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Greece plans austerity steps

By Costas Paris

ATHENS—The Greek government is expected to outline a new austerity package of about €4 billion ($5.42 billion) in an effort to cut its budget deficit by four percentage points this year, government officials said.

"The new package will most likely be announced on Wednesday. First there will be a cabinet meeting to seal the measures and an announcement will follow," one official said.

Greek Prime Minister George Papandreou said on Tuesday that his government is ready to take further measures to fix the country's public finances, warning that it was an issue of national survival.

"It will be necessary to take further measures," Mr. Papandreou said in a speech to socialist deputies in the Greek parliament. "We will take every decision we have to in order to avoid the worst; to save our economy and the autonomy of our country."

Mr. Papandreou said the country risks bankruptcy if it fails to find lenders to cover its massive €300 billion debt. "Every year we have to borrow about half of what we spend," he said. "And every year we spend more, and every year we collect less as a percentage of GDP."

Another official said Greece's debt-management agency is preparing a 10-year bond hoping to raise between €3 billion and €5 billion, taking advantage of the expected positive market reaction after the measures are announced.

Petros Christodoulou, head of Greece's debt-management agency, said that Greece "does not have to access the market anytime soon and this allows us to access it when conditions are favorable."

But another senior government official said the bond issuance "will be within days of the announcement of the austerity package."

"We need to go to the market very soon with the 10-year note because we risk ending up with no money," he said, adding that the bond "was originally planned for last week."

—Alkman Granitsas contributed to this article.

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A drive toward a new generation of automobiles

Reuters

A Pagani Zonda roadster, by Italian car maker Pagani, on display during the 80th Geneva motor show. Additional auto industry coverage on pages 18 and 19.

BP lays out shake-up of production

BP PLC said it is pushing through a big shake-up of its oil-production business. The U.K. energy giant is striving to carry forward the momentum from a successful restructuring program that cut cash costs by more than $2.4 billion in 2009.

The bulk of the improvement is being targeted at BP's refining and marketing segment. BP aims to have boosted the unit's underlying pretax profit by $2 billion within two or three years.

"While our portfolio ranks amongst the best in the industry, our financial performance has yet to reflect this," said BP Chief Executive Tony Hayward.

In centralizing project management, BP is seeking to emulate Exxon, widely seen as the most efficient of the oil majors.

- Another round of efficiency measures 17

The Quirk

Parisian treat goes mainstream: Will success spoil the macaron? Page 29

Editorial & Opinion

Patrick Mercer: Mainland Britain is the IRA's next target. Page 13

Airlines fight EU rule on passenger delays

By Daniel Michaels

BRUSSELS—European airlines are battling against consumer advocates over recent changes to the European Union's air-passenger protection rules that carriers say could cost them up to €5 billion ($6.8 billion) annually, deepen their losses and force up ticket prices.

The change stems from a November ruling by a top EU court, which was applied for the first time last month by authorities in Germany and Spain. The ruling, by the European Court of Justice, significantly increased the number of flights for which passengers can claim compensation because it equated a delay of more than three hours with an outright cancellation.

The EU's original air-passenger protection law, passed in 2004, spelled out clear penalties for flight cancellations but was less specific about delays. The law covers all EU airlines and any flight departing from an EU airport. Payouts can range from €250 to €600 per passenger, no matter the price of the ticket.

The European court, whose decision is now law, reasoned that the impact of a delay is comparable to that of a cancellation: A passenger arrives late. It ruled both should therefore be treated equally. Significantly, the ruling is retroactive to 2005, when the law came into force.

European airlines were stunned by the decision, which they argue effectively rewrote the legislation.

Carriers are lobbying European authorities to amend the law or return the case to the European Court through another test case. But either path could take two years and there is an uncertain outcome, lawyers say.

The issue promises to be a focus of a conference Wednesday at the European Parliament organized jointly by Brian Simpson, chairman of the parliament's transport committee, and the Association of European Airlines, a trade group.

The session, which is outside the legislative process, comes as the EU considers updating its passenger-rights law. Officials from airlines including **Air France-KLM** SA and **British Airways** PLC are slated to square off against representatives of several consumer groups over how airlines operate and treat customers.

Consumer advocates have lauded the European court decision as a victory for passengers. "We wholeheartedly welcome the ECJ decision," said David McCullough, spokesman for BEUC, an umbrella organization for European consumer groups in

Please turn to page 6

In protectionism, national interest must trump managers' cushy jobs

[Agenda]

BY IRWIN STELZER

Peter Mandelson has it right, but only almost, when he worries about the ease with which some mergers can be completed.

He says that most mergers fail to create value. True: The interests of a company's executives are not always coincident with those of its owners (shareholders). Sheer size adds to managers' prestige and clout at their clubs; it often does little for earnings per share. Unfortunately, governments are ill-placed to sort out the mere managerial aggrandizing deals from those that create true efficiency.

True, too, as Lord Mandelson points out, some mergers enrich only the investment bankers, who rarely meet a deal they don't love. As Warren Buffett points out, asking an investment banker whether a deal is a good idea is like asking a barber if you need a haircut.

And his Lordship is also right to worry that it might not be in the national interest to allow important domestic companies to be acquired by overseas companies. Foreign acquisitions that adversely affect national security are the obvious case in point. But denuding a country of any corporate headquarters has important consequences.

In America, for example, the departure of a company from a major city often deals a blow to local charities, as the executives concentrate charitable resources on their new hometown. Very often a condition of approval of a merger is an agreement by the selling company to continue its charitable giving in its old headquarters' town for a number of years.

Bloomberg News

Lord Mandelson points out some mergers enrich only the investment bankers.

But Lord Mandelson's justifiable concern about the consequences of foreign acquisitions in no way supports his plan to "throw grit into the system" by which all mergers are completed. For what Britain needs above all else is a dynamic corporate sector, one in which flaccid managers cannot hide behind higher voting thresholds to avoid displaying true grit in the market place.

Denuding a country of any corporate headquarters has important consequences.

It is no secret that the system of corporate governance gives incumbent managers, backed by their handpicked chums on the boards of directors, job security that would be the envy of most civil servants. That's why compensation is often so out of line with performance—the production of shareholder value.

As often as not, options can be rejiggered so that bonuses flow even though performance targets aren't met, targets are set so low as to be easy to meet, and directors become the antagonists rather than the representatives of shareholders. True, some institutional investors have been roused from their historic lethargy by the impact of recent unsettled conditions on the companies in which they hold important positions. But by and large, scattered shareholders have little clout with the managers of their companies.

Which is why hostile takeovers play such an important role in a capitalist system. Over-perked, under-performing managers can be deposed by predators, sharks, who see a way to maximize a company's value by restructuring its balance sheet or sweating fat out of the company's costs. These hostile takeovers often involve the elimination of corporate jets, the replacement of Taj Mahal-style headquarters with more modest digs, the creation of compensation schemes not unduly affected by consultants seeking their next assignment from the executive whose salary they are setting.

Lord Mandelson would make these takeovers more difficult, thereby reducing one of the principal goads to efficiency and innovation. Not a good idea, especially at a time when Britain is struggling to find its way in an increasingly competitive world, one in which even the current devaluation of the pound cannot assure success.

Instead, the minister-for-just-about-everything should focus on his real concern: the denuding of Britain of its important companies. There is no reason why the threshold for an acquisition by an overseas company should not be higher than for a domestic merger, since a foreign acquisition might, only might, impose costs on society not imposed by a get-together of domestic companies.

That is the hard fact in most countries, although not always made explicit. America has such rules; try to do a major takeover in France, where a yogurt maker is considered an important infrastructure company; or in China, where the state has a clear view of its national interest.

A bit of Mandelsonian grit in the wheels of such acquisitions here might just be appropriate in the U.K.

If this be protectionism, so be it. So long as what is being protected is the national interest, rather than the cushy jobs of impregnable managers, Britain's interests might well be served by a two-tier system of merger approval. Even if it means having Lord Mandelson confess that free trade is a good idea, just not always.

—Irwin Stelzer is a business adviser and director of economic-policy studies at the Hudson Institute.

What's News

■ **Apple is suing** Taiwan's HTC, which makes several Google-based smart phones, saying the company is infringing on 20 patents related to the iPhone. The suits seek a ban on U.S. imports, sales or use of the targeted HTC phones, as well as unspecified damages. **17**

■ **The U.K. High Court filed** an injunction against the Serious Fraud Office's prosecution of BAE, the result of a request by groups that say the settlement of bribery allegations against the firm was unlawfully lenient. **20**

■ **The EU and Vietnam said** they would start free-trade negotiations. Any deal faces a host of obstacles. **7**

■ **Tymoshenko lost** her governing majority in Ukraine's parliament, in a boost for President Yanukovych. **7**

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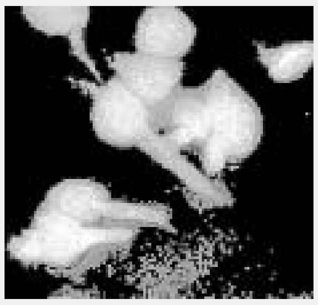

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Yes **23%**

No **77%**

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NEWS

Citrus Topnote, David Stuart, Gabriele Steinhauser/The Wall Street Journal (from left to right)

Robbo's 1985 original beneath a bridge at Regent's Canal was the oldest surviving graffiti in London until it was altered by Banksy. Robbo crossed the canal on an air mattress and reclaimed his turf.

Lost legend emerges in graffiti wars

Robbo's old rival, Banksy, sells well at Sotheby's; their battle highlights larger rift in London's art world

By Gabriele Steinhauser

LONDON—In the predawn hours of Christmas morning, a 40-year-old shoe repairman who goes by the name Robbo squeezed his 6-foot-8-inch frame into a wetsuit, tossed some spray cans into a plastic bag, and crossed Regent's Canal on a red-and-blue air mattress.

Robbo, one of the lost pioneers of London's 1980s graffiti scene, was emerging from a long retirement—with a mission: to settle a score with the world-famous street artist Banksy—who, Robbo believes, had attacked his legacy.

The battle centers on a wall under a bridge on the canal in London's Camden district. In the fall of 1985—just 15 years old but already a major player in London's graffiti scene—Robbo announced his presence on that wall with eight tall block letters: ROBBO INC.

The work—written in orange, red and black on a yellow background—had been in good shape for nearly 25 years and was considered a local icon, surviving long after Robbo himself vanished from the scene 16 years ago.

But recently, Robbo's work was dramatically altered by an unlikely rival: Banksy, the stealthy Bristol-born artist who has made a lucrative art of graffiti.

The work of Banksy—who, like Robbo, doesn't disclose his name—sells for big money and is widely merchandised. His first film, "Exit Through the Gift Shop," premiered at the Sundance Film Festival in January and is due out in U.K. theaters this month.

In early December, Banksy did a series of four pieces along the Regent's Canal's walls. Inexplicably, one of them incorporated Robbo's piece into Banksy's own work, painting over half the Robbo original in the process. The resulting work, in Banksy's typical stencil technique, shows a black-and-white workman applying colorful wallpaper that is, in essence, the remnants of Robbo's piece.

Some saw Banksy's act as self-promotion, some as a tribute, but most interpreted it as plain disrespect for a local hero. Offers of retribution reached Robbo, who has remained friendly with many graffiti writers even as he slipped into a life of obscurity as a North London father of two children, with a third on the way.

"They was all offering to do it for me," says Robbo in an interview. But he decided: "I've got to do it myself."

So on Christmas morning—praying he wouldn't wind up in jail even as his children were opening their presents—Robbo slipped back onto the canal and reclaimed his turf. Instead of applying wallpaper, Banksy's workman now is seen painting two words: KING ROBBO.

The game didn't end there. Robbo in recent weeks has modified all four Banksys along Regent's Canal, signing them "Team Robbo." Other graffiti writers have shown their support by adopting the "Team Robbo" tag for their own works.

"Graffiti writers are Team Robbo, street artists are Team Banksy," says Robbo, his heavy cockney accent and shaved head reminders of graffiti's past when skinheads and punks battled to mark their territory with names and slogans.

Banksy declined to be interviewed but provided a statement through a spokeswoman.

"I didn't paint over a 'Robbo' piece. I painted over a piece that said 'mrphfgdfrhdgf,' " he said. "I find it surreal when graffiti writers get possessive over certain locations. I thought that having a casual attitude towards property ownership was an essential part of being a vandal."

The battle between lost legend and acclaimed artist highlights a larger rift in the art world. On one side are old-school graffiti writers who "tag" or "bomb" their name in as many places as possible and seldom, if ever, seek compensation for their work.

> Robbo emerged from London's working-class districts, a teenage skinhead and football hooligan who had more than a few run-ins with the law.

On the other are street artists, who aim for a political or cultural resonance and also create portable pieces they can exhibit and sell. Their prototype is Banksy, who exists in the art world as both renegade and establishment darling.

The tension between the camps is about more than money and fame. With the exception of a few designated places, painting graffiti on private or public property is illegal. Graffiti writers, whose free-hand, spray-painted work can take hours to produce, are more likely to be caught than street artists who often use stencils and posters to get in and out more quickly.

"It's so easy for them to do some of their stuff," says David Samuel, a London graffiti artist who through his agency, RareKind, promotes fellow writers by putting on shows and linking them up with paid work.

Robbo emerged from London's working-class districts, a teenage skinhead and football hooligan who had more than a few run-ins with the law.

"It started out with spray paint, a black marker and no style," he says. "It was just statements: Skinheads! Arsenal! Robbo!"

It took until the early '80s and films like "Beat Street" and "Style Wars" for Robbo and his crew to find out about the nascent graffiti movement in places like New York. Soon the American style began to influence their own works and they started hitting trains and buildings across London.

"He was the first real all-city writer," Mr. Samuel says of Robbo.

In the early '90s, however, painting in London's underground system became more dangerous as police were on high alert for terrorist activity. Robbo, by then a young father, was ready to get out.

"I had achieved what could be achieved," he says. "I was quite happy to take the back seat and live another life."

A few years later, Robbo says he encountered Banksy, who was just surfacing, in an East London bar. After a fellow graffiti writer introduced them, Robbo says that Banksy replied, "I've never heard of you." Robbo says he cuffed Banksy in the face, sending his glasses flying.

"You may not have heard of me, but you will never forget me," Robbo says he told Banksy. The two haven't spoken since. Banksy declined to comment on the incident.

In the years since, Banksy has become a sensation. He has published five books, painted all over the world, and in February 2008, his 2007 work "Keep it Spotless" sold for \$1.87 million, or €1.4 million, at a Sotheby's charity event in New York.

Robbo has never sold a single piece of art. But as he's drawn back into the limelight, he's getting curious. On a recent Friday evening, he and a friend attended a contemporary art auction at London's sleek **Phillips de Pury** & Co., where a Bansky was on the block alongside two Basquiats and a Warhol.

Banksy's "Vandalised oil #001," which was exhibited in London's Cargo nightclub in 2001, sold for £121,250.

Arriving late—his shoe-repair store doesn't close until 7 p.m.—Robbo made his way through the gallery, wearing a gray hoodie and sweatpants, black shoe polish still staining his hands. A security guard was quickly on his tail.

"It's all right, mate, we're artists," he said, towering over the guard.

As he watched the auction, he mused about his own past and future. "I'd love to have seen my own stuff in something like this," he said.

Mr. Samuel has asked Robbo to do his own show later this year, and, with a family to support and the thrill of his recent outings still fresh, Robbo is tempted.

"I've done everything, everything for nothing," says Robbo. "I don't think anyone would knock me for making money out of it. But it's never been my goal to make money out of something I love."

U.K. court rules rapper can enter country

By Cassell Bryan-Low

LONDON—A U.K. court has ruled in favor of rap star Snoop Dogg in his long-running immigration battle with the U.K. government, clearing the way for the U.S. entertainer to visit Britain after a three-year ban.

Two senior immigration judges found that border authorities were wrong to refuse Snoop—whose real name is Calvin Broadus—entry clearance in 2007. The 20-page ruling, dated Friday, was received by both parties on Monday.

"We are disappointed by the tribunal's decision in this case," the Home Office said. It added that the government now is considering whether to appeal. It has done so previously after having been twice overruled by immigration judges.

Mr. Broadus's U.K. border battle was the subject of a front page Wall Street Journal article on Feb. 23. The government had banned 38-year-old Mr. Broadus following a high-profile scuffle in 2006 at London's Heathrow airport between the rapper's entourage and police. Mr. Broadus was detained but later released with a warning for using "insulting words." Immigration officials argued that the skirmish, paired with Mr. Broadus's U.S. convictions for drugs and firearms offenses, meant he posed a threat to public order.

Mr. Broadus's lawyers disputed that he poses a threat. The rapper coaches high-school football, has touted corporate brands such as car maker **Chrysler Group** LLC, and frequently appears on daytime television, including the U.S. talk show "The View." He also has appeared in his own shows, including the reality series "Father Hood," starring his wife and children.

In the ruling, the judges said Mr. Broadus had a "relatively minor" role in the Heathrow melee, which was "precipitated" by decisions made by **British Airways** PLC staff and the police.

EUROPE NEWS

FSA chief: CDS use may need limits

Greece's debt problems raise questions of who should be able to buy default insurance, Turner says

By Paul Hannon

LONDON—The U.K.'s chief financial regulator said there are "major questions" about the utility of the market for credit-default swaps, in particular whether they should be used by investors that don't own the underlying debt instruments.

Some policy makers have suggested that speculators have been using such swaps, known as CDS, to bet that Greece would struggle or be unable to pay off its debt load, and that such speculation has made it difficult for the Greek government to raise the funds it needs in the bond market. Greek bond yields have risen sharply over the past few months, and the country pays about double what Germany does to borrow money over 10 years.

Defenders of the swaps, which are derivatives that function like an insurance policy against the risk of default, say they serve a useful purpose.

Speaking to lawmakers, Financial Services Authority Chairman Adair Turner said it may be appropriate to treat CDS like other insurance products, and limit their use to investors who own the bonds to which they relate. "There are open questions about whether you should be able to take out an insurance contract on something in which you don't have an insurable interest," he said.

Lord Turner added that the FSA's figures suggest that short positions—or bets that the value of Greek bonds will fall—account for just 3% to 4% of the amount of outstanding Greek government debt.

On Monday, German market regulator BaFin said it is preparing a report on speculation in Greek debt for Germany's Finance Ministry, which is being asked to aid Greece. BaFin analysts are searching public trading data for signs of speculation in the trading of Greek CDS.

Lord Turner's comments about possible rules for swaps echo those made by other European lawmakers and regulators. Last month, French Finance Minister Christine Lagarde said speculation was partly to blame for the euro zone's debt troubles and that the sovereign CDS market "needs better regulation."

Tuesday, the cost of insuring Greek sovereign debt against default fell considerably a day before the country's government was to release a fresh austerity package that could total around €4 billion ($5.5 billion).

Greece is under intense pressure from other nations in the 16-nation euro bloc to cut its deficit, estimated at 12.7% of gross domestic product in 2009, by four percentage points this year and to bring it below 3% of GDP in a few years.

The five-year Greek CDS fell to 3.20 percentage points, from 3.41 percentage point on Monday, according to CMA DataVision, a data provider. That means the annual cost of insuring €10 million of Greek government debt against default for five years fell €21,000, to €320,000. At one point in early February, it had cost about €425,000 annually to insure against the risk of a Greek default.

In his testimony to U.K. lawmakers Tuesday, Lord Turner also said the final cost of bailing out the U.K.'s troubled banks may be no more than between 5% and 10% of GDP. Since the start of the financial crisis in 2007, the U.K. government has taken large stakes in a number of banks, and provided guarantees for their borrowing and insurance against losses on bad assets. The Bank of England has provided a variety of loans. But Lord Turner said the cost of that support to taxpayers may be much smaller than the amounts covered by the programs.

—Mark Brown contributed to this article.

Press Association

Adair Turner, shown Tuesday.

Reports show extent of Greece's infractions

By Charles Forelle And Stephen Fidler

Some Europeans blame financial transactions arranged by Wall Street investment banks for bringing Greece to the brink of a potential bailout. But a closer look at the nation's finances over the 10 years since it joined the euro currency show that not only was it the principal author of its debt problems—but that fellow euro governments repeatedly turned a blind eye to its blatant flouting of rules.

Though the European Commission is examining a controversial 2001 swap arranged with **Goldman Sachs Group** Inc., Greece's own budget shenanigans—in clear breach of European Union rules—dwarfed the effect of such deals.

Greece-style financial crises were meant to be forestalled by an agreement aimed at preventing a free-spending state from undermining the currency. The pact required European Union countries to limit their annual government deficits to 3% of gross domestic product and total government debt to 60% of GDP.

But an examination of budget reports to the EU shows that Greece hasn't met the deficit rule in any year except 2006. It's never been within 30 percentage points of the total debt ceiling.

Greece has revised its deficit figures, always upwards, every year since 1997—often a lot. Several times, the final figure was quadruple what it first reported. Late last year the Greek government set in motion its current crisis by radically increasing its 2009 budget deficit estimate to 12.7% of GDP.

The magnitude of those revisions dwarfs the impact of controversial derivative transactions, now the subject of the EU inquiry, that Greece used to reduce its debt and deficit numbers.

The currency-swap transaction arranged by Goldman Sachs trimmed Greece's deficit by about one-tenth of a percentage point of GDP in 2001. By comparison, Greece failed to book €1.6 billion ($2.2 billion) worth of military expenses that year—10 times what was saved with the swap, according to Eurostat, the EU's statistics authority.

The Greek problem has shown that EU financial institutions don't have enough teeth to rein in renegade member states, said Jean-Pierre Jouyet, chairman of France's stock market watchdog and former chief of staff of former European Commission President Jacques Delors in 1995. "We need new tools to manage these disequilibriums, because a pact without sanctions is not enough," said Mr. Jouyet, who is also former head of the French Treasury .

Constantine Papadopoulos, secretary-general for international economic affairs at the Greek foreign ministry, said Greece entered the euro zone legitimately. "The notion that Greece 'cheated' to get into the euro zone is one of those notions that has stuck in people's minds in Europe and, being the well-crafted piece of propaganda that it is, is extremely difficult to reverse," he said.

Mr. Papadopolous said most of the revisions took place because an incoming New Democracy government in 2004 retrospectively revised the way it dealt with military spending, which had an impact on the recorded budget deficit for the past years of the Socialist government.

But Eurostat deemed the revisions necessary, as Greece had "widely underestimated" its military spending.

The Aegean country wasn't alone in breaking the euro-zone's rules: A majority of other euro-zone members also failed to meet the debt and deficit requirements at least once over several years, the reports show.

The launch of the euro with 11 founding members in 1999 and Greece's entry 18 months later followed a decision by European leaders to make a strong political gesture by making membership as broad as possible. Italy and Belgium were allowed into the first round of members although they well exceeded the debt threshold—a decision that spurred some controversy.

Bringing in Greece as "the cradle of democracy" was symbolically important, and the country's entry didn't raise many eyebrows because it was being talked of as a great economic turnaround story.

Now Greece's current financial crisis shows Europe's political ambitions for a broad euro—expanded to 16 members—are clashing with economic realities. It also suggests Greece's economic success was partly a mirage created by economic statistics that were misreported.

This is a consequence of a weakness that economists and historians say was built into the common currency at birth: the lack of a coordinated fiscal policy to go with monetary union. From the beginning, the euro has been replete with unresolved tensions,says David Marsh, author of "The Euro," a 2009 book chronicling the birth of the common currency, and a longtime correspondent for the Financial Times. The currency union was seen by some politicians as a way to pull the EU toward political union; others, mainly in Germany, emphasized the need for fiscal and monetary rectitude.

Once a country is in, little can be done to a wayward member because the euro's architects built in no real means of enforcement.

Once a country is in, little can be done to a wayward member because the euro's architects built in no real means of enforcement.

That's in part because of a compromise made in a 1996 European summit in Dublin that placed the decision about whether to levy fines on errant governments with other EU governments. That was a victory for Jacques Chirac, then French president, over the then German chancellor Helmut Kohl, who wanted the fines to be automatic. Since then no fines have been levied on any government.

Willem Buiter, chief economist at **Citigroup** and a former member of the Monetary Policy Committee of the Bank of England, described the debt and deficit rules as "a paper tiger."

"It is ineffective, because for a while it created the illusion that there were sticks and carrots capable of changing the fiscal behavior of the member states, when in reality there were neither," he wrote in a new research report.

The lax attitude to fiscal rules began early. Eager to get the euro in place in the late 1990s, EU leaders decided 1997 would be the key year. If everyone could meet the targets for that year, the currency could be launched.

The 60% debt goal was simply out of reach—Belgium, for instance, had debt of 131% of GDP in 1995. The countries agreed excess debt was acceptable, so long as it looked like it was shrinking. (The euro zone as a whole has never met the 60% debt limit.)

Instead, Europe tried to stand firm on the deficit. That triggered a busy year of one-off boosts to government coffers. Countries sold mobile-phone spectrum licenses. France got a payment of more than €5 billion for assuming future pension obligations from the soon-to-be-privatized **France Telecom**. Germany even tried—but failed--to revalue its gold reserves.

Buoyed by these maneuvers—and helped by the tech bubble—11 of the 12 countries made the 3% goal for 1997. With much fanfare, the euro was born as the clock ticked from 1998 to 1999, though notes and coins didn't begin circulating for another three years.

With much less fanfare, countries later revised their numbers: Of the original 11 entrants who qualified on the basis of their 1997 data, three—Spain, France and Portugal—later revised their 1997 deficit figures to above 3%. (France's budget revision, to 3.3%, wasn't made until 2007.)

Greece didn't make the first wave, however. Its 4.0% deficit in 1997 missed the boat by too wide a margin.

But in 1999, eager to keep the euro zone on track, the EU overlooked those concerns. The figures for 1998 appeared better, and European governments agreed to let Greece in.

They cited a reduction in the deficit to 2.5% of GDP in 1998 and a projection of 1.9% for 1999, and saluted Greece for reducing its government debt.

"The deficit was below the Treaty reference value in 1998 and is expected to remain so in 1999 and decline further in the medium term," the governments said in a statement in December 1999.

None of that turned out to be true.

In March 2000, Eurostat said a new accounting standard pushed Greece's 1998 deficit up to 3.2%. Later, in a 2004 report, Eurostat added nearly €2 billion to the original 1998 deficit—largely because Greece wrongly deemed subsidies to state entities as equity purchases, a trick Portugal would later pull. In the end, the 1998 figure stood at 4.3%, well above the euro-zone entry criterion.

It got worse. Eurostat found that Greece barely recorded any expenditure on military equipment for years, routinely overestimated tax collections, didn't record hospital costs in the state health system and counted EU subsidies to private entities in Greece as government revenue.

France and Germany breached the deficit limit in 2002, 2003 and 2004, setting the example that even the bloc's economic powerhouses didn't have to play by the rules. In 2003, the Netherlands and Italy did too.

Jean-Luc Dehaene, former Belgian prime minister, says he was he was disappointed at the response to the Franco-German rule-busting.

"There was not a strong reaction from the European Union," he says. Finance ministers decided on the response, he said, and "they tend to make a political decision," Mr. Dehaene says. "And it matters whether it's a big country or a small country that has problems."

EUROPE NEWS

Fare Play | How European cities' transit systems compare

Munich
Overall ranking: 'Very Good'
- Mostly competent and friendly advice at ticket desks; also in English
- Escalators and lifts provided in most cases; almost all the stops tested were accessible
- Bicycle-parking facilities at many of the stops tested

London
Overall ranking: 'Acceptable'
- Connection to main airport (Heathrow) around one-third faster than the European average
- Many different types of tickets and public transport OysterCard smartcard available
- Relatively expensive trips and transfers
- Too few escalators and lifts

Photos: Agence France-Presse/Getty Images; Associated Press (Munich)

Paris
Overall ranking: 'Acceptable'
- Low price for trips in the city
- Lines well signposted at the stops tested; area maps at many stops
- Modern timetable in six languages on the Internet
- Long transfer distances; sometimes too few escalators and lifts

Zagreb
Overall ranking: 'Very Poor'
- Affordable fares
- Information on ticket machines also in English
- All connections slower than the European average; next departure not always clearly shown
- Too few escalators and lifts

Munich tops public-transit survey for Europe

Associated Press

Munich has Europe's best public transportation, according to a study published Tuesday that finds commuters and visitors in 22 other cities face a range of quality in public information, travel times and charges.

The survey of 23 European cities found nine offering only "acceptable" bus, streetcar and metro services, and said more needs to be done to make public transportation an attractive alternative to driving a car into a city.

The study by EuroTest, a group of automobile clubs in 15 nations led by Germany's ADAC, rated local public-transit service on travel time, information, ease of transfer, costs, operating hours and access to bicycle and car parking.

Of the cities surveyed, only Munich rated "very good" because of fast connections, "plenty of information at stops and in vehicles" and an "extremely impressive" Web site.

The survey said public transit is "good" in 11 cities—Helsinki, Vienna, Prague, Hamburg, Copenhagen, Frankfurt, Barcelona, Leipzig, Cologne, Rome and Bern.

Prague has Europe's cheapest: a monthly pass costs €20 (about $27).

Airlines fight law on passenger delays

Continued from first page

Brussels.

But a group of British airlines in December warned their government that "this judgment calls into question the viability of the industry in its current form." Eight members of the British Air Transport Association wrote to the country's transport secretary to attack the ruling, arguing it would add between €3 billion and €5 billion annually to European carriers' liability for delay compensation.

The total amount airlines currently pay in compensation isn't tallied by either the EU or airlines. Carriers generally don't publish figures on their payments.

Airline critics say carriers are exaggerating the impact. EUClaim, a Dutch company that processes filings under the EU legislation and takes a 27% cut of any payout, estimates the ruling will add roughly €850 million annually.

Still, European airlines overall are deeply unprofitable and industry officials say the ruling will increase their losses. They predict higher ticket prices and a wave of lawsuits by the carriers against government-run air traffic control systems and other industry players, who are ultimately responsible for many of the delays.

Mr. Simpson, the European Parliament member hosting Wednesday's conference and a framer of the original legislation, said in an interview that he and other parliamentarians believe airlines skirt rules to put profits ahead of passengers' convenience.

"Members believe the airlines are flouting the law" by using technicalities to avoid paying compensation claims, said Mr. Simpson, a member of Britain's left-of-center Labour Party.

Passengers wait at the Lufthansa ticket counter at the Berlin-Tegel airport.

Air rights

Under a European Court ruling from November, airline delays of more than three hours are deemed equal to cancellations, entitling passengers to specified compensation.

The original EU law from 2004 distinguished between delays and denied boarding under these rules:

Delays

Delay duration	Compensation per passenger
From two hours to over four hours, depending on flight distance	Free meals and refreshments; two free messages by phone, e-mail, fax or telex
Until next day	Hotel accommodation and transport between airport and hotel
Over five hours	Passengers may opt for reimbursement of the full ticket cost and return flight to the first point of departure (when relevant)

Denied boarding*

Flight Distance	Compensation per passenger
Up to 1,500 km	€250
Intra-EU flights under 1,500 km and all other flights 1,500 - 3,500 km	€400
All other flights	€600

*Cancelation or bumping

Source: European Union Photo: European Pressphoto Agency

U.K. economy shows signs of strength

By Nicholas Winning

LONDON—British consumer confidence hit its highest level for two years in February and the labor market is strengthening, buoyed by confirmation the economy is emerging from its longest recession on record.

The Nationwide Building Society said that its monthly consumer confidence index rose to 80 in February from 74 in January, the highest level since January 2008.

"Consumer confidence is crucial to a strong and sustainable recovery and, while confidence is likely to remain fragile for some months to come, the early signs do look positive," said Martin Gahbauer, Nationwide's chief economist.

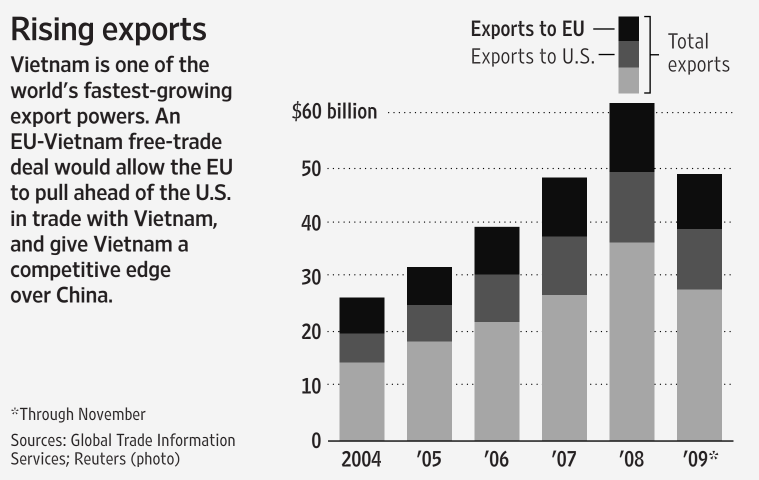
The report showed that consumers were less confident about spending on household goods and major purchases in February, but they were more upbeat about the economic and employment situation now and in six months' time.

Mr. Gahbauer said the optimism was probably fueled by news that the U.K. economy grew in the final three months of 2009, ending six consecutive quarters of contraction. Gross domestic product grew 0.3% in the fourth quarter.

The outlook for growth and inflation remain uncertain, and the pound has been pressured by concerns over the outlook for the U.K.'s large budget deficit if no party wins a majority in the general election that must be held by early June.

Economists don't expect the Bank of England to move interest rates from the record low of 0.5% after its next policy meeting on Thursday.

EUROPE NEWS



A farmer gathers rice in fields outside Hanoi. Vietnam is one of the biggest rice exporters in the world.

EU, Vietnam plan trade talks

Two economies see promising markets, but any deal faces obstacles in European Parliament

The European Union and Vietnam announced the start of free-trade negotiations Tuesday, signaling a major effort to move ahead in the race to secure new markets despite the failure of the Doha Round of global trade talks.

*By **John W. Miller** in Brussels and **Patrick Barta** in Bangkok*

EU officials say they want a privileged trade and investment relationship with Vietnam, a booming country with 86 million people and a $100 billion economy that is open to buying European cars, wine, cheese and pharmaceuticals. For Vietnam, a free-trade deal with the EU would be a chance to lure manufacturers away from China with the promise of a launching pad into the EU's roughly $15 trillion economy, the world's largest.

Efforts to reach a deal, however, face fresh obstacles in Europe, where the new Lisbon Treaty gives ratification powers to the European Parliament, which, like the U.S. Congress, is home to protectionist sentiment and human-rights concerns.

The EU-Vietnam talks continue a recent trend of pursuing bilateral accords, which were set aside during most of the past decade as countries focused on an overarching, multilateral trade agreement. Now the Doha Round is on hold—after failing at summit after summit as the U.S. and EU balked at opening their food markets—bilateral trade ambitions are again the focus.

The EU has signed a deal with South Korea, and last week it announced the conclusion of an agreement with Peru and Colombia. The U.S. has negotiated treaties with South Korea and Colombia, though they haven't been ratified. An EU-Vietnam deal would much larger, say trade experts.

Vietnam's biggest exports are textiles, shoes, seafood and coffee. A free-trade deal with the EU could expand that portfolio. "Vietnam is looking to attract manufacturing that has become too expensive in China," says Fredrik Erixon, a trade analyst with the European Centre for International Politics and Economy, a Brussels-based think tank. A trade treaty would end the anti-dumping tariffs on Vietnamese shoe exports that the EU imposed in 2006 and extended in 2009.

The announcement also comes at a critical juncture for Vietnam, whose economy faces steep challenges despite relatively strong growth over the past year. The country's General Statistics Office said Tuesday that economic growth is expected to accelerate to between 5.7% and 5.9% in the first quarter from a year earlier, compared to 3.1% in the first quarter of 2009.

But much of Vietnam's recent growth has come from costly stimulus programs that have forced the government to borrow heavily abroad. Meanwhile, the global economic crisis has dented foreign direct investment and pushed exports into a slump, swelling Vietnam's trade deficit and forcing the government to devalue its currency.

Many residents and economists are already worried that Vietnam is too reliant on exports, which helped drive growth in recent years, especially after the country joined the World Trade Organization in 2007.

Entry into a new free-trade bloc could help ease the fears about reliance on foreign markets by helping restore the country's trade balance.

The EU had already begun free-trade talks with a group of Asian countries including Cambodia, Indonesia, Singapore, Myanmar and the Philippines. It has now abandoned that idea, "because of the very different levels of economic development in the countries concerned," EU Trade Commissioner Karel De Gucht said before meeting with Vietnamese Prime Minister Nguyen Tan Dung.

"The attraction for the EU is competing with the U.S. in opening new markets, especially for services," says Nikolay Mizulin, a trade lawyer with Hogan & Hartson LLP.

The European Parliament, however, could prove a stumbling block. It has expanded powers under the recently ratified Lisbon Treaty, including the right to block trade deals. It is also home to lobbyists ready to go to bat on behalf of the few industries where European and Vietnamese companies do compete, such as bicycles, shoes and textiles.

The Parliament could also raise Vietnam's human-rights record. Dissent in the country has intensified lately in part due to strains related to the global economic crisis. The government has launched a new crackdown on activists in recent months, alarming some of the country's leading trading partners.

U.S. trade officials, for their part, aren't idling. They are considering whether to join a trans-Pacific trade bloc that could include Vietnam along with Chile, New Zealand, Singapore and Brunei. Negotiators will meet in Melbourne, Australia on March 15.

The U.S., however is unlikely to be able to match the EU's bilateral free-trade ambitions. U.S. Trade Representative Ron Kirk has said the administration is focused on enforcing existing trade agreements instead of securing new ones.

Ukrainian premier's coalition falls

By James Marson

KIEV, Ukraine—Prime Minister Yulia Tymoshenko's governing majority in Ukraine's parliament collapsed Tuesday, bringing her newly elected rival, President Viktor Yanukovych, a step closer to his goal of removing her from office.

Volodymyr Lytvyn, the parliament's speaker, declared that Ms. Tymoshenko's coalition had failed to collect enough signatures from legislators to show that it maintained a majority in the 450-seat body. That means Ms. Tymoshenko is likely to lose a parliamentary vote of confidence Wednesday, giving Mr. Yanukovych's Party of Regions a chance to form a new government.

Mr. Yanukovych, who defeated Ms. Tymoshenko in the Feb. 7 presidential election, is seeking to consolidate his power to govern a country that has long suffered political paralysis and that last year saw its economy shrink by 15%. At his inauguration on Feb. 25, the new president promised to revive the economy, overhaul state structures and fight corruption—and called for "effective cooperation between the president, parliament and government." But Ms. Tymoshenko has refused to recognize Mr. Yanukovych's victory, claiming it was tainted by vote fraud—even after international monitors called it fair. On Tuesday, she said legislators who abandoned her coalition had "destroyed the last bastion, the last barricade defending everything Ukrainian."

Reuters

Ukraine's Prime Minister Yulia Tymoshenko speaking in Kiev on Tuesday.

She indicated that she would resign if she lost Wednesday's vote, rather than remain as a caretaker prime minister until a new government is formed.

Parliament has 30 days to agree on a governing coalition. Failing that, Mr. Yanukovych would have the right to call early parliamentary elections.

Political analysts said Mr. Yanukovych appears likely to succeed in assembling a majority, but only after a process of prolonged horse-trading among divided parliamentary parties.

Turkey arrests aren't political, Erdogan says

By Marc Champion

ISTANBUL—Prime Minister Recep Tayyip Erdogan of Turkey on Tuesday fought back against efforts to portray the recent arrests of dozens of senior military officers as part of a struggle between his Islamic-leaning government and the country's secular establishment, saying it was part of building a normal democracy.

Mr. Erdogan said the week of arrests of alleged coup-plotters, a group that included admirals and generals, wasn't an act of political revenge. He also said he had been misunderstood when he recently appeared to tell Turkish newspapers they should fire columnists who in his view misrepresent events.

Many in the country perceive the arrests as a crackdown by Mr. Erdogan's government on a secular establishment that long suppressed religious conservatives such as himself.

"We do not seek political revenge," Mr. Erdogan told parliamentarians from his ruling Justice and Development party, Turkey's state-run news agency, Anadolu Ajansi, reported. Instead, he said, the government was trying to apply the law and improve Turkey's democratic institutions in line with requirements for joining the European Union.

The EU has made bringing Turkey's military under civilian control a key condition for entry. The military has toppled four governments since 1960, but says that era is past.

"There is no other way than improving democracy and the rule of law. There is no tension between state institutions," Mr. Erdogan said, according to Anadolu Ajansi. "Turkey is normalizing."

Last week, around 50 retired and serving military officers, including generals and admirals, were detained in connection with the alleged 2003 plot, known as Sledgehammer, which didn't materialize.

Late Monday the crackdown continued in a separate case, as a local chief prosecutor and a serving army general were formally charged with membership in an alleged terrorist organization known as Ergenekon.

Prosecutors allege they plotted to undermine the pro-government Islamic faith group headed by the preacher Fetullah Gülen, by planting weapons on its supporters. The arrest of the prosecutor, Ilhan Cihaner, earlier this month caused an uproar in Turkey's judiciary, which complained of government interference.

But the pace of new arrests has slowed, and analysts said market nerves steadied Tuesday. The top 100 stocks on the Istanbul Stock Exchange edged up 0.57%.

Mr. Erdogan also tried to calm a furor that followed a speech he made Friday, in which he blamed Turkey's media for rising tensions in the country. "None of the media bosses can stand up and say, 'I told them to fire this or that writer,'" Mr. Erdogan said Tuesday, insisting his remarks had been misunderstood. But he repeated that media bosses had to take responsibility for who they hired.

"You cannot say, 'I don't want tension, but I cannot do anything about the publications provoking the tension,'" Mr. Erdogan said. "If you open a shop or a company, will you keep staff who do their best to sink the company? No. You fire them the next day."

U.S. NEWS

Lawmakers on trips keep the change

Cash is allotted for daily expenses on official travel overseas, but unspent funds are rarely returned to government

By Brody Mullins
And T.W. Farnam

Associated Press

From left, Reps. Alcee Hastings, Eliot Engel and Solomon P. Ortiz, and U.S. Ambassador William Brownfield, in Rio Negro, Colombia, in 2008.

When lawmakers travel overseas on official business they are given up to $250 a day in taxpayer funds to cover meals and expenses. Congressional rules say they must return any leftover cash to the government.

They usually don't.

According to interviews with 20 current and former members of Congress, lawmakers use the excess cash for shopping or to defray spouses' travel expenses. Sometimes they give it away; sometimes they pocket it. Many lawmakers said they didn't know the rules demand repayment.

"If that was the policy, you could never get many members traveling," said Rep. Solomon Ortiz, a Texas Democrat. Mr. Ortiz said he has never returned any money.

"There's a tacit understanding that if lawmakers don't spend the money, they get to keep it," said Rep. Sue Kelly, a New York Republican who was defeated in 2006.

Former Rep. Tom Davis, a Virginia Republican, said lawmakers often used leftover money "for shopping or to buy souvenirs to bring back to constituents. That's fairly standard."

Rep. Joe Wilson (R., S.C.) said he once bought marble goblets in the Kabul airport as gifts for constituents. Rep. Mark Souder (R., Ind.) said he dipped into his funds to buy a $200 painting of an estuary in Turkey, which hung in his office for a while and was now in his house.

Lawmakers who said they sometimes keep excess funds said the amounts were small. "I won't deny that sometimes I have a little left, but it's not much—maybe 80, 90, or 100 dollars," said Rep. G.K. Butterfield (D., N.C.).

Congress has no system for tracking how the cash payments, called per diems, are being spent. Lawmakers aren't required to keep receipts and there are no public records.

In the past two years, hundreds of lawmakers spent a total of 5,300 days visiting 130 foreign countries on taxpayer-funded trips, according to congressional travel records.

House lawmakers received between $375,000 and $625,000 in per diem cash over that period, according to a Wall Street Journal estimate based on per diem rates and congressional travel disclosures. There's no documentation for how those funds were spent. Estimates for Senate travel couldn't be calculated.

"You are all concerned about nickels and dimes, and I'm not," said Rep. Alcee Hastings (D., Fla.). "You know, in a taxicab in Kazakhstan, I don't have time to get a receipt—I don't speak Kazakh."

In a subsequent interview, Mr. Hastings said he had time to gather receipts, but didn't.

Mr. Hastings said he sometimes used the extra taxpayer money to buy gifts, meals or drinks for military pilots, security officials and interpreters who travel with him. On a trip earlier this year to the Middle East, Mr. Hastings gave $100 to an Iraqi refugee, he said.

"I'm a generous spirit and a courteous spirit," Mr. Hastings said. "I stand accused."

Some lawmakers are assiduous about returning surplus cash. Sen. Arlen Specter, a Pennsylvania Democrat, has returned to the U.S. Treasury about $8,500 of the $25,000 he was given for 11 trips since August 2005, according to documents provided by his office.

The per diem program is administered by the State Department. According to department officials and publications, when lawmakers arrive in a foreign country, U.S. government officials give them an envelope with cash in the local currency. The total stipend is set by the State Department based on surveys of local prices. It is meant to cover three meals and incidental expenses, which federal travel regulations say include transportation and tips for baggage handling and other services.

The amounts range from $28 a day in Kabul to more than $250 a day in Awashima, Japan.

When lawmakers leave the country, U.S. government officials generally meet them to convert any leftover foreign currency back into U.S. dollars.

Many of the lawmakers' daily expenses are picked up by U.S. embassies, foreign governments or military liaisons, according to travel documents and interviews.

House and Senate rules say per diems can be used only for legitimate travel expenses. Any leftover money must be returned. The cash is for lawmakers, not their spouses. Lawmakers can request an extra $50 a day if they believe the allowance is insufficient.

"The extra money and the plus-ups are really for the spouses," said Mr. Souder, the Indiana Republican.

Last summer, a dozen lawmakers of both parties flew to Lithuania for a conference of the Helsinki Commission, an independent U.S. government agency made up of members of Congress and others that was born during the Cold War to promote democracy, security and human rights.

The lawmakers on the six-day trip were given $941 each in local currency to cover expenses, said one attendee, Sen. Richard Durbin (D., Ill.).

When they got home, Mr. Durbin returned $401.08 to the Treasury, according to documents provided by his office. Sen. Benjamin Cardin (D., Md.) returned $86.

No one else returned any money, according to travel records for the trip and interviews with the lawmakers.

One lawmaker on the trip, Rep. Robert Aderholt (R., Ala.) said he didn't return cash. "I don't keep up with it penny for penny," he said.

Mr. Butterfield said he didn't recall if he had any leftover funds, and that he sometimes kept the extra cash.

Sen. Tom Coburn (R., Okla.) said he once tried to return surplus cash to the State Department, but "they wouldn't take it. They said, 'We don't have a way to handle that.' " Mr. Coburn said he sent a personal check to the U.S. Treasury.

Daily travel allowances for selected cities:

Zuma Press (Tokyo, London); Bloomberg News (Paris); Getty Images (Kabul)

Court seems to favor gun rights

By Jess Bravin

WASHINGTON—The U.S. Supreme Court seemed ready to rule that gun possession is fundamental to American freedom, a move that for the first time would give federal judges power to strike down state and local weapons laws for infringing Second Amendment rights.

At oral arguments Tuesday, the court considered whether its 2008 decision voiding the District of Columbia handgun ban should be extended to the rest of the country. Because Washington is a federal territory and not part of a state, the legal basis for imposing federal constitutional limits on laws adopted by states had been unclear.

The court has held that constitutional rights fundamental to liberty, such as the First Amendment guarantee of freedom of the press, override state laws. The question is whether the Second Amendment right to bear arms is a fundamental right like freedom of speech.

In 2008, after the court voted 5-4 along its conservative-liberal split to strike down the Washington ordinance, gun-rights forces filed suit against weapons laws around the country. Tuesday's arguments involved a challenge to handgun bans in Chicago and Oak Park, Ill.

James Feldman, a Washington lawyer representing Chicago, told the court that because guns can kill innocents and aid criminals, owning them isn't a fundamental right. Moreover, he noted, the Second Amendment right "to keep and bear arms" is prefaced by the statement that a militia is "necessary to the security of a free State."

Conservative justices said they had already decided in the 2008 case, *District of Columbia v. Heller*, that the militia clause didn't limit the amendment's scope.

A ruling is expected by June.

WORLD NEWS

Jobless rate falls in Japan; spending rises

By Takashi Mochizuki

TOKYO—Japan's jobless rate and consumer spending improved in January, but analysts and officials remained cautious about the outlook, fearing the positive trends may not last once government stimulus measures expire.

The country's finance minister expressed doubts that the momentum would continue, and left open the possibility that further steps may be needed.

The unemployment rate fell to a 10-month low in January as hiring picked up, official data showed Tuesday. The rate fell to 4.9% from 5.2% the month before, beating economists' forecast of 5.1%.

The January jobless figure was the lowest since 4.8% in March 2009, the Ministry of Internal Affairs and Communications said. The labor ministry said the jobs-to-applicants ratio improved by 0.03 to 0.46 in January, the first increase in four months.

Meanwhile, all household spending increased 1.7% from a year earlier, rising for the sixth straight month thanks to robust car sales. The rise missed economists' forecast for a 2.4% gain.

A government official said the improvements in employment and spending were partly because of government support measures, which included aid for companies to hire and incentives for consumers to buy fuel-efficient cars.

Finance Minister Naoto Kan welcomed the positive news, but was guarded about overall economic conditions, including prices.

"There still is a significantly large supply-demand gap," Mr. Kan said. "If possible, we must bring [the on-year rate of price increases] to at least above 0% within this year; that is, to change the deflationary situation into one where product prices rise moderately." "That's the goal I have in mind."

Japan's core consumer-price index fell 1.3% from a year earlier in January, the 11th straight month of drops, data showed last week.

On employment, Tuesday's data indicated that small companies are slowly increasing the number of their workers on the view that output will increase to meet recovering overseas demand. Analysts said government cash support for hiring also played a role.

Large firms, however, which aren't eligible for the same support, have been reluctant to hire, still worried about weak domestic demand.

The number of workers at companies with fewer than 30 people increased 0.7%, while that at companies with more than 500 people decreased 2%, the data showed.

Analysts said the figures suggest a fast recovery of employment isn't likely.

"Japan's jobless rate may remain around 5% levels in the coming months," said Mizuho Research Institute analyst Yusuke Ichikawa.

But household spending data showed consumers taking advantage of incentive programs to buy expensive vehicles, such as high-end hybrid cars, analysts said.

Sales of cars and car-related accessories increased 20.9% from a year ago. There was no apparent impact in the January data from **Toyota Motor** Corp.'s massive global recall, an official said.

Associated Press

Kenyan President Mwai Kibaki inspects the guard of honor during the opening of parliament on Tuesday

Kenya comes under pressure

U.S. grows impatient with an ally that has done little to check corruption or ethnic tension

By Sarah Childress

NAIROBI, Kenya—The U.S. stepped up its harsh criticism of Kenya, raising again the threat of sanctions against a longtime east African ally that has become riddled with infighting and allegations of corruption.

"Nothing's off the table," said Karl Wycoff, the deputy assistant secretary of state for African Affairs, referring to steps Washington is willing to take as it urges Kenya to crack down on political violence and root out corruption.

Washington's hard line against Kenya began building after the disputed 2007 presidential elections sparked ethnic clashes that killed more than 1,300 people and displaced tens of thousands more. Rivals Mwai Kibaki and Raila Odinga agreed to a internationally brokered power-sharing deal that made them president and prime minister, respectively. They pledged to work together to end ethnic disputes and overhaul the country's colonial-holdover constitution.

Two years later, however, their coalition government reamains shaky and the country is on edge. The U.S. is increasingly impatient for the government to take steps to punish those responsible for the postelection violence and amend the constitution.

"We will not hesitate to give our opinions when we feel that's what needs to be done," Mr. Wycoff said.

Kenyan officials have bristled at U.S. pressure. Kenyan government spokesman Alfred Mutua called the pattern of U.S. criticism and threats condescending. "Their policy is playing to the [Kenyan public] gallery, which we call activism diplomacy," he said, calling the warnings on travel bans part of "a big bully blackmail system."

The U.S. believes now is the time to push, a senior U.S. official said, in part because the U.S. enjoys wide support among Kenyans that deepened with the election of Barack Obama. Washington also sees a grass-roots move toward change among Kenyans weary of backbiting politics and scandals.

The U.S. push in Kenya—a bastion of stability in an east Africa region that includes the war-torn states of Somalia and Sudan—contrasts with its more subtle approach toward neighbors including Ethiopia, an ally of the U.S. in its fight against terrorism that has been accused of human-rights abuses.

The most recent clash between Kenya's top leaders followed two corruption scandals over the past several months. In one, an independent auditor alleged the Agriculture Ministry had sold its reserve grain to shell companies that marked it up, raising market prices as people went hungry in rural areas. In another case, about $1 million in funds disappeared from a fund for free primary education.

Mr. Odinga, the prime minister, suspended the two ministers. Mr. Kibaki reinstated them. The dispute threatened to inflame ethnic tensions: After Mr. Odinga's announcement, makeshift roadblocks—often a precursor to violence—sprang up in Eldoret, which saw some of the worst violence in 2008.

The government spokesman said the government is expected to hold a referendum on the new constitution by the year's end, a move toward spreading power beyond the president and establishing a more accountable system of government. "We are progressing very well," he said. "But it is not because of the U.S.'s so-called interference."

Baltic Index may dry up as gauge

By Art Patnaude And Neena Rai

LONDON—Uncertainty over how many new ships will be built this year is expected to marginalize a popular measure of the global economy's health—the Baltic Dry Index.

The index, a measure of shipping costs, gained importance over the last decade as a key gauge not just for the shipping industry but also for the global economy. Due to the shipping industry's stable supply structure, the index was touted as a proxy for overall demand for raw materials, the basic building blocks of an economy.

But with an unusually large number of ships scheduled to come into operation in 2010, the index no longer presents such a straightforward view of raw-material demand, and hence economic growth.

The Baltic Dry Index "will be less responsive to shifts in demand as the oversupply of vessels becomes more pronounced," said Plamen Natzkoff, dry bulk and freight strategist at Citigroup in London. While the index "will still reflect the supply-demand balance in the freight market," its worth as a wider-ranging indicator will be limited, he said.

The index's publisher defends it. "There are two elements to the BDI: demand and supply. When the supply of shipping is fairly stable, demand represents a good pointer to activity in primary industry," said Jeremy Penn, CEO of the Baltic Exchange.

"[The BDI] is a good indicator of dry bulk rates in the market—we have never made great claims for it to be more than that."

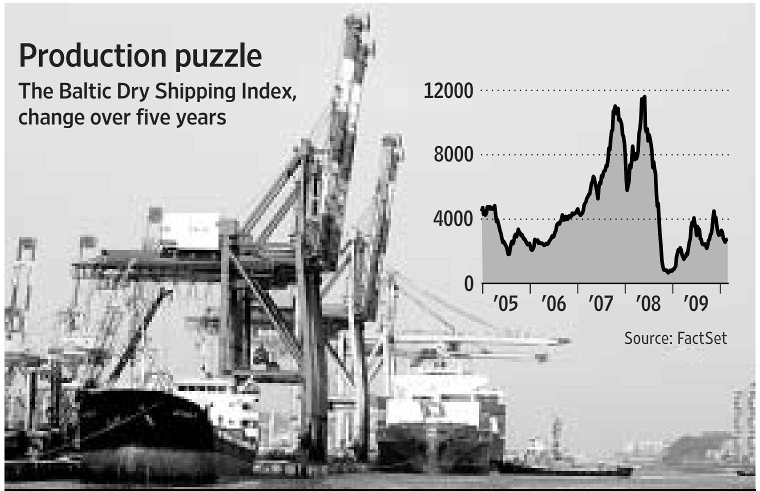
The Baltic index assesses the cost for moving bulk cargoes on major shipping routes.

In May 2008, the index rose to a record high of 11793. But by December, as demand for bulk goods dried up, the index had slid to 663. Tuesday, the index was at 2792.

Ships take about three years to build, making supply both easy to predict and relatively inflexible. Moves in the cost of shipping have, therefore, been largely the result of fluctuations in demand for the commodities they carry.

But the stability is now faltering, some analysts say.

"What you're witnessing is a huge number of ships ordered during the peak of the market in 2007-08 being delivered now due to the usual lead times involved," said Amrita Sen, a commodities analyst at Barclays Capital in London.



Container ships at the port of Keelung in Taiwan

Bloomberg News

WORLD NEWS

U.S. unsure on source of Iraq unrest

Military faces a rise in violence from web of small, independent groups, making it hard to set up countermeasures

By Charles Levinson

BAGHDAD—U.S. commanders say they are unsure about who is responsible for the persistent violence in Iraq, underscoring the challenge they face trying to keep a lid on it amid parliamentary elections this weekend.

While security has improved significantly across Iraq in recent years, in the weeks leading up to the March 7 vote, U.S. commanders have reported an increase in low-level violence: kidnappings, assassinations, and mortar attacks against Baghdad's heavily fortified Green Zone, the seat of government power.

And since August, a series of large-scale bombings aimed at government buildings have ripped through Baghdad, killing several hundred people and shaking confidence in Prime Minister Nouri al-Maliki's security services, following the withdrawal of most U.S. combat forces from major Iraqi cities last summer.

Commanders worry the violence could spike further after the election if parties feel there was fraud or if negotiations to form a government after the vote break down.

U.S. and Iraqi successes cracking down on organized insurgent groups have caused the groups to splinter into an ill-defined web of smaller, often independent, groups with widely divergent motives, ranging from the ideological to the purely material, according to American military officials.

"There is definitely less clarity as to who the enemy is," says a U.S. Special Forces officer in Baghdad. "The big-time players aren't there anymore. The organized terrorists aren't there anymore."

Iraqi officials are blaming al Qaeda-linked terrorists and loyalists to Saddam Hussein's Baath Party for the attacks. Iraq officials said Tuesday the number of Iraqis killed in February was twice as high as in January and 40% higher than a year earlier.

But U.S. military officers, working in Baghdad and Anbar provinces, say the real picture is less clear, making effective countermeasures more difficult.

Charles Levinson/The Wall Street Journal

Iraqi National Police Maj. Gen. Shaker al-Assadi, far left, questions a man who allegedly confessed to trying to kill a sheikh in Baghdad last week.

"Whether or not the violence is extremist, political or tribal is not clear at this point," says U.S. Army Brig. Gen. Kevin Mangum, the deputy commanding general of U.S. forces in Baghdad and Anbar. "We're not being evasive; it's just really hard to figure out."

Attacks have largely held at or near record post-war lows for the past year and a half in Iraq. But the violence persists at levels that would be considered unacceptably high in many other countries.

"If we don't understand why it's happening, in addition to what's happening, then it's destined to happen again," says Army Capt. Evan Davies, commander of the only U.S. combat company still based inside Baghdad city limits. "And right now, we don't know why a lot of this is happening."

Muddying the waters, U.S. commanders say in recent months they have witnessed a new phenomenon: Sunni al Qaeda-linked insurgents are cooperating with Shiite militias to coordinate more-effective attacks against Iraqi and U.S. forces. In the past, those two groups have typically been bitter enemies.

"Right now AQI and Shiite special groups are uniting together against a common enemy, the Iraqi Security Forces," says Capt. Davies, using the acronym for al Qaeda in Iraq. "That's something we've never encountered before."

The U.S. Special Forces officer says his forces have picked up similar intelligence.

U.S. commanders are hopeful it could signal an act of desperation by insurgent groups in their death throes. But if Sunni and Shiite insurgents begin cooperating on a wider scale, it could give what remains of the Iraqi insurgency a new bite.

The task is expected to get more complicated as the U.S. troop withdrawal accelerates after the election. In Baghdad and Anbar provinces, the U.S. presence already is down to 20,000 troops, from 51,000 troops in January 2009, according to Gen. Mangum.

Without boots on the ground, U.S. commanders are increasingly reliant on Iraqi intelligence gathering. On a recent day in southwest Baghdad, an Iraqi interrogation of a group of men who allegedly confessed to an attempted murder underscored the challenge.

The group, detained in the previous few hours, said they had tried to kill a Sunni sheikh. They were led into a room, bound and blindfolded, while U.S. and Iraqi officers looked on.

Iraqi National Police Maj. Gen. Shaker al-Assadi grilled the detainees about which insurgent group they belonged to, and why they had tried to kill the sheikh.

"Are you with al Qaeda?" Gen. Assadi asked over and over.

Finally, one of them meekly said, "Yes."

U.S. commanders watching the incident seemed unconvinced. The Iraqi interrogators "have no idea why they tried to kill the sheikh," Gen. Mangum said.

Clinton lands in Chile with phones, pledges

Associated Press

SANTIAGO, Chile—U.S. Secretary of State Hillary Clinton arrived in earthquake-ravaged Chile on Tuesday to offer the devastated country moral and material support as it recovers from the deadly disaster.

"We brought some satellite phones," Mrs. Clinton told Chilean President Michelle Bachelet in a picture-taking session. "That was the one thing we could get on the plane right away."

Mrs. Clinton flew into the capital of Santiago, delivering much-needed satellite communication equipment and a technician. It is a first installment of what she says will be substantial U.S. relief assistance.

State Department spokesman P.J. Crowley said in Washington on Monday that Chile has also asked for a field hospital and water purification systems. Other details of U.S. aid are to be worked out during Mrs. Clinton's visit.

U.S. officials said Chile wouldn't have to repay any U.S. assistance.

Little destruction was visible from the air as Mrs. Clinton's plane descended. At the airport itself, palates of various types of assistance were stacked in front of some hangers, and one military transport plane landed shortly after Clinton's U.S. Air Force jet.

The International Red Cross is asking donors for $6.5 million to bring water, tents and other relief supplies to survivors of Chile's earthquake.

The aid federation said Tuesday the money would be givento the Chilean Red Cross so it can help 15,000 families over the next six months. It said Tuesday that more money may be needed later.

Paul Simons, the U.S. ambassador in Santiago, told reporters on Monday that the Chilean government had made it known on Sunday that it was prepared to accept foreign help. Mr. Simons said the embassy is in touch with the foreign ministry in Santiago «on a continuous basis to see what exactly it is that Chile needs.

Agence France-Presse/Getty Images

Chilean President Michelle Bachelet, left, receives Hillary Clinton Tuesday.

Before the weekend quake struck, Mrs. Clinton had planned a longer stay in Chile, but she will now only spend a few hours there before heading to Brazil. Mrs. Clinton is in the midst of a weeklong, six-nation tour of Latin America that has taken her already to Uruguay and Argentina.

Her Santiago visit was expected to be confined to the airport and its immediate vicinity. At the airport, she met with Ms. Bachelet, the outgoing president, and President-elect Sebastiän Piñera, who will take office on March 11.

Santiago is the second major earthquake zone Mrs. Clinton has visited in the past two months. Four days after Haiti was hit with a devastating temblor in January, she was on the ground at the Port-au-Prince airport, meeting with Haitian officials and assessing damage with disaster relief experts.

Since she became secretary of state, Mrs. Clinton has also been traveling abroad and present in at least three foreign countries—Honduras, Japan and Pakistan—when they have been struck by quakes or strong aftershocks.