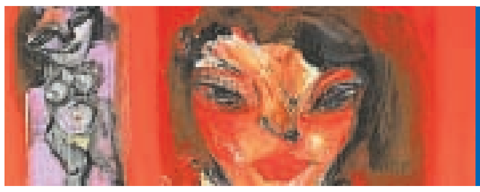

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THE WALL STREET JOURNAL.

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CEO cites BP's shortfalls in disaster preparations

By Guy Chazan

The head of London-based **BP** PLC said the company could have done more to prepare for a deepwater oil leak of the kind that has created the vast slick now threatening the Gulf of Mexico shoreline in the U.S.

BP Chief Executive Tony Hayward has come under mounting pressure over the spill, which began after a drilling rig BP was leasing, the Deepwater Horizon, caught fire and sank last month, killing 11 men. He said he didn't think his job was on the line over the disaster, but "that, of course, might change."

Since the accident, the well BP was drilling has been spewing about 5,000 barrels of oil a day into the sea. The statements came as BP was lowering a second dome toward the crippled rig with hopes of placing it over the leaking oil and funneling a substantial portion of it onto a tanker above. An earlier attempt to do this with a larger containment dome failed. The smaller dome is now on the seafloor, waiting to be moved over the leak.

The Obama administration says BP is responsible for the spill and will bear the cost of the cleanup. Some administration officials have slammed the company's response to the disaster as inadequate.

BP has been particularly vulnerable to criticism, because among the large oil

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Getty Images

BP CEO Tony Hayward leaves after a May 4 meeting with U.S. Sen. Bill Nelson on Capitol Hill to discuss the Gulf oil spill.

Inflation: the latest danger in Europe

By Neil Shah

Europe's nearly $1 trillion rescue plan seems to have quieted the government debt storm for the time being. But another problem may be brewing as Britain and the euro countries tackle their still unresolved fiscal problems: rising inflation rates.

Economists at Credit Suisse and Morgan Stanley are starting to worry about a harmful jump in inflation despite an absence of strong warning signals in Europe's financial markets. The concern is that Europe's top central bankers, European Central Bank President Jean-Claude Trichet and Bank of England Gov. Mervyn King, aren't taking as aggressive a stance against inflation as once believed. That view is putting pressure on the U.K. pound and the euro while helping to spark record demand for gold, historically a haven for investors worried that their cash will lose value.

The euro dropped Thursday to $1.2552 against the dollar, close to a 14-month low, despite the European Union's €750 billion ($947.09 billion) rescue package for troubled euro-zone countries. The U.K. pound is trading at $1.4631 compared with $1.61 at the start of the year, while the price of gold hit a record of $1,243.10 an ounce this week. Currencies with healthier profiles, including the

Please turn to page 9

Thai rebel leader is shot as clash escalates

By James Hookway

BANGKOK—A rogue general leading a militant group of opposition protesters was shot in the head Thursday night and a protester was killed as Thai forces began blockading an antigovernment encampment in Bangkok's main shopping district.

The government said it was extending a state of emergency, which already included Bangkok, to a total of 17 provinces. The move enables the army to help police suppress any protests in the provinces, and is geared toward preventing more protesters from descending on Bangkok, a government spokesman said.

Negotiations with protest leaders on the final elements of a government-led reconciliation plan broke down midweek, and Prime Minister Abhisit Vejjajiva confirmed Thursday that he had retracted his offer to hold early elections because protesters refused to disperse.

It wasn't clear who was responsible for the shooting of the commander, Maj. Gen. Khattiya Sawasdipol. Witnesses said he was talking to a foreign reporter near a main road outside the protesters' camp and in full view of army and police forces nearby at around 7:30 p.m.

At that time a series of explosions were heard from the area, along with at least one short burst of gunfire, at which time it appeared Gen. Khattiya was shot. The source of the blasts and shooting was unclear. Thai television stations reported that at least 20 people were injured in the blasts.

Gen. Khattiya was rushed to the hospital, where he remained unconscious Thursday night, said Petchpong Kumjornkijjakarn, the director of the government's Erawan medical crisis center.

Army and government officials couldn't be immediately be reached to comment. It seemed likely that full details of the shooting would remain uncertain at least until authorities spoke publicly about the event.

Sporadic lashes broke out elsewhere in Bangkok later on Thursday night, including one near the protester encampment in which hundreds of protesters threw rocks and firecrackers at a group of soldiers, and soldiers responded with gunfire, the Associated Press reported.

One protester was killed and at least three others were wounded, though their conditions weren't immediately known. Occasional explosions were heard late into the night, though their cause also was unclear.

The violence and movement of security forces repre-

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PAGE TWO

Spain is simply shifting the problem

[Agenda]

By Bill Jamieson

Another week, another destination crossed off the list for those earnest conferences on the threat of globalization so beloved of Europe's civil servants. Spain has now followed Ireland and Greece in announcing an austerity program.

It is designed to stave off a Greek-style crisis in the government-bond market. But is this an effective debt-reduction plan that will pass the investigation of the European Union's new fiscal inquisition, or gesture austerity?

The measures announced by Spanish Prime Minister José Luis Rodríguez Zapatero this week include a 5% cut in public-sector pay this year and a pay freeze next year, a shelving of index-linked pension rises, a cancellation of proposals for a €2,500 (about $3,150) "baby bonus" tax break, a cutting back of regional spending budgets, and a postponement of infrastructure projects. The headline-grabber was a 15% cut in the pay of cabinet ministers.

The package, following a phone call to the Spanish premier from U.S. President Barack Obama, is part of a program to cut the country's budget deficit to 6% of gross domestic product this year from 11.2% last year.

Persistent fears that Greece's problems may spread across the euro zone prompted a €750 billion European Union "shock and awe" package this week, underpinned by International Monetary Fund support. It was designed to rally international confidence in the sliding common currency and in euro-zone country bonds.

EU officials called on euro member governments to crack down on debt, demanding tighter oversight to keep the 16 countries that use the euro within tough deficit limits. The European Commission wants to see coordinated budget policies and finance ministers discussing budget plans with other EU countries before putting them to their own parliaments.

European Pressphoto Agency

Civil servants protest in Murcia, Spain, Thursday against government cuts.

Mike Shedlock of Global Economic Analysis says that "the problems are too much debt, too much government spending and a massively unbalanced global economy. None of these actions [taken by the ECB over the weekend] addresses any of the fundamental issues."

The latest proposals seem brutal for Spaniards. All told, they would save about €15 billion. With Spanish unemployment now running at 20% and the economy struggling to get out of recession, they threaten a big deflationary punch in an economy whose construction sector has been devastated and where hundreds of developments have already been canceled or put on ice. There were even fears that the country's biggest trade unions would call an immediate general strike, portending the riots and mayhem that engulfed Athens this month.

But Spain has a sizable informal economy linked to tourism. The government has been under fire from Mariano Rajoy, the opposition leader, for years of ostrich-like denial of budget problems. This also is the second "austerity budget" this year, the first one in January having had little evident effect. The pay cuts follow a pay rise for public-sector workers of 4% last year, and the size of the reductions pale before the 15% cuts suffered by Ireland's government workers. And Thursday, shares on the Madrid Stock Exchange sagged on fears that the package may be delayed.

As for concerns over social cohesion and the prospect of civil unrest, initial reactions don't bear out the worst forebodings. The leader of Spain's largest union has ruled out a general strike. Ignacio Fernández Toxo, secretary-general of Comisiones Obreras, declared on Thursday that a general strike "is the last thing this country needs at a time like this."

However, his union, together with sister organization Unión General de Trabajadores, plans to stage a one-day public-sector strike for June 2, despite three hours of talks with the prime minister on Thursday.

Will the new measures work? Markets are still apprehensive over developments in the euro zone. The problem is that the measures announced, however impressive in their size, do not on their own do anything to reduce the totality of debt weighing on euro-zone economies. Rather, they shift the burden from one area to another, as if the transfer of risk were the same as its reduction.

EU officials do recognize that to achieve any genuine reduction in market apprehension would require heavily indebted euro-zone governments to cut back on their spending, raise tax revenues, or strike some judicious combination of both. Hence the requirement to impose stiff schedules and oversight on the debt-reduction proposals of those countries requiring assistance.

It is against this backdrop that the Spanish budget-cutting has been announced, and it will be taken as a benchmark for other euro-zone countries with large budget deficits.

The questioning of its effectiveness isn't unreasonable given the lax tax and spending practices that have landed Greece and other "Club Med" countries in this mess to begin with. But the concern on the other side is that the squeeze on domestic demand will worsen the very problem the EU is seeking to address: It will weaken the tax base, increase the cost of social transfers and test the social cohesion of these countries to breaking point. The problem with euro-zone countries such as Spain is that they can't count on currency depreciation to boost their competitiveness, or on an accommodative policy stance by the European Central Bank, unless the emergency is so grave as to threaten the stability of the entire euro zone.

Stephen Lewis, an economist at London-based Monument Securities, says that "fiscal adjustment will shift the burden of insupportable debt back to the private sector and the banks. It will merely reverse the shift that occurred as a consequence of the 2008-09 fiscal stimulus."

"It is doubtful whether the banks are in much better condition to support the burden now than they were two years ago. The conditions for sustainable growth will only be restored after prolonged deleveraging, with final demand running below supply, in the debtor-countries," says Mr. Lewis, adding, "we have not cured the disease. Our choice has extended only to which symptoms to suppress."

That would seem an apt summary of the EU's response so far to the crisis it is in.

—Bill Jamieson is executive editor of the Scotsman.

What's News

■ **Portugal followed** in Spain's footsteps by announcing new austerity measures, including tax increases and salary cuts, to shore up investor confidence and avoid a Greece-style financial crisis. **9**

■ **New York state's** attorney general subpoenaed eight banks in an investigation into whether misrepresentations were made about some mortgage-backed securities. **17**

■ **Prudential is forging** ahead with a planned $20.7 billion rights issue to buy Asian insurer AIA and is likely to publish the terms of the offer within days. **21**

■ **SAP's deal to buy Sybase** for $5.8 billion reflects a tech-industry strategy of giving salespeople a wider range of products to pitch. **19**

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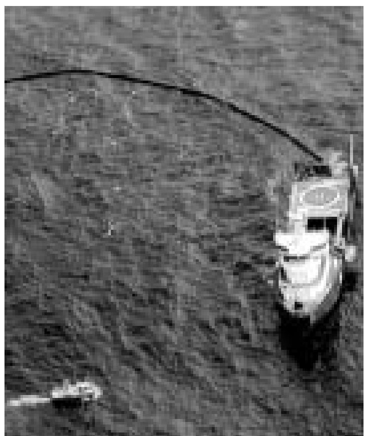
Robert Armstrong on Nokia's not bringing innovative items to the market

Continuing coverage



Follow the latest as BP and others deal with the fallout from the Gulf rig blast at **europe.wsj.com**

Question of the day

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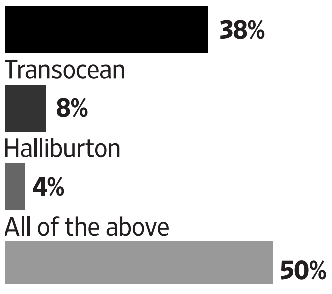

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NEWS

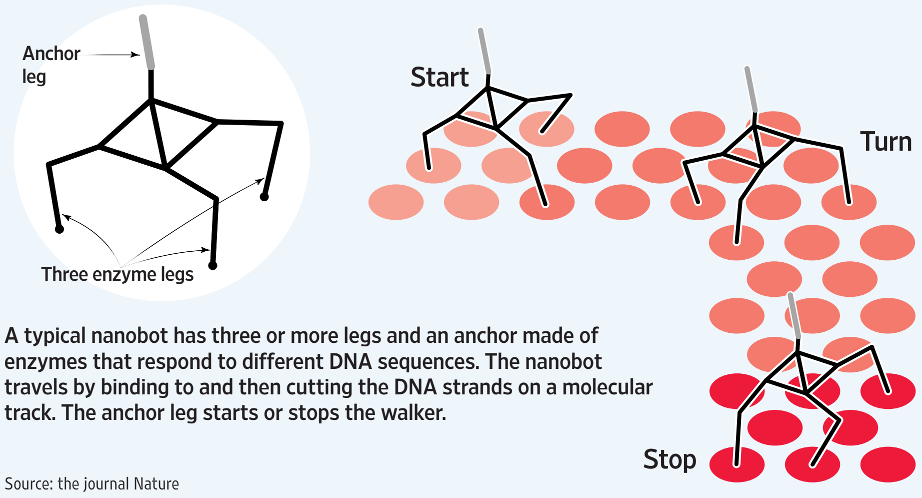
A step closer to test-tube factories

Tiny robots made of DNA can walk, pivot, work with microscopic forklifts; cruising the human bloodstream

By Robert Lee Hotz

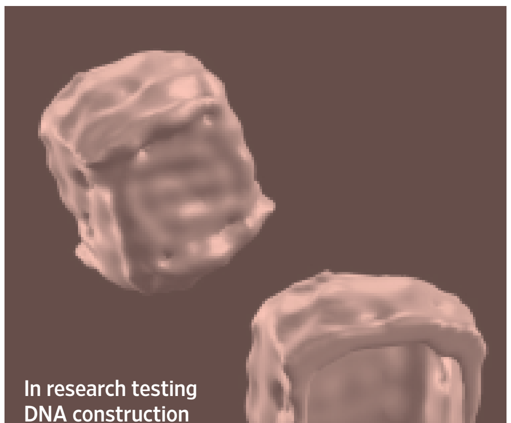
Nanobots

Researchers have created an atomic-scale assembly line where DNA robots—1/100,000th the diameter of a human hair—can make eight rudimentary products.



A typical nanobot has three or more legs and an anchor made of enzymes that respond to different DNA sequences. The nanobot travels by binding to and then cutting the DNA strands on a molecular track. The anchor leg starts or stops the walker.

Source: the journal Nature



In research testing DNA construction methods, Danish scientists last year folded six sheets of DNA into a molecular cube that can be opened, closed and locked with a DNA key.

Ebbe Sloth Andersen, Nature

For the first time, microscopic robots made from DNA molecules can walk, follow instructions and work together to assemble simple products on an atomic-scale assembly line, mimicking the machinery of living cells, two independent research teams announced Wednesday.

These experimental devices, described in the journal Nature, are advances in DNA nanotechnology, in which bioengineers are using the molecules of the genetic code as nuts, bolts, girders and other building materials, on a scale measured in billionths of a meter. The effort, which combines synthetic chemistry, enzymology, structural nanotechnology and computer science, takes advantage of the unique physical properties of DNA molecules to assemble shapes according to predictable chemical rules.

Until now, such experiments had yielded molecular novelties, from smiley faces so small that a billion can fit in a teaspoon to molecule-size boxes with lids that can be opened, closed and locked with a DNA key.

These new construction projects bring researchers a step closer to a time when, at least in theory, scientists might be able to build test-tube factories that churn out self-assembling computers, rare chemical compounds or autonomous medical robots able to cruise the human bloodstream.

In one of the projects, a pioneering research group based at New York University built the prototype of a molecular factory in which mobile DNA robots assembled gold particles in eight different ways, in response to chemical commands. The second team, led by a biochemist at Columbia University, programmed a DNA robot that could start, stop, turn and move.

"Here we can see some glimmers of things to come," said Harvard University biophysicist William Shih, who was not involved in the projects. "This is exciting."

The DNA work is a small part of an almost $9 billion research-and-development effort world-wide, according to the private Project on Emerging Nanotechnologies, which tracks environmental and health concerns arising from the new technology. So far, new nano-materials have been incorporated in hundreds of electronic, cosmetic, automotive and medical products made by 485 companies in 24 countries. But none involve these exotic man-made DNA objects.

Both research groups tinkered with creations called DNA walkers—mobile DNA molecules, about one-100,000th the diameter of a human hair, that have three or more legs made of a string of genetic enzymes. Each leg moves forward based on its chemical attraction to sequences of biochemicals laid down, like stepping stones, in front of it.

These robots are so small that the researchers program their actions by encoding commands in the world around them. They follow chemical cues programmed into the ground on which they walk.

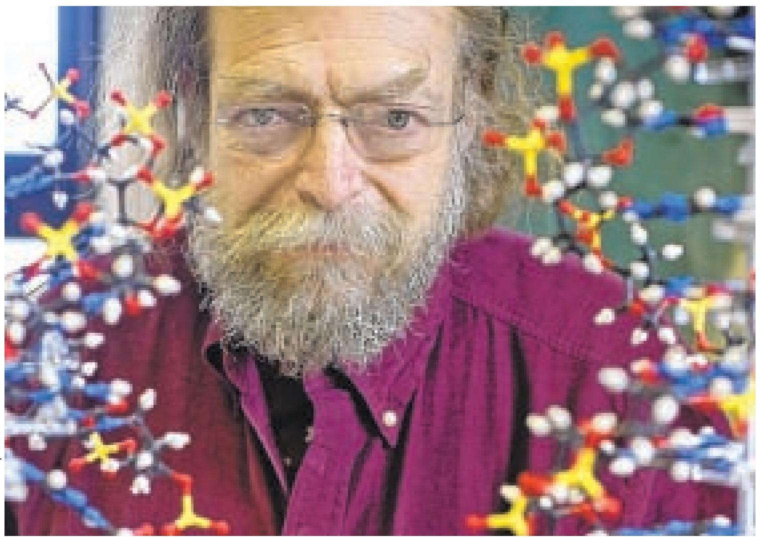
In the first project, a team of scientists led by biochemist Milan Stojanovic at Columbia built a molecular robot that moved on its own along a track of chemical instructions—the DNA equivalent of the punched paper tape used to control automated machine tools.

Once programmed, the robot required no further human intervention, the researchers reported. It could turn, move in a straight line or follow a complex curve and then stop, all essentially on its own initiative. They documented its progress with an atomic force microscope as it strode along a path 100 nanometers long, about 30 times farther than earlier DNA walkers could manage.

"In the future, this could be used as a molecular machine that could bind to a cell surface, maybe carry a cargo and release something," said biochemist Hao Yan at the Biodesign Institute at Arizona State University, one of 12 researchers at four universities involved in the project.

At New York University, scientists led by chemist Nadrian Seeman took that idea a step further. They combined a programmable DNA track and a squad of mobile robotic walkers with a set of independently controlled molecular forklifts that can deliver parts on command. The result was a functioning nanofactory, the researchers reported.

"An industrial assembly line includes a factory, workers and a conveyor system," said Dr. Seeman. "We have emulated each of those features using DNA components."



Ann Hermes/The Christian Science Monitor

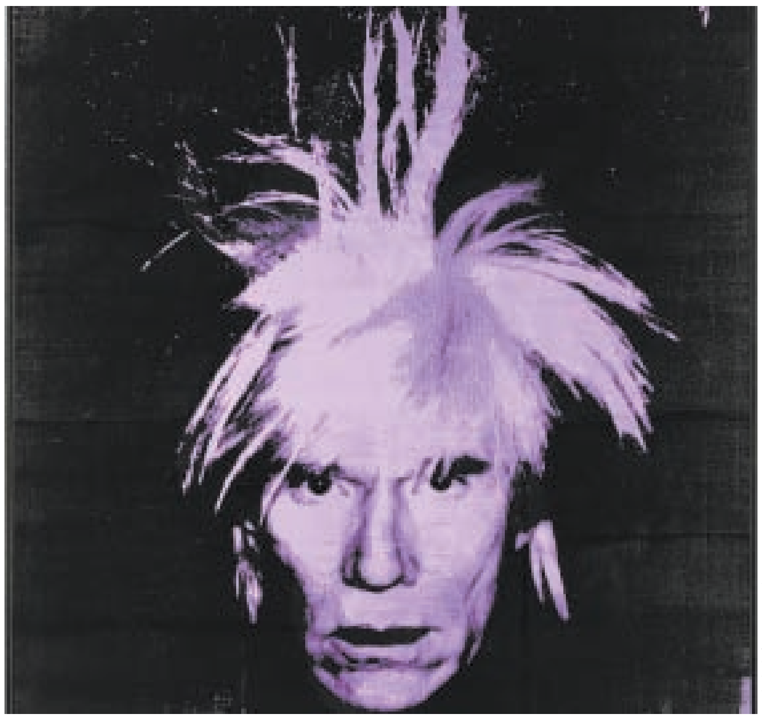
New York University nanorobotics team leader Professor Nadrian Seeman at work in his laboratory at the Department of Chemistry.

By triggering different DNA sequences, the researchers could order up to eight different combinations in their experimental product line.

"It is very significant," said California Institute of Technology bioengineer Paul Rothemund, who was not involved in either project. "This is the kind of thing that happens in living cells all the time."

Biochemist Lloyd Smith at the University of Wisconsin in Madison cautioned that it may be a decade or more before DNA nanotechnology leads to any useful applications.

"This is a field to watch," Dr. Smith said. "But this is still fundamental research to find out what ability mankind has to make molecules that can do its bidding."



Sotheby's/Associated Press

'Self Portrait' by Andy Warhol, a wall-sized painting, shown during a press preview April 30 at Sotheby's New York auction rooms.

$32.5 million for Warhol

By Kelly Crow

A wall-size Andy Warhol painting titled "Self Portrait" sold for $32.5 million at Sotheby's in New York late Wednesday, asserting the Pop artist's dominance over the recovering contemporary-art market.

Mr. Warhol is best known for his 1960s-era depictions of soup cans and car crashes, but collectors competed hard for this late-era, 1986 work colored in purple and glittery black. The piece, which came from the collection of designer Tom Ford, sold to an unknown telephone bidder for more than twice its high estimate. A 1964 Warhol, "Four Flowers," also sold, for $7.6 million.

Sotheby's $190 million sale also got a boost from another contemporary classic, Mark Rothko. The artist's untitled red abstract from 1961 sold for $31.4 million, also to a telephone bidder. The work was priced to sell for up to $25 million. Elsewhere in the sale, "Cold Mountain (Path)," Brice Marden's squiggly abstract, sold for $9.6 million, just under its $10 million low estimate.

The atmosphere in the Manhattan salesroom was more measured than giddy, with collectors like Belgian real-estate developer Mark Vanmoerkerke and fashion designer Valentino placing early bids and then bowing out of the competition for artworks by Donald Judd and Cecily Brown, respectively. Greek shipping heir Stavros Niarchos, sitting with dealer Larry Gagosian, watched but never raised a paddle.

Citi Private Bank art adviser Jonathan Binstock, who paid $4 million for Ellsworth Kelly's "Untitled (Totem)," said collectors are feeling confident again but only want to stretch when the work is deemed "special."

A handful of relatively younger works by sculptors fared surprisingly well. Sotheby's got a record $7.9 million for an untitled Maurizio Cattalan piece that portrays a waxy version of the artist's head peeking impishly out of a two-foot-wide hole that will need to be cut (presumably) into its owner's floor. The winning bid for the work, which was priced to sell for up to $4 million, was fielded by a Sotheby's specialist who often represents collectors from Los Angeles.

Sculptor Juan Munoz's six roly-poly bronze figures, "Conversation Piece III," also sparked a dogged two-way bidding war, with a telephone bidder getting it for a record $4.8 million, above its $3.5 million high estimate. Artist records were also broken for Richard Tuttle and Richard Serra. Only three of the sale's 53 works failed to find buyers, helping the sale achieve a successful 97.6% of its potential total value.

NEWS

Transocean pushes to limit liability

By Mark Long
And Angel Gonzalez

Getty Images

Crab fisherman Michael Bailleaux in Belle Amie, La., said he was taking it one day at a time as efforts continued to contain the massive oil spill off the coast.

Transocean Ltd., the owner and operator of the Deepwater Horizon drilling rig that burned and sank last month, unleashing a massive oil leak into the Gulf of Mexico, filed in federal court a petition to limit its liability to just under $27 million.

The world's biggest offshore driller filed the request in the U.S. District Court in Houston under a century-and-a-half-old law that allowed the Titanic's owners to limit their liability following that ship's 1912 sinking. While the company may not succeed in limiting its financial liability, the filing could give Transocean an edge in what could be a lengthy, multipronged legal battle against claims for damages from the accident that killed 11 workers.

"One of the primary goals of this filing is to consolidate in a single court many of the lawsuits that have been filed...to initiate an orderly process for these lawsuits and claims before a single, impartial federal judge," Transocean said in a prepared statement. The company added it is taking this action at the instruction of its insurers to preserve coverage.

The case has been assigned to Southern District of Texas Judge Keith Ellison, who was nominated for the post in 1999 by President Bill Clinton.

More than 100 lawsuits have already been filed against the drilling contractor and the other involved companies in state and federal courts. **BP** PLC was leasing the rig from Transocean and is responsible for the costs of cleaning up the massive oil leak sprung by the accident that is threatening the environment and economy of the Gulf shore, according to government officials.

Representatives from BP, Transocean and **Halliburton** Co., which supplied components used in the drilling process, came under fire from lawmakers in congressional hearings this week, during which representatives from each company attempted to stave off blame for the disaster. It is unclear what the ultimate cost of the spill will be for each of these companies.

The accident and subsequent oil spill "were not caused or contributed to, done, occasioned and/or incurred by any fault, negligence, unseaworthiness, or lack of due care on the part of the petitioners, or anyone for whom petitioners are or at any material time were responsible," Transocean's filing says.

Under the Limitation of Liability Act of 1851, a vessel owner is liable only for the post-accident value of the vessel and cargo, so long as the owner can show he or she had no knowledge of negligence in the accident, maritime lawyers say. The law was created in the days before modern insurance and communications technology, to help U.S. shipping businesses compete against foreign ship owners who were protected against claims.

Drilling rigs count as vessels under U.S. maritime law, and since "the remains of the...Deepwater Horizon now lay sunken" in the federal waters of the Gulf of Mexico, the value of the rig and its cargo comes to no more than $26,764,083, Transocean claims in the filing. Before the accident, the rig was worth around $650 million.

Maritime lawyers said the act very rarely helps companies limit liability. However, it can allow a defendant to gain some control over the legal process, since a judge could place a stay on all pending litigation, which would then have to be refiled in the federal court where the limitation of liability was sought. Vessel owners routinely seek protection under the act following sea accidents, lawyers said.

"They get to fix the venue and they get to slow everything down," said Kurt Arnold of Houston-based law firm Arnold & Itkin, who is representing several survivors of the accident. Mr. Arnold added that the measure forces the large number of plaintiff lawyers to coordinate among themselves in order to obtain depositions from the defendants, making the process more cumbersome.

Transocean, based in Zug, Switzerland, also said it contests any liability arising from claims filed under the Oil Pollution Act of 1990, enacted after 1989's Exxon Valdez spill in Alaska, for damages from the oil emanating from the sea floor. Under the Oil Pollution Act and the British company's contract with Transocean, oil-field owner BP is responsible for paying clean-up costs, and executives of the London-based company have said they would foot the bill and honor legitimate damage claims.

"We expect that BP will honor that contract," Transocean Chief Executive Steven Newman said last week.

Hayward cites shortfalls in BP's disaster plans

Continued from first page

companies it is by far the biggest player in deepwater oil exploration. Some in the industry have said a company with such a strong focus on deepwater drilling should have had much better contingency plans for dealing with a subsea oil leak at this depth.

Mr. Hayward, in an interview with a small group of journalists Wednesday night, admitted the U.K.-based oil giant hadn't had the technology available to stop the leak, and said in hindsight it was "probably true" that BP should have done more to prepare for an emergency of this kind.

"It's clear that we will find things we can do differently, capability that we could have available to deploy instantly, rather than be creating it as we go," he told a group of reporters in Houston.

BP has created a huge incident command center at its offices in Houston to guide the response to the Deepwater Horizon disaster, mobilizing 500 people from 160 companies across the oil industry. In one room, engineers operate subsea robots to perform tasks on the failed shut-off valve, which stands on the seabed about 1.6 kilometers deep. They track the robots' progress in real time by video.

BP via Reuters

A containment dome is placed over a leak at the seafloor. The effort failed.

Mr. Hayward was speaking after two days of hearings in Congress in which BP, **Transocean** Ltd., the Swiss-based company that owned and operated Deepwater Horizon, and **Halliburton** Co., which was carrying out services for BP on the rig such as cementing the well, blamed each other for the disaster.

U.S. lawmakers criticized BP after testimony released by congressional investigators showed company managers decided to press ahead with finishing work on the Deepwater Horizon well despite some tests suggesting that highly combustible gas may have seeped into it. Mr. Hayward declined to comment on the testimony, saying it was too early to speculate on the causes of the incident.

An effort by a few Senate Democrats to raise the cap on damage claims that BP must pay for the oil spill was blocked on Thursday after Republicans said the plan wouldn't work.

Sen. Lisa Murkowski (R., Alaska) led the charge against the measure, aimed at raising to $10 billion the limit on damage claims. The current limit, $75 million, has been widely criticized by lawmakers as too low. Republicans argued that independent offshore oil developers wouldn't be able to stay in business under the legislation because small companies wouldn't be able to self-insure against claims.

BP has mobilized a huge emergency response to try to stop the well leaking oil, so far in vain. It initially deployed subsea robots to try and activate a shut-off valve, and after that effort failed, tried lowering a specially constructed 100-ton containment dome onto the leak. But it became clogged up with crystallized gas that rendered it useless. BP is now trying its luck with a smaller dome.

It is also planning to block the failed shut-off valve by pumping material such as rubber tires, pieces of rope and golf balls into it. A similar "top kill" operation was used to shut off oil wells set on fire by withdrawing Iraqi forces in Kuwait after the first Gulf War.

While acknowledging BP's subsea operation had so far failed, Mr. Hayward defended BP's efforts to contain the spill on the sea's surface and prevent it reaching the shore.

But he admitted the company had made some "missteps" early on in its attempts to compensate people affected by the spill. For example, BP angered some locals by handing out contracts to damage claimants that barred them from making any future claims.

—Siobhan Hughes contributed to this article.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EUROPE NEWS

U.K. ministers agree to 5% pay cut

New coalition government says move will save taxpayers more than $444,800 a year

Associated Press

Britain's first coalition government in seven decades held its inaugural meeting Thursday, as members of once-rival parties sat around the cabinet table together—and signaled their seriousness about deficit-slashing by agreeing to an immediate pay cut.

Conservative Prime Minister David Cameron presided over the gathering, sitting across from his deputy, Liberal Democrat leader Nick Clegg.

There are 18 Conservative ministers and five Lib Dems in the new cabinet. The two parties forged a coalition government—Britain's first since World War II—after last week's national election produced a hung Parliament, in which no party has an overall majority. The Tories won 306 of the 650 House of Commons seats, the Labour Party 258 and the Lib Dems 57.

Mr. Cameron filled out his government team Thursday with a slew of junior ministerial appointments and visited key government departments to speak to civil servants.


Reuters
Britain's new cabinet poses for a group picture in the garden of number 10 Downing St. after its first meeting in London on Thursday.

"The more I think about this endeavor on which we have embarked, the more excited I become," Mr. Cameron told staff at the Department for Business, Innovation and Skills. "Because this coalition government, if we can make it work—and I believe we can—is a five-year government."

One of the first acts of the new cabinet, which has said cutting the deficit is its top priority, was agreeing to take a 5% pay cut and subsequent five-year salary freeze that the government says will save taxpayers £300,000 ($444,800) a year. The move leaves the prime minister's annual salary at £142,000, plus £65,000 for sitting as a lawmaker. Other ministers get slightly less.

Most of the new ministers emerged from Thursday morning's meeting in 10 Downing St. smiling.

"It went very well," said Education Secretary Michael Gove. "I was delighted by the sense of partnership and common purpose."

"It's like we'd been working together for years," Work and Pensions Secretary Iain Duncan Smith said.

The right-of-center Conservatives and the center-left Lib Dems have hammered out a policy agreement with compromises on both sides. The third-place Lib Dems get moves toward the electoral reform they have long cherished, while the Tories retain key platform planks including an annual cap on immigration and cuts to public spending to reduce Britain's ballooning deficit. Mr. Duncan Smith said the government's main task was "to get the economy back on track."

Messrs. Cameron and Clegg have also pledged sweeping reforms to Parliament, civil liberties laws and ties to Europe.

The Labour Party, relegated to opposition after 13 years in power, is now facing a leadership contest following the resignation of former Prime Minister Gordon Brown. So far only former Foreign Secretary David Miliband has announced his candidacy, but others are expected to follow—including, perhaps, Mr. Miliband's younger brother Ed.

Mr. Brown, meanwhile, confirmed Thursday that he will continue to sit in Parliament as a backbench Labour lawmaker. His predecessor, Tony Blair, quit the House of Commons when he stepped down as prime minister in 2007.

Visiting a college in his Scottish home town of Kirkcaldy, Mr. Brown said he hoped to remain in Parliament "for these next few months and years."

"I may have given up one job, but the job that I love in politics is to be your member of Parliament, and I hope we'll be able to work together," he said.

New government comes from the old school

BY ALISTAIR MACDONALD

LONDON—For many years, James Fergusson hid a secret: He was educated at Eton College, the elite private school for boys he attended with Britain's new prime minister, David Cameron, in the early 1980s.

Like many Etonians of his generation, Mr. Fergusson, a freelance journalist and novelist, had grown self-conscious about his status as a man of status. In modern Britain, it had become uncool to be posh, as private schools lost their grip on the country's top jobs and cultural tastemakers sneered at privilege. Mr. Fergusson sometimes dropped Eton from his résumé and sought to tone down his upper-crust pronunciation.

Among old boys, as the private-school alumni are known, "there was an assumption that the days of Etonians in high office were over," Mr. Fergusson said. "And then bang, along comes David Cameron."

This week, the old boys are back in town. Mr. Cameron on Tuesday became the 19th British prime minister to have been educated by the famous boarding school west of London near Windsor—but the first since the mid-1960s.

In Britain's new coalition government—run by Mr. Cameron's Tories and Deputy Prime Minister Nick Clegg's Liberal Democrats—old school ties are everywhere. Two members attending Mr. Cameron's cabinet—Sir George Young and Oliver Letwin—and two senior members of his back-office staff are also Etonians.

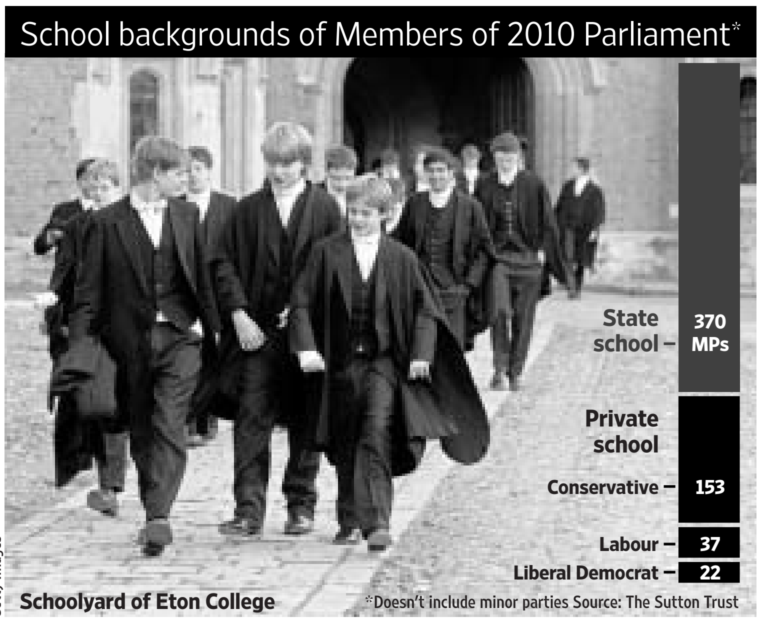
Meanwhile, Mr. Cameron's right-hand man, new Treasury chief George Osborne attended St. Paul's School. Mr. Clegg and environment minister Chris Huhne, from the Liberal Democrat party, were educated at Westminster School.

The shift reflects the fact that officials elected under the Tory and Lib Dem banners are much more likely to come from privileged educational backgrounds than those from the traditionally working-class Labour Party, which just ended a 13-year run in power.

In all, 67% of the country's new cabinet went to private schools—up from the 36% of the outgoing Labour cabinet, according to research by the Sutton Trust, a charity that provides educational opportunities for students from low-income families.

In the newly elected Parliament, 35% of members attended private schools, compared with 7% in the country at large; that is up from 32% in the 2005 Parliament, a reflection of resurgent Tory representation. The new Parliament includes 20 Etonians—up from 15 in 2005.

After their private prep schools, top officials in the new government moved on, en masse, to the country's best universities. Sutton Trust says nearly three-quarters of the cabinet, including Messrs. Clegg and



Getty Images
Schoolyard of Eton College
*Doesn't include minor parties Source: The Sutton Trust

Cameron, went to Britain's top universities—Oxford and Cambridge, long seen as the incubators of Britain's rulers. Oxford has a special stranglehold on the top job: Of U.K. prime ministers since 1940 who attended university, only one—Gordon Brown—didn't go to Oxford.

Of course, privately educated politicians didn't disappear from British cabinets after the U.K.'s previous Etonian prime minister, Alec Douglas-Home, left Downing Street in 1964. Former Labour leader Tony Blair was educated at top Scottish school Fettes, for example.

But the Eton class has, to some degree, been in hiding in recent years. When Douglas Hurd attempted to follow state-school-educated Margaret Thatcher as leader of the Tories and prime minister in 1990, many believe he failed because of media attention to his Etonian background.

"I should have on the first day or so slapped it down and said this is not what the election is about, but I didn't do that," Lord Hurd said. Instead, he tried to establish everyman credentials and "waffled on" about how his father once worked on a farm. State-school-educated John Major won.

Little was made of Mr. Cameron's education in the national election.

"Class consciousness is becoming weaker, it doesn't seem to be a significant social identifier in the way it used to be," said Anthony Heath, a professor of sociology at Oxford University. This is particularly so in the young and Britain's increasingly large ethnic population, he said.

Still, Eton has held a particular mystique in British politics and culture.

Not everybody is enamored. Etonians "as a ruling elite are utterly inbred as they prize each other above ordinary mortals, and don't know the worries and needs of those subordinate citizens who didn't go to Eton," said Denis MacShane, a Labour MP.

Mr. Cameron has sometimes attempted to deflect the implications of his background. He once declared his affection for "Eton Rifles," a song about class warfare by the seminal 1970s British mod band the Jam that asks, "What chance have you got against a tie and a crest?" In response to Mr. Cameron's comments, former Jam leader Paul Weller in March 2008 was quoted in the Guardian newspaper asking: "Which bit didn't he get?"

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Bloomberg News

Buskers dressed as Roman Centurions wait for tourists outside the Colosseum in Rome earlier this year.

Italy's debt fuels worries

Rome faces obstacles to whittling obligations weighing on economy

By Stacy Meichtry

ROME—Europe's nearly trillion-dollar rescue fund has eased the economic pressure on nations at the euro-zone's periphery, but a deeper problem is making it difficult for those countries to escape their huge debts—a lack of growth. The problem is a particular concern for Italy, Europe's most heavily indebted country.

The European Union's €750 billion bailout plan, which comes on the heels of a €110 billion package for Greece, took shape last weekend amid concerns that Athens's fiscal crisis was fueling fears about the debt of other weak euro-zone members such as Portugal and Spain.

So far, markets have deemed Italy less risky than other Southern European nations despite a public debt equivalent to 115% of gross domestic product—about the same as Greece. On Thursday Italy had to pay almost one percentage point more than Germany to borrow, about the same as Spain, and lower than Greece's spread of 4.65 percentage points.

But the stakes in a potential Italian debt crisis are much larger. Italy's outstanding public debt is €1.7 trillion, seven times the size of Greece's.

Italy "is a big systemic piece," said François Chauchat, an economist with **GaveKal**, the Stockholm-based economic advisory. "If Italy cannot refinance its debt than it's the end of the euro."

In terms of its annual budget, Italy is relatively healthy, with a deficit equivalent to 5.3% of GDP in 2009—below the European average of 6.3% and Greece's 13.6%. Italy is a "picture of health" compared with other "Club Med economies," said Ben May, an economist the London-based consultancy Capital Economics.

But the country's outstanding debt is harder to reduce, and will likely weigh on the economy over the longer term. Tax revenue is stagnant due to low growth, as manufacturers leave Northern Italy for lower-cost labor markets in China and Eastern Europe. In the past decade, Italian GDP has increased at a meager annual average of 0.54%, and the Treasury forecasts just a 1% rise in 2010 after a 5.1% drop in 2009. Attempts to raise revenue through tax increases have been undermined by widespread evasion.

At the same time, Prime Minister Silvio Berlusconi faces pressure from inside his governing coalition to maintain state aid to Italy's poorer south, which is heavily dependent on public-sector jobs.

As a result, Italy is going deeper into debt: This year, public debt as a percentage of GDP is forecast to rise three percentage points to 118%. The problem will come when growth in tax revenue can't keep up with the cost of debt service.

"If the interest you're paying on debt is higher than the rate of growth, you end up in a death trap, where you're adding to the debt all the time," says Gabriel Stein, an economist with Lombard Street Research, a London-based economic advisory. "I don't know if Italy is in a death trap right now."

Concerns over Italian debt have made investors nervous. A €9.5 billion bond offer in April drew just €9.78 billion in bids—instead of being far more oversubscribed as earlier ones were. A shortfall of bids would move the Treasury to lower its minimum asking price, meaning Italy would have to pay more interest to borrow. However, demand has bounced back recently. A €5 billion auction Thursday of five- and 15-year bonds drew bids more than 1.3 times the offer on the five-year issue and more than 1.7 times on the 15-year.

The Italian government says that its debt financing is helped by robust Italian households and businesses. Italian households—which hold about a quarter of the country's bonds—had financial liabilities equivalent to just 53% of GDP in 2008, compared with 60% in Greece and 61% in Germany, according to the EU statistics agency, Eurostat. That is helped by a relatively high savings rate, of 15% of income after taxes for Italian households in 2008, compared with 17% in Germany and minus-1.4% in Greece.

Limping back

Slow growth and rising unemployment are hobbling Italy's efforts to regain its economic footing.

Note: These 2010 forecasts don't reflect the billions in loans Italy is expected to provide to Greece and other troubled euro-zone countries under the EU bailout plan.
Source: Italian Treasury

Amid Europe's challenges, citizens face lifestyle shifts

[Brussels Beat]

By Stephen Fidler

The €750 billion ($947 billion) bailout package assembled over the weekend shows European leaders finally woke up to the threats posed to the euro zone by the gathering flight of capital from the region's government-bond markets.

But the future of the euro zone depends on what governments do with this time, analysts, historians and policy makers say. Because, if they think the crisis is over, they haven't understood what is going on.

So profound is the challenge, they say, that it is likely shake to its foundations Western Europe's expensive social model—the system of state support helping citizen from cradle to grave of which its politicians love to boast.

Europe's sovereign-debt problems have shown that government debts and deficits are at unsustainable levels.

Government spending will have to be cut, inevitably pushing down public employment and welfare payments. While governments cut spending, the multiplier effect through the economy will mean growth will suffer.

That requires governments to find other ways to spur growth by reforming the structural side of their economies: pushing work forces to be more competitive and cutting the real cost of labor; making it easier for private enterprises to hire, fire, and invest; curbing national monopolies and opening economies to competition.

Even if governments are starting to deal with their budget issues, they haven't begun to embark on the structural reforms.

While the analysis of the issues is widely shared, the consequences on the comfortable lifestyles of the majority of Western Europeans haven't been examined.

"The real problem is that Europeans are not ready for the reforms they need, and politicians have not clearly explained the severity of the situation to their citizens. Europeans must realize that, unless Europe moves forward with the necessary and deeply unpopular reforms still required, the newly available money will do little to save them," argue Uri Dadush and Moises Naim, former senior World Bank officials now with the Carnegie Endowment in Washington.

At a conference organized in Brussels this week by the World Economic Forum, best known for its annual events at Davos, Switzerland, some participants were critical of what they saw as a lack of leadership, namely politicians not preparing populations for hard times ahead.

Herman Van Rompuy, president of the European Union, told the conference that Europe can't afford its social system, which he said was a model for the rest of the world, without economic growth. It would "require sacrifices. But, if we focus on the longer term, we will have the support of our citizens," he said.

But to some in attendance this sort of talk seemed to exemplify the problem. "We can't continue in the old rhetoric of simply saying we must defend our European social model [with] a bit more growth and working harder and better," said Timothy Garton Ash, professor of European Studies at the University of Oxford. "It is totally inadequate to the crisis we face."

"We have to totally redesign the social model and the social market economy," he said. "What we need is not the emollient social rhetoric but the language of blood, sweat and tears."

Vincent Van Quickenborne, Belgium's minister of economy and reform who describes himself as "a free-market liberal" who's proud of the country's social model, said: "Either we go to a future of being a footnote of the U.S. ... or [we] become a world player with more growth; 1% or 1.5% growth is not enough to pay for old Europe's welfare system. ... It is either reform or decline."

So profound is the challenge, historians and analysts say, that it will likely shake Western Europe's social model to its foundations.

He said 52-year-old workers laid off by the closure this year of **General Motors** Co.'s plant in Antwerp, Belgium, were retiring. "It's unaffordable," he said.

Many of the people making these arguments are doing so not from an ideological standpoint, but from a practical one. Their worries are compounded by Europe's aging populations. The current generation as it stands is already heaping debt burdens on its children; and then as it retires, it will have to be sustained by a shrinking work force.

Indeed, the difference between the optimists and pessimists isn't over whether the next few years are going to be tough for Europe. They will be. It is whether the Continent's governments will follow through the crisis with economic changes that will challenge trade unions, national monopolies and other articulate and powerful interest groups.

Charles Grant, with the Centre for European Reform, a pro-EU think tank based in London, told the conference that Europe faces "five years of ghastly crisis of blaming each other and a lack of solidarity. ... It's going to be brutal and nasty and it will force through harsh, harsh reforms. In 10 years, we will be seeing the benefits of that."

Because he sees a positive outcome—eventually—Mr. Grant defines himself as an optimist. But that doesn't sound very optimistic, and there are plenty of pessimists out there.

EUROPE NEWS

Portugal to cut wages, raise taxes

By Jeffrey T. Lewis
And Jonathan House

LISBON—Portugal on Thursday followed in Spain's footsteps by announcing new austerity measures to shore up investor confidence and avoid a Greece-style financial crisis.

Just days after European Union leaders put together a giant euro-zone financial backstop that was designed in part to ease investor concern about their debts, Portugal and Spain delivered on commitments to accelerate deficit reduction efforts.

"These additional measures are fundamental to defend Portugal and our economy, and to reinforce our credibility in international markets," Portuguese Prime Minister Jose Socrates told journalists after a weekly cabinet meeting.

Government ministers and other top state employees will have their salaries reduced by 5%.

The socialist prime minister said he agreed on the measures with Pedro Passos Coelho, leader of the country's biggest opposition party, the Social Democratic Party.

The government approved a value-added tax increase of one percentage point across all categories, to 6% for necessities, 13% for restaurants and to 21% for most other goods and services. Companies with profits of more than €2 million ($3.6 million) will pay an extra 2.5% tax on their profits.

Government ministers and other top state employees will have their salaries reduced by 5% starting this year. All the new measures will last until the end of 2011.

Mr. Socrates said the government has accelerated its planned deficit cuts to 7.3% of GDP for this year and 4.6% of GDP next year, from previous goals of 8.3% of GDP in 2010 and 6.6% of GDP in 2011. Portugal had a budget deficit equal to 9.4% of gross domestic product in 2009.

Citigroup economist Giada Giani estimates the new deficit-cutting measures, plus existing measures included in the country's 2010 budget, amount to around 3% of GDP this year. "The overall fiscal effort is now quite large," she said.

Portugal's measures differ from the Spanish plan in that they're skewed towards raising taxes while its neighbor focused more on spending cuts. On Wednesday, Spain's socialist Prime Minister, José Luis Rodríguez Zapatero, said his government will save €15 billion over two years by cutting public-sector wages by 5% this year and freezing them next year. Also next year, pensions will be frozen and what is known as the baby check, a €2,500 payment to families for every newborn child, will be eliminated. He said public investment will be cut by €6 billion during this year and next.

The Spanish measures went some way toward easing investor concerns that had started to creep back into the euro-zone's financial markets despite this past weekend's agreement by EU leaders and the International Monetary Fund to create a €750 billion backstop for countries such as Spain and Portugal.

Meanwhile, data showed Thursday that Greek unemployment rose to 12.1% in February from 11.3% in January and economists warned it will continue rising as new austerity measures start to bite.

In February 2009 unemployment had stood at 9.1%. "The momentum revealed in this reading is troubling and while we have forecast an average unemployment rate for the year of 11.7%, we are likely to now revise it higher to above 12%," said Nick Magginas, senior economist at the National Bank of Greece.

In a report issued on May 5, the International Monetary Fund said it expects unemployment to climb to 14.6% this year, before peaking at 14.8% in 2012. The European Commission, the European Union's executive arm. has predicted that Greek unemployment will rise to 11.8% this year from 9.5% in 2009, with a further rise in 2011 to 13.2%.

—Christopher Bjork and Nick Skrekas contributed to this article

Bloomberg News

Fernando Teixeira dos Santos, Portugal's finance minister, arrives at the emergency meeting of European Union finance ministers in Brussels, Belgium, on Sunday, May 9, 2010.

Economists see inflation posing new dangers

Continued from first page

Swiss franc, the Norwegian krone and Swedish krona, are also enjoying gold-like interest, with the franc hitting records against the euro Thursday.

In addition to undermining confidence in currencies, a sudden jump in inflation could frighten the market by eroding the value of investments, such as bonds, that pay fixed interest rates. That, in turn, could make investors demand higher yields when making loans to governments at a time when a mountain of European public debt needs refinancing and worries about possible defaults have surged.

Economic growth in Britain and the euro zone remains sluggish, which means the danger of consumer prices rising out of control probably isn't policy makers' biggest concern. And higher inflation might not be so unwelcome among policy makers since it can make existing debts easier to pay off. But some economists are still starting to fret given recent "dovish"—or inflation-friendly—moves by European central bankers.

The European Central Bank's decision Monday to support Europe's troubled bond markets by buying the government debt of some weaker economies—just days after saying the notion hadn't even been discussed—stunned observers long accustomed to the central bank's hard-nosed, anti-inflation stance.

While central bankers in the U.S. and Britain have been printing money and buying bonds to support their hard-hit economies, the ECB has until now resisted such moves. The recent about-face has worried economists and sparked a rare note of dissent from Axel Weber, president of Germany's central bank and a prime candidate to become the European bank's next president.

While the ECB isn't printing money—it is raising cash from elsewhere for bond purchases, thereby not affecting overall money supply—some fear it is just a matter of time before the central bank does so. Such fears may be unusually pronounced given Germany's experience of hyperinflation in the early 1920s, an episode seared into the minds of German central bankers such as Mr. Weber.

"The sovereign crisis has pushed the ECB into flooding the system with even more liquidity," Morgan Stanley economist Joachim Fels wrote in a note this week. "Global excess liquidity should grow by even more, lifting the prices of commodities and other risky assets and adding to global inflation pressures."

U.K. trade deficit grew in March

By Natasha Brereton
And Paul Hannon

LONDON—Britain's trade deficit widened more than expected in March, as total imports outpaced exports, suggesting that the weaker pound is failing to provide a significant boost.

Data from the Office for National Statistics showed the U.K.'s global-goods deficit widened to £7.5 billion ($11.17 billion) in March from an upwardly revised £6.3 billion in February.

Imports swelled 5.2% from the previous month in value terms, but exports rose only 1%.

Many economists, including those at the Bank of England, had been betting on a boost in exports, spurred by the sharp depreciation in the pound since the start of the financial crisis, and more-robust demand elsewhere.

Economists had expected some time lag, but many are puzzled by the continuing absence of any notable sterling-induced bounce.

"With sterling persistently weak and global demand picking up, particularly in the U.S. and Asia, you would expect to see a better underlying trend, especially when many surveys...show export orders picking up," said Hetal Mehta, senior economic adviser to the Ernst & Young ITEM Club.

The figures underscore the challenges of achieving a much-needed rebalancing of the U.K. economy, which would enable British businesses, households and government to save more, while other countries consume U.K.-produced goods, boosting the country's economic growth.

In its inflation report Wednesday, the BOE stuck to an optimistic tone, forecasting that the trade deficit will largely disappear over coming years, although the bank acknowledged there are risks to that view.

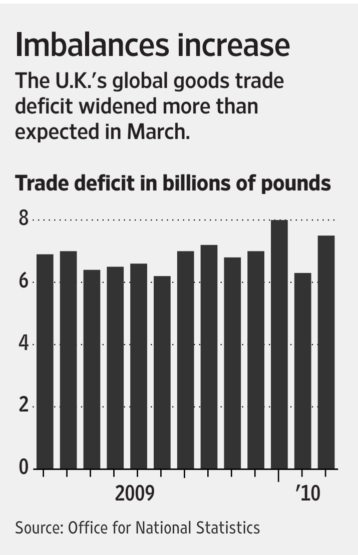
Uncertainty about how strong global demand will be in the future and how long the pound's weakness will persist, in addition to restricted credit availability, may also be causing companies to put off increases in output or entry into new markets, the BOE said.

Meanwhile, the number of U.K. homes repossessed by lenders fell significantly in the first quarter, and the number of mortgages in arrears also slipped back, in a fresh sign that low interest rates and government efforts have cushioned borrowers from the recession.

Releasing figures for the first three months of the year, the Council of Mortgage Lenders said it now expects total repossessions for 2010 to be below the 53,000 it had previously forecast.

But it said the new government, despite its focus on cutting public-sector spending, must continue to support homeowners who face difficulty repaying their mortgages.

"The dampening effects on households and the wider housing market that fiscal tightening is likely to exert are still to be felt, but it should be a key priority to support borrowers most in need and maintain funding for the government's housing policies," said Michael Coogan, director-general of the Council of Mortgage Lenders.



Associated Press

FBI investigators search a car at a service station in Brookline, Mass., in connection with the failed Times Square plot.

Car bomb case widens

Times Square probe prompts FBI raids throughout the Northeast

By Devlin Barrett

WASHINGTON—FBI agents raided locations outside Boston, on Long Island, N.Y., and in New Jersey Thursday morning as they chased the source of the money used to carry out the botched car bombing in Times Square earlier this month.

A total of three people were taken into custody on suspicion of immigration violations, according to Kelly Nantel, a spokeswoman for the Immigration and Customs Enforcement agency.

Two individuals were apprehended in raids of a home in Watertown, Mass., and a nearby gas station, said officials familiar with the case. A third individual was arrested in Maine, said officials.

The Federal Bureau of Investigation also executed search warrants at a printing shop in Camden, N.J., and a private residence in nearby Cherry Hill, an official said. No one was taken into custody as a result of those raids, said J.J. Klaver, a spokesman for the FBI's Philadelphia field office.

The suspect in the Times Square plot, Faisal Shahzad, has been cooperating with prosecutors since his capture two days after the May 1 bombing attempt.

Officials would not say whether more raids were expected throughout the day, but they emphasized they knew of no new threat of an attack or ongoing terrorist plot.

Gail Marcinkiewicz, a spokeswoman for the FBI's Boston field office, said search warrants have been executed in "several locations in the Northeast in connection with the investigation of the Times Square bombing.'' She added that the searches do not involve "any known immediate threat to the public or active plot against the United States.''

The raids are part of the FBI effort to track down the sources of cash that Mr. Shahzad used to finance the bombing attempt, U.S. officials said.

Investigators have focused on money couriers, commonly used in immigrant communities, as a possible way Mr. Shahzad got the cash, though there's no indication anyone handling the money knew Mr. Shahzad's intention to use it to build a bomb, officials said.

Mr. Shahzad, a 30-year-old naturalized U.S. citizen, was born in Pakistan.

Since the May 1 incident, investigators have been chasing the source of Mr. Shahzad's money, but the FBI spokeswoman would not say if that was the reason for the searches in the Northeast.

The FBI charges Mr. Shahzad attempted to detonate a crude homebuilt bomb of fireworks fuel and fertilizer inside a rusty Nissan Pathfinder. The bomb failed to explode and Mr. Shahzad was arrested as he tried to flee the country.

Senior officials in the Obama administration have said the plot was backed by the Pakistan Taliban, which would be a major expansion of that group's reach and ambitions.

U.S., Russia near adoption deal

By Richard Boudreaux

MOSCOW—The U.S. and Russia are nearing an agreement that would head off Moscow's threat to halt U.S. adoptions of Russian children but would make the procedure slightly longer and costlier for adoptive parents, say people familiar with negotiations on the issue.

Under the expected accord, families would undergo four home visits by a U.S. social worker within a year after adopting a Russian child, rather than the two visits Russia currently requires. For some prospective parents, it would mean more-thorough preadoption screening and training sessions.

The changes would affect many of the estimated 3,000 U.S. families in various stages of adopting from Russia, the third-largest source of foreign adoptive children to the U.S. after China and Ethiopia.

Russia and the U.S. lack an agreement regulating adoptions. Moscow has demanded one for years, but Washington has resisted. The current talks opened after Moscow threatened to cut off adoptions in response to the plight of a 7-year-old boy who was sent back to Russia alone last month by his adoptive mother in Tennessee.

Russia's children's rights ombudsman, Pavel Astakhov, said the outlines of a deal are in place. "Our American colleagues are ready to conclude an agreement," he said.

U.S. officials were more cautious but said there were no major disagreements and that both sides are committed to reaching a deal.

Tom DiFilipo, a U.S. adoption advocate in contact with officials on both sides, said "they have agreed on all the basic principles" but need weeks to iron out complex legal and technical details.

According to Mr. DiFilipo and the Russian ombudsman, the two governments would create a joint oversight body to review U.S. social workers' postplacement reports on the living conditions of each newly adopted Russian child.

Russia currently requires the U.S. adoption agencies it licenses to provide such a report on each adopted child six and 12 months after being placed in a U.S. home. Adoption specialists say each of these reports, costs the parents $600 to $750.

Officials said the doubled-up reporting would help detect trouble. They said social workers had visited the Tennessee home of Artyom Savelyev just once before his adoptive mother of seven months, Torry Ann Hansen, put him on a plane to Moscow, claiming he had problems with which she couldn't cope.

Adoption specialists said the additional reporting would add marginally to the estimated $35,000 to $45,000 in fees and travel expenses involved in the lengthy procedure of adopting a Russian child.

The expected accord would bar adoptions facilitated by independent operators to help parents short-circuit the process. Russia would license only those U.S. adoption agencies that comply with a 1993 Hague Convention agreement on intercountry adoptions.

Iran sanctions now in view, thanks to two unlikely allies

[Capital Journal]

By Gerald F. Seib

U.S. officials are quietly confident they are within striking distance of a long-sought agreement to impose new international economic sanctions on Iran.

And for that they can thank, at least in part, North Korea and Iran itself.

After months of fits and starts, officials believe they are near a meeting of the minds with the other permanent members of the United Nations Security Council—Russia, China, Britain and France—on a new set of sanctions to penalize Iran for its nuclear program. Getting big-power agreement is the key to a U.N. deal, and President Barack Obama and Russian leader Dmitry Medvedev agreed by phone Thursday to "intensify" the quest for a sanctions deal. The fact that there's progress at all is a sign that relations with China are thawing after months of tension; as recently as a month ago, the Chinese weren't playing ball.

Of course, being close to a deal isn't the same as having one, and things could still go haywire. Most important, Iran is likely to make a last-minute play this weekend, via Brazilian President Luiz Inácio Lula da Silva, to head off a U.N. sanctions resolution.

Brazil is one of the members of the Security Council right now, and President da Silva has made it a kind of personal mission to befriend Iran and head off new sanctions. He is to visit Tehran on Sunday, and it appears that he and his Iranian counterpart, Mahmoud Ahmadinejad, are trying to cook up a plan to put Iran back in the good graces of the international community on the nuclear question.

That effort likely will take the form of a proposal to revive, in some fashion, a tentative agreement Iran reached in talks with world powers last fall. Under that arrangement, Iran was to ship about half of the low-enriched uranium it has produced abroad, to Russia and France, for reprocessing into benign fuel for a nuclear research reactor.

By turning such a big chunk of the raw material Iran has been accumulating into something other than the highly enriched uranium needed for nuclear weapons, the deal would have stretched out the time Iran would need to produce warheads.

Iran began backing away from the deal almost immediately, though, and it sputtered out on the runway. Now, don't be surprised to see Mr. Ahmadinejad, in a bid to head off sanctions, link arms with Mr. da Silva in coming days and proclaim Iran's renewed interest in some variation of the plan—most likely one that would call for the uranium never to leave Iran's soil for reprocessing.

Beyond Brazil, there are two other notable obstacles: Lebanon and Turkey. Lebanon happens to hold the presidency of the Security Council this month, and is hardly eager to shepherd into place sanctions on a country that backs Hezbollah fighters on Lebanese soil. Likewise Turkey, also occupying a rotating council seat, is reluctant to sanction a fellow Islamic country.

But a sanctions resolution needs just nine of the 15 votes on the Security Council, and U.S. officials seem confident they can get those. Their trump card in this effort may be Iran itself.

Iran has, over the past month or so, embarked on a kind of diplomatic blitz to head off sanctions, wooing Security Council members in New York, in Tehran, and in their home capitals. Mr. Ahmadinejad personally visited Security Council member Uganda and appeared at a U.N. conference on nonproliferation.

But the Iranian offensive, diplomats say, has been ham-handed and unconvincing, marked less by reassuring proposals than by proclamations of Iran's right to continue its nuclear program and dodgy statements about that plan to ship uranium abroad.

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The second trump card may be, of all things, North Korea. North Korea and Iran are the two poster children for nuclear proliferation dangers, and no amount of diplomatic or economic pressure has succeeded in pushing Pyongyang off its nuclear path. Those who doubt the usefulness of sanctions have pointed to North Korea as an example showing they don't have much impact.

But then, last week, North Korean leader Kim Jong Il visited China and, essentially out of the blue, said he was interested in returning to long-slumbering six-party international negotiations over his nuclear program. It was a sign that maybe, just maybe, the pressure of international sanctions is pinching.

Most encouraging for U.S. officials may be signs of a healthier relationship with China, after tensions over Washington's arms sale to Taiwan, a White House visit by the Dalai Lama and the yuan's value. All isn't sweetness and light, but the dialogue is returning to normal, and Obama administration aides sound optimistic about the trends.

To really matter, any new U.N. sanctions against Iran would have to be followed by more pointed steps taken separately by the U.S. and its developed-world allies to further isolate Iran and its Revolutionary Guard establishment from the international financial system.

So there is a ways to go—maybe a long ways—before financial pressure might move Iran. But the starting line may at least be in sight.