as steps to tighten security to prevent further attacks. The Transport Ministry said it plans to propose requiring identification for passengers on intercity buses, which Russian media reported as the suspected route taken by the female suicide bombers from the Caucasus to Moscow before Monday's attacks. But legislators and analysts were skeptical that stiffer penalties and more security would do much.

"This talk of legal improvements is just a matter of habit in this country," Mr. Gudkov of the State Duma said. "What we need is to improve enforcement, not new laws."

Officials haven't named any suspects in the bombings, but say evidence points to the Islamist underground in the North Caucasus. There has been no claim of responsibility.

The suicide bombers struck 40 minutes apart at the height of the morning rush Monday. The first target was the Lubyanka station, highly symbolic for its location right below the headquarters of Russia's Federal Security Service, followed by a blast at the Park Kultury station near Gorky Park.

City health officials put the death toll at 39 Tuesday, with more than 70 injured, several critically. Tearful mourners brought candles and flowers to makeshift memorials in the two stations Tuesday. Traffic on the metro seemed thinner than usual amid stepped-up police patrols.

A bomb scare led to the evacuation of the Christ the Savior Cathedral on the Moscow River Tuesday evening, but police later said no bomb was found, news agencies reported. Later, a suspicious case reported on a street linking Lubyanka with Red Square led police to cordon off the area.

—Olga Padorina contributed to this article.

Reuters

Interior Ministry officers patrol with a dog near a railway station in Russia's southern city of Stavropol.

Italian banks play down election impact

By Stacy Meichtry And Jennifer Clark

ROME—Top executives at Italy's biggest banks played down the potential influence a populist political party could gain over the banking sector, after the party won some key posts in regional elections.

The Northern League, a formerly separatist party in Prime Minister Silvio Berlusconi's governing coalition and a frequent critic of Italy's banking sector, pulled off surprising victories in races for the governorship of the Piedmont and Veneto regions on Monday. That will give the party significant sway over the leadership of banking foundations, which are nonprofit groups that hold large stakes in Italian banks including **UniCredit** SpA and **Intesa Sanpaolo** Spa.

The election result comes at a delicate time for UniCredit Chief Executive Alessandro Profumo, who is struggling to get the bank's board to back a planned reorganization that would curtail the influence of the banking foundations, in order to streamline the bank's management.

On Tuesday, Mr. Profumo dismissed questions about whether the election of Northern League member Luca Zaia as governor of the Veneto region could throw UniCredit's plans off-balance. As governor-elect, Mr. Zaia will have influence with CariVerona, a banking foundation which is one of UniCredit's largest shareholders with a 5% stake.

"We have great respect for politics, and politics has great respect for us," Mr. Profumo said.

Mr. Profumo has proposed a plan to centralize management of UniCredit's sprawling operations. That runs counter to the Northern League's political agenda of strengthening the regions at the expense of central government.

Mr. Profumo's plan calls for the elimination of supervisory boards at the bank's units in Italy that have been under the sway of banking foundations. Earlier this month Mr. Profumo clashed with board members representing the foundations over his proposals, forcing the bank to postpone its reorganization plan to April 13.

Last week, Mr. Zaia expressed doubt over Mr. Profumo's plans to consolidate operations. "Big banks need close links with local businesses," Mr. Zaia told reporters on March 25. "It's not possible for a company in Treviso, if it needs a loan, to call the Virgin Islands for authorization."

Local politicians often either sit on the boards of the banking foundations or name their members. As the governor-elect, Mr. Zaia won't formally appoint the leadership at CariVerona, but he will be the top-ranking regional official in his party overseeing lower-ranking politicians who make foundation appointments, according to a CariVerona spokesman.

Before Monday's vote, the governorship of Veneto was controlled by Mr. Berlusconi's business-friendly People of Freedom Party. Veneto is home to Benetton Group SpA and other large manufacturers, as well as thousands of small, family-held business.

The Northern League's influence in the halls of Italian finance could pose challenges to other banks as well. The party squeezed out a narrow victory in the gubernatorial race in the northwestern Piedmont region, home of Italian carmaker Fiat. The victory could give the party influence over decisions made at the Compagnia di Sanpaolo, a banking foundation that holds a 10% stake in Intesa Sanpaolo.

On Tuesday, Enrico Salza, chairman of Intesa Sanpaolo's management board, said he didn't "believe" the Northern League's victory in Piedmont would affect the bank.

"All new developments are useful. They're stimulating," Mr. Salza said. A spokesman for Compagnia di Sanpaolo declined to comment.

Mr. Zaia made effective use of regionalist rhetoric during his campaign, hooking up with McDonalds in Italy to launch a "local product" sandwich called the McItaly. Mr. Zaia, who was agriculture minister at the time, was photographed eating a McItaly behind a McDonald's counter in Rome's Piazza Di Spagna.

UniCredit Chairman Dieter Rampl said Monday the bank is making progress toward agreement on the new plan. "We had a very constructive meeting, during which we were able to discuss all of the organizational options on the table," he said. "I am certain we will be able to use the coming days to finalize a proposal for the board."

Agence France-Presse/Getty Images

Italian Democratic Party leader Pierluigi Bersani at a press conference Tuesday.

Reuters

U.S. Secretary of State Hillary Clinton greets Canada's Foreign Minister Lawrence Cannon during Tuesday's G-8 foreign ministers' meeting in Gatineau, Quebec.

G-20 leaders urge group to advance global reform

U.S., U.K., France among those driving agenda for June meeting

By Bob Davis

WASHINGTON—Leaders of the U.S., Canada, South Korea, Britain and France, looking to spur efforts to remake the international economic system, urged other leaders of the Group of 20 nations to "recommit themselves and deliver on the [G-20's] ambitious reform objectives and agenda."

By making the letter public, the five leaders sought to set the agenda for a June meeting in Canada of the G-20, the organization of industrialized and developing nations, and to achieve concrete results by the end of the year. "It's acting on the agreements that matters," the leaders wrote.

The G-20 has become the leading forum for international economic issues, but has an unwieldy leadership structure, which includes the countries that hosted last year's summits, the U.S. and U.K.; this year's summit, Canada and South Korea; and France, which will host next year's summit. That is why all five leaders signed the letter. In addition, despite China and India's growing weight in the global economy, they rarely play a leadership role in G-20 sessions.

The letter comes about three weeks before a meeting of the International Monetary Fund in Washington where many G-20 issues will be hashed out.

A number of senior economic officials say they worry that the momentum for economic cooperation is fading as the global crisis ebbs. World Bank President Robert Zoellick said in an interview that differences in how quickly China and India are growing compared with the U.S. and Europe complicate international negotiations.

"It's no longer what do you do for financial markets or what's in a fiscal stimulus," he said. "You have different dimensions of the problem depending on the areas."

The letter reaffirmed what G-20 nations had agreed toin the past, including a "rebalancing" of economic growth—meaning current-account-deficit countries such as the U.S. would increase savings and reduce imports while current-account-surplus countries such as China would do the opposite.

It also laid out a strong financial regulatory agenda, including tougher capital and liquidity standards for banks, requirements that over-the-counter derivatives be traded on exchanges, and the establishment of cross-border mechanisms for shuttering large, troubled financial institutions.

The G-20's goal is to head off another financial crisis and, if one should occur, to avoid another round of massive taxpayer-funded bailouts. "While confidence in the financial system has improved, more work is required to restore the soundness of some global banks' balance sheets," the letter said.

The IMF is putting together a proposal on a bank tax that nations could adopt to pay in advance for "resolution authorities," which would shut down ailing banks whose failure could threaten the global economy. A number of G-20 nations are waiting for the IMF recommendation before deciding whether to endorse a tax. The U.S., U.K., France and Germany favor some form of bank tax, while Canada and Australia oppose the idea, say officials from the U.S. and Europe. China and India haven't taken a position.

The letter didn't address how the countries would reach agreement on capital and liquidity requirements, and the divide over the issue between the U.S. and Europe.

An Obama administration official said many European banks are "way behind" the U.S. in terms of taking the losses that U.S. firms have already absorbed. Administration officials want consensus on global capital and leverage rules so that each country has similar standards and there isn't a "balkanized" system, as Treasury Secretary Timothy Geithner has warned.

Previous attempts to find a global consensus on capital levels were directed through the Basel Committee on banking supervision, and took years to complete. The G-20 leaders are looking to put pressure on the Basel group and another international financial institution, the Financial Stability Board, which are looking at these issues, to reach a deal by the end of the year.

On Wednesday, the FSB, whose membership largely mirrors the G-20, said banks and bank regulators must do more to bring pay practices in line with internationally agreed standards. The FSB was reviewing how well G-20 nations have implemented compensation standards they agreed to.

—Paul Hannon, Damian Paletta and Deborah Solomon contributed to this article.

School entry based on race is challenged

By Jess Bravin

WASHINGTON—The Obama administration has asked a federal appeals court to uphold a race-conscious admissions system at the University of Texas at Austin, aiming to stymie a lawsuit that conservatives hope will spur the Supreme Court to limit affirmative action at public colleges.

The Texas case tests a 2003 Supreme Court decision that upheld a race-conscious admissions system at the University of Michigan Law School. That decision, Grutter v. Bollinger, held that the law school had "a compelling interest in attaining a diverse student body." By a 5-4 vote, the court prohibited "outright racial balancing," but said race could be a "plus" factor to build a "critical mass" of minority students.

But the Grutter opinion's author, Justice Sandra Day O'Connor, retired in 2006, and her successor, Justice Samuel Alito, has helped solidify a five-justice conservative majority that has been highly skeptical when government classifies individuals by race.

In a 2007 case, Justice Alito joined Chief Justice John Roberts and Justices Antonin Scalia, Anthony Kennedy and Clarence Thomas in an opinion that barred local school boards from considering race when making pupil assignments to integrate elementary and secondary schools.

"The way to stop discrimination on the basis of race is to stop discriminating on the basis of race," the chief justice wrote.

The shift in the court has encouraged critics of the Grutter opinion that the court might consider limiting consideration of race to professional schools—whose applicant pools are small and which offer exclusive networking and employment opportunities—or possibly overturning it altogether.

The University of Texas case was brought in 2008 by two white students who were rejected for admission to the state's flagship campus. Three-fourths of freshmen gain admission on academic grounds if they rank among the top 10% of their high school's graduating class. But others are admitted through a "holistic" evaluation in which admission officers, alerted to each applicant's race by a label on his or her file, may take into account racial or ethnic identity, among other factors.

The white students alleged that the admissions formula violated federal civil-rights law. In August, U.S. District Judge Sam Sparks rejected their claim, finding that Texas's admissions plan was legal because it was based on the Michigan system upheld by the Supreme Court.

The plaintiffs then appealed to the Fifth U.S. Circuit Court of Appeals in New Orleans; whoever loses there likely will ask the Supreme Court to take up the issue.

The case "might cause the Supreme Court to think again" whether diversity remains important enough to justify classifying students by race, said Bert Rein, a Washington attorney representing the plaintiffs.

Patricia Ohlendorf, vice president for legal affairs at the Austin campus, said many private and public universities take some account of race in admissions decisions. Because blacks and Hispanics on average score lower on admissions exams than white and Asian-American applicants, universities have adopted affirmative-action programs to compensate.

"We think it is critical to being able to achieve the diverse institution that we think is important," she said.

The Obama administration agrees. "The] university's effort to promote diversity is a paramount government objective," says the brief filed by the Education and Justice departments. The administration disputed claims that Texas was simply engaging in raw racial preferences.

"The question is not whether an individual belongs to a racial group, but rather how an individual's membership in any group may provide deeper understanding of the person's record and experiences, as well as the contribution she can make to the school," the brief says.

Texas's use of affirmative action to increase minority enrollment was struck down by the Fifth Circuit in a 1996 decision, Hopwood v. Texas.

After the 2003 Grutter decision, Texas reinstated consideration of race. Black enrollment doubled to 6% from 3% and Hispanic enrollment rose to 20% from 13%, according to Judge Sparks's opinion in the case now on appeal.

U.S. NEWS

Utah sets sights on seizing U.S. land

Move appeals to anger over the government's control of resources; potentially lucrative oil and gas deposits at stake

By Jim Carlton

Is the Sagebrush Rebellion back on?

Utah Gov. Gary Herbert signed a bill Saturday authorizing Utah to file eminent domain proceedings against federally owned land that limits access to state-owned lands that could be used for energy development. More than half of Utah's land is owned by the U.S. government.

A spokeswoman for Utah's Republican governor said the bill he signed Saturday would give local officials "another tool" to try and gain access to state-owned lands now encircled by federal lands.

Utah has little chance of prevailing in a condemnation case under current law, legal experts said, because the U.S. Constitution grants the federal government sovereignty over state land it acquires.

Similarly, a Utah legislative review of the bill concluded that "there is a high probability that a court would hold that federal government is the sovereign of public lands," acquired when Utah became a state in 1896.

But by signing the legislation this weekend,, Mr. Herbert could set off a court fight that goes to the U.S. Supreme Court. More broadly, he is appealing to long-simmering ire in the West over federal control of natural resources at a time of escalating tension between Republican-leaning states and the White House.

The governor's legislation is especially likely to garner support in Western states, which have long chafed under the federal control of the majority of public lands there, said Charles Wilkinson, a law professor at the University of Colorado.

"It's one of the first principles of federalism that you can't condemn or take federal public lands," he said, and "the Tea Party is here now and a lot of this anti-government sentiment is shared by the same people."

The Tea Party Express national bus tour arrived in Utah Monday, after launching from Senate Majority Leader Harry Reid's hometown in Nevada on Saturday. While not part of the Republican Party, many Tea Partiers identify with many Republican and Utahns' goal of smaller government.

In a monthly news conference last week, the governor said he would first try to negotiate right-of-way across federal lands before starting eminent domain proceedings. "Sometimes though, when the donkey doesn't move, you need to hit him across the head with a two-by-four just to get their attention," Mr. Herbert said. "And sometimes the federal government needs to be brought to attention so we can negotiate and have some discussion."

Many of the state in-holdings contain potentially lucrative oil and gas deposits, but can't be accessed because the federal lands are situated in national parks or other protected areas that have been declared off limits to roads or development. Royalties would go to Utah schools.

Zuma Press

The Grand Staircase National Monument in Escalante, Utah, a protected area with substantial coal deposits.

An Interior Department spokeswoman said her agency was reviewing the Utah law.

The move echoes similar sentiments in other Western states. In Alaska, officials are battling the federal government on a number of fronts, including the Obama administration's decision to declare the polar bear a threatened species. Alaska Gov. Sean Parnell, another Republican, calls such actions detrimental to his state's ability to drill for oil and gas for its main livelihood.

The dust-up is reminiscent of the so-called Sagebrush Rebellion, a movement begun in the late 1970s by state and local officials across the West to wrest control of the region's vast public lands from the federal government.

The rebellion largely went dormant after President George W. Bush took office and began reopening Western lands to development. But after the Interior secretary Ken Salazar in February canceled 77 drilling leases that the Bush administration had approved in Utah's canyon country, state legislators drafted the eminent-domain bill to try and force their way onto federal land.

Children's coverage flap is settled after dispute

By Avery Johnson

Insurers said they would comply with regulations the U.S. government issues requiring them to cover children with pre-existing conditions, after a dispute with lawmakers over interpretation of the new health-care legislation.

The Obama administration has made near-immediate coverage for sick children a priority. But shortly after the bill's passage last week, insurers contended that the law didn't require them to accept sick children until 2014. The insurance industry's lobby, America's Health Insurance Plans, said the law meant only that they needed to cover treatments for sick children who already were customers.

Kathleen Sebelius, secretary of Health and Human Services, sent AHIP president Karen Ignagni a letter Monday pledging to issue new regulations in coming weeks to clarify that insurers must give sick children access to their parents' plans starting in September. "Now is not the time to search for non-existent loopholes that preserve a broken system," Ms. Sebelius said.

AHIP said de-linking the requirement to insure sick children from the law's mandate that everyone buy health-insurance coverage, which goes into effect in 2014, could drive up prices in the meantime. But the group said it would do whatever HHS tells it to do.

In a letter responding to Ms. Sebelius Monday, Ms. Ignagi said her members recognized the "significant hardship that a family faces when they are unable to obtain coverage for a child with a pre-existing condition," and pledged to fully comply with the regulations HHS is developing. The group is analyzing how much it would cost to take all comers under 19 years old.

The industry group said it would comply with the broader interpretation after lawmakers expressed outrage over its narrower reading.

Though sicker children incur more health expenditures, additional costs to the industry were likely to be minimal as the number of children who would be affected by the broadest interpretation of the law could be relatively small.

Home-price index edges up

By Conor Dougherty

A gauge of U.S. home prices improved in January, with many of the nation's most battered markets among the gainers.

The seasonally adjusted S&P/Case-Shiller index of home prices in 20 major metropolitan areas increased 0.3% in January from a month earlier, the eighth consecutive monthly increase. Twelve of the 20 cities saw price gains over the month.

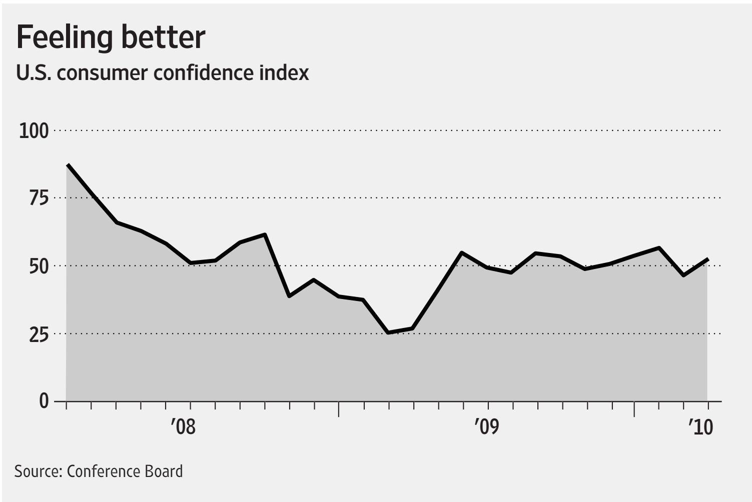
The 20-city index dropped 0.7% in January from a year earlier, while prices in a 10-city subset were flat. The readings last grew on a year-to-year basis in January 2007.

The report "indicates that the worst of the declines are behind us and we can at least move forward from here," said Adam York, an economist with Wells Fargo Securities. "But just like the economy, housing has a long away to go."

Even as the economic outlook improves, the U.S. housing market remains fragile despite low interest rates and an $8,000 first-time homebuyer tax credit.

Separately, U.S. consumer confidence rebounded in March from a steep drop in February. The Conference Board, a private research group, said its index of consumer confidence increased to 52.5 this month, from a revised 46.4 in February, first reported as 46.0. Consumers' outlook on their present situation, and expectations for the future, both improved.

"Despite this month's increase, consumers continue to express concern about current business and labor market conditions," said Lynn Franco, director of the Conference Board Consumer Research Center. "And, their outlook for the next six months is still rather pessimistic."



Tuesday's housing report showed much of the improvement has been in cities where home sales and prices had fallen by the most during the slump. In Las Vegas, the once-hot housing market where prices have since crashed, home prices increased 0.3% in January from a month earlier. In Southern California, San Diego and Los Angeles saw seasonally adjusted home prices increase 0.9% and 1.8% from a month earlier, respectively.

Even as the economic outlook improves, the U.S. housing market remains fragile despite low interest rates and an $8,000 first-time homebuyer tax credit that has been extended to contracts signed by April 30.

Among various indexes that track the housing market, the S&P/Case-Shiller index has been among the more optimistic. Last week, the National Association of Realtors said sales of existing homes fell 0.6% in February from a month earlier, as a glut of homes for sale and a wave of foreclosures and fire sales hold down housing prices.

—Kathleen Madigan contributed to this article.

Burgeoning city poised to be a magnet for foreign funds

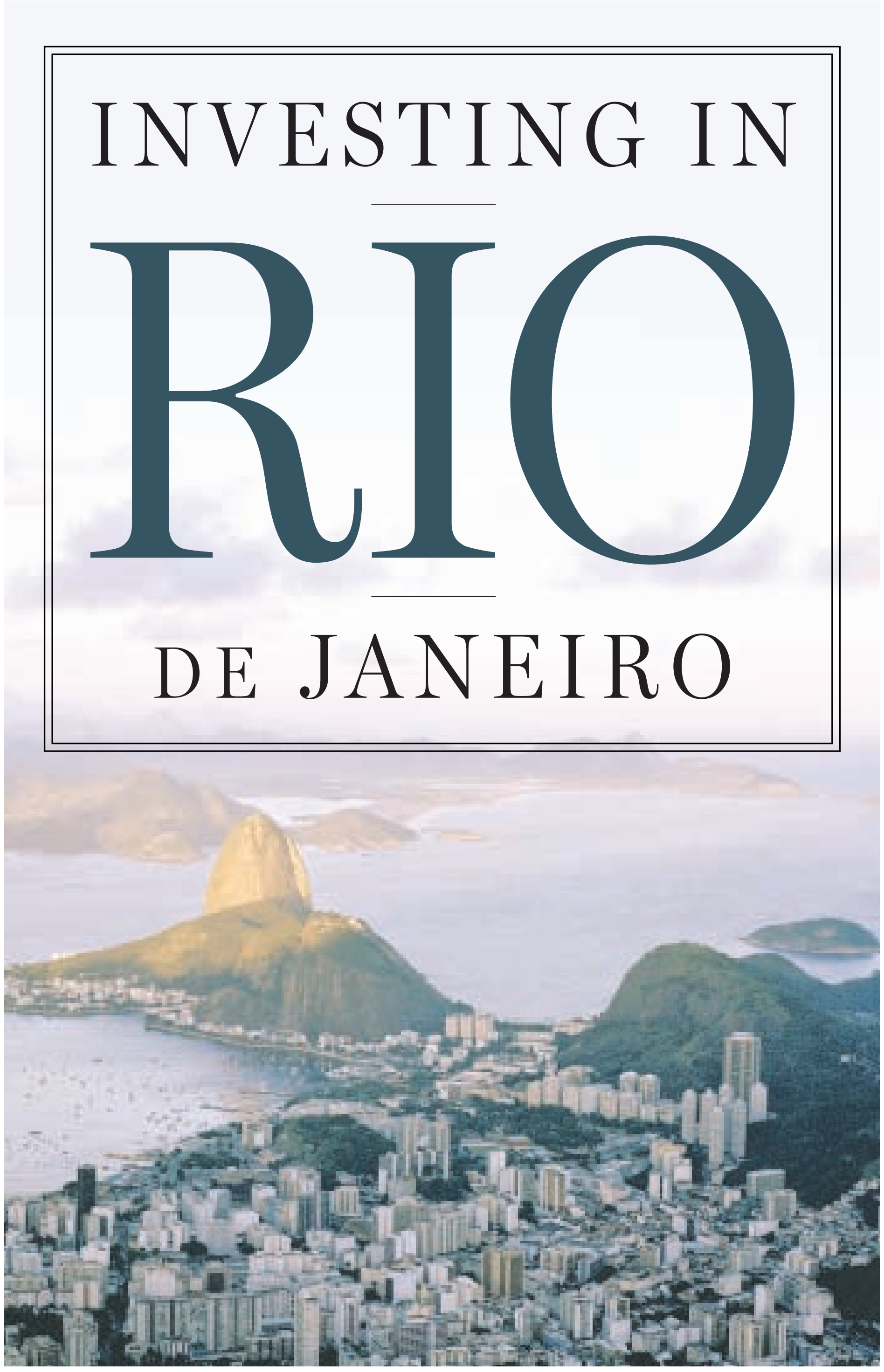
Long the entry point into Brazil for foreign tourists, and famous for the beauty of its beaches, music and vibrant people, Rio de Janeiro is now positioning itself as the main gateway for foreign investment in the world's ninth largest economy, and preparing for the global spotlight of the soccer World Cup in 2014 and the Olympic Games in 2016.

Rio, which was Brazil's capital until 50 years ago when Brasilia took over, went through a kind of existential crisis which lasted for three to four decades, says Mayor Eduardo Paes. "But now the city is getting back on course. These are very special times for Brazil and for Rio."

According to data compiled by Firjan, Rio's industry federation, the state of Rio de Janeiro is expected to receive $60 billion (€44.5 billion) in public and private sector investment between 2010 and 2012, up from around $50 billion in 2008-2010, which represents nearly a quarter of all investment in Brazil between 2010 and 2012.

Rio suffered decades of neglect following the move of the nation's capital to Brasilia in 1960, when the city went into economic decline and suffered from the unchecked spread of organized crime.

But the federal government of President Luiz Inácio Lula da Silva, the regional government of Gov. Sérgio Cabral, and the municipal government of Mayor Paes, have been making a concerted effort to crack down on crime and to clean up and revitalize the state that is Brazil's calling card to the world.



GETTY IMAGES/Dominik Gigler

Closely connected

Rio de Janeiro is home to Brazil's largest oil company, Petrobras, to global mining giant Vale and to the country's largest telecommunications carrier, Oi. "Oi has been closely connected to Rio de Janeiro throughout its history," says Otávio Azevedo, Oi's chairman. "When the company was established, it chose to have its headquarters in Rio, although it had licenses in 15 other states. And the headquarters remains here, even after expanding our operations to all 27 states of Brazil."

"Rio is the emblem of Brazil, and most of our television commercials are set in Rio, not just because it is a wonderful city but because it is also the heart of Brazil," says Luca Luciani, CEO of the Brazilian unit of Italian cellular company Telecom Italia Mobile, or TIM, which is based in Rio.

Rio is also benefiting from the solid economic performance of Brazil in recent years. In 2009, despite the world economic crisis, gross domestic product declined just 0.2%, and from 2010 to 2014 the Rio-based Brazilian state development bank, BNDES, expects average annual growth of 5%, with total investment in the economy rising to 21.2% of GDP in 2012 from 16.4% in 2006.

And according to a January survey of global executives by A.T. Kearney, Brazil rose to number four from number six in the 2007 ranking of the most attractive destinations for foreign direct investment.

While the fields off the Rio coast already produce over 80% of Brazil's oil and 50% of its gas, a new wave of investments in the energy sector is being triggered by the so-called "pre-salt" discoveries which began in 2007. These are massive reserves of offshore oil and gas buried under a thick layer of salt, which will at least double Brazil's current proven reserves of 14 billion barrels of oil equivalent.

> *"Rio de Janeiro is the place where the key decisions regarding the oil and gas market in Brazil are taken."*

About 60% of these fields lie in waters off the coast of Rio, and the city is poised to become the administrative center for the offshore industry. State-owned oil giant Petrobras, which is based in Rio, will operate all new pre-salt discoveries.

A major investor

"Rio de Janeiro is the place where the key decisions regarding the oil and gas market in Brazil are taken," says Nelson Silva, president of Rio-based BG Brasil, a unit of U.K. gas company BG Group. "Being in Rio means that you are close to the key decision-makers within the industry." The company, which has invested $5 billion in Brazil since 1999, plans to invest another $20 billion here in the next 10 years.

These investments in exploration and production are being accompanied by increased spending by companies that supply the oil and gas sector with products and services.

"We expect a surge in activity over the next four to five years," says Tor Helgeland, CEO of Swire Oilfield Services, a

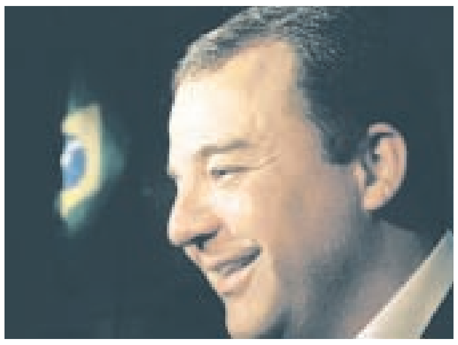
Continued on following page

A state replete with energy, creativity and culture looks to build on these foundations

Rio de Janeiro is Brazil's third-smallest state but it is responsible for the second-highest contribution to the nation's gross domestic product. State Governor **Sérgio Cabral** talked to Mark Beresford about the qualities that have led to this success and that are attracting foreign businesses to the region.

Q: Why did Rio grow more slowly than the rest of Brazil for much of the recent past?
A: From 1982 to 2006, Rio de Janeiro lost ground to the rest of Brazil — it lost federal resources, it suffered from unorganized land occupation [the favelas, areas of Rio, often on hills, settled illegally by underprivileged Brazilians] and violence increased. But for the last three years we have been changing the situation. Rio was a precious stone that needed to be polished, and we are doing the polishing.

Q: Why is growth now improving?
A: Mainly because of the combined action of the federal, state and municipal governments. This integration of the three spheres has helped Rio to reverse the


Rio de Janeiro Sate Governor, Sérgio Cabral

model that was prevalent for 24 years. Rio de Janeiro has gone from the 18th out of 27 states in terms of receiving federal resources to the one that receives the most. We now have a massive schedule of investments from the public and private sectors [$60 billion (€44.5 billion) expected by Rio industry federation Firjan, between 2010 and 2012].

Q: Why should a foreign investor choose Rio rather than São Paulo?
A: Things are changing and we now have significant amounts of foreign investment in Rio, from China, from Europe, from the U.S. The Brazilian state where there is the most French investment is not São Paulo anymore, it is Rio de Janeiro.

When the Lloyd's of London Chairman Lord Peter Levene had to decide between Rio de Janeiro and São Paulo for his headquarters, he chose Rio, because the insurance regulator is here, the Instituto de Resseguros do Brasil [the former reinsurance monopoly] is here and because Rio is a city that is business friendly and has favorable legislation. And every day we are making more progress in improving security.

Q: What is more important for the economy of Rio, the World Cup, the Olympic Games or the pre-salt oil discoveries?
A: They all complete and complement each other. It is like asking an American if it was more important for Atlanta to host the Olympic Games or the Coca-Cola Company. The state of Rio has an incomparable natural beauty, but at the same time it possesses a significant industrial infrastructure, including petrochemicals, car manufacturing and steelmaking. The infrastructure area is also focused on oil and gas, and the shipbuilding industry, where Rio is the leader: The demand from the pre-salt industry [which serves the demands created by the discovery of oil buried under a thick layer of salt] is enormous.

Q: Rio does not produce many commodities apart from oil and gas. How can the state benefit from Brazil's leading global position in many other commodities?
A: We are most interested in adding value to commodities. We don't produce iron ore, but we do have steelmaking. We don't produce large quantities of food, but we have food industries. The state of Rio doesn't produce commodities, but it has intelligence, creativity and culture.

And although Rio is the third-smallest state in Brazil, it has the second-highest GDP at 13% of the national GDP. And 70% of Brazilian GDP [$1.8 trillion in 2009] is produced near the state of Rio. So Rio is the state for logistics in Brazil, and there is a massive amount of investment in infrastructure going on [Firjan estimates $13.6 billion between 2010 and 2012].

REUTERS/Sergio Moraes

Rio de Janeiro's successful bid to host the 2016 Olympic Games has created significant opportunities for foreign investors.

Preparation for Olympic Games presents array of opportunities for foreign capital

The wildly celebrated success of Rio de Janeiro's $14.4 billion (€10.7 billion) bid for the 2016 Olympic Games has fired the starting gun for a massive infrastructure program that is set to transform the city and create significant opportunities for foreign investors.

"Our infrastructure in Rio is not ideal, and we need foreign capital here," Eduardo Eugênio Gouvêa Vieira, president of Firjan, Rio's industry federation, says. "But foreign capital also needs Brazil to find higher returns — it is easy to get a return on investment here."

"The reality is that everything is still required: infrastructure, residential developments, hospitality, transport, and public venues, but it will all get done by 2016," says Thomas McDonald, chief strategic officer of Chicago-based private equity firm Equity International. "We fully expect to be involved in the World Cup and Olympics."

The soccer World Cup of 2014, which will be held across Brazil, but with many games and the final played in Rio's legendary Maracana Stadium, has also triggered investments in transport and other infrastructure. The Maracana itself is being upgraded at a cost of at least $240 million.

The state national development bank, Rio-based BNDES, has opened a credit line of about $600 million for the construction and modernization of hotels. The most environmentally sustainable hotels will have up to 18 years to repay the loan.

Iconic hotels

In Rio itself, foreign hotel brands are already seeing the opportunities. Starwood from White Plains, N.Y., the owner of the Sheraton hotel brand, owns an iconic hotel in Rio, the only large hotel to be right on the beach in the city, and is exploring opportunities for other brands, such as its W boutique hotels.

REUTERS/Ho New

The 2014 soccer World Cup final will be played at Rio's famous Maracana Stadium.

"There are 19,000 hotel rooms in the Rio market, of which 60% are over 25 years old, and 60% are independent, unaffiliated hotels," says Ricardo Suarez, vice president of acquisitions and development for Starwood Latin America. "This combination of aging hotels and local supply points to major opportunities for brands like ours.

> *"The world spotlight will be on Rio and the infrastructure improvements will really help the city."*

"In the coming years, Rio is going to be very important for international travelers, who like their brands," Mr. Suarez adds. "The world spotlight will be on Rio and the infrastructure improvements will really help the city."

In addition to investments in new hotels, and sporting arenas, stadiums, and media centers, it is the improvements to transport infrastructure that may be one of the most important legacies of the Olympic Games.

Transport expansion

Three Bus Rapid Transit lines will be constructed for the games at a cost of $1.5 billion, linking far-flung regions of the metropolitan area to the center of the city for the first time. And work will begin this year on extending the city's subway network from the fashionable southern area to the middle-class suburb of Barra da Tijuca where many of the events will be held, at an estimated cost of around $2.8 billion.

Meanwhile, Rio's international airport is undergoing improvements and, by the time of the Olympic Games, it could be operated by a private company, although this depends on the federal government.

"We think the airport needs a deeper solution than just improving its physical infrastructure," Regis Fichtner, the chief secretary of the state of Rio de Janeiro says. "The problem is not just physical. Services have to improve, and we think that in the hands of a private company services would be much better."

At the end of April, a delegation of U.S. companies will visit Rio to discuss investment opportunities involving the Olympics in a series of meetings organized by the U.S. Department of Commerce and the U.S. consulate in Rio.

"Events like the Olympic Games will be a landmark in the history of Rio de Janeiro," Robson Barreto, president of the American Chamber of Commerce in Rio, says. "There is now a historic opportunity for Rio to leverage the Games to attract Brazilian and international investment."

Burgeoning city poised to be a magnet for foreign funds

Continued from previous page

U.K.-based company which serves the logistical needs of the offshore energy sector and which in March announced a $50 million to $70 million investment in Rio. "The pre-salt discoveries will only add to the dimension of this growing market — there is going to be a huge fleet of vessels to serve."

And although investments in energy and infrastructure make up for the bulk of current spending in Rio state, the city itself is now seizing opportunities to attract investment in new service sectors.

"Rio is the center of culture in Brazil. Although it was difficult for Rio to find its way in the industrial world, the city has the best-educated work force in Brazil, and it has very strong connections with new economic sectors such as media, fashion, telecoms and cinema," says Mayor Paes. According to Firjan, fashion and television productions generate 18% of the state's GDP.

While São Paulo remains the financial center of Brazil, the regional government of Rio has also made a priority of turning the city into the national center for niche financial services, such as reinsurance. The $2 billion Brazilian reinsurance market was liberalized in 2008 allowing foreign reinsurers into Brazil, and the former monopoly provider and the industry regulator are based in Rio.

British insurance exchange Lloyds opened its Brazilian headquarters in downtown Rio last year. Six insurance syndicates currently operate out of the Lloyds office, and Marco Antonio de Simas Castro, the managing director, expects to end the year with eight, and with 10 to 15 syndicates in the next five years.

"With all the investments expected in the Olympic Games, the World Cup, and in oil, there is going to be a high volume of needs for insurance and reinsurance, which means major opportunities for the syndicates and for Lloyds to develop here," Mr. Castro says.

Consumer sectors

The economic expansion of Rio is also opening new opportunities for investment in consumer sectors. According to Rio-based think tank Fundação Getulio Vargas, the middle class, known in Brazil as Class C, increased by over 25 million people between 2003 and 2008, and now represents over 49% of the Brazilian population.

Chicago-based private equity firm Equity International, founded by real estate billionaire Sam Zell, is making a strong play for these new consumers, especially in Rio. BR Malls, Brazil's largest retail property company, in which Equity International has a 14.9% stake, is headquartered in Rio, and Rio is its biggest market in terms of gross leasable area and revenue. BR Malls owns both the high-end Fashion Mall and the Norte-Shopping mall in the poorer north of the city, and is currently expanding this mall.

"We have a portfolio that is well diversified in terms of geography and market segments, serving Class C and D as well as Class A and B," says Thomas McDonald, chief strategic officer of Equity International, who sits on the BR Malls board, "and that is particularly true in Rio."