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Static in India drowns out Vodafone's earnings message

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Pain for property investors in Europe's age of austerity

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THE WALL STREET JOURNAL.

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U.K. fails in bid to soften regulations for hedge funds

Reuters

U.K. Chancellor of the Exchequer George Osborne, second from right, seen here studying the handheld device of French Finance Minister Christine Lagarde, said he had few allies in Brussels on hedge funds as ministers supported measures boosting their scrutiny. Meanwhile, a jump in U.K. inflation meant the Bank of England had to send an explanatory letter to Osborne. **Articles on pages 2, 5, 6**

Germany hits short sellers with a ban

By Marcus Walker And Neil Shah

Germany's financial-markets regulator banned naked short-selling of certain euro-zone debt and credit-default swaps as well, as some financial stocks, effective at midnight local time, saying "excessive price movements" could endanger the stability of the financial system.

The ban will remain in effect through March 31, 2011.

Under naked short selling, the securities being sold aren't borrowed in advance. The practice came under fire at the height of Greece's struggle to refinance its debt; many euro-zone governments said such transactions in credit-default swaps, a type of default insurance, artificially inflated Greek funding costs.

The largely symbolic ban comes amid rising political pressure in Germany to tackle speculation that politicians blame for exploiting and worsening the euro-zone debt crisis. It is unlikely to affect much actual trading since most of the naked short-selling and CDS trading that is causing concern in Europe takes place in London, outside the regulator's jurisdiction, German officials admit.

The German move to ban some naked short-selling comes as Chancellor Angela Merkel's government is trying to win acceptance in Germany's parliament for the European Union's nearly $1 trillion rescue fund for indebted euro-zone states—a highly controversial initiative in Germany, where lawmakers and voters feel they're paying more and more to bail out profligate Southern European countries such as Greece.

In order to win support in parliament, Ms. Merkel and her finance minister, Wolfgang Schäuble, are offering lawmakers promises of action on financial-market regulation. On Tuesday, the finance ministry told lawmakers that Germany would support a pan-European initiative to rein in speculation against euro-zone governments. The ministry asked BaFin, the German financial-markets regulator, to use its existing powers to suspend speculative short-selling and CDS trading in Germany in the interim, according to people familiar with the matter.

BaFin previously suspended naked shorts and un-

Please turn to page 4

Nations agree to sanction Iran

By Peter Spiegel

WASHINGTON—The U.S. has reached an agreement with the other four permanent members of the United Nations Security Council on a sanctions regime against Iran, U.S. Secretary of State Hillary Clinton said.

Mrs. Clinton said the draft resolution, agreed to by long-resistant Russia and China, would be presented to the Security Council on Tuesday.

The announcement—made at a hearing of the Senate Foreign Relations Committee—came a day after Turkey and Brazil announced a deal that would have allowed Iran to ship some nuclear fuel overseas for enrichment.

Western powers want to keep Iran from enriching uranium on its own soil, because it fears that fuel will end up being used for nuclear weapons, though Tehran says its nuclear program is nonmilitary. The latest enrichment deal is a weakened version of one that was negotiated in October but fell through after Iran's government didn't approve it.

There was no immediate public reaction from Iranian officials late Tuesday to news of the deal.

The Security Council has passed three rounds of sanctions against Iran in an effort to force it to suspend its nuclear-enrichment activities.

The draft sanctions resolution agreed Tuesday by the U.S., Britain, France, Russia, China and also by Germany would impose a conventional-arms import ban on Iran for the first time and calls on nations to board ships on the high seas to search for contraband items headed to or from Iran, according to a senior U.S. official. If the measure passes, Iran will no longer be able to import eight categories of conventional weapons, the official said.

The Security Council has already imposed an arms export ban on Iran to keep it from supplying groups such as Hezbollah and Hamas.

The new ban would prohibit Tehran from buying battle tanks, armored combat vehicles, attack helicopters, warships, missiles, missile systems, large-scale artillery systems, and combat aircraft.

Under the new resolution, Iran would be prohibited for the first time from any ballistic missile activity capable of

Please turn to page 8

U.S. tries to prevent next 'flash crash'

NEW YORK—U.S. stock exchanges and regulators were expected to propose a six-month pilot program, starting June 14, of market-wide measures designed to guard against events like the May 6 stock market "flash crash," according to people familiar with the matter.

By Kristina Peterson, Fawn Johnson and Jacob Bunge

As a coordinated response to the crash that at one point sent the Dow Jones Industrial Average plunging nearly 1,000 points before bouncing back somewhat, "circuit breakers" would be established around specific stocks first, with broader market-wide safeguards tied to index levels to be rolled out later.

Regulators were expected to announce additional details of the proposed plan to contain market volatility late Tuesday afternoon.

The circuit breakers are intended to slow automated trades that react to falling stocks, protecting the market from an out-of-control selloff. After the puzzling May 6 market tumble, regulators and exchanges agreed the policies on such time-outs should be unified.

As the market dropped that day, the New York Stock Exchange floor slowed trading in more than 1,000 stocks, but

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PAGE TWO

Five reasons to love the coalition

[Agenda]

By Simon Nixon

George Osborne, left, uses his BlackBerry in David Cameron's office.

It may be only a week old, but it's hard not to be excited by the U.K.'s new coalition government.

The general election left the U.K. staring into a political and economic abyss. In the immediate aftermath, most senior Conservatives believed the party would and should establish a minority government, even if it was unlikely to survive a year, while most Liberal Democrats wanted a coalition with Labour, no matter how weak. Either outcome was potentially ruinous for the U.K. Instead, thanks to remarkable statesmanship by Conservative leader David Cameron and his Liberal Democrat counterpart Nick Clegg, the U.K. finds itself with a far stronger government than it had any right to expect, giving the country a real chance of tackling its economic problems.

Of course, those problems remain huge and these are very early days. But there are five reasons why anxious investors can now sleep a little easier.

First, the coalition can claim an overwhelming mandate. Had the Tories scraped back with a small majority with less than 40% of the vote, it might have been able to drive its agenda through Parliament, but at the risk of serious social and political unrest outside—a scenario that had worried the City. Instead, the new government has a majority of 80 seats and a 60% share of the popular vote—almost unprecedented levels of support for a democratic government. That should provide a reasonable guarantee of the government's longevity—crucial if it is to have the courage to push ahead with the tough spending cuts needed to win the support of investors. Collective responsibility for coalition policies should also help bind the parties together, even without the assistance of the proposed, contentious 55% super-majority vote for any dissolution of Parliament.

Second, the coalition's commitment to fiscal consolidation is clearly genuine. Chancellor George Osborne is to set out £6 billion ($9 billion) of spending cuts next week, a down payment on a much more comprehensive spending review later in the year. These spending cuts now have the support of the Lib Dems and have been enthusiastically endorsed by the governor of the Bank of England, Mervyn King, helping to depoliticize what was a hot election debate over the timing of cuts. Meanwhile, an emergency budget will follow on June 22, just six weeks after the new government takes office.

> **As the crisis has shown, the first step to winning the confidence of markets is to prepare honest accounts.**

Third, Mr. Osborne's decision to create a new Office for Budget Responsibility to audit government growth forecasts and fiscal projections is a truly radical step that will boost the credibility of the U.K.'s fiscal framework, so badly undermined by Labour's optimistic forecasts and off-balance sheet chicanery. Not many governments would willingly hand over a slice of fiscal sovereignty to unelected bureaucrats, but Mr. Osborne's courage is an example to other highly indebted countries, not least in the euro zone.

True, the policy carries short-term risks in that the OBR may deliver a gloomier assessment of the U.K.'s position than markets have anticipated, but, as the banking crisis has shown, the first, crucial step to winning the confidence of markets is to prepare honest accounts.

Fourth, the Tories were able to use the coalition deal to dump many poorly conceived commitments while adopting many sensible Lib Dem policies, including on tax reform, political reform and civil liberties, that will help reinforce the coalition's legitimacy. Above all, the Lib Dems bring a much-needed emphasis on "fairness." The Tory election campaign was so fixated on the voters' desire for "change" that it failed to recognize or respond to the electorate's anger at the way certain groups have been able to manipulate successive governments to cut special deals at the expense of ordinary working people. This was what linked anger over banker bonuses, special tax deals for private-equity tycoons and non-doms, parliamentary expenses, the injustices of the benefit system and uncontrolled immigration. The Lib Dems understood this anger far better than the Conservatives and reflecting these aspects of their manifesto in the coalition agenda will be vital to reduce social tensions.

Finally, the coalition is likely to face weak opposition, giving ministers political space to introduce tough measures. Labour may comfort itself that the party's support didn't completely collapse and that, by holding on to 258 seats, it has a platform from which to fight back. But the party will struggle to overcome the burden of its disastrous economic record. Former Treasury minister Liam Byrne's admission in a letter to his successor that "there is no more money left" will be his party's epitaph.

To be taken seriously, a future Labour leader will need to repudiate the past and acknowledge the party borrowed and spent too much. Yet none of the leadership candidates shows any willingness to do this. Meanwhile, the party's trade-union links will likely drag the party leftwards, away from the center ground now occupied by the coalition, undermining its wider electoral appeal.

Indeed, for the time being, the most damaging opposition is likely to come from inside the coalition parties, from those that feel excluded or marginalized by the deal. Already there is evidence of this in the ungracious and unworthy efforts to destabilize the infant coalition by former Lib Dem leader Charles Kennedy and former Tory leadership candidate David Davis. Of course, one of these lone wolves may eventually succeed in establishing himself as a king across the water, finding an issue around which to rally his own coalition of the disappointed to overthrow the government. But this will likely take years. In the meantime, Mr. Cameron and Mr. Clegg will no doubt relish the chance to define themselves in opposition to their parties' fringes, reinforcing their centrist appeal with voters while they get on with the important task of saving the country.

What's News

■ **Johnny Cameron**, a former banker at RBS, accepted an FSA sanction, agreeing not to work in a major role at a bank or financial firm. The deal lets him avoid tougher disciplinary action. **17**

■ **Vodafone booked** a $3.3 billion impairment charge on its Indian operations due to stiff competition and a price war, but it also issued an upbeat outlook on revenue and dividend growth. **17, 32**

■ **Airbus will deliver** its first A380 superjumbo to Lufthansa on Wednesday, but the jet's drag on Airbus resources will likely cast a cloud over celebrations. **21**

■ **Wal-Mart sounded** a pessimistic note about the pace of the U.S. economic recovery, as the company reported its fourth consecutive quarter of declining U.S. sales. **19**

■ **The world's largest** memory-chip makers are expected to settle cartel charges with the EU on Wednesday. **21**

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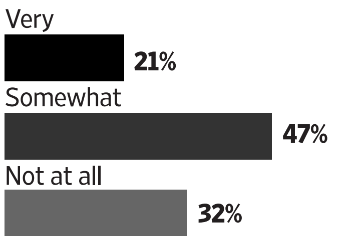


NEWS

ISOCHROM.com (left); Reuters

ECB President Jean-Claude Trichet, far right, and Vice President Lucas Papademos in 2005 look at a model of the bank's new headquarters in Frankfurt, shown at left in a computer-generated rendering.

The ECB builds a house for the euro

By Roman Kessler
And Brian Blackstone

FRANKFURT—As doubts swirl about the future of the euro, its 16 members are sending a strong signal of their mutual devotion: They're building a place together.

The president of the European Central Bank, Jean-Claude Trichet, is due to officially kick off construction Wednesday of a new €850 million ($1.05 billion) headquarters along Frankfurt's Main River, the most significant step to date to give the euro a permanent home—a step that has dragged on for a dozen years.

The ECB has longed to abandon its rented 1970s-era EuroTower digs in the heart of Frankfurt's financial center. It has occupied the high-rise since 1994, when the pre-euro ECB was known as the European Monetary Institute. The ECB is probably the only major central bank that shares space with a restaurant and nightclub, called Living XXL.

The new home, in Frankfurt's edgier East End, will consist of two towers—one 41 floors and the other 44—joined by a massive conference and visitor center where a historic produce market once stood.

"The design of our future premises should reflect the values we regard as essential to our activities. We are committed to transparency, integrity, excellence and efficiency," Mr. Trichet has said.

Mr. Trichet won't move into the new space himself when it is finally completed. His eight-year term expires in October 2011. The move-in date isn't until 2014, if all goes according to plan.

The ECB is independently responsible for setting monetary policy for the 16-member euro zone. The larger European Union, which is based in Brussels, monitors economic and fiscal policies for its 27 members. Europe's debt crisis has revealed that the euro zone's foundations at times fall short of Mr. Trichet's lofty ambitions. Owing in part to loopholes in euro-zone budget rules, the euro has come under intense pressure since Greece became the first debt-laden euro-zone country to face the risk of default, kicking off a contagion that threatens Portugal, Ireland and Spain.

The EU and International Monetary Fund stepped in with €110 billion in loans to help Athens over the next three years. And last week, the ECB bought €16.5 billion in bonds from Greece and other countries along Europe's troubled fringe. Some analysts question whether the euro currency could survive if Greece is eventually forced to default on its debt.

The ECB has wanted a permanent home since before the creation of the common currency in 1999. The European Monetary Institute started scouring Frankfurt for property as early as 1998. The ECB bought the site for the new headquarters in March 2002, when Dutchman Wim Duisenberg was ECB president, and asked for architects to submit applications. Vienna-based Coop Himmelb(l)au won the job at the end of a two-year process.

The project stalled for years as it went through a series of application, design, planning and even soil-study phases before being ready to start the bidding process for general contractors in 2007. But by 2008, commodity prices had soared to the point where the ECB could no longer keep construction within its €500 million budget, adjusted for 2005 prices. Other costs including land and fees push the total to €850 million. If inflation since 2005 is taken into account, the total bill would likely be higher.

When the global recession brought commodity prices back down, the ECB restarted the tender process and accepted bids in December 2009.

The head of the ECB planning team, Thomas Rinderspacher, is setting his sights high. "Paris, France: the Eiffel Tower is what comes to mind immediately. ... I hope that the building will be associated with the successful policy of the ECB," he says.

There was one big obstacle that architects and builders needed to overcome: the former wholesale fruit and vegetable market, which is the size of two football fields, sits on the building site. Built in the Weimar Republic of the 1920s, the site known as Grossmarkthalle is one of the few industrial monuments left after Frankfurt was shelled in World War II.

Bloomberg News

The current Frankfurt headquarters of the ECB, a builiding it shares with a restaurant and a nightclub.

The site from where much of the food supplies for northern Germany originated soon became known as the "vegetable church" because it was the only building comparable in size to the city's cathedral. When it was built in 1928 it was the largest freestanding hall in the world. It stayed in operation until 2004, thanks to its proximity to Frankfurt's centrally located railways.

The hall was built as an "expressionistic monument to be the crown of the city and a counterweight to Frankfurt's many alleyways in the historic center which sadly have ceased to exist," said Christoph Mohr of the regional preservation authority.

The city of Frankfurt had been looking for a buyer for 10 years when the ECB came along. Historical-preservation rules made it virtually impossible for a private company to build there, leaving the ECB and its deep pockets as an ideal option. The ECB plans to rehabilitate the market into a conference hall and media and visitor centers.

The historical authority's provisions are so strict that the ECB had to chemically analyze the composition of the mortar between the brick stones to restore its original color.

The ECB will pay for the project. Each central bank in Europe pays into a common capital pool, which totaled nearly €6 billion in 2009. Around €180 million has already been spent on up-front costs.

The ECB's governing council will meet at least twice a month in a room on the 42nd floor of the higher southern tower under a glass roof. The new headquarters will include 2,200 work spaces to accommodate the ECB's 1,500 to 1,800 staffers. Each of the euro's 16 member countries will have an office there as well.

Estonia may move in next year, assuming finance ministers approve the European Commission's recommendation that it join the euro.

EUROPE NEWS

Politicians face angry Greeks

BY NICK SKREKAS
AND ALKMAN GRANITSAS

ATHENS—Public outrage over economic mismanagement and corruption is forcing Greece's political leaders to clean house.

An opinion poll published in the Sunday Proto Thema newspaper shows nine out of 10 Greeks blame the country's economic crisis on its politicians. About the same percentage said politicians found guilty of wrongdoing should be jailed.

The government, with the support of the main opposition New Democracy party, is planning to abolish a controversial law granting former government ministers immunity from criminal prosecution. The proposed legislation may be introduced into parliament as early as this week. Many analysts say the New Democrats, faced with their own checkered past of various scandals and now under new leadership, are anxious to allow the legal system to rid them of some controversial politicians.

The Socialist government, elected in October, also is pushing ahead with a number of parliamentary investigations to defuse the anger over a political system that brought the country to the brink of bankruptcy. One probe concerns a recent land swap with a powerful local monastery that cost the state hundreds of millions of euros.

Another reform expected in the next few days is a move to tighten up the rules disclosing the personal wealth of elected officials. The effort already has claimed its first victim. Greece's deputy tourism minister, Angela Gerekou, resigned this week after a newspaper revealed her husband, a famous local singer, owed about €5.5 million ($6.8 million) in back taxes, fines and accumulated interest. Her resignation was promptly accepted.

"Psychologically there is a need to see some people punished even if that won't solve the problem," said George Sefertzis, an independent political analyst at the Athens-based consulting firm Evresis. "And either the political system changes or society will cast parties and politicians aside."

Greeks are particularly angry about the three-year austerity plan, which will include deep cuts in wages and government spending, imposed by the European Union and International Monetary Fund in exchange for a €110 billion rescue package.

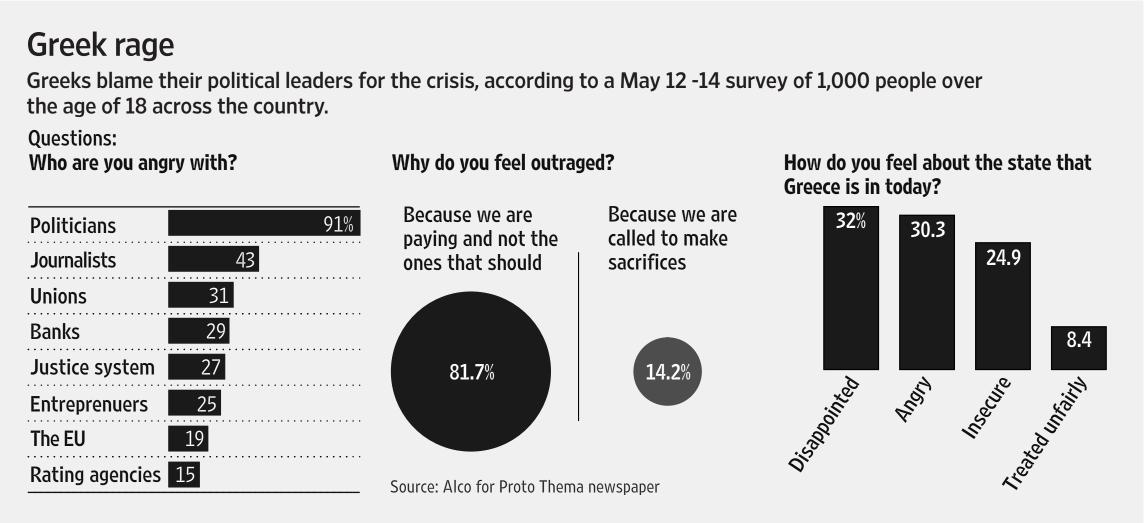
"I think at least 290 of the 300 parliamentarians should probably be locked up for their thieving ways, and it's an absolute injustice that I, too, have to suffer and pay for other people's mistakes," said Stavros Alexiou, a 30-year-old self-employed tradesman. "As we say in Greece 'the fish stinks from the head' so they should shoulder most of the burden."

A nationwide general strike—the fourth this year—scheduled for Thursday to protest the austerity measures is expected to shut down the country. Many fear it could turn violent. Three workers were killed May 5 when a bank was fire bombed during a demonstration. Anarchists are blamed for the killings.

Officials also are discussing making party funding more transparent, and changing the electoral law to break up large urban voting districts so politicians are less dependent on donations.

Associated Press

Greeks are blaming politicians for the country's economic crisis and are demanding wrongdoers be punished.



Beijing aims to diversify reserves

BEIJING—The euro's plunge on Europe's sovereign-debt crisis won't deter China from diversifying its massive foreign-exchange reserves, an adviser to China's central bank said Tuesday.

"Diversification is a long-term trend," Xia Bin, an adviser to the People's Bank of China, said in a telephone interview.

The euro rose on the comments, which ran counter to global speculation that the common currency's drop to four-year lows might prompt China to sell off euros.

The composition of China's foreign-exchange reserves, which at about $2.5 trillion are by far the world's largest, is a closely guarded secret.

Analysts believe the vast majority of China's holdings are in dollars, and Chinese officials have made clear that the dollar will remain dominant.

However, officials have expressed mounting concern about the U.S. currency in recent years because of Washington's growing deficits, and have said that China wants to diversify its holdings, which analysts widely interpret to mean putting more money into euros, the second-most liquid currency after the dollar.

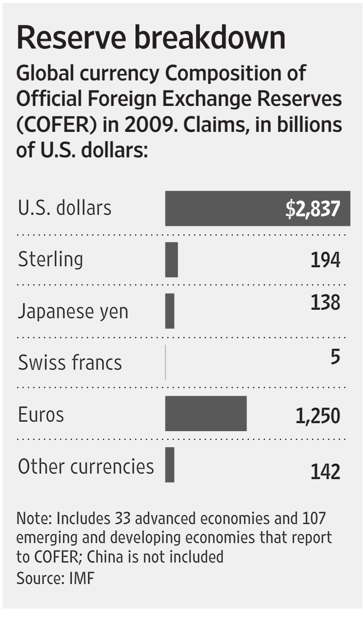
Central banks, especially the cautious PBOC, take the long view on their asset allocations and are unlikely to shift suddenly. If anything, China could see the euro's drop as a buying opportunity.

"I don't think China will sell euros at the moment because if they sell, they'll be registering huge losses," said Li-gang Liu, head of China economics at ANZ Bank. "I'd think this is a very good entry point for the exchange reserves to diversify from current U.S. dollar-heavy assets to more balanced asset classes by including more euro assets."

The euro, which traded over $1.50 as recently as December, has since plummeted nearly 20% as the Greek fiscal crisis has broadened into a crisis of confidence over European sovereign debt and the common currency itself. It traded Tuesday at $1.2438.

The remarks by Mr. Xia, one of three academics on the central bank's monetary-policy committee, "were positive for the euro because they suggest the PBOC isn't in a rush to dump its holdings in the currency," said Yuichiro Harada, a senior currency dealer at Mizuho Corporate Bank in Tokyo.

—Liu Li in Beijing, Joy Shaw in Shanghai and Andrew Monahan in Tokyo



Germany bans some naked selling of securities

Continued from first page

covered CDS trading in 2008, to limit market volatility following the collapse of Lehman Brothers.

In a statement on its website, BaFin said the ban will apply to euro-zone debt offerings that trade in the regulated segment of one of Germany's exchanges, as well as CDS linked to euro-zone debt, if the swaps aren't being used to hedge against a default risk.

It also banned naked short sales of the following stocks: **Aareal Bank** AG, **Allianz SE**, **Commerzbank** AG, **Deutsche Bank** AG, **Deutsche Börse** AG, **Deutsche Postbank** AG, **Hannover Re** AG, **MLP** AG and **Munich Re** AG, as well as Generali Deutschland Holding AG, a German unit of Italian insurer **Assicurazioni Generali** SpA.

The government will prepare a bill that could prolong the ban and potentially broaden it to all German stocks, German officials said.

BaFin cited the "extraordinary volatility" afflicting euro-zone countries' debt certificates and the rising prices of CDS for several nations.

"Against this background, massive short-selling of the affected debt certificates and the conclusion of naked CDS on loan-default risks of euro zone states would have as a consequence further excessive price movements," BaFin said.

The ban on CDS is limited only to transactions that aren't being used for hedging purposes or where the hedging purposes are secondary, BaFin said.

It said it was imposing the ban on naked short-selling of the 10 financial stocks because the sharp losses that have already been seen in government debt prices could spill over to the stock market.

Indeed, shares of many financial companies have tumbled in recent weeks on fears over their exposure to some of Europe's more highly indebted nations.

Tuesday's announcement came after European stock markets had closed. Investors instead dumped the euro, pushing the battered currency to a fresh four-year low of $1.2205. But the market's swift reaction—the euro stood at $1.2357 just a few hours before—has some scratching their heads.

Win Thin, a currency analyst at Brown Brothers Harriman, says one explanation for the market's violent move is that investors are disturbed by Germany's decision to focus on short-selling at a time when Greece's—and Europe's—debt troubles and fiscal challenges loom much larger as a problem. "This heightens the market's perception that European policy makers are just throwing anything at the wall to see what sticks," he said.

Another possibility is that investors are betting that the euro will become the main way to bet against Europe if German regulators—and others elsewhere—take away investors' ability to express bearish views on European government bonds and bank stocks, even if only temporarily. "If you can't short these bonds, then short the euro," Mr. Thin said.

—Andrea Thomas contributed to this article.

EUROPE NEWS

Hedge funds face tighter controls

EU finance ministers back new rules, which must be reconciled with Parliament plan; scrutiny also builds in U.S.

By Charles Forelle
And Jenny Strasburg

New rules approved by European regulators aimed at exerting greater control over hedge-fund managers set the stage for intensified scrutiny of the private funds globally.

European finance ministers backed regulations on hedge funds and private-equity firms Tuesday, hours after a key European Parliament committee late Monday night voted through its version of the hotly contested legislation.

The two texts diverge substantially, setting up months of wrangling before anything becomes law. But one thing is clear: Both the ministers, meeting in a body called the European Council, and the parliament agree on tighter restrictions than funds or their backers in the U.K. government would like to see. London accounts for the bulk of the EU hedge-fund industry.

The moves are the latest sign that hedge funds, which cater to wealthy individuals as well as pensions, endowments and other big investors, are attracting a heightened level of regulatory attention both in Europe and the U.S. that until recently they have managed to avoid.

Mandatory hedge-fund registration with the U.S. Securities and Exchange Commission is likely to come with any passage of financial overhaul legislation now pending in Congress. Hedge-fund managers worry that an SEC emboldened by new leadership is bent on deepening its oversight of the funds, which compared with other investment firms are lightly regulated.

U.S. Treasury Secretary Timothy Geithner has expressed his concern that the European Union regulations may make it overly difficult for American funds to raise money and market themselves in Europe.

The latest moves to regulate hedge funds mark a shift for the industry, which has had success lobbying aggressively to avoid stricter controls. Since the 2008 financial crisis, lawmakers have been much more focused on the woes and actions of big Wall Street banks.

Bloomberg News

Elena Salgado, Spain's finance minister, after a meeting of EU ministers Tuesday.

Financially the funds have been faring well, too. Though many hedge funds lost more money in 2008 than ever before, they generally performed better than the broad markets, and collectively they have since bounced back.

Investors added some $14 billion in new capital to hedge funds globally during the first quarter, bringing assets to $1.7 trillion, according to industry research firm Hedge Fund Research Inc. The net inflows reflect renewed confidence following a period when more clients were withdrawing than investing.

While in the U.S. concern about hedge funds has taken a back seat to banks, in Europe there is broad concern that the opaque dealings of hedge funds could weaken an already creaky financial system by creating large piles of unforeseen risk. In the wake of bank failures and in the midst of a sovereign-debt crisis, many European officials are keen to know more about how much risk hedge funds are taking on and what ramifications that risk might have for the broader system.

Europe has a well-worn regulatory regime for conventional asset managers. "Now we want to regulate that which is not yet covered," Elena Salgado, the Spanish finance minister, said Tuesday.

Among the new requirements in both versions of the EU legislation are, to varying degrees, obligations of disclosure, limits on the amount of borrowed money funds can use to amplify their returns and restrictions on how fund executives can be compensated.

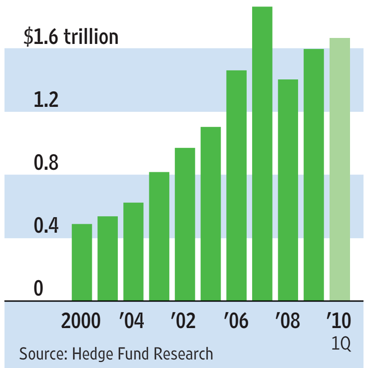
Most contentiously, both versions—in different ways—would put up hurdles to so-called third-country funds' marketing themselves in the EU. Third-country restrictions would apply to U.S. hedge funds, but also to the many London hedge-fund managers whose investment vehicles are domiciled offshore in tax havens like the Cayman Islands.

The prospect of the third-country restrictions has inflamed the U.K. and the European hedge-fund industry for months. The U.K. has tried to head off the restrictions by pressing for a "passport" system that would let an offshore fund approved by the national regulator of any one of the 27 EU countries solicit investors in all of them.

France and others say that would lead to venue shopping, since a seal of approval from the light-touch British regulators would automatically let any fund sell anywhere.

Upswing

Global hedge-fund assets are climbing again



Source: Hedge Fund Research

Britain was outvoted at the council, and the council's version of the law has no passport provision. Instead, preserving in part the status quo, hedge funds under the council's version would need to get permission from each country in which they want to operate.

George Osborne, the freshly minted U.K. chancellor of the exchequer, was unable to sway his peers. "Obviously, I arrived with a challenging position that was bequeathed to me by the previous government," he said after the meeting Tuesday. "There were close to no allies around the table."

The parliament's version does provide for a passport, but it is turned on its head: Third-country funds could get a passport for access to all 27 nations, but only if they met strict requirements. U.S. hedge-fund firms would have to voluntarily comply with the EU's risk and compensation restrictions.

"The council text of the directive is actually a great improvement on the parliament's version, but there are numerous issues of detail to be resolved," said Andrew Baker, head of the Alternative Investment Management Association, Europe's main hedge-fund lobbying group.

EU reaches trade deal

By John W. Miller

European Union and Central American leaders agreed Tuesday to a free-trade deal, but its implementation is likely to be delayed until the end of the year at the earliest, adding to a pattern of bilateral trade agreements being signed, then not actually ratified and applied.

The EU's new deal reduces import tariffs on goods traded with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. The EU had $12 billion of trade with those nations in 2009.

Both sides will remove nontariff barriers for all industrial goods, and EU cars will receive tariff-free access for 10 years.

The EU will cut import tariffs on bananas, for a total savings of €50 million ($61.6 million), and raise import quotas for beef by 10,000 tons and rice by 20,000 tons.

Trade deals often take time. The latest global treaty, the Uruguay Round, took from 1986 to 1994 to complete. The Doha Round, a proposed deal among all 153 members of the World Trade Organization, is still frozen by major disagreements among negotiators, especially over farm subsidies. That has led trade officials to open more bilateral negotiations. However, those treaties are frequently facing hostile or indifferent receptions at home.

Signed, not delivered

The EU looks set to follow the U.S. habit of signing bilateral free-trade deals, then not ratifying and implementing them.

U.S.-Colombia
Signed: Nov. 22, 2006
Fate: Held up by U.S. Congress

U.S.-South Korea
Signed: Jun. 30, 2007
Fate: Held up by U.S. Congress

EU-Latin America*
Signed: May 18, 2010
Fate: To be determined

* Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

In the past 10 years, new obstacles to bilateral deals have emerged, including expanded powers for the European Parliament, an expanded EU of 27 nations, and more protectionist politics in many EU countries and the U.S. Congress.

"The institutional process, including ratification by the European Parliament, may sometimes seem very long to complete, but it is extremely important," said EU spokesman John Clancy.

In the U.S., deals with South Korea, Colombia and Panama haven't been ratified by Congress, as the Democratic leadership fears a backlash.

In the EU, a landmark agreement with South Korea still faces opposition by Italy and hasn't yet been put to a vote among the bloc's 27 members or its Parliament.

"Trade politics are so volatile right now that politicians are afraid to force votes on these trade deals," says Fredrik Erixon, director of the Brussels-based European Centre for International Politics and Economy, a free-market think tank.

New market safeguards

Continued from first page

the electronic exchanges kept trading with limited buyers at the same furious pace. Some stocks plunged artificially on the electronic markets, with some falling as much as 90% before snapping back. Had there been stock-specific circuit breakers across all exchanges the downfalls could have triggered, many experts say, the velocity of the falls would have been less severe.

Regulators and exchanges also are discussing when and how trades should be canceled during times of market volatility, but they haven't reached a final decision on how to implement that part of the plan.

A market-wide circuit breaker—which is also still under development—is likely to be tied to moves in the Standard & Poor's 500-stock index, alongside individual guidelines for component stocks of that index, according to people close to the discussions.

The levels that would set off the stock-specific circuit breakers have been the subject of considerable debate, but people familiar with the talks expect a 10% movement in individual stocks to be the trigger for a slowing or time-out in trading of the volatile stocks across trading platforms.

Regulators also are reviewing the way trades can be canceled. On May 6, the exchanges decided to reverse all trades done at prices that were above or below 60% of a stock's 2:40 p.m. EDT price.

The exchanges have previously said they would be able to move quickly to implement the circuit breakers, which are popular within the industry.

The Securities and Exchange Commission is expected to consider a rule within the next few weeks to form a consolidated audit trail that collects and aggregates real-time market data from exchanges and other trading venues. The data should help regulators pinpoint the causes of odd market behavior.

SEC staffers are combing through thousands of trades that occurred during the volatile half-hour on May 6. The SEC and Commodity Futures Trading Commission plan to release a report later Tuesday on their findings about the plunge.

Euro-zone prices rise for consumers

By Joe Parkinson
And Paul Hannon

Consumer prices across the 16 countries that use the euro edged higher in April, as rising energy and transportation costs pushed the rate to its highest level since December 2008, data showed Tuesday. But a sharp fall in core inflation—which strips out the most volatile components—to a record low showed that inflation pressures were subdued.

Also Tuesday, the euro zone posted a sharp increase in exports and imports, allowing it to post a trade surplus in March. But German economic expectations deteriorated in May, with investors concerned about high public indebtedness and a declining euro.

The European Union's official statistics agency, Eurostat, said the final estimate of the annual consumer-price index in the euro zone rose 1.5% from a year ago in April, in line with the flash estimate. In March, the consumer-price index rose 1.4%, year-to-year.

Despite the sharp increase in consumer prices, annual euro-zone inflation remains below the level of about 2% that the European Central Bank targets over the medium term, and looks set to remain so for some months to come.

Stripping out the volatile energy, food, alcohol and tobacco prices, annual price growth slowed to 0.8% in April from a year earlier, down from 1% in March.

Other data, such as producer prices from Germany, Italy and France, imply a weaker trend in inflation. Also, the boost to annual inflation from lower energy prices a year earlier should start to ease, because in March 2009, oil prices began to rise again.

Meanwhile, a sharp rise in exports and imports helped the euro zone post a wider trade surplus in March. Member states had a combined surplus in their trade in goods of €4.5 billion ($5.57 billion), according to Eurostat.

Inflation elevated

Euro-zone inflation edged up to 1.5% in April in line with the flash estimate. Year-to-year percentage change in the consumer-price index.

Source: Eurostat

U.K. coalition makes debut in Parliament

By Alistair MacDonald

Britain's first coalition government in 65 years sat in Parliament for the first time Tuesday as new Conservative Prime Minister David Cameron and his Liberal Democrat deputy, Nick Clegg, begin taking the first steps toward determining whether they can deliver on their promises to fix the battered U.K. economy and overhaul its electoral process.

On a day marked by political ceremony and good-humored banter, the first session under the new coalition appeared to go smoothly, with little sign of cracks that some thought would surface quickly in the coalition that will run Britain. On Tuesday, Mr. Cameron took his seat next to Mr. Clegg; parties typically segregate themselves in Parliament, but in the coalition, Tories and Liberal Democrats sit on the government's front bench together.

Earlier, however, the government was reminded of more pressing problems, as data showed that retail-price inflation hit a near-19-year high in April and new Treasury chief George Osborne admitted he was struggling to find European allies for Britain's bid to water down new European Union regulations on hedge funds Tuesday.

Press Association

David Cameron, left and Nick Clegg at the House of Commons on Tuesday.

Mr. Cameron's new administration now faces a sterner test on proposals that include a rise in the capital-gains tax and making parliamentary terms fixed, with a vote of 55% in the House of Commons required to dismiss a government and call a new election.

"We are going to press ahead with this, but obviously it will be a matter of debate of [the] House of Commons," said a spokesman for Mr. Cameron.

The question of electoral reform looms as an early test of the coalition's ability to get things done. The move toward a Parliament with a five-year fixed term was a key victory for the Liberal Democrats in the coalition agreement with the Tories, as it would give the Lib Dems—Britain's No. 3 party—a stable seat at the table. On Tuesday night, Mr. Clegg was to give a speech in which he would promise "the biggest shake-up of our democracy since 1832," according to a transcript.

But there has been unrest in the Conservative Party over the proposed measure. "Large numbers of people don't like it, including some ministers," said David Davis, a senior Tory MP who says the move "dramatically reduces the ability of Parliament to hold the executive to account" by requiring more than a simple majority to dissolve it.

In his speech, Mr. Clegg was expected to repeat that the government will be scrapping a raft of measures put into place or proposed by the previous government, including restrictions on the storage of people's DNA and the holding of Internet and email records when there is no reason to do so.

Labour took its position on Parliament's opposition bench for the first time in 13 years, having said earlier that it will announce the results of its leadership election on Sept. 25. So far, brothers David Miliband, the former foreign secretary, and Ed Miliband, the former environment minister, have raised their hands.

Later this week, Mr. Cameron will visit Paris and Berlin. He will meet with French President Nicolas Sarkozy on Thursday before Friday talks with Chancellor Angela Merkel. The trip is Mr. Cameron's first major foreign-policy test, giving him an opportunity to put behind him past strains with his two fellow center-right leaders.

British inflation builds

By Natasha Brereton

LONDON—British Chancellor of the Exchequer George Osborne has already had an exchange of letters with the governor of the Bank of England over the rise in inflation this year.

U.K. consumer-price inflation accelerated to its highest level in April since November 2008, gaining 3.7% from the year-earlier month. In monthly terms, prices rose 0.6% in April, matching March's rise, the Office for National Statistics said.

The rise requires Gov. Mervyn King to write a letter to the chancellor every three months if annual inflation is more than one percentage point above or below the central bank's 2% target. In his letter to Mr. Osborne, Mr. King said temporary factors were masking downward pressure on inflation from the large amount of spare capacity in the economy, and it stands ready to either extend or reduce monetary stimulus as needed.

He reiterated the Monetary Policy Committee's view that inflation would fall toward the target within the year, but said price growth has been somewhat higher than expected and said the central bank would monitor conditions closely.

In response, Mr. Osborne said a priority would be to deliver a "significantly accelerated reduction" in the U.K.'s structural deficit over the course of the new Parliament.

Reducing the deficit and ensuring economic recovery are the two most urgent issues facing the U.K., he said. He thanked Mr. King for his support of the government's plan to make spending cuts worth £6 billion ($8.9 billion) in 2010-11.

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U.S. NEWS

Democrats tested by their own base

Party struggles to keep white, working-class voters—key to Obama's '08 victory—in the fold for midterm elections

By Peter Wallsten

NANTICOKE, Pa.—Democratic leaders have long expected a challenging election year, with polls showing an energized Republican base and rising voter anxiety over President Barack Obama's agenda. Now, the Democratic Party also faces a brewing rebellion among the white, working-class voters within its ranks—people it needs to form a national governing majority.

Lloyd Briggs said he is "fed up" with Washington over the Wall Street bailouts. Peggy Cendarski frets that the Democrats' "unfair" health-care overhaul will punish those who already have good insurance coverage.

These and other Democratic voters in this blue-collar town said they are ready for a change in Washington.

Some are open to backing Democratic challengers to lawmakers the party has supported for many years, and some said they may leave the party entirely come November.

In the economically hard-hit neighborhoods here, near Scranton, Democratic voters on Tuesday were deciding whether to keep 13-term Rep. Paul Kanjorski on the ballot in November or replace him with Corey O'Brien, a 36-year-old waging an anti-Washington campaign from an RV. Mr. O'Brien, a Lackawanna County commissioner, said he has a better chance of keeping the district in Democratic hands because Mr. Kanjorski, a senior member of the House Financial Services Committee, is so closely tied to the Wall Street bailouts.

"The Democratic Party better wake up, or we're going to get blown out in November," Mr. O'Brien said. "The only way we can win is by putting in new faces, fresh faces."

Mr. Kanjorski and his supporters say he, like lawmakers in both parties, was working to save the economy from collapse and had few options when the Treasury's Troubled Asset Relief Program was passed. Supporters point to his record of helping the district, including saving the local veterans hospital from closure. "He's been a true friend of the area, and it'd be a shame if we lost him because of the situation that we're faced with in this economy," said Tom Leighton, mayor of Wilkes-Barre, Pa.

In other party primaries Tuesday, Democrats Arlen Specter in Pennsylvania and Blanche Lincoln in Arkansas struggled uncertainly for nomination to new Senate terms and tea-party activists clashed with the Republican hierarchy in Kentucky. The campaigns were testing anti-establishment anger in both political parties.

Already this month, Democratic voters have rejected one longtime incumbent, West Virginia Rep. Alan Mollohan, in a party primary.

Democratic strategists said their party faces great peril if it is unable to find candidates this year who can shore up the connection with white, blue-collar voters who are trending toward the GOP. Mr. Obama won election in 2008 thanks largely to highly energized minority voters and liberal whites, but white voters like these in northeastern Pennsylvania were crucial to building a majority.

Mr. Kanjorski, 73, narrowly won re-election in 2008 after his Republican opponent, Lou Barletta, accused him of improper behavior in directing federal money to a firm owned by the congressman's relatives. Mr. Barletta is running again, and GOP strategists consider Mr. Kanjorski vulnerable. But with more than $1 million in the bank as of March 31, Mr. Kanjorski's campaign chest dwarfs that of both Mr. O'Brien and Mr. Barletta.

No reliable public polling is available to test the congressman's true vulnerability. Kanjorski spokesman Ed Mitchell acknowledged that "it's a tough atmosphere out there," given voters' anger at incumbents. "We're fighting uphill against that," he said.

Mr. Mitchell said the issue regarding the family firm had been fully aired in the last election and that Mr. Kanjorski was never investigated for wrongdoing.

Mr. O'Brien spent much of Friday walking the streets of Nanticoke, a small town of mostly Polish descendants that is also Mr. Kanjorski's hometown. Many voters he found were receptive to his campaign.

"Everything's a mess," said Chester Prushinski, 63, a retired postal worker, who was working in his garden. "We had to bail out the banks? It doesn't make any sense."

Mr. Prushinski, a Democrat, said he voted for Republican John McCain in the presidential race in 2008 but also voted for Mr. Kanjorski. When it comes to supporting his congressman this year, he said, "I'm on the fence."

Ms. Cendarski, a 70-year-old retiree, shook her head when asked about Messrs. Kanjorski and Specter. "I voted for Paul for years, but now I'm not too happy with him," she said. "It just seems he's not working for the people anymore."

Hurlow Rowlands Sr., whose family owns a local trucking business, said he would vote for GOP candidates this fall if Democrats on Tuesday fail to pick the challengers he wants for Congress—Mr. O'Brien for the House seat and Rep. Joe Sestak for Mr. Specter's Senate seat.

"I want the people who are going to do the right thing, rather than just a particular party," said Mr. Rowlands, 60.

There is no sign that Democratic voter anger has spurred anything resembling the tea-party movement, which is marshalling opposition to a number of candidates backed by the Republican establishment across the U.S. But surveys do show anger brewing among Democrats at their own party leaders.

More than a third of Democrats, for example, feel their own party members in Congress are "more concerned about the interests of large corporations" than those of average Americans, according to a Wall Street Journal/NBC News poll released last week.

As a group, blue-collar voters have moved into the Republican column, the poll showed. At this point in the 2006 midterm-election campaign, blue-collar voters had wanted Democrats to control Congress. Now, they favor GOP control, the poll found.

Keith Frederick, Mr. Mollohan's pollster, said he had tried to sound the alarm within the campaign that the landscape was changing under the party's feet.

"It is no surprise that West Virginia voters [in Mr. Mollohan's district] are anti-Washington," he wrote in an internal campaign memo in March, "but even Democratic Primary voters show high levels of anger and frustration."

Most striking, Mr. Frederick said in an interview, was that voters no longer placed a value on seniority and their local representative's ability to bring home federally funded projects.

—The Associated Press contributed to this article.

Eric Walls drops his ballot off at a drop box Tuesday in Portland, Ore. Democratic Sen. Ron Wyden faced little opposition in the party's primary.

WSJ.com

ONLINE TODAY: For results and analysis of the primary elections, visit **WSJ.com.**

Drop in producer prices tames inflation

By Sara Murray

Inflation remained tame as U.S. producer prices declined in April, though the cost of certain raw materials and finished goods are moving up.

The index of producer prices, which measures how much manufacturers and wholesalers pay for goods and materials, fell a seasonally adjusted 0.1% for finished goods in April from the prior month, the Labor Department said Tuesday. But core producer prices, which strip out more-volatile food and energy prices, rose 0.2% last month

Prices for energy goods fell 0.8% last month and food prices dropped 0.2%, contributing to the overall decline. Compared with the same time a year ago, producer prices are up 5.5%.

Prices rose for finished items ranging from cars and appliances to household furniture and civilian aircraft. Core costs for intermediate goods and raw materials also increased, a sign that price pressures are building in the supply chain. However, economists said those increases are unlikely to lead to inflation in the government's consumer-price index being released Wednesday, which measures what consumers pay for goods and services.

"The overall inflation profile remains very, very benign," said Eric Green, an analyst for TD Securities Inc., adding that the ability to pass through producer-price increases to consumers is fairly weak since the economy is highly reliant on service-producing industries.

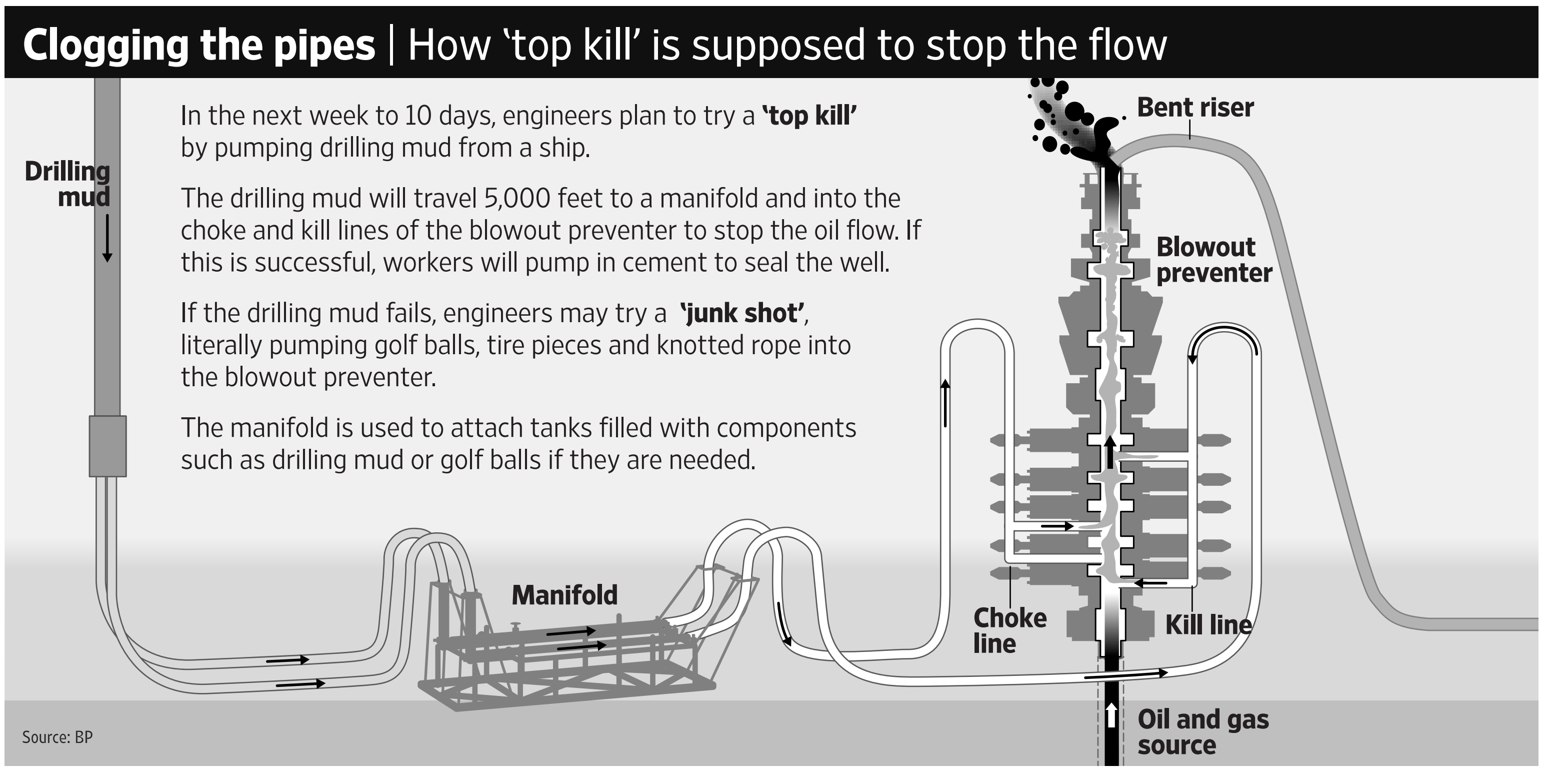
Among finished goods, prices for home appliances increased 1.9% and passenger-car prices rose 0.6%. "For the past several years, the auto component of the [producer price index] has registered sizeable monthly swings, which appear to have little connection to reality," Morgan Stanley Research analysts wrote in a note to clients.

For intermediate goods, excluding food and energy, prices increased 1.1% in April. Meanwhile, core crude-goods prices—the price of raw materials excluding food and energy—were up 4% last month.

Going flat

Change from a year earlier in the producer-price inflation, excluding food and energy

Source: U.S. Department of Labor



Gas from the damaged Deepwater Horizon wellhead is burned by the drillship Discoverer Enterprise in the Gulf of Mexico on Sunday.

Salazar says oil oversight needs work

Interior secretary concedes drilling regulator includes some 'bad apples' but stops short of calling for offshore ban

By Siobhan Hughes
And Stephen Power

WASHINGTON—U.S. Interior Secretary Ken Salazar, facing scrutiny over the massive Gulf of Mexico oil spill, told lawmakers on Tuesday that some workers at a federal agency that oversees offshore drilling were "bad apples."

But he stopped short of calling for an end to offshore drilling or concluding that the agency had underestimated the risks.

The testimony, his first on Capitol Hill since the deadly April 20 oil-rig explosion, comes as lawmakers question whether Interior's Minerals Management Service has left too much safety oversight up to the industry it regulates. President Barack Obama has criticized a "cozy relationship" between oil companies and the government, and Mr. Salazar has proposed splitting up MMS into one unit that focuses on safety enforcement and another division that focuses on collecting revenue from oil and gas companies.

"The conclusion that this is an unregulated industry is not correct," Mr. Salazar told the Senate Energy and Natural Resources Committee. "It is a very highly regulated industry. That doesn't mean there isn't room for improvement."

The Obama administration's top offshore-drilling policy maker is walking a fine line after an explosion at the Deepwater Horizon oil rig, being leased by **BP** PLC, killed 11 workers and cast doubt on the way the MMS operates. Mr. Salazar, who has frequently sparred with the oil and gas industry, said on Tuesday it would be "foolhardy" not to accept input from the American Petroleum Institute, but added that didn't mean the group should write the rules.

He also withheld support for a proposal by a handful of Democratic lawmakers to raise to $10 billion from $75 million the cap on damage claims that oil companies must pay in the event of a spill. Though he said that the cap "does have to be lifted," his comments were in line with the position taken by the oil industry, which has warned that a cap as high as $10 billion would prevent smaller companies from insuring against disasters and cede offshore drilling to supermajors such as BP.

Mr. Salazar said that deepwater drilling, which occurs at least 300 meters below the surface of the sea, presents more safety issues than drilling in shallow water. He said that the MMS hadn't adequately overseen fail-safe devices known as "blowout preventers" that are a last resort for oil companies in the event of a catastrophic blowout.

But he said that while "many things went wrong," it would be "premature for me today to put the finger on exactly what went wrong."

That left open one of the big questions: whether the MMS was involved in approving adjustments to BP's drilling plans as workers adjusted their program. Liz Birnbaum, the director of the MMS, said that MMS workers were involved in revisions to drilling plans that are "relevant to our regulations" but didn't say whether any changes in operations on the Deepwater Horizon rig met that criterion.

Some changes "were not actually approvable under our regulations," Ms. Birnbaum told the panel. She said that "if I do find out that anybody approved a change based on the fact that the company was in a hurry, that would be a major problem."

The testimony came as at least two lawsuits questioning government oversight of offshore drilling were filed.

The Center for Biological Diversity, an environmental group, said it had filed a suit against Mr. Salazar, accusing him of approving offshore drilling plans in the Gulf of Mexico without subjecting the plans to careful environmental scrutiny. In addition, a former subcontractor for BP and another environmental group sued the federal government to force the shutdown of BP's Atlantis oil platform in the Gulf, alleging the facility lacks thousands of engineering documents required for safe operation.

Mr. Salazar said an investigation of the Atlantis rig was under way. BP has said that it "thoroughly investigated" the claims when they were first made in 2009 "and found them to be without substance." It has also said that it made some "procedural changes" after a second review by an ombudsman but that these had "no connection" with the safe operation of the platform.

An Interior Department spokeswoman declined to comment on litigation.

But Interior officials fired back against accusations that the U.S. had approved new offshore drilling since the explosion. A spokesman for Mr. Salazar said the department hadn't stopped issuing permits to drill offshore altogether. The government has continued to grant permits that allow companies to modify existing wells or previously approved permits, if the proposed actions are determined to be appropriate by the MMS and if the original permits were issued prior to April 20.

Some of the permits that have been issued since April 20 were needed for safety reasons, the spokesman said, or because a company encountered an unexpected obstacle during an operation.

—Isabel Ordonez contributed to this article.

U.S., other members of U.N. Security Council, agree to sanction Iran

Continued from first page

carrying a nuclear warhead.

All countries would be blocked from financial transactions related to insurance and reinsurance if it is linked to nuclear proliferation.

The U.S. official said work was continuing to attach an annex with the names of Iranian individuals and companies whose assets would be frozen. Nations wouldn't be allowed to license Iranian banks on their territories if the bank is linked to proliferation. Countries are asked not to open bank branches in Iran.

The resolution also sets up a panel of experts to report regularly on the implementation of the measures. Western officials had feared the new enrichment deal negotiated in Tehran over the weekend would derail the monthslong sanctions negotiations.

But Mrs. Clinton said the new sanctions agreement was "as convincing an answer to the efforts undertaken in Tehran over the last few days as any we could provide."

Mrs. Clinton called the Turkish and Brazilian talks "sincere efforts." She said she believed Iran agreed to the Turkey-Brazil deal only because the U.S. was close to completing a draft sanctions resolution that had Russian and Chinese support.

The chief concern with the Tehran deal is the lack of Iranian agreement to halt enriching uranium to 20%.

"We don't believe it was some accident," she said of the timing, saying progress at the U.N. had put pressure on Iran.

She said the U.S.'s chief concern with the Tehran deal is the lack of any Iranian agreement to halt enriching uranium to 20%, the level used in medical research.

She said the Turkish-Brazilian deal had an "amorphous timeline" that could require "months of future negotiations" before any nuclear fuel was shipped from Iranian soil.

Mrs. Clinton also said the deal failed to commit Iran to engaging in talks with the U.S. and its allies. "It is not sufficient for Iran to stand at a news conference and make a declaration," she said. She said the U.S. and its fellow permanent Security Council members would continue to "rally the international community on behalf of a strong sanctions resolution."

Earlier Tuesday, China embraced the new nuclear fuel-swap proposal. Beijing has long said the international dispute over Iran's nuclear ambitions can best be resolved through diplomacy rather than sanctions or force.

"We hope this will help promote a peaceful settlement of the Iranian nuclear issue through dialogue and negotiation," foreign ministry spokesman Ma Zhaoxu said Tuesday.

While the statement seems at odds with Chinese agreement on a fresh round of U.N. sanctions, China has long said the two tracks aren't mutually exclusive.

"China has always supported a 'dual track' strategy," Mr. Ma said. "We hope that the Security Council's actions can contribute to the maintenance of the international nonproliferation regime and peace and stability in the Middle East, and advance a proper resolution to the Iranian nuclear issue."

Some U.S. and European leaders spoke bitterly Monday of Turkey's and Brazil's actions, saying the Iran issue could imperil Ankara's effort to join the European Union and Brasilia's hopes of becoming a permanent Security Council member.

—Joe Lauria at the U.N. contributed to this article.

WORLD NEWS

Google's keyword for Africa: growth

Continent's low Internet connectivity offers potential for expansion of services, despite obstacles in infrastructure

By Will Connors

LAGOS, Nigeria—Despite some of the lowest Internet penetration rates in the world, Africa has enticed **Google** Inc.

Lured by the continent's growth potential, Google aims to convince entrepreneurs, students and aid workers to make use of its search, mapping and mobile-phone technologies. But Africa—with roughly one billion inhabitants, over 50 countries and many regions that have limited access to electricity—presents huge obstacles.

"The Internet is not an integral part of everyday life for people in Africa," said Joe Mucheru of Google's Kenya office.

Africa lags far behind other big emerging markets in Internet use. Africa has 4% of global Internet users; China has 21%.

The continent also has some of the world's highest costs for mobile-phone and Internet service. In Nigeria, bandwidth for Internet carriers costs $3,000 to $6,000 a month per megabyte, according to Nyimbi Odero of Google's Nigeria office. By comparison, the cost in the U.K. is about $20 a month per megabyte.

Despite the expense of Internet service, Google executives say Africa represents one of the fastest growth rates for Internet use in the world. Nigeria already has about 24 million users and South Africa and Kenya aren't far behind, according to the World Bank and research sites like Internet World Stats.

"The goal is to get more people online," said Estelle Akofio-Sowah, the Google country head in Ghana.

Google wouldn't disclose how much it has invested in Africa-based operations, and says it doesn't yet have a revenue target for the continent. The company—which has a physical presence in Senegal, Ghana, Nigeria, Kenya, Uganda and South Africa—says it has around 40 employees working on Africa-focused projects, with some based on the continent and others working from elsewhere.

Other technology companies have also set their sights on the continent. Microsoft Corp., International Business Machines Corp., Cisco Systems Inc. and Hewlett-Packard Co. have sales offices throughout Africa, selling laptops, printers and software to fast-growing companies and an emerging middle class.

Though there are small-scale Internet service providers, most Internet services in Africa are provided by cellphone companies, who provide data cards that users stick into computers' USB ports

Among the first Google initiatives on the continent since setting up offices there three years ago was the expansion of Google Maps. Detailed online maps of even the biggest African cities were almost nonexistent five years ago, analysts say. There are now Google maps of 51 African countries.

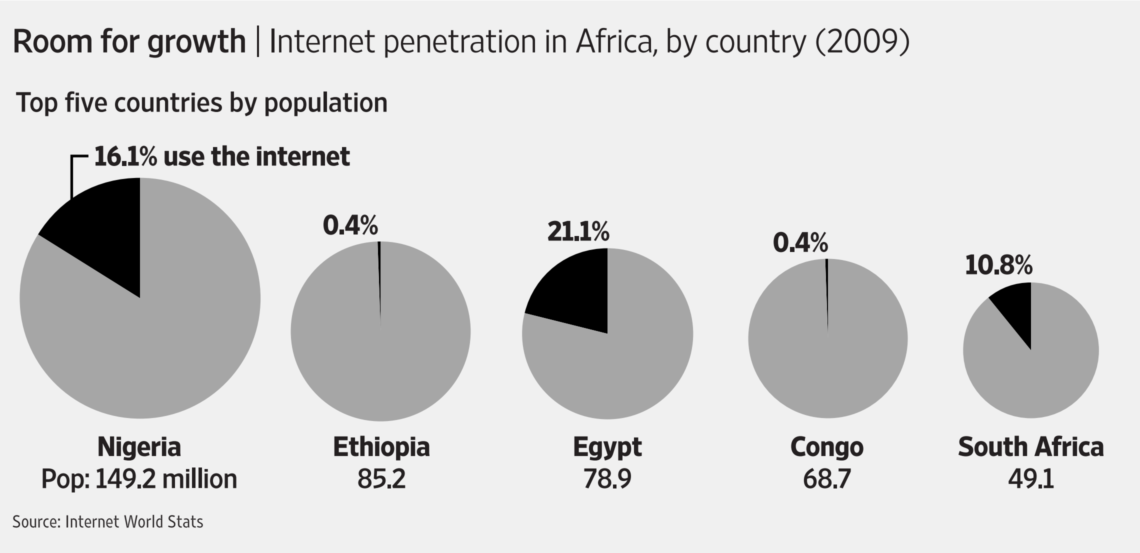
Tunji Lardner, a consultant in Lagos working with the state government, aims to use Google technology to prevent a common scam: selling homes in Lagos that aren't actually for sale. Hand-painted signs reading "This House is Not For Sale" are ubiquitous on the walls of homes in Lagos and most of the rest of Nigeria, but buyers continue to get cheated.

Google staffers in Nigeria recently provided Mr. Lardner with a phone that uses Google's Android operating system, which he will use to pinpoint houses actually for sale on Google Maps and create a database.

Other initiatives include the nonprofit VetAid, which has started using Android phones donated by Google in Tanzania and Kenya to track the health status of livestock.

And independent groups of developers have formed Google Technology User Groups, which meet to share knowledge about Google applications and services in eight African countries, including Cameroon and Egypt.

Not every Google initiative in Africa has been successful. Google staff in Uganda, in partnership with South African telecom giant MTN Group Ltd. and the Grameen Foundation, started three text-based programs for cellphones: Search, Tips and Trader. The free services attracted a large user base when they were first rolled out last summer—2.7 million texts sent in the first six months, according to Google. When MTN started charging for Google Trader, the marketplace text service, usage rates plummeted, according to MTN.



Google

In Uganda, Google provides a mobile text-based marketplace for traders.

GOME founder gets prison sentence

By Jason Dean
And Jeffrey Ng

BEIJING—A Chinese court sentenced retail tycoon Huang Guangyu to 14 years in prison for bribery and other crimes, capping a case that has focused attention on the often murky world of Chinese entrepreneurs and their relationships with officials.

The Beijing No. 2 Intermediate People's Court on Tuesday also fined Mr. Huang 600 million yuan, or about $88 million, and ordered the seizure of some 200 million yuan of assets, the state-run Xinhua news agency reported. Citing a court statement, it said Mr. Huang was found guilty of "illegal business dealings" and insider trading as well as of bribing or instigating others to bribe five government officials with some 4.56 million yuan in cash and property from 2006 to 2008 in exchange for "corporate benefits."

Before his fall from grace, Mr. Huang, also known as Wong Kwong Yu, was viewed by many in China as a rags-to-riches success, emblematic of the country's economic development. A high-school dropout, he started an electronics store in Beijing in 1987 and turned it into **GOME Electrical Appliances Holding** Ltd., which became one of China's biggest electronics retailers with more than 700 stores across the country.

Mr. Huang resigned as chairman of GOME in January 2009, but has kept his stake of more than 30%, remaining the company's single biggest shareholder, and has feuded indirectly with its current management.

Authorities detained Mr. Huang in November 2008, but didn't formally charge him until this past February. Many details remain unclear, including the identities of the officials he is said to have bribed. Xinhua said the insider-trading charge related to stock valued at 1.415 billion yuan of a Shenzhen-listed company in which Mr. Huang was a major shareholder.

Tian Wenchang, a lawyer for Mr. Huang, declined to comment. Yang Zhaodong, another of his lawyers, couldn't be reached, nor could court officials. Mr. Huang could appeal, but Chinese criminal verdicts are almost never overturned.

WORLD NEWS

Thai standoff threatens investment

Foreign companies begin to re-evaluate allocations as political solution to Bangkok strife seems as distant as ever

By Patrick Barta
And Alex Frangos

BANGKOK—Thailand's standing as a major investment destination is coming under question as its government fails to resolve the country's bloody political crisis and economic damage mounts.

Sporadic street battles continued in parts of Bangkok's central business district on Tuesday, though they were noticeably less ferocious than the previous five days, when at least 37 people were killed and many more wounded. There was one reported death on Tuesday.

Still, a political solution seemed as distant as ever. The government rejected a cease-fire plan backed by leaders of the so-called Red Shirt movement that involved using the country's Senate as a mediator. Government officials said they won't negotiate until the protesters—who want new elections to oust a government they believe serves only Thailand's elites—agree to disperse.

There was little sign of that happening on Tuesday, as new food supplies appeared in the protesters' heavily fortified camp in a ritzy Bangkok shopping zone, despite a multiday military clampdown aimed at depriving the area of necessities. It wasn't clear how the food, carried in takeout styrofoam containers in a pickup truck, got in.

The government announced a two-day public holiday was being extended to Friday as many areas remained too dangerous to enter. Police banned the sale of tires in Bangkok without police permits so demonstrators couldn't set fire to them around the city.

The crisis was already causing severe damage to Thailand's economy before the latest spasm of violence. But the killings have added a new dimension, forcing businesses to contemplate more drastic steps to ensure safety of their employees and causing some foreign investors to wonder if Thailand's deep social divides can ever be repaired.

Some companies are considering moving employees to hotels near the airport so they can escape more quickly if street violence spreads, while others are shifting their foreign direct investment, or FDI, to other countries entirely.

"Unless the crisis is resolved, law and order restored and a credible process of reconciliation begun, Thailand will probably lose out in the FDI stakes for a long time," says Manu Bhaskaran, chief executive of Centennial Asia Advisors, an economic consulting firm in Singapore. Even longtime investors are wondering "should I be engaged at all" in Thailand, says David Fernandez, a managing director at J.P. Morgan in Singapore.

Associated Press

An antigovernment protester uses a slingshot against Thai soldiers during demonstrations on Tuesday in Bangkok.

Tüv Süd, a German company that conducts product testing and industrial certification, with operations throughout Asia, was about to make an acquisition of a Thai oil-and-gas-services firm when the protests intervened.

"Because of the instability we are holding off," says Ishan Palit, chief executive of Tüv Süd's Asia operation. With his German bosses generally eager to expand in Asia, those resources will now go to places such as Malaysia or Indonesia, he says.

"Until two weeks ago, the view was still that it was going to come back and be all right," he says. But now, "it's gotten more serious."

Thailand's conflict stems in part from tensions between Thailand's sizable rural underclass—who make up a majority of voters—and urban elites perceived to control the country's key economic and political institutions.

The protesters are led at least in part by former prime minister Thaksin Shinawatra, a tycoon who cultivated their support through populist policies and easy credit before he was removed in a 2006 coup.

He lives in self-imposed exile to avoid imprisonment on a corruption conviction, but supports the movement financially from abroad.

The latest violence broke out after government authorities decided to impose a new security perimeter around the protesters' main camp in a bid to squeeze their supplies.

Protesters have fought back by throwing Molotov cocktails and rolling burning tires toward the soldiers, with more gunfire heard late Tuesday.

Thailand remains a critical part of the global supply chain and an extremely important place for investors, with 65 million consumers and far better infrastructure for manufacturing than most of its neighbors.

It has survived political crises before, including violence in the 1970s and 1990s, and is still on track to post gross domestic product growth of 4% to 5% this year on the back of strong consumer spending and demand for exports made far outside the conflict areas.

The country could rebound quickly if a resolution is found.

But Thailand was already struggling to fend off less-developed, lower-cost neighbors such as Cambodia and Vietnam in attracting FDI in recent years.

For the past two years, it received less FDI than Vietnam, even though the latter's economy is far smaller.

The country's intractable political problems are contributing to the problem.

David Simister, chairman of the Thailand unit of real-estate services firm CB Richard Ellis, says demand for office and industrial space from multinationals has been somewhat subdued since 2005, when protests first started rocking the capital in the lead-up to the 2006 coup that deposed Mr. Thaksin.

Now the situation has reached a new level of seriousness, he says. "This is unchartered and the level of tension is much higher."

The company has moved its operations from central Bangkok to a suburban office space and set up 100 employees in temporary workstations.

Other businesses are also scrambling. The Stock Exchange of Thailand, which has remained open, is now operating out of an undisclosed location after its leaders decided its main office tower was too close to the fighting.

Other companies are struggling to reroute product shipments and supplies around conflict areas, while some staff are having a hard time getting to work because of the lack of public transportation.

"Virtually everybody is now being touched," says Paul Quaglia, a director at Bangkok-based security consulting firm PSA Asia. Multinational companies are "not running for the exits—but they're starting to look at their maps to see where the exits are," he says.

Inside the government's fragile perimeter on Tuesday, the smell of rotting garbage wafted across the landscape as bags of uncollected rubbish piled up along mostly empty roadways.

A burned-out bus and sandbags blocked one broad avenue that had been the scene of some of the most vicious fighting in previous days. Condominium towers were pockmarked with bullet holes and a few shops, including a 7-Eleven convenience store, had been looted.

A new routine seemed to be settling into the protesters' main encampment, however. Around midday, a pickup truck loaded with hot takeout meals pulled into an area near the protesters' rally soundstage, and other food stations appeared to be well-stocked.

A network of motorbike taxis buzzed visitors around the area and Red Shirt guards set up new checkpoints close to their camp to regulate the limited flow of vehicles.

The number of protesters was down significantly from recent weeks but remained relatively unchanged from the weekend, when a core group of a few thousand or so people dug in.

—Wilawan Watcharasakwet contributed to this article.

Kabul bomb hits U.S. convoy

By Alan Cullison

KABUL, Afghanistan—At least 18 people, including six coalition-force members, were killed and almost 50 were wounded when a suicide car bomber targeted a U.S. military convoy outside an Afghan military-recruitment center in Kabul Tuesday morning, police officials said.

A spokesman from the North Atlantic Treaty Organization said six "international service members were killed and several wounded" in the attack but didn't reveal their nationalities. Twelve Afghan civilians were killed.

Gen. Khalil Dastyar, the deputy police chief of Kabul, said the dead NATO members were American. The Associated Press, however, reported that one of the six was a Canadian colonel, the highest-ranking Canadian killed since the country's mission to Afghanistan began in 2002.

A Taliban spokesman, Zabihullah Mujahid, claimed responsibility for the attack, saying that a car loaded with 550 kilograms of explosives rammed into a U.S. convoy at about 8:30 a.m. local time. The blast destroyed at least 12 civilian vehicles, one of them a bus. NATO said five of its vehicles were damaged.

The bomber targeted a small convoy of U.S. military vehicles moving along the road near the recruitment center, officials said. The road also skirts a U.S. military base, Camp Julien, that hosts a counterinsurgency training academy for Afghan and U.S. military personnel.

"Today's attack was part of the Al Fatah operation, and we will continue attacking foreigners and government security forces and their associates," Mr. Mujahid said.

Earlier this month, the Taliban announced the launch of a spring offensive called Al Fatah, Arabic for "to conquer" or "victory." The Taliban said the offensive would besiege Afghanistan's major cities, and target the diplomats and infrastructure of both the Afghan government and NATO. The Taliban's ability to strike in the capital underscores the insurgents' potency as coalition forces seek to oust them from the southern city of Marjah and are gearing up for a campaign to secure Kandahar, the Taliban's heartland.

The death toll from the attack could rise, according to an official.

—Maria Abi-Habib contributed to this article.

Reuters

Afghan security officials survey the scene of a suicide car bomb attack in Kabul on Tuesday. At least 18 people were killed in the attack.