



New battle lines are drawn over U.S. gun-ownership laws

THE BIG READ 16-17

What drove Man Group and GLG together

BUSINESS & FINANCE 19, 20

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Iran signs uranium agreement

By MARGARET COKER AND MARC CHAMPION

U.S. and many European leaders reacted skeptically to a new agreement announced in Tehran that would have Iran ship low-enriched uranium to Turkey for reprocessing, saying it wouldn't stop U.S.-led attempts to slap harsh international sanctions against the Islamic Republic. Washington called the agreement a "positive step" but said the terms kept Iran in violation of United Nations Security Council resolutions. Still, the action by the Turkish and Brazilian leaders who brokered the accord during a weekend visit to Iran could cause cracks in the diplomatic campaign to muster the necessary votes to approve new sanctions. The agreement, hammered out with Turkey and Brazil, nonpermanent members of the Security Council, revives an earlier deal offered to Iran last year by the U.S. and its European allies concerned

that Tehran is building a nuclear-weapons program and not a civilian nuclear industry, as Iran maintains. The broad terms of the new deal would have Iran hand over to Turkey 1,200 kilograms, or about 2,650 pounds, of its domestically enriched uranium in exchange for higher-quality fuel that would power Iranian research equipment but couldn't be used to create a bomb. The deal reaffirms Iran's right to keep enriching uranium. British and German officials said they remained committed to further U.N. sanctions against Iran, according to the Associated Press. A spokesman for the French foreign ministry praised Brazil and Turkey for their efforts, but said Iran must respond in writing to the IAEA about the original deal made in October. "Only then can we assess the seriousness of the Iranian re- Please turn to page 9

■ Turkey shows confidence on world stage 9



From left, Brazilian President Luiz Inácio Lula da Silva, Iranian President Mahmoud Ahmadinejad and Turkish Prime Minister Recep Tayyip Erdogan celebrate the signing of the pact Monday in Tehran.

EU steps toward new rules for funds

By MATTHEW DALTON AND ADAM COHEN

BRUSSELS—Lawmakers at the European Parliament approved new rules for hedge funds and private-equity firms, rejecting complaints that the legislation would unduly restrict European investors' ability to use offshore funds. European Union finance ministers at the European Council are expected to approve their version of the legislation Tuesday night, kicking off what will likely be months of talks between the council, the parliament and the European Commission, the EU's executive arm, to hammer out a final version that will become law. Tougher restrictions on hedge funds are favored primarily by France and other continental countries and strongly opposed by the U.K., the home of much of Europe's hedge-fund industry. The parliament's legislation requires funds to register with European authorities. Fund managers that use borrowed money, or leverage, will have to file plans with the authorities setting limits on how Please turn to page 5

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The Quirk



The vicious battle to build a seat that no airport could possibly resist. Page 33

World Watch

A comprehensive rundown of news from around the world. Pages 34-35

Editorial & Opinion

Denis MacShane: An open letter to the president of Brazil. Page 14

GM mixes profit with caution

General Motors Co. reported its first quarterly profit in three years, as the car giant was boosted by stronger global sales and savings won through last year's bankruptcy. First-quarter profit came in at \$865 million as revenue jumped 40%. In the year-earlier period, GM posted a loss of \$6 billion. The company's finance chief, Chris Liddell, warned that the next few quarters may not be as strong, while making a point to temper optimism that the results mean GM could soon be a publicly traded company again. GM continues to be propped up by more than \$43 billion in U.S. loans, which the government will begin to recover by selling its stake in the company once GM launches an initial public of-

fering. Last month, GM repaid a \$6.7 billion U.S. government loan ahead of schedule, but it still faces the stigma of being a government-owned company. Meanwhile, Nick Reilly, the chief executive of GM's European Opel and Vauxhall brands, expects to hear from governments in Germany, Spain, Poland and Austria "very shortly" on possible state aid to help finance the company's turnaround plan, according to a letter to staff. A final agreement with European labor unions over cost savings worth "over \$300 million annually" is also expected to be reached in due course, according to the letter. Hammering out a labor deal and drumming up support for state aid in Europe is Mr. Reilly's turnaround plan at Opel and Vauxhall.

The company said GM won't likely be profitable in Europe until 2011. In the 10 months since GM emerged from bankruptcy, the company has increased global sales by 24% amid a strengthening U.S. economy and rapid growth in emerging markets, including China. Increased revenue propelled GM to a profit in the key North American market, where the company made \$1.1 billion. GM is running its North America factories at 84% of capacity, up from less than 40% a year ago. Still, the recovery of the critical U.S. market remains tenuous. Sales at rival Ford Motor Co. have grown faster than at GM, and all car makers continue to battle each other with profit-eroding incentives to attract buyers. Full article on page 23

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PAGE TWO

Germany is in danger of stealing the U.K.'s euro-skeptic laurels

[Agenda]

BY BILL JAMIESON

Which is the European Union country most critical of developments in the euro zone? For most of the past 20 years the U.K. has been the walk-away winner of the All-Comers Euro-Skeptic trophy.

But this year a surprise challenge is coming up on the rails. Place your bets on Germany, whose reticence to go along with a massive loan package for Greece has infuriated France and brought profound questions to bear on the future of the common currency project.

German Chancellor Angela Merkel was a reluctant convert to the so-called shock-and-awe €120 billion (\$150 billion) tally of support measures last week designed to stop the hemorrhage of funds from Greek government bonds spreading into a major crisis across the euro zone.

The stakes could hardly be higher. The president of the European Central Bank, Jean-Claude Trichet, warned last week that Europe was living through the most difficult situation since World War II, and perhaps World War I.

Ms. Merkel's skepticism sparked, according to some dramatic accounts, a fiery tantrum by French President Nicolas Sarkozy at the Brussels summit and a threat to pull France out of the euro.

The German central bank, the Bundesbank, has also been critical of the support package, fearing both the fact of the breach of the no-bailout clause of the euro zone's Stability and Growth Pact and the breach's precedent-setting nature.

The tone of German skepticism on the current governance of the euro has stiffened markedly in recent weeks.



Angela Merkel: catching the euro-skeptic contagion?

After the ECB's decision to purchase government bonds, German liberal finance expert Frank Schäffler has demanded the immediate replacement of Mr. Trichet by Bundesbank chief Axel Weber, saying that "the purchase of junk bonds is the guillotine for the euro."

The skepticism from Berlin, far from melting after the announcement of the package, has

'The purchase of junk bonds is the guillotine for the euro.'

spread widely. The euro continued to fall to a 14-month low against the dollar. It finally eked out a marginal gain against the dollar Monday, rebounding from a four-year low hit overnight, though concerns over the euro-zone sovereign-debt crisis kept the common currency under pressure.

Adding to the angst of the German chancellor is that her decision to go along with a Greek support package has done her no favors politically.

Her CDU-Free Democrat coalition lost its majority in the

upper house after a drubbing delivered by the voters of North Rhine-Westphalia 10 days ago. Their opposition to the government's concession shows the extent to which there is not, and perhaps never has been a European *demos*, however much it is invoked by EU officials.

A recent poll in Germany by the Allensbach Institute has found that half of Germans want the German mark back.

On top of the voter rejection, market worries have spread to the credibility of new austerity programs announced in the past week for Spain and Portugal.

To say that Germany is disenchanted with the way that the common currency has been weakened by Greek budget indiscipline would be an understatement. Germany, unlike France, doesn't view the weakness of the euro as evidence of a preplanned assault by Anglo-Saxon hedge fund "wolf packs," but as symptomatic of deeper problems within the construct itself—and in particular the failure of some euro members to implement the same fiscal discipline as Germany.

In what now looks to be an act of vengeance against the European Commission and France in particular, the German

government is now applying pressure on other euro-zone countries to copy Berlin's controversial example of its balanced-budget law passed last summer.

Germany changed its constitution by introducing a law prohibiting the government from running a budget deficit of more than 0.35% of GDP within six years. The proposal is due to be presented in Brussels on Friday at the first meeting of the working group set up to consider closer economic-policy surveillance. They mark a German conviction that lofty assurances and earnest promises of deficit reduction from the euro zone's "Club Med" economies can't be counted on: only a legislative commitment to balanced budgets will suffice.

Critics argue that not only will this condemn Germany to slow economic growth but also that, if applied across the euro zone as a whole, it will trigger a debt deflation more severe than that which crippled the Continent in the late 1920s and early 1930s.

In this crisis atmosphere, no option is being excluded. EU Trade Commissioner Karel De Gucht has raised the possibility that Greece would have to leave the euro zone, saying: "I think that Greece is obliged to do the reforms. If not, one will have to decide at some point that Greece is no longer within the euro."

And the German newspaper Bild quotes former CSU leader Edmund Stoiber saying: "when a state refuses to bring its finances into order, then it should be possible that the other members of the euro zone exclude it."

Such language would have been unthinkable six months ago. But Germany is making clear that if there is to be greater fiscal and political integration to make the euro work, it will be on its terms, or none at all.

—Bill Jamieson is executive editor of *The Scotsman*.

What's News

■ **Prudential launched** a long-awaited share sale to pay for its \$35.5 billion purchase of an Asian life-insurance business from AIG, and now it faces a bigger challenge of getting shareholder approval for the deal. 19, 20

■ **The French government** said it plans to increase the retirement age, setting up a battle with unions. 6

■ **The euro's slide** against the dollar claimed headlines but investors also kept an eye on the U.K. pound, whose travails are mounting as Europe's troubles persist. 17

■ **BA secured** an injunction to prevent 20 days of strikes by cabin crew, the second time in the dispute the carrier won legal intervention to block industrial action. 21

■ **U.K. Chancellor** of the Exchequer Osborne said he will lay out the new government's emergency budget June 22, as he set out plans to tackle the nation's budget deficit. 7

Inside



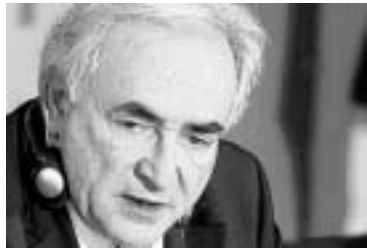
Shareholders embrace their newly granted say on pay. 31



Bayern Munich and Inter Milan's paths to the Treble. 32

ONLINE TODAY

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1. Agenda: The Euro-Zone Party Is Over. What Now?
2. Oil-Spill Fight Shows Progress
3. Ash Threat Shuts London Air Hubs
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"For passengers and regulators, the forecast is clear: haze extending far over the horizon."

Dan Michaels on how Iceland's volcanic ash continues to cause disruption



Continuing coverage



Follow the latest company earnings, including Vodafone, Wal-Mart and H-P, at wsj.com/earnings

Question of the day

Vote and discuss: With Iceland's volcano still erupting, how safe do you think your summer traveling plans are?

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

Previous results

Q: Would you want your home city to host the World Cup?

Yes

79%

No

21%

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NEWS

Your name may not be your destiny

By CARL BIALIK

The name game is a little lame. That's the upshot of a pair of new studies challenging what has become conventional wisdom in social psychology. A series of earlier papers suggested that people's names help determine their choice of spouse, hometown, occupation, even whether they strike out in a Major League Baseball game—a phenomenon known as "implicit egotism."

THE NUMBERS GUY

"This has become part of our knowledge, so it is worth correcting if wrong," says Uri Simonsohn, assistant professor of operations and information management at the University of Pennsylvania's Wharton School, of the earlier findings.

Last month, Dr. Simonsohn posted online a draft of a long paper, not yet peer-reviewed, that casts serious doubt on eight studies of name preference by offering alternative explanations for the findings. For example, one study had found that people showed a ten-

dency to live in towns with names similar to their surnames. It turns out nearly three out of four of the towns with the strongest such effect were founded by people with matching last names, such as Williams for Williamsburg—suggesting founders' descendants who stuck around may have skewed the results.

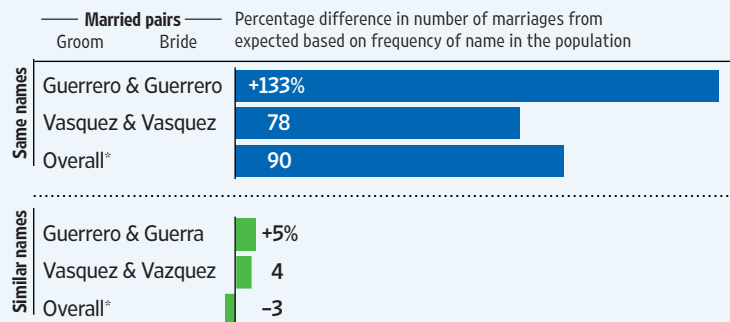
A subtler effect was at work with marriage. Dr. Simonsohn confined his study to Latinos in Texas, to control for ethnicity, and found that the initial preference was most pronounced among people marrying spouses with the same last name. People with surnames that were similar but not identical—say, Gonzalez and Gonzales—married no more frequently than one would expect from the incidence of these names in the population.

So why would a couple with the same last name pair off? Often, they are simply remarrying after the wife took her husband's name and kept it after divorce, Dr. Simonsohn shows. In other cases, it isn't possible to say definitively.

Brett Pelham, co-author of the studies that Dr. Simonsohn cri-

Name recognition

Latinos with the same last name married more than expected, partly because some remarried ex-spouses. But the effect didn't hold among those with similar surnames, despite the theory that people are attracted to names similar to their own. Examples:



Note: From a study of couples in Texas in 2001.

*Overall rates are for 20 sets of paired names. Source: Uri Simonsohn, Wharton School

tiques, says he hasn't yet had a chance to review the Simonsohn paper in great detail, but he has a few bones to pick. For instance, he suggests that Gonzalezes may be disposed to dislike Gonzalezes a little more than a randomly named person, after years of having their

names misspelled. (He demonstrated by addressing this columnist as "Karl Bilaki" in an email.)

"On the whole, though, I would commend the author for taking an incredibly thorough look at the filed evidence for implicit egotism," Dr. Pelham, now program director of

the National Science Foundation's social-psychology program, wrote.

The other new study has a narrower focus: one part of a 2007 paper on implicit egotism. Among this paper's findings was that Major League Baseball players with the first or last initial K, the letter for a strikeout in baseball, were likelier to strike out. The new study—which is to be published in next month's issue of the Journal of Applied Statistics—takes a swing at the strikeout finding's statistical validity.

"They were either misusing statistics to achieve a desired result, or they were very, very sloppy," says co-author Bruce McCullough, an economist at Drexel University in Philadelphia.

Joseph P. Simmons, an assistant professor of marketing at Yale University's school of management and the co-author of the K paper, says he finds the critique "surprisingly hostile in tone." Though he agrees that the K finding could use more analysis, he says, "They are assuming a certain way of doing the analysis is correct, and any other way of doing it is incorrect."

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50% entrepreneur
100% father

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EUROPE NEWS

U.K. looks to identify spending cuts

New Chancellor of the Exchequer Osborne says deficit imperils recovery; emergency budget is planned for June 22

BY LAURENCE NORMAN

LONDON—U.K. Chancellor of the Exchequer George Osborne said Monday he will lay out the new government's emergency budget on June 22, as he set out plans to tackle the country's budget deficit.

Mr. Osborne said at his first news conference since taking the post that "if we fail to tackle the deficit we inherited from the previous government, the consequences could be disastrous," and could pose a "real risk" to the economic recovery. He added that the emergency budget would put the U.K. on a path "to live within its means" in coming years.

Mr. Osborne said he would lay out the government's longer-term fiscal goals in the emergency budget, adding that the government aims to eliminate the bulk of the structural deficit by 2015.

He also confirmed the Treasury will push ahead with plans to identify £6 billion (\$8.72 billion) in spending cuts across the government. The cuts will be outlined next week. He added the "great majority" of the cuts would be used to reduce the budget deficit, although some of the savings would be directed to job programs.

The chancellor's comments helped the pound stabilize after an earlier drubbing against the dollar, leaving the pound at just over \$1.44 after a dip to a 13-month low of \$1.4256.

Mr. Osborne confirmed the creation of the Office for Budget Responsibility and said it would produce its first economic and borrowing forecasts ahead of the



U.K. Chancellor of the Exchequer George Osborne speaks to the media Monday.

new government's emergency budget due by the end of June. He said the office's creation will put the U.K. at the "cutting edge" of international best practice.

The interim head of the OBR, former Treasury chief economist Alan Budd, said his office will deliver independent forecasts but can't guarantee its predictions that will "express a range of uncertainties."

The Confederation of British Industry welcomed the OBR's creation. CBI Deputy Director John Cridland said it will "inject additional credi-

bility and transparency into the forecast." However, Mr. Cridland said with the OBR likely to downgrade current growth forecasts, "a credible fiscal plan supported by a tough line on public spending will be even more important."

Mr. Osborne said this would be done without damaging frontline services. David Laws, the new chief secretary to the Treasury, said he had already rejected some departmental spending-cut proposals that would have affected key services.

Mr. Laws, who is from the Liberal

Democrat party, which opposed early spending cuts before the election, said one of the factors that had changed his mind was the contagion from the Greek debt crisis that has roiled bond markets in recent weeks.

He said there was real concern that if the U.K. doesn't act to shore up its fiscal credibility, "some of that contagion could spread to these shores." He added that the new government is completely "united" on the urgency of tackling the deficit.

While Mr. Osborne charged the previous Labour government with leaving a fiscal mess, his predecessor, Alistair Darling, said the new government's policies risked tipping "the country back into recession."

Mr. Osborne repeated Monday that around 80% of the deficit reduction will come from spending cuts, but said that wouldn't be a rigid rule.

However, in a briefing Monday, the Institute for Fiscal Studies' Carl Emmerson said that judging by experience, the new government will struggle to find the vast majority of deficit reduction through spending cuts.

"I am not saying it couldn't happen but I think history suggests it's a pretty big ask," Mr. Emmerson said. He said the new government may end up relying more on tax increases or cuts to social security than planned.

The IFS forecasts that to deliver the Conservative Party's pre-election fiscal consolidation plans would require a 25% cut in spending outside unprotected government departments by 2014-15.

The Conservative plans would result in the tightest five-year period

New responsibility

The U.K. government is creating an Office for Budget Responsibility to create tighter oversight of tax and spending plans.

- It will audit the government's books to spot any holes

- It will set the borrowing and growth forecasts for the budget statements—previously the chancellor of the exchequer's job

- It will also, once a year, publish a long-term sustainability of the public finances, including off-balance sheet liabilities

Source: Dow Jones research

of spending constraint since at least the end of World War II, said Mr. Emmerson. As a result, the government needs to develop backup plans in case its first efforts at reducing the deficit prove unsustainable because they have a bigger impact on public services or the economy doesn't grow as fast as hoped, he said.

Mr. Osborne also said the government is still aiming to cut corporate taxes and he will give more details in a speech Wednesday evening to the Confederation of British Industry. The Conservatives had said they would cut the corporate tax rate to 25% from the current 28%, paid for by eliminating some of the tax breaks businesses currently receive.

—Adam Bradbery and Katie Martin contributed to this article.

London's double-decker buses receive yet another makeover



On the buses: London's latest round of agonizing over the form of its double-decker buses began on Monday, with the release artist impressions of a new Routemaster bus, top left. The old Routemasters, left, with a deck on the back that allowed passengers to easily hop on and off, were retired in 2005 due to concerns over cost and disability access. In the meantime, long "bendy" buses, top right, have come to dominate London's bus routes. One of London Mayor Boris Johnson's key election pledges was to return the Routemaster.

EUROPE NEWS



ECB President Trichet, second from left, with finance ministers, left to right, from Finland, Austria and Belgium Monday.

ECB buys back bonds

Central bank notches \$20.4 billion in purchases, but worries linger

By BRIAN BLACKSTONE

FRANKFURT—The ECB said it bought €16.5 billion (\$20.4 billion) in government bonds during the first half of last week, but the announcement failed to ease broader concerns among investors about Europe's effort to shore up confidence amid an unfolding debt crisis.

The euro briefly touched a four-year low against the U.S. dollar Monday before recovering, and Greek bond yields rose. Yields in other parts of Europe's troubled fringe were steady, a sign that ECB bond purchases have succeeded in steadying those markets.

Still, while enough to stabilize yields in countries most at risk of contagion, the €16.5 billion figure wasn't the kind of strong statement of support that some economists had hoped for. "It's not an aggressive step," says Marco Valli, economist at UniCredit Group. "Significantly more is needed to stabilize the market."

The €16.5 billion includes bond purchases that settled through Friday. Because it takes bond purchases as many as three days to settle, the purchases mostly occurred Monday and Tuesday. The ECB doesn't break the debt-purchase figures down by country or maturity. Early last week the ECB was buying

government bonds of Portugal, Spain, Italy, Greece and Ireland, market participants said.

To offset those purchases, the ECB said it will offer banks the chance to deposit money at the ECB for one week at an interest rate of up to 1%, which is much higher than what banks can get at the ECB's regular deposit facility. "We would expect good demand," say economists at Barclays Capital.

Mr. Valli notes that €16.5 billion is a tiny fraction of the outstanding medium- and longer-term debt of Greece, Portugal, Ireland and Spain. If officials wanted to send a stronger signal, they would need to raise the amount to €70 billion, he says. Broader credibility doubts continue to cloud the ECB and European governments, weighing on the euro. The currency for the 16-member euro zone sank below \$1.23 during Monday's session, hitting its lowest level since April 2006.

"The ECB may end up being the buyer of last resort for peripheral-country bonds. From a credibility standpoint, this does the ECB no favors," notes Win Thin, currency strategist at Brown Brothers Harriman.

The ECB faces a difficult balancing act, analysts say. If officials purchase government bonds aggressively to shore up the periphery

then they could stoke inflation, a worry that is acute in Germany, where top central banker Axel Weber opposed the bond-buying program.

But if ECB policy makers don't do enough, they may simply be delaying default by Greece and more contagion in Spain, Portugal and elsewhere.

The euro has suffered by the sheer scale of Europe's response, analysts say. In addition to a €110 billion rescue of Greece, European governments have committed as much as €750 billion to protect Spain, Portugal and others from contagion. That potentially opens stronger countries such as France and Germany to the credit risk of Greece and others.

Though many analysts thought the euro had gotten too high last year when it topped \$1.50, the rapidity of its descent has caught some by surprise, reflecting a stunning turn of fortunes for the ECB. Just a few months ago, the ECB was expected to start raising interest rates as early as the middle of this year, well ahead of the Federal Reserve, in a sign of its strong anti-inflation credentials.

Now it is the Fed that is expected to tighten first, as many economists push back their ECB rate-increase forecasts until well into 2011 at the earliest, further weighing on the euro. The U.S. economy expanded 3.2% last quarter, four times the euro zone's pace.

The euro's slide should erase some of that gap. On balance, a weaker euro can be good for the economy. It makes all euro-zone countries—including struggling nations on the southern periphery, such as Greece, Portugal and Spain—more price-competitive in global markets. It may also offset some of the deflationary forces gripping some economies. Spanish consumer prices fell last month when food and energy prices are excluded, the first such decline on record.

The euro has already spurred Germany's export-driven economy. After a sluggish recovery last year and in early 2010, Germany appears on track to expand 3% to 4%, on an annualized basis, this quarter, thanks largely to exports.

Hedge-fund rules approved

Continued from first page

much leverage they can use, and a new EU regulator would have the power to cap leverage at funds that pose "systemic" risks.

Most controversially, the legislation would create a "blacklist" of countries that lack adequate financial regulation. European investors would be forbidden from sending their money to funds based in these countries.

The prospect of a blacklist has sparked strong opposition from European hedge funds, which are mostly managed from London but rely heavily on funds based in the Cayman Islands. Jean-Paul Gauzes, the center-right French politician who led debate on the legislation at the parliament, has said it is unclear whether the Cayman Islands would be placed on the list, though the Cayman Islands financial industry says it can satisfy the conditions laid out in the legislation for avoiding the list.

Fund managers based outside the EU would be able to get a "passport" to raise money from investors across the EU if they pledged to follow the new rules.

The final legislation will likely differ significantly from the legislation approved by the parliament. The version that finance ministers are expected to pass Tuesday allows national governments to opt out of some of the rules. The council's versions contains no blacklist, a provision that EU diplomats say is strongly opposed by national governments at the council.

The council's legislation, however, has drawn criticism from U.S. Treasury Secretary Timothy Geithner, because it would prevent funds and fund managers based outside

the EU from obtaining a passport to raise money and market themselves across the 27-nation bloc.

Meanwhile, finance ministers from the 16-nation euro zone were meeting here to discuss both the hedge-fund regulation and the currency union's troubled finances. Earlier Monday, the euro hit a four-year low against the dollar, and investors remain uneasy with the government-debt levels of Greece, Spain and Portugal.

The ministers, who were meeting late Monday evening, were assessing the impact of the €750 billion bailout package prepared as a firewall against spreading debt concerns. The euro's performance suggests markets believe the cost to cure Europe's illness will put a substantial drag on the common currency.

Ahead of Monday's meeting, Luxembourg premier Jean-Claude Juncker said he was worried about the pace of the euro's depreciation. Mr. Juncker is president of the group of ministers from euro-zone countries.

"I'm not worried as far as the current exchange rate is concerned," Mr. Juncker said. "I'm worried as far as the rapidity of the fall is concerned."

Belgian Finance Minister Didier Reynders said there were advantages to a weaker euro, noting that it made the currency area's exports more competitive.

Mr. Reynders said the euro zone's focus remained the debt and deficit problems that have plagued the Continent for months.

"It's not the path of the euro that's worrying us," he said. "It's the situation of public finances in the euro zone."

Naked CDS ban unlikely

By NATHALIE BOSCHAT

PARIS—The European Commission is set to back away from imposing any outright ban on short selling or a type of credit derivative known as naked credit default swaps, several people close to the matter said.

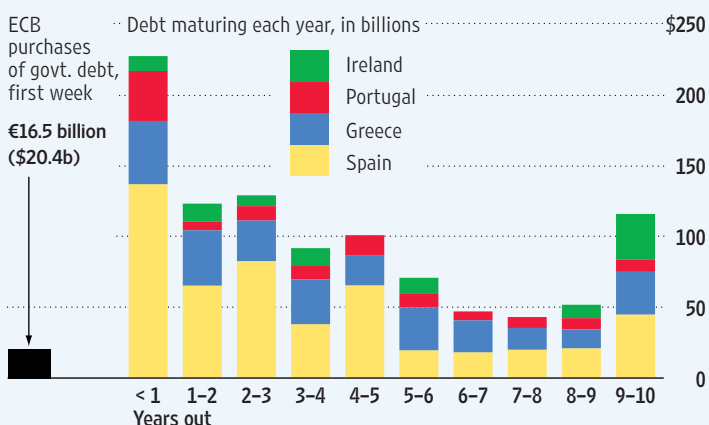
Credit derivatives such as credit default swaps have been under fire since the onset of the Greek debt crisis, with a number of government officials blaming the derivatives for artificially driving up Greece's funding costs. Naked CDS have earned

particular scorn as purely speculative tools, with some European government officials saying they are devoid of the hedging purposes credit default swaps were meant for.

But instead of a ban, the European Commission is expected to take a pragmatic approach when it presents a legislative proposal on derivatives in June. One person close to the commission said the likely approach will be the installation of "circuit-breakers to stop markets from getting out of control when things get tough," the person said.

Barely a dent

European Central Bank purchases of debt in the first week of its newest program and the amount of Greek, Spanish, Irish and Portuguese debt maturing over the next 10 years.



Sources: ECB; Thomson Reuters



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EUROPE NEWS

French retirement age to rise

Government proposal aims to fix debt-laden pension system; adding a tax on high earners

BY DAVID GAUTHIER-VILLARS

PARIS—The French government said it plans to increase the retirement age, setting up a battle with unions who want the French to continue retiring earlier than most other Europeans.

The government said it plans to introduce a bill to raise the retirement age from the current minimum of 60—though it didn't say to what age—and create a new tax on high earners, to try to fix the nation's debt-choked pension system.

Unions have scheduled a nationwide demonstration on May 27 to protest the proposed overhaul.

The sparring comes as France and other European countries are under pressure to rein in their budget deficits after the Greek debt crisis caused financial chaos. France has the same high credit rating as Germany, but some economists are concerned that Paris could suffer a downgrade unless it demonstrates budget discipline.

"It's a litmus test," said economist Christian Saint-Etienne, head of the Générations Citoyennes think tank. "France's creditworthiness is at stake."

Facing the same trends of slow growth and longer lifespans, several European Union countries have in recent years increased their retirement ages and cut pension payments. In 2007, Germany opted to gradually increase its standard retirement age to 67 from 65. Last year, Italy pegged future retirement ages to rising life expectancy.

France has reduced some pension benefits in the past, but in its effort to avoid cutting monthly pension payments it has also piled up debt. If no changes are made, the annual deficit of state-run pension funds could shoot up to €103 billion (\$127 billion) by 2050, from an estimated €10 billion this year, according to a council advising the government.

Concerned that the system isn't sustainable, the government of President Nicolas Sarkozy sent a memo to unions, which it released on Monday. The government said the main response to "demographic imbal-



The government of President Nicolas Sarkozy, shown May 7 in Brussels, wants to raise the retirement age.

ances" should be demographic. That implies raising the retirement age and the number of years of contributions to the state-run system needed to receive a full pension.

"We can't accept that," said Eric Aubin, a national delegate with the CGT union. "People can't find jobs when they are 55. Increasing the retirement age will push them into poverty."

Details, notably the proposed new retirement age, would be outlined in June, the government said. A pension bill could be presented to parliament, where Mr. Sarkozy's ruling UMP party has a majority, in September.

The government ruled out some possible solutions, such as an increase in payroll taxes or the creation of a special sales tax, on the basis that they would hurt French corporate competitiveness.

However, the government said it was considering slapping a new tax on wealthy households—something

Debt age

If no changes are made, the accumulated deficit of France's state-run pension system could rise to €103 billion by 2050.

| Evolution of the contributor-to-pensioner ratio | Forecast of annual deficit of France's pension system |
|---|---|
| 1960 ■■■■ 4 To 1 | 2015 ■ €39 billion |
| 2010 ■■ 1.8 To 1 | 2030 ■ 70 |
| 2050 ■ 1.2 To 1 | 2050 ■ 103 |

Source: COR (France's pensions advisory council)

that might go against an election pledge by Mr. Sarkozy not to increase taxes and to provide some tax relief for the rich. Government officials said the new tax would be "symbolic" and yield between €2 billion and €3 billion a year.

Union leaders said they feared that without significant new tax contributions, the overhaul would result in lower pensions for workers who don't pay into the system long enough.

White-collar union CFE-CGC is one of the few unions to support the idea of raising the retirement age. But the union's national delegate in charge of pension issues, Danièle Karniewicz, said she will be able to convince members to back a pension overhaul only if the government finances it through other methods, such as a new sales tax. "The French are ready to make efforts," Ms. Karniewicz said. "But they need to know what they will get in return."

Putin urges mine boss's dismissal over safety

BY RICHARD BOUDREAU AND WILLIAM BLAND

MOSCOW—Prime Minister Vladimir Putin used a nationally televised videoconference Monday to press for dismissal of a mining boss on the other end of the line, accusing him of safety violations preceding the explosions that claimed as many as 90 lives in Russia's largest underground coal mine this month.

With Igor Volkov seated among other executives at a conference table in Siberia, Mr. Putin berated them from Moscow, more than 3,000 kilometers away. He voiced disbelief that Mr. Volkov was still running OAO Rospadskaya's main mine, despite hundreds of alleged breaches of safety rules at its Siberian mine over the past year.

"Mr. Volkov is still working, still sitting in this room," Mr. Putin said.

The Russian leader's call for tighter regulation of coal mines appeared to be part of an effort to limit political unrest over the Rospadskaya mine disaster. He spoke after dozens of miners and their families blocked a railway line near the mine and threw rocks and bottles at riot police, a kind of forceful protest relatively rare in Russia these days.

Twenty-eight people were arrested late Friday and early Saturday, prompting calls by mine-union leaders and other groups for wider protests against low wages and poor safety conditions in mines. "It's the fault of the authorities," independent miners' union leader Ivan Mokhnachuk told Echo of Moscow radio. "They pushed people onto the rails."

The demonstrators were freed Monday but face charges of blocking the railway and assaulting police.

Authorities have yet to hold anyone criminally responsible for the methane gas explosions May 8. At least 66 people were killed, and search operations were suspended on Thursday because of high methane gas levels in the tunnels, all but eliminating hope of saving the 24 people still missing.

Mr. Putin's videoconference addressed the country's top mining executives and officials investigating the blasts. He said the government safety regulator, Rostekhnadzor, had appealed to the judiciary four times to have Mr. Volkov dismissed as head of the mining company because of repeated violations.

Mr. Volkov didn't respond to Mr. Putin during the conference. A company spokeswoman said he would remain in his post, adding that the company had complied with the regulator's safety recommendations.

The prime minister said the government may give the regulator power to suspend senior managers and shut mines when it finds evidence of violations. He said pay increases for miners would dissuade them from risking their lives to earn more. And he called for trade union representatives to be present when gas levels are measured.

Noting that Russian mine death tolls remain high despite a more-than-ninefold rise in safety spending since 1998, he asked: "Where is this money going? Which people and whose work is it protecting?"

Airports reopen after ash subsides

Associated Press

Three of Europe's busiest airports reopened Monday afternoon after a dense volcanic-ash cloud from Iceland dissipated and no-fly-

zone orders were lifted.

Flights were landing and taking off from London's Heathrow and Gatwick airports and Amsterdam's Schiphol Airport, but all three warned travelers it would take time for airlines to clear the backlog of delayed flights and urged travelers to contact their airlines before going to the airport.

Eurocontrol, the Continent's air-traffic-control agency, said 28,000 flights were expected Monday in Europe—about 1,000 fewer than normal, mainly because of the disruptions in Britain and the Netherlands. Eurostar added four trains—an additional 3,500 seats—between London and Paris to help travelers cope with the airport closures.

Icelandic civil-protection official Agust Gunnar Gylfason said the ash cloud was traveling to the north, forcing airports in Keflavik and Reykjavik to close. He said seismic activity at the volcano was un-

changed. Eyjafjallajökull (ay-yah-FYAH'-tlay-yer-kuh-duhl) erupted in April for the first time in nearly two centuries. During the volcano's last eruption, which started in 1821, its emissions rumbled on for two years.

All British and Irish airspace was open Monday except for smaller airports on remote Scottish islands. Airspace over the North Sea was reopened Monday afternoon, but Faeroe Island airports were closed.

British Airways PLC Chief Executive Willie Walsh—whose airline is facing a fresh wave of strikes by cabin crews on Tuesday—called the latest airspace closures "a gross overreaction to a very minor risk."

"I am very concerned that we have decisions on opening and closing of airports based on a theoretical model," he said. "There was no evidence of ash in the skies over London today, yet Heathrow was closed."

Aviation officials have defended

the decision to impose the no-fly zone, noting that airline representatives and engine manufacturers last week had agreed to find a way to ensure planes could fly safely in the volcanic ash.

British Transportation Minister Philip Hammond said aircraft manufacturers were examining evidence to see "what inspection regimes they can put in place that would allow safe flying through a somewhat higher threshold of ash."

"If we can do that, the likelihood of volcanic ash disrupting flights will obviously diminish," he said.

Germany sent up two test flights Sunday to measure the ash cloud, but there was no word yet on the results. Still, Germany said Monday the latest ash cloud shouldn't affect its airports. "At this time, the concentration of ash above German airspace is so low that there are no reductions in air traffic," German air-traffic controllers said.

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U.S. NEWS

Key official defends spill response

BY SIOBHAN HUGHES

U.S. Homeland Security Secretary Janet Napolitano on Monday defended the Obama administration's response to a Gulf of Mexico rig explosion and oil spill as crude and natural gas continued to gush from a well pipe on the ocean floor.

"Since day one, the administration has engaged in an all-hands-on-deck response to this event—and DHS has played a significant role," Ms. Napolitano said in testimony to the Senate Committee on Homeland Security and Governmental Affairs. "We planned for a worst-case scenario from the moment the explosion occurred and now, almost four weeks later, we are continuing to sustain a strong and effective response."

The Obama administration has dispatched officials including Interior Secretary Ken Salazar and Energy Secretary Steven Chu to cities around the Gulf as BP PLC works to contain the oil spill. More than 17,000 federal, state and local workers, along with thousands of trained volunteers, are responding, Ms. Napolitano said.

The federal government "will continue to do everything in our power to ensure that BP stops the leaks," she said.

The Interior Department's Minerals Management Service came under fresh criticism from Congress on Monday. Sen. Joseph Lieberman (I, Conn.), the chairman of the Senate



Oil is removed from a pelican by the Louisiana State Wildlife Response Team.

Homeland Security and Governmental Affairs Committee, asked why the MMS didn't require BP to have a better plan for dealing with a blowout.

"Until those questions are answered satisfactorily, I don't see how our government can allow any new deepwater wells to be permitted and drilled," Mr. Lieberman said.

"I know how important offshore American oil is to our nation's energy independence. But the U.S. government has a responsibility to the public safety that is more important, and that responsibility, I fear, was not fulfilled in this case," he said.

Mr. Lieberman's call for new deepwater drilling to be put on hold was notable because he was one of

the key authors of a climate bill that involved allowing more U.S. offshore drilling as a way to gain Republican support for measures to reduce greenhouse-gas emissions across the economy.

BP said it has had a breakthrough in an effort to stop the leaks, using robots to insert one end of a mile-long tube into a broken oil pipe on the sea floor.

The company said Monday that it was siphoning more than one-fifth of the oil that has been spewing into the Gulf for almost a month. This measure of success came as worries escalated that the leaked oil may reach a major ocean current that could carry it through the Florida Keys and up the East Coast of the U.S.

"It is expected that it will take some time to increase the flow through the system and maximize the proportion of oil and gas flowing through the broken riser that will be captured and transported to the drillship," BP said.

BP Chief Operating Officer Doug Suttles said Monday on NBC's "Today" and CBS's "Early Show" that a tube was funneling a little more than 1,000 barrels—42,000 gallons—of crude a day from the blown well into a tanker ship. The company and the U.S. Coast Guard have estimated about 5,000 barrels—210,000 gallons—have been spewing out each day.

The leak was caused when the Deepwater Horizon rig, which had been drilling the well for BP, exploded on April 20, killing 11 crew members. The rig sank on April 22. The spill has the potential to become the biggest ever in U.S. territory, surpassing the amount of oil released into Alaska's Prince William Sound by the Exxon Valdez in 1989.

Most of the oil has remained offshore, though soft "tar balls," or globules of oil, have washed ashore at the South Pass entry to the Mississippi River in Louisiana and on Alabama's Dauphin Island, Coast Guard Rear Adm. Mary Landry said at a press conference last week. Oil has washed ashore on Louisiana's Chandeleur Islands as well.

"Other containment options continue to be progressed," BP said,

adding that deployment could take place "in the next week or so."

BP said it would never again try to produce oil through the blown-out well, and would eventually plug the well. The company didn't rule out drilling elsewhere to tap the same reservoir.

More than 550 vessels have been deployed, along with more than 1.7 million feet of barriers known as "boom" and more than half a million gallons of dispersants, Ms. Napolitano said. The U.S. Environmental Protection Agency late last week approved the use of chemical dispersants under water to break up the oil before it reaches the shore.

Lamar McKay, the head of BP's U.S. unit, was set to say that the company will "carry out our responsibilities to mitigate the environmental and economic impacts of this incident." He has already told several committees in the House and Senate the same thing.

He was to cite "our intense determination to do everything humanly possible to minimize the environmental and economic impacts of the resulting oil spill on the Gulf Coast."

Meanwhile, BP said payouts to people affected by the spill won't be limited by the \$75 million legal cap on such liabilities.

Analysts estimate the ultimate cost to BP at \$3 billion to \$8 billion.

—Guy Chazan, Brian Baskin and the Associated Press contributed to this article.

Along Gulf Coast, BP encamps for the long haul

BY GUY CHAZAN AND JIM CARLTON

VENICE, La.—This tiny port on the Mississippi River could be deemed BP-ville, one of several coastal settlements virtually requisitioned by the British oil company as it mobilizes to defend Louisiana's shoreline from the Gulf of Mexico oil spill.

Venice's population of 450 has doubled over the past three weeks as it turned into a crucial hub for the military-style cleanup operation.

So far, little oil has washed up onshore since the Deepwater Horizon drilling rig exploded and sank last month. And an effort to siphon oil from the oil well's gushing pipe showed some signs of success this weekend.

But BP PLC is digging in for the long haul. In Venice, it has taken a three-month lease on an 18-acre site that can be renewed for up to a year, reflecting deep uncertainty as to how long this crisis might last.

The port, which in normal times is a small hub for the offshore oil industry, is now full of BP employees plucked from their 9-to-5 jobs in other parts of the country and dumped in the Mississippi Delta. BP has set up a dining hall dispensing lunches to 900 people.

Slade Brockett, BP's area staging manager for Venice, has no idea when he will return to his regular job as project engineer at BP's Cherry Point refinery in Washington state.

"We're here until the job's done," he said. A colleague, Jason Tieman, a U.S. Coast Guard reservist, normally works for a software company in Houston.

To keep local staff happy, Mr.



Gulf Coast fishermen line up in front of an office Sunday to file claims against BP in Bayou La Batre, Ala.

Brockett has been tasked with setting up an air-conditioned recreational tent, which he is stocking with two flat-screen TV sets, magazines ranging from Deer & Deer Hunting to Popular Mechanics, a set of dominoes and a cribbage board. A 280-bed hotel complex of tractor trailers has been set up. Some employees have found lodging in local houseboats and motels.

Meanwhile, on nearby South Pass, a barrier island to the south of town, some 80 cleanup staff wearing heavy white suits, plastic gloves and rubber boots comb the beach for tar balls, which they carefully shovel into big garbage bags. On one day last week, they filled some 450 of them, BP said.

BP has also signed up some 200 fishing boats to lay boom, a plastic

protective barrier, and skim oil from the surface of the Gulf. Flying over the marshy landscape of inlets and bayous south of Venice, the boom is visible along the length of the sand bars that dot this area. But BP admits it isn't fail-safe: A lot of oil has slipped under the plastic, and some has washed over it as well.

All of this activity is not enough to make local residents happy. At

the Cypress Cove Marina in Venice, about 110 of the 150 boat slips sat empty one day last week at a time when normally they are full with sports and commercial fishing vessels, said Rene Cross Jr., manager of the marina.

On the docks, Kevin Aderhold was readying his charter boat, the Stress Management, to ferry out a group of sports fishermen to one part of the ocean where fishing was still open. But he said he has already had 20 groups cancel on him, in part, he said, because of all the publicity about the spill. "Every day, the phone rings and it's to cancel a trip," Mr. Aderhold said.

Most fishing has been curtailed because of the spill, and the economic ripple effects of its lost fisheries have begun to ripple through the swamps and bayous of Plaquemines Parish, population 25,000.

Irene and Jerry Walker say the spill is threatening not only their fishing business, but also their health. Mrs. Walker, 57, complains she has suffered itchy eyes, headaches and asthma attacks from fumes at her home in Boothville, La. that she believes are related to the spill. Coast Guard officials who have been monitoring air quality say they have detected no harmful levels of chemicals in the air around Plaquemines Parish.

Byron Encalade lost not only his home but all five of his oyster boats in that hurricane, and only last year was able to repair or replace three to begin plying the waters again.

The 55-year-old lifelong fishermen, after a community meeting in Port Sulphur, La., with BP and federal officials last week resolved few of his worries, asked, "What am I going to do for income now?"

U.S. NEWS



Tim Burns, a Republican candidate for a congressional seat in Pennsylvania, at a shooting range on Sunday. Associated Press

Republicans shift stance

Party responds to voter anger with more populist economic policies

BY JONATHAN WEISMAN

Republican Party leaders, responding to an angry and demanding U.S. electorate, are adopting more populist economic policies, lambasting a wider swath of Obama administration policies as “government takeovers” and vowing dramatic fiscal changes.

They are responding, in part, to primary election voters of both parties who are showing themselves to be in a prickly, anti-incumbent mood. The next sign of the public’s feelings comes in party primaries Tuesday, with sitting senators facing challenges in Pennsylvania and Arkansas, and the Republican establishment candidate in danger of losing in Kentucky.

Five months before November’s congressional elections, those forces are already reshaping the Republican Party, altering the tone and focus of its leadership and the composition of its senior ranks.

“The American people have taken a look at what this administration has done. They’re running banks, insurance companies, car companies. They nationalized the student-loan business, which will kill 31,000 private-sector jobs. It’s taken over health care. They’re about to do to financial services what they did to health care,” Senate Minority Leader Mitch McConnell of Kentucky said on NBC’s “Meet The Press” Sunday. “The American people are appalled by this.”

So far, however, it is the Republican establishment that has felt the sting. Republican Sen. Robert Bennett was ousted this month by a party convention in Utah. Anger at his cooperation with President Barack Obama prompted Florida’s moderate Republican governor, Charlie Crist, to leave the party.

Whether or not Republicans seize control of Congress, a new kind of party is likely to emerge after Nov. 4.

Issues that largely disappeared after 1994, when Republicans swept into Congress, are making a comeback, such as a constitutional amendment requiring a balanced budget, and term limits.

Political neophyte Tim Burns, standing for the Republicans in a Pennsylvania special House election

The new GOP

Some issues Republican candidates are tackling in response to voters’ anti-incumbent sentiment:

- Balanced-budget amendment
- Term limits
- Elimination of Education and Commerce Departments
- Limit on Federal Reserve’s abilities

Source: WSJ research

to replace deceased Rep. Jack Murtha, a Democrat, has vowed to end “bailouts,” “handouts” and Democratic “atrocities,” while balancing the budget with no tax increases.

Republican leaders in the House of Representatives, many of whom not only voted for the \$700 billion Wall Street bailout in 2008 but also helped gather enough support to pass it, are denouncing other economic initiatives as bailouts. House Republican Conference Chairman Mike Pence of Indiana, who voted against the Wall Street bailout, last week introduced legislation to shield Americans from aiding an ailing Europe.

“I do think there’s been a lot of rethinking not only among policy-makers but among the American people,” Mr. Pence said.

Perhaps nowhere is that rethinking more apparent than in Kentucky, where ophthalmologist Rand Paul, a favorite of the tea party movement and the son of Republican Rep. Ron Paul of Texas, appears poised to seize the Republican nomination Tuesday for the seat of retiring Republican Sen. Jim Bunning.

If he does so, it will be at the expense of Trey Grayson, the hand-picked candidate of Mr. McConnell and the Republican establishment.

Dr. Paul says he would stop the proceedings of the Senate to get a debate on a balanced-budget amendment, push for the elimination of the departments of education and commerce, and fight to make sure the children of illegal immigrants no longer are granted citizenship.

After securing a true audit of the

Federal Reserve Bank, he said, he would try to limit the central bank’s ability to “manipulate” interest rates.

Republican leaders not adopting a sufficiently ardent tone are drawing leery glances.

“We’ve got to have someone who’s willing to stand and fight,” said Barbara Lemmon, a 63-year-old Transportation Security Agency screener, who packed into a restaurant last week to meet Dr. Paul.

To be sure, moderate Republicans have also gained politically from the broader public discontent with Democratic control of the White House and Congress. Republican moderates in Illinois, Delaware and California all have shots at Senate seats now held by Democrats.

Still, small-government, anti-incumbent populism is driving the election now.

In Maine, tea party activists this month commandeered a Republican Party convention, tossed out the party’s moderate platform and replaced it with a call for “Austrian economics”—a laissez-faire school—and an end to the Fed and the Department of Education.

Some Republican moderates are exasperated. “The party’s going to have to decide how they’re going to become a majority,” said Maine Sen. Olympia Snowe. “I’m a Republican in a blue state. I have a diverse constituency.”

Democrats are picking up the pitchforks as well. They joined Rep. Paul’s initial push for a broad Fed audit and have lambasted Republicans for “coddling Wall Street.”

Missouri Secretary of State Robin Carnahan, a Democratic candidate for the Senate, said this week that her Republican opponent, Rep. Roy Blunt, “orchestrated the \$700 billion Wall Street bailout” as a member of the House Republican leadership.

Sen. Charles E. Schumer of New York, one of the Democrats’ top strategists, said voters wouldn’t respond to a “get rid of government” argument if Democrats were able to present a government that addresses their concerns.

But he said: “If the choice is a government that speaks to someone else and no government at all, the voters will take no government at all.”

Political middle becomes dangerous ground to hold

[Capital Journal]

By GERALD F. SEIB



One of the reasons it’s so tough to get things done in Washington these days is that the political center—the place where compromises are forged, and where practical results matter more than ideological divides—is such a lonely place.

Well, guess what? It figures to be even more lonely after this year’s congressional election. If you think Washington works badly now, it’s just possible the 2010 vote may well add to the capital’s polarization, and hence to its dysfunction.

This dynamic will be on full display Tuesday as voters head to the polls in primaries in a few key states. In Arkansas, moderate Democratic Sen. Blanche Lincoln is threatened by a challenge from her party’s left in the person of Lt. Gov. Bill Halter. In Kentucky, tea-party hero Rand Paul could upend Republican establishment favorite Trey Grayson. In both cases, more moderate candidates could be swept out by forces from the ideological wings.

But the pattern is cutting a swath well beyond just a couple of states. On the Democratic side, some of the year’s most vulnerable incumbents are centrist Old Bulls, as well as a set of newer moderates who won in swing districts in the Democrats’ successful drive to take the House and deepen their hold on it in 2006 and 2008.

Meanwhile, on the Republican side, the tea-party movement is pushing Republicans to the right en masse. Even in places where tea party-styled candidates don’t win, they are likely to force more traditional Republican candidates off center ground to survive.

The most dramatic and far-reaching effect could be in House races. Heading into this year’s election season, Republican leaders knew that favorable political winds gave them a shot at taking back control of the House. To make that happen, their first step was to mount serious, well-funded challenges to a series of veteran Democrats from moderate to conservative districts. The hope was to encourage several of them to retire rather than face their most serious re-election in years. Failing that, Republicans would make a strong effort to knock off the veterans.

The effort has worked so far, at least to some extent. Rep. Bart Stupak of Michigan, and Reps. Bart Gordon and John Tanner of Tennessee, all Democrats, have announced they’re leaving their seats. All come from districts where conservative Republicans have a good chance of taking their place.

Republicans failed to scare a few Democratic titans they targeted into retiring; Reps. Ike Skelton of Missouri, John Spratt of South Carolina and Chet Edwards of Texas so far have

indicated they were still running. But all come from districts that tack Republican, and all face serious Republican opponents.

Meantime, a set of newer moderate Democrats who managed to take over previously Republican districts in the last two elections are also in danger of falling to a Republican wave this year. Virginia’s Tom Perriello, Idaho’s Walt Minnick, Maryland’s Frank Kratovil are examples of the kinds of centrist Democrats their party recruited to seize swing districts in the last two elections, who now are at risk of seeing their districts swing back the other way.

At the same time, liberal Democrats from more reliably leftist districts won’t be in similar danger, even in a Republican year, and are apt to retain their seats. The likely result will be a Democratic House caucus that is not only smaller, but has moved to the left because there are fewer moderates and conservatives tugging it to the center.

Meantime, a similar threat to the Republican center is emerging from the tea-party movement. In Utah, Sen. Robert Bennett—a true conservative, though one willing to reach across the party divide—has fallen to a tea-party-fueled Republican insurrection in Utah. Republicans will hold the seat, but its occupant will be further to the right.

Similarly, in the Kansas race to replace Republican Sen. Sam Brownback, who is running for governor, Rep. Todd Tiahrt, a staunch conservative who is riding tea-party support, is waging a vigorous primary campaign against the more moderate Rep. Jerry Moran, who once was thought to hold the advantage in the race to become the GOP nominee. Again, Republicans will surely hold the seat, but its occupant could well be further to the right ideologically than would have been the case without the tea-party uprising.

Tea-party activists are similarly interested in putting in place Republican candidates of their liking in House races. Longtime conservative activist Richard Viguerie recently offered this advice: “Tea partiers should focus only on primaries now, and not focus on the upcoming November elections just yet. In the primaries, challenge every establishment, big-government incumbent.”

This process is simply continuing a thinning of the ranks of centrists in Congress, a trend that began as Southern conservative Democrats and Northeastern liberal Republicans have started becoming endangered species. Those were the politicians who, a generation ago, formed a kind of a bridge in the middle to connect the Republican right and the Democratic left.

Running a Congress more starkly divided between liberal Democrats and conservative Republicans isn’t a task for the meek or faint-hearted, but it’s likely the task awaiting whichever party is in control.

WORLD NEWS

Turkey seeks status, security in deal

Pact brokered with Brazil is part of policy of reaching out to neighbors, but tests relations with the U.S.

BY MARC CHAMPION

ISTANBUL—Turkey's effort to broker a deal on Iran's nuclear program shows Ankara's growing confidence on the global stage and, succeed or fail, is likely to cement the country's influence in the region, analysts and diplomats said.

Yet the skepticism with which Western capitals and even Moscow met the agreement also showed the risks of overreaching as Turkey, once seen as little more than a U.S. client state with hopes of joining the European Union, strikes out on its own.

Turkey's foreign ministry stood by the deal saying it was a testament to the trust Turkey has developed among its neighbors in recent years that Iran would agree to entrust enriched uranium to Turkey.

The view here Monday was of a Turkish victory. Prime Minister Recep Tayyip Erdogan "has played a clever game with this deal and so have the Iranians," said Huseyin Bagci, professor of international relations at the Middle East Technical University in Ankara. "It helps him to establish his image as an international statesman and it helps Iran to gain time."

Turkish officials, including Mr. Erdogan, have said repeatedly they believe further economic sanctions will fail in their goal, but will increase tensions in the region.



Turkish Prime Minister Recep Tayyip Erdogan, right, with Azeri President Ilham Aliyev, left, in Baku Monday.

The Iran deal, analysts say, is part of a Turkish foreign policy the government calls "zero problems with neighbors," under which Turkey has in the past two years opened up borders for trade and restored political relations with countries such as Syria, Iraq, Russia and Greece, as well as Iran.

The architect of the policy, Foreign

Minister Ahmet Davutoglu, said in a speech this year that Turkey's foreign-policy activism should be a boon to the U.S., which needs a strong "model partner" at the heart of the region to attain its goals. The policy has in some areas been a success, winning a measure of influence and commercial markets for Turkey. Some policies have had strong U.S.

backing.

But over the past year, the potential conflict between what Washington wants and what Ankara considers good for Turkey has become increasingly clear as Mr. Erdogan has attacked Israel over its invasion of Gaza, backed away from a border opening deal with Armenia and sought to end the international iso-

lation of Hamas, Syria and Iran.

Iran could prove a breaking point in relations between the U.S. and Turkey, says Bulent Aliriza, director of the Turkey program at the Center for Strategic and International Studies, a Washington think tank. The administration sees sanctions as the key to heading off calls for U.S. or Israeli strikes against Iran, an eventuality it wants to avoid at all costs.

"If Turkey is seen to balk at sanctions or vote against them in the [United Nations] Security Council, we will have a mini-crisis in the relationship," said Mr. Aliriza.

Turkey's overtures toward Iran, Syria and others in the Middle East have led some in Turkey and abroad to question whether the ruling Justice and Development Party's Islamist roots may be influencing the government's foreign-policy choices, and whether the North Atlantic Treaty Organization member it is turning away from the West. The government denies both charges.

"Their main driver in foreign policy is commercial," says Henri J. Barkey, senior associate at the Carnegie Endowment for International Peace, a Washington think tank. Trade deals and pipeline contracts have been at the heart of most of Turkey's charm offensives toward its neighbors, and Iran in particular has potential to help Turkey realize its core strategic goal of becoming an energy hub.

Iran signs agreement

Continued from first page
sponse," he added.

Russian President Dmitry Medvedev welcomed the agreement, but said the question remained whether it would satisfy international concerns about Iran's nuclear program. Russia, which has veto power at the Security Council, has been leaning toward imposing new sanctions.

In the past, U.S. and other Western officials have said they won't embrace any alteration to the framework agreement conceived last year by the U.N.'s International Atomic Energy Agency, which called for Iran to ship the bulk of its low-grade uranium to a third country to be enriched there.

The strategy is to allow Iran access to nuclear technology, but make it harder for it to obtain nuclear-weapons-grade fuel.

Iranian negotiators had signed off on the original deal, but amid a mood of increasing distrust with Western powers, Iran's leadership never approved it. Since then, Iranian President Mahmoud Ahmadinejad and other officials have offered a series of sometimes contradictory counterproposals, including one in which Iran would agree to swap its uranium for the higher-enriched fuel, but on Iranian territory.

In a news conference in Tehran Monday following weekend negotiations between Turkish Prime Minister Recep Tayyip Erdogan, Brazilian President Luiz Inácio Lula da Silva and Mr. Ahmadinejad, Iranian Foreign Ministry spokesman Ramin Mehmanparast said Brazil and Turkey have played a "key role" in mediating the standoff by giving Iran "the guarantees it needs" to trust the international mechanism.

"It was agreed during the trilateral meeting of Iranian, Turkish and Brazilian leaders that Turkey will be the venue for [nuclear-fuel] swapping," Mr. Mehmanparast said on Iranian state television.

Select details of the new deal, as released by Mr. Mehmanparast, appear in some cases to mirror the original U.N.-brokered agreement. For example, under the new plan, Iran will ship 1,200 kilograms of uranium enriched to low levels to Turkey to trade it for fuel rods containing uranium enriched to higher levels, according to Iranian state media. That amount equals the bulk of Iran's enriched uranium, according to regional experts.

Iran also agreed to give up earlier demands to exchange the nuclear fuel in stages, rather than handing it over all at once, according to Burak Ozugergin, spokesman for the Turkish foreign ministry.

One big benefit of the IAEA proposal from the point of view of the U.S. and European Union negotiators had been that it would immediately remove the majority of Iran's enriched uranium stockpile, meaning it couldn't be further enriched to weapons grade, and delaying any Tehran move to build a bomb.

The U.S. and EU have been pressuring Iran since 2003 to abandon its nuclear-fuel program, which can be used to enrich civilian or weapons-grade fuel. However, Mr. Mehmanparast said Monday that Iran wouldn't discontinue its own enrichment program. He told the IRNA state news agency that Tehran would continue to enrich nuclear fuel up to 20% levels.

—James Marson in Kiev, Ukraine, contributed to this article.

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WORLD NEWS

China's growth is evaluated

Conference Board says index is moderating, but fears of sharp slowdown are unfounded

BY ANDREW BATSON

BEIJING—A new measure of China's economic growth prospects is moderating after a strong rebound last year, but isn't signaling the sharp slowdown feared by some investors, said the Conference Board, a private research organization.

The New York-based nonprofit group, known for its U.S. consumer-confidence index and other data series, published its leading economic index for China for the first time on Monday.

The index was up an annualized 7% for the six-month period ended March, slowing from a 10.2% annualized rise in the previous six-month period. The group's analysts said gains in the index are still well above trend levels, but have come down somewhat in the past couple of months.

"The strong cyclical rebound we saw over 2009 seems to have receded, and we're entering a new growth path in China. We're seeing some stabilization of growth, and possibly a more moderate growth rate," said William Adams, the Conference Board's resident economist in Beijing, in a conference call with reporters.

Many investors are concerned that recent government moves to rein in rapidly rising housing prices could end up hurting one of the

Cooling off

Leading economic index for China, annualized percentage change from six months earlier



Source: The Conference Board

main engines of the Chinese recovery.

The benchmark Shanghai Composite Index has fallen sharply since mid-April, when Beijing adopted a package of tough policies to control real-estate lending and purchases. It fell 5.1% on Monday to its lowest close in more than a year.

China's official economic data for April, published last week, didn't show a significant cooling of overall growth. But it can be difficult to detect shifts of direction in China's official statistics, which usually only show changes relative to the previous year.

The Conference Board's new index is part of a growing effort by private-sector economists to supplement sometimes-confusing official indicators. "We've been researching

this for four years...to address the concerns people have about Chinese statistical data," said Mr. Adams.

The Conference Board, which es-

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tablished its China center in 2005, publishes leading economic indexes for the U.S. and other large economies, such as Japan, Mexico and South Korea. The China leading in-

dex is calculated according to the same methodology. If it were to show zero growth or a decline, it would be a signal of a significant coming slowdown. The Conference Board says the index would have given advance warning of both the sharp slowdown in late 2008 and a recession in the late 1980s.

Mr. Adams said the group is monitoring the impact of April's property measures, which weren't captured in the current survey.

"After the administrative controls were implemented in April, the question is how this will hold up," Mr. Adams said.

Real-estate activity was strong in March, he said, but that may have been because developers front-loaded projects ahead of the government's new policies.

With national-average property prices rising in April at a record pace of 12.8% from a year earlier, many analysts expect further measures to deal with the social and economic pressures from high housing costs.

"The recovery from 2009 was mainly driven by credit expansion, investment in real estate and investment in infrastructure, and all of these have moderated in recent months," Mr. Adams said. "Economic activity in China is currently strong, but we're not expecting acceleration of the Chinese economy over the next couple of months."

Maoists kill dozens in India

BY KRISHNA POKHAREL

NEW DELHI—India's Maoists attacked a civilian bus in the central Indian state of Chhattisgarh on Monday, police said, killing at least 26 people and injuring 20 others in the latest violence in the rebels' four-decade effort to undermine the country's government.

The incident occurred when a bus carrying civilians and local guides for the police ran over a land mine on a road in the Dantewada district in the southern part of Chhattisgarh.

Mineral-rich swaths of Chhattisgarh have been a flashpoint between the understaffed and undertrained security forces and the rebels who have been rallying the support of local tribes by tapping into the tribes' grievances over neglect by the state. The Maoists, called Naxalites, began their rebellion in 1967 and have increased their attacks since 2005.

About 1,500 of the 3,766 fatalities from the insurgency in the past five years have been in Chhattisgarh, according to the latest data from the New Delhi-based South Asia Terrorism Portal.

Independent political observers and local villagers attribute the rapid surge in violence to the state's effort to fight the rebels by arming local tribal villagers.

Somali leader plans to replace ministers

Somalia's president said he will appoint a new prime minister and cabinet to take control of his shaky one-year-old government, which is engaged in a protracted fight against al Qaeda-backed insurgents.

By *Abdinasir Mohamed in Mogadishu, Somalia and Sarah Childress in Nairobi, Kenya*

The move on Monday followed a parliamentary vote of no confidence in the government the previous day. Sunday's vote coincided with Islamic militants shelling the parliament, leaving 21 dead, including three insurgents and 18 civilians.

President Sheikh Sharif Sheikh Ahmed promised to put together a more cohesive cabinet. "The government of Prime Minister Omar Abdirashid [Sharmarke] collapsed, and I shall form a new cabinet soon," he said Monday. "We aim to end the disputes among the government."

Somalia's government has struggled to stabilize the war-torn East African nation. It controls only a sliver of the capital, Mogadishu, leaving the rest of the country largely lawless. The government is mostly powerless to stop problems emanating from its borders, from piracy to terrorism.

Al Shabaab, a powerful Somali militant group that has declared its allegiance to al Qaeda, has vowed to topple what is left of the state. Meanwhile, the government's long-promised offensive against al Shabaab has yet to materialize.

The president has 30 days to choose a new premier and appoint a new cabinet. For now, his own position remains secure. Mr. Sharif would have to lose two more votes of no confidence before he can be replaced. Under the Somali system of government, the prime minister is responsible for the government's daily operations, while the president acts as head of state.

Former Prime Minister Sharmarke, who holds dual Canadian and Somali citizenship and has worked for the United Nations, was seen as a moderate voice in the government. Mr. Sharif tapped him to help balance clan and political dynamics in the government.

But parliamentarians criticized him for being soft on insurgents. The state minister for defense, Yusuf Mohamed Siad Indha Adde, who also lost his post in the vote, said Mr. Sharmarke was to blame for the gains al Shabaab made since the government came to power. Mr. Siad, a former warlord, has pushed for a more aggressive fight against the militants.

Parliamentarians also said they weren't receiving their salaries regularly, a common complaint among government employees. A Somali official said recently that several hundred soldiers have abandoned their posts because they weren't being paid. The government earns about \$11 million each year in duties from the port it controls in Mogadishu, and says that isn't enough to pay government and army salaries or support many government services.



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