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## Merkel urges action to fix finance rules

Germany's government called on leading economies to accelerate the overhaul of financial-market rules, and on euro-zone members to coordinate their economic policies more closely, as Chancellor Angela Merkel sought to address criticism at home and abroad of her handling of Europe's debt crisis.

By Andrea Thomas in Berlin and David Gauthier-Villars in Paris

Meanwhile, France said Thursday it is considering amending its constitution to make budget discipline a duty for future government.

Germany's initiatives, unveiled as Ms. Merkel hosted an international conference on financial regulation in Berlin on Thursday, have so far drawn a skeptical response from governments in and outside Europe.

Ms. Merkel said the Group of 20 nations, whose leaders are due to hold a summit in Toronto in June, should tighten political control over financial markets and adopt new taxes on banks. The chancellor called for an international tax on financial-market transactions, which German officials said would be separate from a levy on banks that Germany and some other G-20 governments plan to imple-

ment.

Canada, host of next month's summit, said Thursday it opposes Germany's call for new taxes on banks. There is no "one size fits all solution," Canadian deputy finance minister Tiff Macklem told the Berlin conference. Canada, Australia and Japan have said their banks didn't suffer massive failures during the financial crisis since 2008 and therefore shouldn't face new taxes.

France's President Nicolas Sarkozy said he had instructed his government to draft constitutional changes that would require his successors to set targets for the nation's budget deficit throughout their five-year mandates. Future governments should also commit to balancing public finances in the long term, Mr. Sarkozy said in a speech at the Elysée presidential palace.

Although less restrictive, the French plan echoes a constitutional amendment adopted by Germany last year, under which the country pledged to achieve a near balanced budget by 2016. Mr. Sarkozy's proposed constitutional changes are part of a

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### The new entente cordiale



Associated Press

David Cameron took his first foreign trip as U.K. prime minister to meet Nicolas Sarkozy in France before heading off to Berlin on Friday.

## Markets tremble; Dow falls by 3.6%

Stock markets plunged Thursday, extending deep losses of recent weeks, with industrial and materials stocks leading the declines. Crude-oil futures plummeted.

The U.K.'s FTSE 100 ended 1.6% lower at 5073.13, its lowest close since Feb. 5 and down 8.6% this month. The pan-European Stoxx 600 index fell 2.2% to 238.28, down 8.3% for the month. In the U.S., the Dow Jones Industrial Average fell 3.6%.

Assets ranging from the Australian dollar to metals futures sank as investors shifted of safer bets such as U.S. Treasuries. The euro bounced back sharply from an early drop against the dollar, despite suggestions from a euro-zone official that central-bank intervention to stem the euro's slide was off the table.

Concern over Europe persisted, as unions went on strike in Greece and investors worried that trading regulations like those introduced this week in Germany could be adopted in other countries. Meanwhile, the U.S. Senate cleared the way for a final vote on legislation that would overhaul U.S. financial regulations.

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## Scientists craft genome to create first synthetic cell

BY ROBERT LEE HOTZ

Heralding a new era in biology, scientists for the first time have created a synthetic cell, completely controlled by man-made genetic instructions, which can survive and reproduce itself, researchers at the private J. Craig Venter Institute announced Thursday.

"We call it the first synthetic cell," said genomics pioneer Craig Venter, who oversaw the project. "These are very much real cells."

Created at a cost of \$40 million, this experimental one-cell organism opens the way to the manipulation of life on a previously unattainable scale, several researchers



Electron micrograph of Mycoplasma mycoides cells.

and ethics experts said. Scientists have been altering DNA piecemeal for a generation,

producing a menagerie of genetically engineered plants and animals, but the ability to craft an entire organism offers a new power over life, they said.

The accomplishment, documented in the peer-reviewed journal Science, may stir anew nagging questions of ethics, law and public safety about artificial life that biomedical experts have been publicly debating for more than a decade.

"This is literally a turning point in the relationship between man and nature," said molecular biologist Richard Ebright at Rutgers University, who wasn't involved in the project. "For the first time,

someone has generated an entire artificial cell with pre-determined properties."

David Magnus, director of the Stanford University Center for Biomedical Ethics, said, "It has the potential to transform genetic engineering. The research is going to explode once you can create designer genomes."

Leery of previous moral and ethical questions about whether it is right to manipulate life forms—raised with the advent of cloning, stem-cell technology and genetic engineering—other researchers groped for neutral terms to describe the experimental cell. "I don't think it represents the creation of an arti-

cial life form," said biomedical engineer James Collins at Boston University. "I view this as an organism with a synthetic genome, not as a synthetic organism. It is tough to draw where the line is."

Although the new cell, a form of bacteria, was conceived solely as a demonstration project, several biologists were certain that the laboratory technique used to birth it would soon be applied to other strains of bacteria with commercial potential. "I think this quickly will be applied to all the most important industrial bacteria," said biologist Christopher Voigt at the University of California, San

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A British man tries to fight a bill from a parish church based on laws from Henry VIII's time Page 29

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### Notice to Readers

There will be no edition on Monday in observance of Whit Monday. News and updates are available at europe.WSJ.com

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## Germany pushes the issue too far

## [ Agenda ]

BY BILL JAMIESON

Is it a tell-tale sign of German weakness—or a smash-and-grab attack on the future of the euro zone that could transform the dynamic of the European Union?

As the turmoil in European markets continued to feed a vicious chain reaction across the world Thursday, investors were still struggling to come to terms with the unilateral move by Germany to ban so-called naked shorting—the practice of selling currencies and stocks not already borrowed or owned. The ban, extending across euro-zone government bonds and shares in 10 key German financial institutions, was brought in without consultation with euro-zone partners.

The high-handedness of the German action as much as its futility—it can easily be flaunted by simply moving the transaction to another European financial center—has unsettled investors, underlining worries over the future of collective or coordinated actions to defuse the debt crisis.

“Sentiment is awful and confidence has been trashed,” said David Buik, markets analyst at BGC Partners.

One of the early explanations for the move is that it was a political gesture by German Chancellor Angela Merkel to gain parliamentary support for Germany's contribution to a European bailout fund. The country's participation is deeply unpopular with German voters unwilling to fund the financial black holes in weaker euro countries such as Greece. But Ms. Merkel may be calculating that a tough stand against what have been described as “wolf packs” of speculators may help her win support for participation in the euro rescue package.

Others, however, see the move as part of a determined move to assert Germany's authority over events and to insist on a program



Are these coins bringing the EU closer together or driving it apart?

of government deficit elimination across the euro zone. This would be along the lines of Germany's own constitutional amendment last year that will outlaw deficits above 0.35% of GDP.

Ms. Merkel told the German parliament this week that Europe “faced its biggest test in decades” and that the euro was “in danger” in the absence of strong action. That warning followed in turn an

### ‘My hunch is European leaders will not risk a market meltdown and bow to German pressure’

even more dramatic statement by Jean-Claude Trichet, president of the European Central Bank, in an interview with Der Spiegel magazine that Europe's economy was in its most difficult situation since World War II—or even since World War I—a startling claim by any standards.

Whether Germany's action is a sign of weakness or an assertion of strength—or indeed both—Ms. Merkel intends to present its “balanced budget” proposals for adoption across the euro zone at a meeting Friday of European Union finance ministers in Brussels and the economic task force set up by EU president Herman Van Rompuy.

Such a move would be seen as an attempt to dramatically accelerate the process of monetary and fiscal integration in the euro zone—along German lines. However, it would be bitterly resented by the euro zone's severely indebted countries, who fear it would impose Herbert Hoover deflationary economics of the type facing America in 1932. It would also leave them with little room for any flexibility in dealing with future budget crises.

Already the prospect of strong and immediate deficit reduction programs, while broadly encouraged in the U.S. and other regional economic blocs as the best means to effect a return to stability, have caused stock markets to retreat on a broad front. A European economic recovery is seen as key in delivering exports for U.S. and Asian companies. But continuing turmoil here could drive some of the world's biggest economies back into recession.

In addition, such an assertion of German authority, without broad agreement in Brussels, carries a high risk of backfiring and driving members of the euro-zone apart. This would mark a profound reversal of the trend toward integration and “ever closer union” that has characterized EU institutions since their inception.

However, from Berlin's point of

view a continuing corrosion of confidence in the management of the euro zone would create the conditions for policy chaos if nothing is done. And if the euro zone as we know it was to be dissolved, how could the European single market—widely seen as one of Europe's greatest postwar achievements—survive?

Says Stephen Lewis, economist at Monument Securities: “Mr. Trichet very likely entertains the possibility that an inexorable process is already in train which will extinguish hopes of furthering the EU's goal of ‘ever closer political union’ and which could lead to serious friction between European nations. The trend towards European integration has been dominant since the Second World War. But there is a significant chance now that this will go into reverse.”

Berlin is now determined to push through a package of reforms both in Brussels and at the Group of 20 summit next month. These would cover stricter regulation of financial markets, a tax on financial institutions, and greater budgetary discipline.

But the German moves this week are already unsettling some. Says Struan Stevenson, a member of the European Parliament from the U.K.: “Clearly, the Germans were expecting other EU nations to dance to their tune and are no doubt enraged that others, including France, have chosen to ignore them.

“It's make-or-break time for the euro zone, with the tensions exposed by this crisis threatening to tear the single currency apart.

“My hunch is European leaders will not risk a market meltdown and bow to German pressure for full fiscal union—with Brussels and the European Central Bank in Frankfurt having the final say on state tax and spending plans across the euro zone.”

Berlin would thus have achieved in months what has eluded the champions of the euro since its inception.

—Bill Jamieson is executive editor of the Scotsman

## What's News

■ **The new U.K. government** detailed its coalition agreement, underscoring the compromises the Conservatives and Liberal Democrats have made, and perhaps giving Cameron the chance to act on his centrist instincts. 6

■ **U.S. and European officials** could feel pressure to intervene directly in currency markets should the euro resume its sharp decline. 5

■ **SABMiller posted** a rise in fiscal-year profit, but its shares fell after the brewer said stronger trade in the fourth quarter hadn't continued into the new year. 19

■ **A U.K. court overturned** an injunction barring a strike by cabin crew at British Airways, clearing the way for industrial action. 20

■ **Dubai World reached** an agreement to pay off its creditors and reduce its \$23.5 billion of debt, lifting a cloud of uncertainty over the emirate's economy. 19

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## ONLINE TODAY

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## The Source

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“Whatever is needed for the euro survival, it isn't a bar fight between the two largest members.”

Terry Roth on why Angela Merkel must make up with France to get her way



## Continuing coverage



Track the latest market moves and get analysis at [wsj.com/markets](http://wsj.com/markets)

## Question of the day

Vote and discuss: Where do you expect the euro, currently at \$1.23, to be a year from now?

Vote online and discuss with other readers at [wsj.com/dailyquestion](http://wsj.com/dailyquestion)

## Previous results

Q: Should the European Union adopt Germany's naked short-selling ban?

Yes

63%

No

37%

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NEWS

The Art of the heist | Notable thefts of masterpieces

					
<b>STOLEN</b> Five paintings, including works by Picasso and Matisse	<b>Two Picasso paintings</b>	<b>Madonna with the Yarnwinder</b>	<b>Works by Vermeer, Rembrandt and Manet</b>	<b>Leonardo da Vinci's "Mona Lisa"</b>	<b>Edvard Munch's "The Scream"</b>
<b>VALUE</b> Est. at just under €100 million	\$66 million	€29 million to €60 million	\$300 million	€81 million	€60 million
<b>WHERE</b> Museum of Modern Art in Paris	Paris home of the artist's granddaughter	Drumlanrig Castle, Dumfriesshire, Scotland	Isabella Stewart Gardner Museum in Boston	Louvre Museum in Paris	National Gallery in Oslo
<b>WHEN</b> May 19, 2010	February 2007	August 2003	March 1990	Aug. 21, 1911	Feb. 12, 1994
<b>WHAT HAPPENED</b> A lone thief stole five paintings in a brazen overnight heist.  Above, Amadeo Modigliani's "La femme a l'eventail"  Source: Associated Press Photos: AP (Modigliani, Rembrandt); AFP (Picasso, da Vinci, Munch); Getty Images (Madonna with Yarnwinder)	Two Picasso paintings and a drawing were stolen from home of the artist's granddaughter in an overnight robbery. Police later recovered the art when the thieves tried to sell it.  Z Above, "Maya with her Doll"	Two men joined a public tour of the Duke of Buccleuch's home before overpowering a guide and snatching the painting. The painting was recovered in October 2007.	In the biggest art theft in U.S. history, 13 works were stolen by two men in police uniforms. Many of the works have not been retrieved.  Above, Rembrandt's "The Storm on the Sea of Galilee"	Italian workman Vincenzo Peruggia stole the famous painting right off the wall when he found himself alone in the room, and walked out of the museum with it under his arms.	Four men broke into the museum and stole one of Munch's famous paintings. It was recovered on May 7, 1994, and two years later, four men were convicted in connection with the theft. Another painting in the Scream series was stolen in 2004.

# Paintings stolen from Paris museum

A €25 million Picasso and a €20 million Matisse are the most valuable of five works snatched in overnight heist

By DAVID GAUTHIER-VILLARS

PARIS—Five paintings valued at close to €100 million (\$124 million) and including works by Picasso and Matisse were stolen from one of Paris's most prestigious museums, French authorities said Thursday.

The theft was discovered early Thursday, before the Paris Museum of Modern Art, located across the River Seine from the Eiffel Tower, had opened its doors to the public.

Police late Thursday weren't sure how the robbery was carried out but thought it could have been done by a single thief acting alone, said Christophe Girard, Paris deputy mayor in charge of culture.

They have so far collected several clues, he said: a broken padlock on a gate; a dismantled window; footage of a masked intruder caught by a surveillance camera, and five picture frames lying against a wall outside the museum.

The museum is equipped with alarm systems and surveillance cameras and was also guarded by

three night wardens, said Mr. Girard.

"People at the museum are traumatized," he said in a telephone interview. "These are such important pieces of art. It's clear that the system was outfoxed."

The museum's alarm system had suffered technical problems in recent weeks, and a supplier had yet to deliver some replacement parts, Paris Mayor Bertrand Delanoë, said in a statement.

However, Mr. Girard said the alarm problem alone couldn't explain how a thief or a team of thieves could have broken into the museum so easily.

Four paintings—the Picasso, the Matisse, a Braque and a Léger—were stolen from one exhibition hall. The fifth, by Modigliani, was taken from another hall.

"It seems as if they knew exactly what they were looking for and knew the value of each painting," Mr. Girard said. "There were two paintings by Modigliani hung next to each other and they took the

more expensive."

Police didn't rule out the possibility that the thief or thieves had accomplices within the museum, he said.

Mr. Girard said the stolen paintings were valued at a combined €92 million according to the museum's books. The two most expensive were "The Pigeon with the Peas" by Pablo Picasso, valued at €25 million, and "Pastoral" by Henri Matisse, valued at an estimated €20 million, he said.

Police said it would be virtually impossible to sell the stolen paintings to museums or at art auctions because they are too well known.

The Paris mayor's office said the museum would remain closed until further notice.

Investigators are trying to determine whether the intruder was operating alone, Mr. Girard told reporters, suggesting the heist was carried out by a very "sophisticated" team or individual. He said three guards were on duty overnight but "they saw nothing."

The intruder entered by cutting

a padlock on a gate and breaking a museum window, the Paris prosecutor's office said.

The prosecutor's office initially estimated the five paintings' total value at as much as €500 million.

The other paintings stolen were "Olive Tree near Estaque" by Georges Braque; "Woman with a Fan" by Amedeo Modigliani, and "Still Life with Chandeliers" by Fernand Léger.

Alice Farren-Bradley of the Art Loss Registry in London said the Paris theft "appears to be one of the biggest" art heists ever, considering the estimated value, the prominence of the artists and the high profile of the museum.

She added, however, that the value of the paintings would have to be confirmed, as museums and art dealers often value paintings differently.

She said that while it will be "virtually impossible" to sell such prominent paintings on the open market, "very often they can be used as collateral to broker other

deals" involving drugs or weapons, she said. "They are not necessarily going to be bought by some great lover of the arts." While the thefts are often carefully planned, that's not always the case for the next step—selling the stolen paintings—which is why they are often recovered, she said.

Interpol is alerting its national bureaus around the world to the theft.

"This is a big theft, that is very clear," said Stephane Thefo, a specialist at Interpol who handles international art-theft investigations. "These works are of an inestimable value." He expressed doubt that one person could have pulled off the theft alone, even if only one person was caught on camera.

Red-and-white tape surrounded the museum, where investigators were studying surveillance video. Paper signs on the museum doors said it was closed for technical reasons.

—The Associated Press contributed to this article.

# Creation of synthetic cell opens new era in biology

Continued from first page  
Francisco, who is developing microbes that help make gasoline.

Already several companies are seeking to take advantage of the new field, called synthetic biology, which combines chemistry, computer science, molecular biology, genetics and cell biology to breed industrial life forms that can secrete fuels, vaccines or other salable products.

Indeed, **Synthetic Genomics Inc.**, a company founded by Dr. Venter, funded the experiments and owns the intellectual property rights to the cell-creation techniques. The company has a \$600 million contract with **Exxon Mobil Corp.** to de-

sign algae that can capture carbon dioxide and make fuel.

Although patents on single genes now face legal challenges, Dr. Venter said he intended to patent his experimental cells.

"They are pretty clearly human inventions," he said.

The announcement Thursday was the culmination of a project Dr. Venter and his colleagues have pursued since 1995. In a series of peer-reviewed papers, the group has openly published the interim technical steps. So far, that research has withstood scrutiny.

The latest research was reviewed by a panel of independent scientists and the research materials are made

public as a condition of publication in the journal.

To make the synthetic cell, a team of 25 researchers at labs in Rockville, Md., and San Diego, Calif., led by bioengineer Daniel Gibson and Dr. Venter essentially turned computer code into a new life form. They started with a bacterium called *Mycoplasma capricolum* and, by replacing its genome with one they wrote themselves, turned it into a customized variant of a second species called *Mycoplasma mycoides*, they reported.

To begin, they wrote out the creature's entire genetic code as a digital computer file documenting more than one million base pairs of

DNA in a biochemical alphabet of adenine, cytosine, guanine and thymine. They edited that file, adding new code, and then sent that electronic data to a DNA sequencing company called **Blue Heron Bio** in Bothell, Wash., where it was transformed into hundreds of small pieces of chemical DNA, they reported.

To assemble the strips of DNA, the researchers said they took advantage of the natural capacities of several types of existing cells to meld genes and chromosomes: They used yeast and *e.coli* bacteria to stitch those short sequences into ever-longer fragments until they had assembled the complete ge-

nome, as the entire set of an organism's genetic instructions is called.

They transplanted that master set of genes into an emptied cell, where it converted the cell into a different species.

"We make a genome from four bottles of chemicals; we put that synthetic genome into a cell; that synthetic genome takes over the cell," said Dr. Gibson.

The scientists didn't give the new organism its own species name, but they did give its synthetic genome an official version number, like the prototype of a computer software operating system. The genome is called *Mycoplasma mycoides* JCVI-syn1.0.



## EUROPE NEWS

# Red tape hamstrings Greek growth

BY SEBASTIAN MOFFETT  
AND ALKMAN GRANITSAS

ATHENS—Canadian entrepreneur Steve Earle traveled to Greece with plans for what he hoped would be a flourishing business in a sunny, island-rich nation: a sea-plane airline.

But Mr. Earle's company, AirSea Lines, went bust five years later in 2008—hindered in large part, he says, by government bureaucracy. "They killed it by inertia," he says. "Greece is an unsustainable reality."

AirSea's odyssey illustrates one of the key problems preventing Greece from generating the economic growth it needs to pay off its heavy debts: Critics say a sprawling civil service has tried to secure its own survival through an opaque patchwork of fees, taxes and red tape. The European Commission estimates the administrative burden of Greece's bureaucracy—the value of work devoted to dealing with government-imposed administration—is equivalent to 7% of gross domestic product, twice the EU average.

That has deterred foreign investors, who could be a potential source of growth now that the Greek economy is being squeezed by austerity measures aimed at avoiding national bankruptcy. Foreign direct investment last year was €3.8 billion, or \$5.1 billion—about the same as Bulgaria, a former communist neighbor with two-thirds the population of Greece, according to the United Nations Conference on Trade and Development.

Tourism is Greece's top money earner. But despite the country's magnificent coastlines and ancient monuments, many visitors are young people traveling on a shoestring. Operators trying to attract higher-end tourists say ham-handed government moves have driven business away.

This past August, for example, Athens imposed a new tax on yachts in an effort to close its budget gap. A 43-foot craft under a foreign flag was levied \$5,265 a year if it had spent more than 40 days a year in Greek waters since March 2009. For a 98-foot boat, the charge was about



Passengers head to an AirSea Lines craft. The carrier, which suffered from lack of investment, folded in 2008.

\$27,000.

The new tax "was a squeeze-the-rich measure, so they just left," withdrawing a much-needed source of crew salaries, port fees, fuel taxes and onshore spending, says Peter Custer, marketing and sales manager at Privatsea Yachting, a yacht-services firm in Athens.

A spokeswoman for the Finance Ministry said Greece is currently overhauling its tax system.

Mr. Earle, a Canadian real-estate developer, got the idea for a Greek seaplane operation from a Greek-Canadian friend, Michael Patellis, who financed oil-and-gas exploration from Vancouver. From his harbor-view office, Mr. Patellis saw the seaplanes taking off and landing every few minutes.

"I thought seaplanes would be perfect" for Greece, says Mr. Patellis, who says that on visits to family he spends about 20 hours on a boat

to get from the Athens port of Piraeus to his home island, Kalymnos. Mr. Earle thought seaplanes had the potential to attract rich weekend visitors otherwise put off by inter-island travel time. Of Greece's 200 or so inhabited islands, fewer than 30 have airports.

Set up in 2003, the company moved quickly, with Mr. Earle as chief executive and Mr. Patellis as managing director. It began carrying passengers in 2004. Greece's then-transport minister flew on one of its first flights. Greece's government hoped seaplanes would bring richer tourists to isolated islands, and politicians turned up to be photographed with AirSea executives at a 2006 fund-raiser.

One of AirSea's first routes was between Corfu, an established resort island, and Paxos, which has around 2,000 residents. The trip takes 90 minutes by boat, 15 on a

seaplane.

The company carried about a dozen passengers six times a day. Soccer teams flew to inter-island games. Old women, dressed in black, visited family. Some Paxos restaurants changed their hours to fit flight schedules, says Mr. Earle.

At its peak, in June to September 2008, AirSea flew 11,800 passengers, using three aircraft between 12 destinations.

But soon after starting operations, company executives say they noticed how little the government, despite its initial welcome, was helping.

There was no law governing the operation of seaplanes or clear regulatory authority, so the airline had to seek permits from various ministries and local governments. Mr. Patellis says he made more than 300 trips to police stations to get official affirmations of his signature, a result of government notary requirements.

The company had to provide engineering specifications of each cleat it used at its embarkment floats to the Coast Guard, part of Greece's Merchant Marine Ministry.

Mr. Earle and Mr. Patellis say an official in the Civil Aviation Authority told them she wanted seaplane pilots to be Greek. The company began training what they say were some of Greece's first sea-plane pilots. Six months later, AirSea heard non-European pilots would be fine.

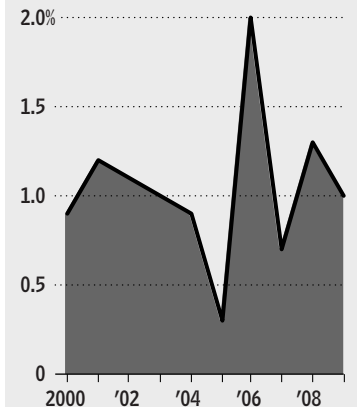
Officials at the aviation authority declined to comment. Coast Guard spokesman Lieutenant Junior Georgios Hasanidis said the ministry requires the strength of cleats to be documented.

AirSea began to turn a profit in May 2008. But the company had already used up €25 million (\$30.5 million) invested in it plus an additional €2 million in revenues reinvested. When the financial crisis struck that October, an investor who had signed up to put €10 million into the company pulled out. AirSea's directors decided they couldn't carry on. The airline flew its last flight in October 2008.

Mr. Earle says the government isn't solely at fault. However, he

## Losing altitude

Foreign direct investment as a percentage of Greek GDP



Note: No data for '02, '03; Source: Eurostat

Thousands of demonstrators took to the streets of Athens Thursday as part of a 24-hour nationwide general strike to protest against Greek government pension reforms and austerity measures. But in contrast to previous protests, Thursday's demonstration passed without incident. The strike was the first since a mass protest May 5 that brought an estimated 100,000 to 200,000 demonstrators onto the streets and later descended into violence and loss of life. On Thursday Greek police took 98 people into preventive detention before the marches, spokesman Panagiotis Papapetropoulos said. Even so, fear of the violence kept many protesters away. "The low turnout is because people have grown afraid, and the economic crisis has worn them down," said Giorgos Foutras, a 34-year-old cement worker.

—Alkan Granitsas and Nick Skrekas

thinks that had the company managed to become profitable earlier and expand faster, it would have weathered the economic crisis. He expressed little hope in streamlining the established bureaucracy. "Greece can make all the laws it wants," he said, but it won't make any difference if it can't execute them.

# Merkel urges action on finance-market overhaul

Continued from first page  
broader austerity package aimed at bringing France's budget deficit, which is expected to exceed 8% of gross domestic product this year, under the European Union 3% threshold by 2013.

Late Thursday, Mr. Sarkozy's office also released a statement saying France and Germany had agreed to coordinate actions aimed at restoring stability within the euro zone. The statement came a day after French government officials were irked by unilateral German moves on financial regulation.

Germany has come under fire from financial markets as well as other European Union governments over its move Tuesday night to ban some forms of financial bets, including so-called naked short-selling, against the debt of euro-zone countries. The surprise move caught other EU governments unawares and drew an open rebuke from Paris, which said it hadn't been consulted. The German action pushed down the value of the battered euro further,

as investors worried Germany might press other EU countries to follow suit.

The German crackdown on certain forms of speculative financial trading came ahead a vote in Germany's parliament Friday on the country's contribution to a massive EU aid package being constructed to protect euro-zone governments from defaulting on their debt.

The aid package, part of a nearly \$1 trillion safety net involving the EU and the International Monetary Fund, is highly controversial in Germany since Europe's biggest economy has to shoulder much of the cost of bailing out weaker euro-zone members such as Greece. Ms. Merkel is trying to build parliamentary support for the measures by promising a parallel crackdown on financial speculation, which many German politicians blame for exacerbating the euro zone's public debt woes.

The chancellor is also fighting to repair her public standing in Germany, which has suffered from her perceived dithering as Greece suc-

cumbed to a worsening debt crisis this spring. Only 34% of Germans think Ms. Merkel has shown strong political leadership recently, while 63% think she has lost control over her squabbling government, according to an opinion poll conducted for German broadcaster N24.

Ms. Merkel's government called this week on euro-zone governments to take concrete steps to enhance the political dimension of Europe's monetary union, and to firmly enforce fiscal discipline.

"In the future the Member States of the European Union cannot afford to monitor and coordinate their economic and fiscal policies as if they were a matter of financial diplomacy," German Finance Minister Wolfgang Schäuble said in a letter to his EU peers accompanying German proposals, ahead of a high-level EU meeting in Brussels on Friday to address weaknesses in the euro zone's set-up.

"In particular, coordination between the euro member must be more far-reaching and they must

take an active part in each other's policy making. We need to take steps to enhance the political dimension of the Monetary Union", Mr. Schäuble writes.

Germany's proposals include more stringent budgetary surveillance within the EU, binding national laws to respect the EU's rules capping budget deficits and overall public debt, and quicker and tougher sanctions for states violating the rules.

Among other sanctions, Germany proposes that countries' EU voting rights should be suspended in serious cases "for at least one year." The proposal targets countries which repeatedly ignore EU recommendations for reducing excessive deficits, or which manipulate their statistics.

Hans Redeker, an analyst at **BNP Paribas SA**, said Germany's unilateral action on short sales was motivated by domestic politics, and said that Germany and France, traditional partners in leading Europe, "are no longer speaking with one

voice."

Mr. Schäuble said Thursday he rejected criticisms from financial-market participants. French Finance Minister Christine Lagarde didn't repeat French criticism of German policies Thursday. In recorded remarks played to the Berlin conference, she called for tougher regulation of credit-rating agencies and said addressing economic imbalances would be crucial to building a more sustainable global economy.

Ms. Lagarde said Germany and France were "absolutely in agreement" in their approach to reforming markets. She lashed out at some derivatives "traded without transparency, in total obscurity and darkness, really."

Germany's cabinet recently proposed an annual levy on German banks' balance sheets, excluding customers' deposits, that could generate up to €1.2 billion (\$1.47 billion) annually.

—David Crawford  
and Patrick McGroarty  
contributed to this article.



## EUROPE NEWS



European Pressphoto Agency (left); Reuters (right)

Jean-Claude Trichet's ECB bought euros in 2000, while Fed chief Ben Bernanke, right, has warned on dollar weakness.

# Euro fall sparks talk of direct intervention

Officials in the U.S. and Europe could feel pressure to use one of their few remaining policy tools and intervene directly in currency markets should the euro resume its sharp decline.

By **Bob Davis** in Washington, **Brian Blackstone** in Frankfurt and **Dinny McMahon** in Beijing

Policy makers have been wary of using this tool for a decade and remain content to let markets set the value of the euro, which has fallen about 17% since early December, worrying U.S. exporters who face European competition and raising fear of inflation in Germany. Concerns about the prospects of intervention pushed up the euro to near \$1.26, after the currency slipped below \$1.23 earlier Thursday.

"I'm really concerned about the rapid [pace] of the fall of the exchange rate," said Jean-Claude Juncker, the head of euro-zone finance ministers, on Thursday, though he said he didn't think euro's level required "immediate action."

Ted Truman, a former international economics official in the Clinton and Obama Treasury departments, said that "it's right for authorities to be thinking about possibly protesting" the fall in the euro via intervention.

In a currency intervention, central banks buy large amounts of a weak currency in exchange for a strong currency, in hopes of reversing the weak currency's decline. But interventions often fail.

Neither the U.S. nor the euro zone has intervened in currency markets since 2000—and both have long been skeptical about the practice's effectiveness. The U.S. joined Europe, Japan, Britain and Canada in buying \$3 billion to \$5 billion of euros in September 2000 during a bout of euro weakness shortly after its introduction. Two months later, the European Central Bank bought more euros, when the currency was trading at about 87 cents—slightly less than half the high of about

\$1.60 it reached in April 2008.

Though the U.S. and Europe have spent extraordinary sums to fight the global recession, and dramatically eased monetary policy, they have left currency markets alone, figuring that the ups and downs of their currencies should reflect fundamental economics.

Many economists believe the euro is trading at an appropriate level, given Europe's troubled budget picture and diminished growth prospects. The €110 billion (\$136 billion) Greek loan package, followed by a nearly \$1 trillion loan commitment for other troubled European countries, underscored the region's financial frailty and raised the possibility that the ECB could print money and debase the currency. European wrangling over how tightly to regulate financial markets has also put downward pressure on the euro.

**Some European officials say they believe that a gradual fall in the euro is an economic plus because it will make European exports less expensive.**

Some European officials say they believe a gradual fall in the euro is an economic plus because it will make European exports less expensive. "If you ask [Airbus maker] EADS's boss about the impact of the fall of the euro on its earnings, I am sure he can tell you exactly what it is, down to the latest euro," said French Finance Minister Christine Lagarde at a Paris news conference.

Marco Annunziata, chief economist at UniCredit in London, figures the euro would have to fall to about \$1.10 in a week or so to prompt policy makers to act. Such a fall could shake markets globally, boost interest rates in Europe, and threaten to undermine a global recovery.

A decision to act can take many

forms, with the simplest being statements by influential officials warning, in coded language, that they may intervene. In June 2008, Federal Reserve Chairman Ben Bernanke warned about the perils of a weak dollar. That gave the U.S. currency a brief lift, but the Fed never actually intervened.

Another possibility is a coordinated statement by a group of influential countries, as occurred in September 2000.

The goal of such statements is to produce the desired outcome without taking the chance on an actual intervention that could backfire. One risk of acting: Investors might believe policy makers have misdiagnosed why currencies are rising and falling or don't have the will to deal with an underlying problem. That, in turn, could lead to even-more-jarring market moves.

A big wild card is the role of China, with its \$2.5 trillion in reserves. The Chinese have long said they want to diversify their funds, which are heavily weighted to the dollar, by increasing the share of euros. Analysts say there is a chance China could be persuaded to participate in a globally coordinated effort to prop up the euro if other nations can convince Beijing the move is in their interests.

Harvard University economist Jeffrey Frankel said Chinese participation would give a powerful boost to any action. "If you intervened now [without China], markets would probably call the bluff and governments would lose," he said. "If we had the Chinese on our side, that \$2.5 trillion in reserves could be intimidating, even to markets."

But it is unlikely Beijing would join in. China Investment Corp., China's \$300 billion sovereign-wealth fund, didn't buy Greek bonds earlier this year, which would have helped to ease the country's problems. At the time, Jesse Wang, CIC's executive vice president, said responsibility for a bailout lay with the European Union.

—Jon Hilsenrath in Washington contributed to this article.

## Markets and governments are dangerously out of sync

### [ Brussels Beat ]

By **STEPHEN FIDLER**



The debt crisis in the euro zone is intensifying a confrontation between governments and the financial markets. It's a fight that both sides could lose.

For many European politicians, attacks by "speculators" against the government debt of Greece and other weaker members of the common currency, are viewed as a challenge to the right of democratically elected leaders to govern.

"It's well reciprocated," says Andrew Hilton of the Centre for the Study of Financial Innovation in London. "Continental European governments hate the markets and the markets hate Continental European governments."

This month, leaders have repeatedly promised "consequences" for speculators. "The euro is an essential element of Europe. We cannot leave it to speculators," said President Nicolas Sarkozy of France. Said Jean-Pierre Jouyet, the president of the French markets regulator AMF: "As soon as I have information about speculation, when I see abnormal market behavior, there will be an investigation and sanctions."

José Manuel Barroso said the European Union would do "whatever necessary to ensure that financial markets are not a playground for speculation." George Papandreou, the Greek prime minister, promised an investigation of the role of U.S. banks in the Greece debt crisis.

But such comments illustrate some serious contradictions.

Even as they rail against the financial markets, most politicians now seem to accept that the markets are sending an important signal: that giant deficits in many economies need to be corrected before they trigger an unsustainable expansion of government debt.

There are more costly contradictions. As the sharp drop in the euro following this week's German announcement of a ban on short selling of some euro securities suggested, such statements may satisfy a domestic political audience but they backfire in the financial markets. Investors seem to conclude that blaming the markets is a way of obfuscating the underlying problems.

Furthermore, while governments attack the financial markets, they also depend on them for finance—including for funding of €440 billion (\$546 billion) of bonds that euro-zone governments have pledged to put together to save the weaker economies of the euro zone.

Marco Annunziata, chief economist of UniCredit Group, said the German action on short-selling bespeaks the "schizophrenic attitude of some euro-zone governments which insist on painting as enemies the very same markets from which

they expect substantial financing."

The rhetoric of euro-zone politicians goes beyond the speculators and the financial markets: It also suggests that the hands of unfriendly governments are behind the market moves. Though rarely named explicitly, the chief suspects are the U.K.—for which the euro crisis is seen as helpfully deflecting attention from its own giant budget deficit—and the U.S.—which is viewed as seeking to secure the place of the dollar as the world's only reserve currency.

Spain's Prime Minister José Luis Rodríguez Zapatero noted in February that the speculation against the euro came mostly from outside the currency area. El País reported that month that Spain's CNI intelligence service was investigating whether there was some ulterior motive behind the financial speculation against the Spanish economy and the aggressiveness of the Anglo-Saxon media. (A Spanish government spokesman didn't respond to a request to comment.)

At the weekend, Steffen Kampeter, German parliamentary state secretary in the ministry of finance and a member of Chancellor Angela Merkel's ruling coalition, spoke of the euro's "false friends."

In a month when U.S. President Barack Obama telephoned a series of European leaders and urged them to act decisively to deal with the region's debt crisis, Mr. Kampeter suggested governments from outside the euro zone were giving bad advice.

"Do not believe false friends when you form a currency union, because they may have other economic interests than the members of the union. They might be the alternative anchor currency or something like that," he told a conference organized by the International Institute for Strategic Studies in Bahrain. He had been asked how he would advise those Middle Eastern countries that are talking of currency union.

In a defense Thursday of Berlin's unilateral action over short selling that was criticized for not being coordinated with other capitals, German finance minister, Wolfgang Schäuble, said: "If you want an objective decision, you don't ask the frogs to decide on draining the swamp." Other governments, he seemed to be saying, were too close to the financial markets to make objective decisions.

Mr. Hilton of CSFI says the current crisis points up a fundamental timing problem: financial markets move much more quickly than politicians can act and economies can react. "I think there is a real mismatch between the speed at which politicians and economies move and the speed at which traders move," he says.

The current crisis has made, he says, the splitting of the euro zone thinkable. If that happens, he says "the political backlash will be horrendous: This will be seen as the unacceptable face of contemporary finance," he said.



## EUROPE NEWS



Nick Clegg, right, and George Osborne listen to Prime Minister David Cameron explain the coalition agreement Thursday. Reuters

## U.K. details coalition

*Agreement emphasizes redistributing power from state to individual*

BY ALISTAIR MACDONALD

The new U.K. government detailed its coalition agreement Thursday, underscoring the compromises both parties have made—and perhaps giving Conservative Prime Minister David Cameron the chance to act on his centrist instincts and tame the right wing of his party.

The coalition agreement sets out the basis for the governing partnership with the Conservative and Liberal Democrat parties on policy from immigration to banks and the government's stance on Europe. Running through the agreement is an ethos that unifies both parties: redistributing power from the state to the individual.

But some of the most controversial issues, many dear to the right, have been put on hold. The agreement allows for 27 commissions and reviews to address issues like banking reform and replacing the European Union's Human Rights Act with a new British Bill of Rights.

"Compromises have, of course, been made on both sides, but those compromises have strengthened, not weakened, the final result," Mr. Cameron said.

The coalition was created after this month's election in which the Conservatives won the most seats but not a majority.

This pushed the traditionally right-wing party into, for some, an uncomfortable marriage with the often left-leaning Liberal Democrats.

The leaders of both parties, Mr. Cameron and the Lib Dems' Nick Clegg, have typically leaned to the center. Though Mr. Cameron obvi-

ously wished to win a majority, the coalition government may help him complete the mission he began five years ago of turning the Tories, once dubbed the "nasty party," into a center-right movement.

Former Labour Prime Minister Tony Blair had also talked of forming a "progressive coalition" with the Liberal Democrats as he shifted the left-wing Labour Party to the center. His 1997 landslide election victory made that unnecessary, though.

Analysts say the coalition makes it easier for Mr. Cameron to shrug off not taking harder-right policies on issues such as taxation and Europe, by saying he has to compromise with the Liberal Democrats.

"David Cameron won't be too fussed about where the coalition is going, the issues he has conceded ground on are issues he would be happy to concede ground on," said Mark Wickham-Jones, a professor of political science at Bristol University.

Compromises include a referendum on a new voting system and plans to raise the threshold on income tax.

Pre-election Tory rhetoric on Europe is toned down, and the government will "examine" the case for the Tory-proposed U.K. "sovereignty" bill and sets up a commission to consider a British Bill of Rights that "incorporates and builds" on rather than replaces the European Convention on Human Rights.

The agreement calls for a total of 27 policy reviews, on topics including whether large banks should be split up and antiterrorism legisla-

tion, where the Liberal Democrats oppose Conservative support for control orders on suspects.

The agreement also spells out several issues, including nuclear power, in which Liberal Democrat MPs are explicitly allowed to opt out of voting with the Conservatives in Parliament.

Through the Liberal Democrats, Mr. Cameron also finds backing on some of the causes he used to take the party away from its old harder hearted image, such as on environmental protection and human rights.

Some Conservative MPs have already publicly criticized the agreement. But Mr. Cameron has proven himself an aggressive leader of his party, despite his personable and smooth image.

On Wednesday, just days into his premiership, Mr. Cameron took steps to potentially rein in a Tory institution known as the 1922 Committee—which is a group for backbench Conservative MPs that in the past has been used as a vehicle to foment rebellion against party leaders. Mr. Cameron proposed allowing top party government officials to sit in on such meetings; the prime minister's plan passed by a vote of 168-118.

Meanwhile, in his first foreign visit, Mr. Cameron was set to meet with French President Nicolas Sarkozy Thursday evening, before Friday talks with German 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.

## U.K. retail sales continue to rise

BY JOE PARKINSON AND ILONA BILLINGTON

LONDON—British retail sales rose for the third straight month in April, but economists warned that various headwinds, including worries about inflation and jobs, could keep spending muted in the coming months.

The Office for National Statistics said Thursday that retail-sales volumes rose 0.2% in April, and 1.8% from April, 2009. Economists said the data highlighted the relative resilience of the sector against a background of weak consumer spending.

"April's relatively modest growth in retail sales suggests that the consumer is alive but not kicking particularly hard," said Howard Archer, an economist at IHS Global Insight. "We suspect that the upside for consumer spending—and hence overall economic growth—will be limited for some time to come as households still face very challenging conditions."

Economists have said the prospect of government spending cuts this year, signaled by the newly elected Conservative-Liberal Democrat coalition, may weigh on spending growth over the coming months.

Details of the data show sales in predominantly food stores fell 1.7% in April, the biggest annual drop since February 2009, but were flat from a year earlier. Sales of fuel were the weakest by sector in monthly terms, slumping 10.9% in April from March.

The ONS survey also reported that sales edged up 0.2% in the three months to April compared with the previous three months.

Sales in nonspecialized stores—or department stores—rose 9.4% in April from March, while nonstore

### Retail rising

U.K. retail sales, change from previous month



Source: Office for National Statistics

sales grew 10.0% over the same period. That came despite a 2.0% drop in sales at predominantly food stores, the joint largest fall in the series.

Separately, Bank of England Monetary Policy Committee member Adam Posen said it is a little disturbing that core inflation in the U.K. is continuing to rise while it is falling in other countries.

Recent data showed that annual consumer-price inflation soared to 3.7% in April, taking it even further above the central bank's 2.0% target. Annual core inflation, which excludes volatile energy, food, alcohol and tobacco prices, rose to 3.1% from 3.0% in March.

Mr. Posen said he and other MPC members have noted increased upside risks to inflation, but he added that ongoing strains in the euro zone were likely to drag on the U.K. economy.

—Natasha Brereton contributed to this article.

## Confidence declines in the euro zone

BY PAUL HANNON

LONDON — Consumers in the 16 countries that share the euro became more downbeat about their prospects in May as governments pledged hundreds of billions of euros to support Greece and other highly indebted nations.

The decline in confidence will worry euro-zone policy makers, since it suggests that consumer spending may slow in the months ahead, further holding back a recovery that has been weak and dependent on exports.

The European Commission said on Thursday that its preliminary measure of consumer confidence fell to -17.5 from -15 in April.

The measure for the European Union as a whole also fell, to -14.7 from -12.3.

"This is clear evidence that the deepening and spreading euro-zone debt crisis, and the associated accelerated actual or planned fiscal tightening in a number of euro-zone countries, is now weighing down appreciably on consumer confidence," said Howard Archer, an economist at IHS Global Insight.

Despite the various bailout plans agreed by euro-zone governments, the euro has fallen rapidly against the dollar as investors worry about the cohesiveness of the currency area.

Those concerns now appear to have spread to euro-zone consumers, who have been notably less optimistic than businesses about the prospects for recovery over recent months.

**The fall in consumer sentiment suggests spending will slow, holding back the recovery.**

In most euro-zone countries, the support packages are unpopular with voters, who may end up paying higher taxes to fund the bailouts.

Retail sales were flat in March, having contracted in both January and February. The euro-zone economy grew by 0.2% in the first quarter, having stalled in the final three months of 2009.

## Suspected ETA leaders are arrested

Associated Press

MADRID—Police in France arrested the suspected leader of Basque separatist group ETA and his second in command on Thursday, Spanish officials said, calling it an important blow but not a death knell for the violent organization.

It was the sixth arrest of an ETA leader in two years.

Four other people were arrested in raids in the Bayonne area of southwest France. One is a suspect in ETA's last killing—the shooting of French policeman in a botched car robbery outside Paris in March, Spain's interior ministry said.

The ministry and French police said the detainees were arrested in Bayonne or nearby Urrugne in a raid staged by French police and Spanish Civil Guards. Among the detainees is the girlfriend of a Frenchman who had been under surveillance and whose movements led to Thursday's arrests.

U.S. NEWS

# Coast Guard's role in oil spill scrutinized

*Old technology and divided responsibilities led to perfunctory inspections of rigs; lifeboats weren't even lowered*

BY MIGUEL BUSTILLO  
AND REBECCA SMITH

Last month's explosion of an offshore oil rig in the Gulf of Mexico has prompted scrutiny of the U.S. Coast Guard's ability to carry out even its limited role in preventing disaster on rigs.

Federal authorities have challenged the Coast Guard, the country's chief marine safety regulator, in hearings in the past two weeks over whether it has used all its powers to ensure that mobile offshore drilling rigs are seaworthy and prepared for fires.

The Coast Guard says its investigation into the explosion and evacuation of the Deepwater Horizon on April 20 is continuing. But the agency—and some legislators—say that its role needs to be expanded and that it needs more resources to ensure worker safety on these rigs.

Lt. Cmdr. Michael Odom, the Coast Guard officer who oversaw the last inspection of the rig, last week told a federal panel investigating the disaster that the service's oversight of offshore drilling rigs probably should be more rigorous.

Coast Guard officials say much of their inspections work is perfunctory—signing off on checks done by others and ensuring paperwork is in order. Moreover, regulation of the rigs' drilling operations, the most dangerous part, lies with a different agency, the Interior Department's Minerals Management Service.

Several experts, including maritime attorneys and Coast Guard officials, say that the regulatory split between the Coast Guard, which has authority over the traditional seagoing part of the rig, and the MMS, which has jurisdiction over the oil-



A Coast Guard technician surveys the oil slick from an aircraft last week.

drilling operation, will need to be re-examined in light of the disaster.

In addition, the majority of the offshore-drilling rigs are under foreign flags, leaving their home countries with primary responsibility for their safety. That was the case with

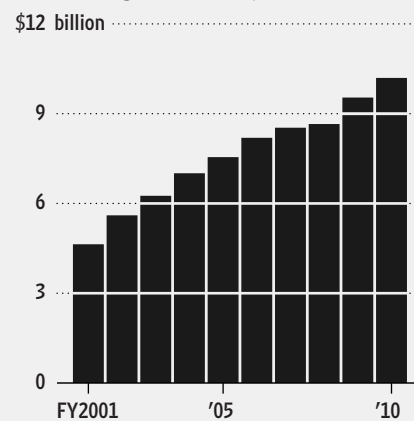
the Deepwater Horizon. It was registered in the Republic of the Marshall Islands.

Coast Guard examinations of foreign-flagged mobile rigs typically take hours, while checks of U.S. flag vessels often last days, guard offi-

## Funding the guard

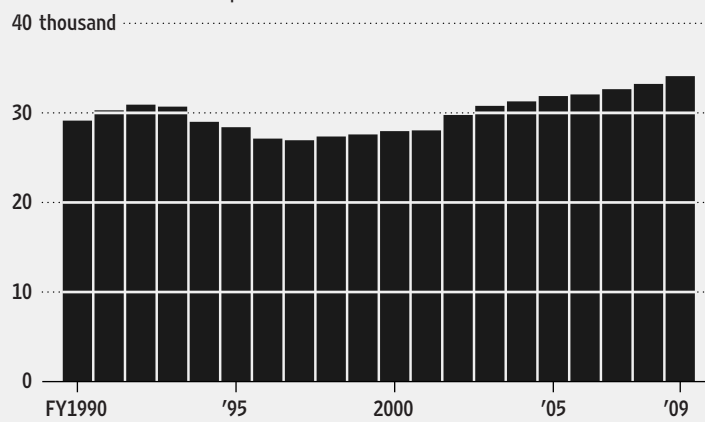
While the U.S. Coast Guard's budget has increased this decade, the number of enlisted personnel has only begun to grow following a period of stagnant or declining ranks.

Total budget authority



Note: Fiscal year ends Sept. 30  
Source: U.S. Coast Guard  
Photo: Reuters

Number of enlisted personnel



# Leak is bigger than estimated

BP PLC conceded Thursday that more oil than it estimated is gushing into the Gulf of Mexico as heavy crude washed into Louisiana's wetlands for the first time, feeding worries and uncertainty about the massive monthlong spill.

By Siobhan Hughes, Angel Gonzalez  
And Jeffrey Ball

A BP spokesman said that 5,000 barrels of oil a day were being collected through a mile-long tube the company inserted over the weekend. That is the total amount the company had said was leaking from the well. But the spokesman acknowledged that still more oil was leaking.

"The visible oil plume escaping from the riser pipe has noticeably declined," although it is impossible to give an exact measure of how much oil is still flowing into open water, the BP spokesman said.

A spokesman with the Unified Command, a unit established by the U.S. Coast Guard, BP, Transocean Ltd. and several U.S. agencies involved in responding to the spill, said that there was still an undetermined amount of oil leaking into the Gulf.

Meanwhile the U.S. Environmental Protection Agency on Thursday ordered BP to use a different chemical dispersant to break up oil gush-

ing out of the well.

BP has been using a dispersant called Corexit, made by **Nalco Holding Co.** The EPA authorized BP to use Corexit last week, but EPA Administrator Lisa Jackson had said that she was pushing the company to consider other dispersants that might be less harmful.

The leak followed the April 20 explosion and later sinking of Transocean's Deepwater Horizon drilling rig, which was drilling for London-based BP off the Louisiana coast.

Scientists said water samples taken from far below the water's surface showed oil.

Lawmakers in the U.S. Congress raised concerns about the toxicity of the dispersants that BP is spraying on the spill.

Dispersants are traditionally used to break up oil slicks on the sea surface. The risks of underwater use over long periods of time are unknown.

Initial testing of Corexit on small fish, conducted earlier this week, produced survival rates of 80% to 90%, the EPA chief told reporters Wednesday, but those tests don't measure long-term effects.

EPA spokeswoman Adora Andy confirmed that the agency ordered a switch.

The manufacturer of Sea Brat 4, Alabaster Corp. of Pasadena, Texas, said Wednesday that BP had ordered about 100,000 gallons. A BP spokes-

man said he didn't immediately know whether the EPA had ordered a switch. The chemical used at present is a version called Corexit 9500.

Last week, the EPA and the Coast Guard authorized chemical dispersants to be used undersea, saying that dispersants are generally less harmful than the "highly toxic oil leaking from the source."

Officials have said that the government was put into an impossible situation of choosing between the shores and the seas.

Meanwhile, Louisiana officials reported the landfall of thick pockets of brownish oil in several parts of the state's fragile coastline, which they've dreaded since the blast.

"We knew it was coming," said PJ Hahn, Plaquemines Parish's Coastal Zone Manager. Mr. Hahn saw the crude first-hand on Wednesday in the sensitive Pass-a-Loutre Wildlife Management Area.

"It was just thick, gooey oil in pools all up against the marsh," he said. The marshes, which teem with wildlife, help keep erosion at bay, and if they're damaged by the crude, officials fear that even more of Louisiana's rapidly disappearing coastline would melt away into the Gulf.

"We haven't seen the worst of it," said Billy Nungesser, president of Plaquemines Parish, the area where the Mississippi empties into the gulf and the bulk of the beached oil has been found.



An oil-covered crab lies on a beach near Venice, La., on Wednesday.

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## U.S. NEWS

# Financial bill nears final vote

Senate votes 60-40 to end debate; critics raise questions over Fannie Mae and Freddie Mac

WASHINGTON—The Senate cleared the way Thursday for a final vote on legislation that would constitute the biggest overhaul of U.S. financial regulations since the 1930s, voting 60-40 to end more than three weeks of debate on the sweeping measure.

By Greg Hitt  
And Damian Paletta

The action came after an effort by Senate Democratic Leader Harry Reid to shore up support. The Nevada Democrat met early Thursday with Massachusetts Republican Sen. Scott Brown in an effort to allay the senator's concerns about the legislation. Mr. Brown voted against shutting off debate Wednesday. But he supported the effort Thursday after winning assurances that major Massachusetts-based mutual-fund companies—including Fidelity Investments and State Street Corp.—would be shielded from trading limits the bill would impose on big banks.

"It's a good day because we're here again and we can move forward again," said Mr. Brown, after huddling with Mr. Reid early Thursday morning.

In the end, three Republicans joined with 55 Democrats and the chamber's two independents in support of the motion to cut off debate. Besides Mr. Brown, the Republicans supporting the motion were Maine Sens. Susan Collins and Olympia Snowe. In opposition were two Democrats and 38 Republicans.

Democratic leaders were working to set a final vote on the bill late Thursday. Mr. Reid said he'd like to vote Thursday, "in the best of all worlds." But it was also possible the vote would be delayed until Friday.

The legislation, broadly, is designed to close the regulatory gaps and end the speculative trading practices that contributed to the 2008 financial-market crisis, which prompted federal regulators to engineer a series of taxpayer bailouts of



Rep. Linda Sanchez, from left, Sens. Harry Reid, Richard Durbin and Christopher Dodd at the U.S. Capitol Thursday.

financial institutions. Among other things, the bill would create a new regulatory system to manage the collapse of failed financial institutions. The bill would also create a new consumer-protection agency.

Republicans have generally opposed the bill as an excessive intrusion by government into the markets. The bill's expansion of government powers is "setting our country up on a course we cannot correct and creating unintended consequences that may ultimately bring more damage down on the American people," said Sen. John Ensign (R., Nev.).

GOP critics also said the legislation doesn't deal with the circumstances that led to the severe decline in housing prices, which undermined stability in the banking system and prompted the government to seize control of Fannie Mae and Freddie Mac, the government-

sponsored housing-finance concerns. Both were taken over by the government two years ago, after the decline in housing prices put them at risk of insolvency.

"It completely ignores the 900 pound gorilla in the room," said Sen. Christopher "Kit" Bond, the Missouri Republican. He complained taxpayers have been "left footing the bill for" Fannie Mae and Freddie Mac, with no immediate prospect of addressing the problem.

Democrats concede action is needed on the two institutions.

"Do we need to reform Fannie Mae and Freddie Mac? Yes, we do," said Senate Democratic Whip Richard Durbin (D., Ill.). "If we don't, we will pay dearly for it." But Mr. Durbin and others have argued the problem is too complex to deal with now, and shouldn't be used as a reason to delay action on the broader regulatory overhaul bill. "This is a

valuable thing to do to move forward," he said.

The legislation includes an amendment that would require the Obama administration to develop a plan to end government control of Fannie Mae and Freddie Mac by January 2011. Treasury has been studying the issue for several months.

With the Senate now moving toward a final vote, only a handful of additional actions are likely. Among them is a vote on a proposal by Sen. Sam Brownback (R., Kan.) that would exempt auto dealers from regulation by the proposed consumer-protection agency. Another proposal, by Sens. Jeff Merkley (D., Ore.) and Carl Levin (D., Mich.), would bar banks from using their own capital to engage in speculative trades, and prohibit firms from betting against securities packaged and sold to their own clients.

## Jobless claims rise sharply, but it's unclear if this is a trend

By Sara Murray

New U.S. claims for jobless benefits soared last week, a worrisome sign for the slowly recovering labor market.

Separately, an index of leading economic indicators fell in April, pulled down by a sharp decline in building permits.

The number of workers who filed new claims for unemployment insurance climbed by 25,000 to a seasonally adjusted 471,000 in the week ended May 15, the Labor Department said Thursday.

"We are left with the uncomfortable possibility that the trend in claims has not only stopped falling, but may be turning higher," Ian Shepherdson, a High Frequency Economics Ltd. economist, said in a note to clients.

A Labor Department economist said Thursday that, unlike early April, when jobless claims surged due to seasonal and holiday factors, this time there was no indication that any special factors were at work. Last week's jump in claims reversed most of the declines since April 10.

## An index of leading economic indicators fell in April, pulled down by a sharp decline in building permits, the Conference Board said.

Economists were quick to point out that last week's decline didn't necessarily indicate a trend and that the government's payroll data has shown the labor market was improving, with the economy adding jobs for the past four months.

"The recovery, both in the labor market and more generally, was never going to happen in a straight line, and temporary setbacks are not uncommon," said Omair Sharif, an RBS Securities Inc. analyst. "So we would brush this figure off unless we see further confirmation of a sustained pickup in layoffs."

The four-week moving average for jobless claims, which aims to smooth volatility in the data rose 3,000 to 453,500. Continuing claims, those drawn by workers for more than one week, fell by 40,000 to 4.6 million in the week ended May 8.

In a separate report, an index of leading economic indicators fell 0.1% in April after rising 1.3% in March, the Conference Board said. The index is designed to predict where the economy is headed.

"These latest results suggest a recovery that will continue through the summer, although it could lose a little steam," said Conference Board economist Ken Goldstein.

Readings for building permits and jobless claims declined, while measures for the average workweek, stock prices and the interest-rate spread ticked up.

The coincident economic index, which measures the current state of the economy, increased 0.3% in April. An index of lagging economic indicators rose 0.1%.

—Sarah N. Lynch  
contributed to this article.

# Texas curriculum plan sparks debate

By Stephanie Simon  
And Ana Campoy

DALLAS—The Texas Board of Education is poised to enact a new social-studies curriculum that portrays America as a nation rooted in Biblical values and promotes the virtues of low taxes, limited regulation and

free enterprise.

Those standards have provoked heated debate in the state similar to the one that broke out last year when the board overhauled the science curriculum.

Liberal critics have complained, among other things, that the standards excuse the excesses of Sen. Joseph McCarthy's anticommunist crusades; minimize the contributions of ethnic minorities; and give too much weight to Confederacy leader Jefferson Davis's view that the Civil War was about states' rights, not slavery.

But conservatives say they're only trying to restore balance to a curriculum they believe has been skewed to the left for far too long. The Liberty Institute, a nonprofit advocacy group in Plano, Texas, is urging the board to stand strong against attempts by "the fringe left" to delay adoption of the standards.

The new standards, which the board was slated to bring to a vote on Thursday and Friday, will govern classroom instruction for all 4.7 mil-

lion public-school students in the state. The standards also will influence what goes into textbooks when the state orders new ones, which isn't expected for several years.

Feelings are running strong on both sides of the debate; more than 20,000 comments have flooded into the Board of Education in recent months.

The standards don't provide a day-by-day curriculum for teachers but do set out, in voluminous detail, the concepts, names and dates students are expected to master. Standardized tests and textbooks draw on these guidelines, so they carry considerable weight in the classroom.

Debate about certain provisions has been intense. For instance, one proposed revision would change what first-graders learn about their civic duty.

The previous standards, a decade old, defined good citizenship as "a belief in justice, truth, equality and responsibility for the common good." The new standards talk about

respect for others, personal responsibility, and the importance of voting and of "holding public officials to their word."

Board member Don McLeroy, who leads the most conservative bloc on the board, said that "responsibility for the common good" does not belong in the standards because it is "a liberal notion" that edges toward communist philosophy.

Students also are required to learn that America's founding documents were influenced by various intellectual traditions, "especially biblical law," and principles laid down by Moses.

Mavis Knight, who leads a smaller, more liberal faction on the board, said she was disturbed by what she sees as emphasis on American exceptionalism, which posits that the U.S. holds a unique role in shaping the world's destiny.

More than 1,200 historians and college faculty members from across the nation have signed a petition calling the standards academically shoddy.

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## WORLD NEWS

# Palestinians offer land concessions

Move surprises diplomats but generates skepticism; Israel says it is considering confidence-building measures

By CHARLES LEVINSON

JERUSALEM—Palestinian negotiators have surprised Washington with a bold opening offer to White House peace envoy George Mitchell that includes concessions on territory beyond those offered in past Palestinian-Israeli peace talks, according to officials briefed on the current negotiations.

The Palestinians' unexpected offer has been greeted warily in Israel and by some members of the Obama administration, according to these officials. Palestinians believe Israeli Prime Minister Benjamin Netanyahu has no intention of reaching a peace deal and thus may have calculated they can make generous offers without having to worry about following through, these officials said.

Mr. Netanyahu, who met with Mr. Mitchell for three hours on Thursday morning, hasn't yet offered proposals that address the most sensitive core issues of the conflict, such as borders, refugees, and the status of Jerusalem, according to senior Israeli officials.

Instead, Israeli negotiators have focused the first two rounds of talks on more peripheral issues, such as water rights, which Israeli officials said is a more practical starting point because there is a higher likelihood of reaching agreement with the Palestinians.

Water, while technically considered one of the conflict's four core issues, doesn't evoke the same heated passions among Israelis and Palestinians.

"In the framework of these talks, we are ready for the discussion of core issues, but from our point of view water is a win-win topic that can make a real difference in people's lives," said a senior Israeli official close to the negotiations.



U.S. Middle East envoy George Mitchell, left, and Palestinian President Mahmoud Abbas in Ramallah on Wednesday.

Palestinian chief negotiator Saeb Erekat, while declining to comment on what was discussed privately with Mr. Mitchell, said the Palestinians were pursuing a peace deal in good faith and looking to conclude an agreement as rapidly as possible.

"We are not going to waste Mitchell's time," Mr. Erekat said. "We want Mr. Mitchell to succeed because his success is our freedom."

Israel told Mr. Mitchell it may consider offering some confidence-building measures to the Palestinians, Mr. Netanyahu's office said in a statement. The statement said Pal-

estinians must make reciprocal gestures, including stopping calls for the international community to isolate and boycott Israel.

The statement singled out Palestinian lobbying against Israel's acceptance earlier this month into the Organization for Economic Cooperation and Development, the world economic body.

"Israel expects the Palestinian leadership to work toward creating a positive atmosphere in the talks and not to conduct international activities against Israel," the statement said.

Palestinians told Mr. Mitchell they are prepared to match offers that they made to former Israeli Prime Minister Ehud Olmert during peace negotiations in 2008, and may be willing to double the amount of West Bank land to be included in a land swap, according to the officials briefed on the negotiations.

According to Israeli and Palestinian accounts of the 2008 one-on-one talks, Mr. Abbas offered Mr. Olmert an exchange of 1.9% of West Bank land for an equal amount of Israeli territory. Mr. Olmert countered with a proposed swap of a much larger

amount of land. The new Palestinian offer would still fall short of matching the amount of land offered by Mr. Olmert.

In talks with Mr. Mitchell on Wednesday, the officials briefed on the negotiations said, Mr. Abbas also raised the idea of deploying an international force in the West Bank to help enforce any final agreement. Mr. Erekat, the Palestinian negotiator, denied that. Israel has historically opposed such a force, fearing that it would limit Israel's room to maneuver in response to perceived threats.

## Thai authorities restore order in scarred capital

By ERIC BELLMAN  
AND PATRICK BARTA

BANGKOK—Life in Bangkok started returning to normal Thursday as Thailand's capital began to clean up the mess left by a months-long protest, but a solution to the country's deep-seated political problems appeared no closer.

While troops dealt with some pockets of resistance from a small number of militant protesters, and most of the more than 30 fires that engulfed buildings across the city had been put out, there were concerns Red Shirt protesters could return to make trouble in the capital or the rural heartland of Thailand. The government extended a curfew in Bangkok and 23 provinces through May 22, requiring people to stay indoors from 9 p.m. until 5 a.m.

A military push forced many protest leaders to surrender to police and leave their encampment in central Bangkok on Wednesday. Yet many of their followers scattered.

Many more sympathizers—believed to be a significant portion of Thailand's population—harbor anti-government views, especially in rural areas northeast of the capital.

On Thursday, police led more



A soldier stands guard in Bangkok.

than one thousand protesters out of a Buddhist temple near the main protest site after they took sanctuary there as the rallies were broken up. Six bodies were found, lifting the death toll for the protest to 82 since it began in mid-March.

—Wilawan Watcharasakwet contributed to this article.

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## WORLD NEWS

# Asia lifts Japan's growth

Economy expanded 4.9% in first quarter, helped by strong exports

By YUKA HAYASHI

TOKYO—Japan is emerging as a surprising beneficiary of the global economic recovery, helped by its proximity to Asia's fast-growing economies and the strong presence of Japanese companies in the region.

While chronic ailments such as deflation and a runaway fiscal deficit continue to occupy the minds of Japanese policy makers, the country's economy has grown at an unexpectedly robust pace in recent quarters, thanks primarily to soaring exports to China, Vietnam, India and other nations.

At an annualized pace of 4.9%, the government said Thursday, Japan's first-quarter growth exceeded that of the U.S. and the European Union, which expanded by 3.2% and 0.8%, respectively. It was the fourth quarter of expansion for Japan following sharp contractions during a recession triggered by the global crisis.

**Mitsubishi Heavy Industries Ltd.** hopes to add to that growth. The maker of ships, power plants and heavy machinery aims to boost the share of overseas business to 63% of its total contracts by 2014 from just 36% in 2009. Once guarded about its technology, the company now seeks out local partnerships to further expand into Asian markets. The company projects orders from customers in

emerging markets will rise to 1.1 trillion yen (about \$12 billion) in 2014, compared with an average of 760 billion yen over the past three years.

"To cut initial investments to enter new markets in emerging economies, we are seeking joint ventures with major local companies, and signing technology assistance deals to gather licensing fees," Chief Executive Hideaki Omiya said in April.

Earlier this month, Mitsubishi Heavy received an order for three sets of boiler and steam turbines for thermal power plants in India for undisclosed terms, made possible through a joint venture with India's **Larsen & Toubro Ltd.**

Robust sales of Japanese products in emerging countries are beginning to set off a cycle of sustainable growth in Japan. As stronger exports shore up earnings, Japanese companies are boosting investments in plants and machinery.

With fears of job loss and pay cuts receding, some consumers are starting to allow themselves modest luxuries such as desserts after meals and day trips on weekends. Household spending grew by an annualized pace of 1.3%, rising for the fourth consecutive quarter. Until now, consumption has been kept from collapsing by government stimulus measures such as a cash-for-clunkers auto-sales program and subsidies for energy-efficient appliances.

"Conditions are falling into place for an autonomous recovery," said Keisuke Tsumura, a parliamentary secretary at the Cabinet Office in charge of economic policy.

Keeping that pace will be tough. Economists expect the pace of Japan's overall growth to slow starting from the second quarter as export growth begins to level off and the effect of domestic stimulus wanes. For all of 2010, the International Monetary Fund forecasts Japan will grow 1.9%, slower than 3.1% seen for the U.S. but above 1.0% for the euro area.

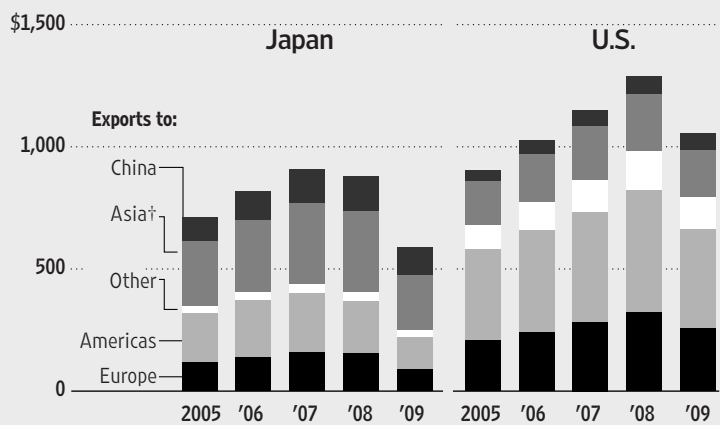
Still, intimate ties to Asian economies will likely give Japan and other Asian exports an economic tailwind if growth holds up. That could also take pressure off Tokyo to curb deflation or reduce government debt that, as a percentage of gross domestic product, leads the industrialized world—though those problems are likely to linger past the current expansionary period.

In the first quarter, Asia accounted for 55% of the value of Japan's overall exports, up from 50% a year ago and 47% in the 2007 period. By comparison, Asia accounted for 26% of U.S. export value, not much larger than Canada's 20% share and Europe's 23% for Europe.

"The structure of Japan's economy has changed dramatically since the beginning of this century," said Jitsuro Terashima, chairman of Mitsui Global Strategic Studies Insti-

## Neighborly support

Breakdown of exports by region for Japan and U.S., total values in billions of U.S. dollars\*



\* All figures converted from yen at Thursday's rate; † Excluding China  
Sources: Ministry of Japan and Foreign Trade Division of U.S. Census Bureau

tute, a research arm of Mitsui & Co., a trading company. "Until recently, we could define Japan as a country that fed itself through trade with the U.S., but that's not the case anymore." Last year, China became the No. 1 destination for Japan's exports, replacing the U.S. for the first time in modern history.

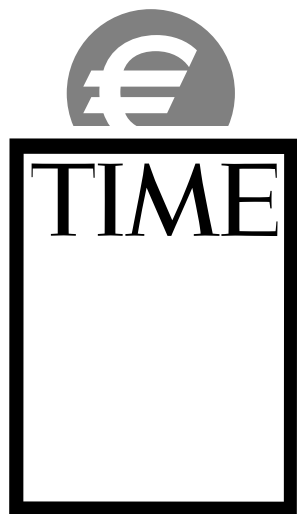
The reliance on Asia's emerging markets, particularly China, also represents a risk. China's economy could overheat without appropriate tightening steps from the authorities. It could slow down sharply and hurt Japanese exports if such steps are implemented too rapidly.

**Toto Ltd.**, a maker of toilet and bathroom fixtures, has seen sales boom in China as its customer base expands. While revenue fell 9% in the fiscal year ended March, sales in

China grew about 10%, accounting for 5.8% of the company's global sales. "While we have been worried for quite a long time that China will slow down, we actually have seen a steady growth there," said President Kunio Harimoto this month.

Companies such as Mitsubishi Heavy and Toto now have the support of the Japanese government. Japan's new center-left government has identified Asia's emerging markets as a "new frontier" for Japan's growth and next month hopes to unveil cheap financing and regulatory support for infrastructure projects abroad as part of its broad economic-policy package.

—Miho Inada,  
Tomoyuki Tachikawa  
and Takeshi Takeuchi  
contributed to this article.



### Global Investing

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## Bankers want to revisit Japan Post reform plan

By ATSUKO FUKASE

TOKYO—Japanese bankers on Thursday increased pressure on the government to reconsider its attempt to reverse the privatization of Japan's postal service, ahead of a meeting with the U.S. and the European Union that could lead to new trade tensions.

The talks on Friday at the World Trade Organization in Geneva will be the first at ambassador level on the issue, and they underline the rising concerns among Japan's trading partners over the government's plan to scale back the privatization of **Japan Post Holdings**.

The U.S. and EU say the Hatoyama administration's postal-reform bill could hamper fair competition with the private sector as Japan Post, a mammoth financial institution, could grow even larger under proposals to expand its offering of financial services.

On Friday, U.S. Ambassador to the WTO Michael Punke and EU Chargé d'Affaires John Clarke will meet with their Japanese counterpart Shinichi Kitajima to raise their concerns.

The Office of the U.S. Trade Representative and the EU may file a suit with the WTO if they can't achieve a resolution, according to Japanese media reports.

"If the WTO finds [the postal-reform bill] to be a problem, the Japanese government should accept its view," Masayuki Oku, chairman of the Japanese Bankers Association, said at a briefing.

Mr. Oku also is president of Sumitomo Mitsui Banking Corp., the

banking unit of **Sumitomo Mitsui Financial Group Inc.**

Japan's most powerful banking lobby group and seven other associations released a joint statement on Thursday that said that the government's plan to roll back the privatization of Japan Post should be thoroughly scrutinized before taking effect.

Under the plan adopted by the Japanese cabinet on April 30, Japan Post will continue to control its two financial units, Japan Post Bank and Japan Post Insurance, allowing it to offer "universal services across the country."

The deposit ceiling on postal savings also will be doubled to 20 million yen (about \$216,000) per customer, allowing the government-backed financial giant to hold vast assets.

The plan has drawn criticism from the Japanese financial industry, amid concerns that Japan Post's huge financial holdings could present a risk to the stability of the market because of its implicit guarantee from the government.

Japan Post holds assets valued at about \$3.3 trillion, making it one of the world's largest financial institutions.

According to the government's plan, Japan Post will no longer be required to file for regulatory approval from authorities such as the Ministry of International Affairs and Communications when starting new financial businesses.

The group will need only to notify authorities if it plans to enter new business areas such as mort-