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## BP shifts gears in Gulf oil fight

BY STEPHEN POWER AND MARK LONG

A BP PLC executive said Sunday there was "no certainty" that the company's latest attempt to stem the flow of oil into the Gulf of Mexico would work, following the abandonment late Saturday of "top-kill" efforts to stem the oil by pumping heavy liquids into the well.

Meanwhile, a top aide to President Barack Obama said the administration was preparing for the gusher to continue for months.

The company now plans to try to contain the flow with a new type of cap that would siphon oil to the surface. The operation would involve removing a broken drilling pipe, or riser, that lies atop the blowout preventer and capping the valve with a siphon. BP officials say such an operation has never been carried out in 1,500 meters of water, and Bob Dudley, managing director of BP, told "Fox News Sunday" there was no assurance of success.

"The question is how much of the oil" the company will be able to contain, Mr. Dudley said. He said he didn't believe the operation would make the spill worse.

Carol Browner, special assistant to the president for energy and climate change, told NBC's "Meet The Press" that the Obama administration was facing the prospect



Workers head to a beach Sunday to clean up oil residue in Grand Isle, La. Oil from the Deepwater Horizon disaster has washed up on kilometers of shoreline.

that none of the measures BP is pursuing, other than relief wells that are several months away, will stop or contain the oil gushing into the Gulf.

In such a scenario, "there could be oil coming up until August when the relief wells...are finished," Ms.

Browner said. Appearing on CBS' "Face the Nation,"

Ms. Browner added that government experts believe BP's containment operation could result in a temporary 20% increase in the volume of oil spilling from the well.

The failure of the top-kill

effort followed frustrated attempts to activate the rig's blowout preventer and install a containment dome above the leaking well, which is estimated to be releasing between 12,000 and 19,000 barrels a day into the Gulf. The spill began more than a month ago,

when **Transocean** Ltd.'s Deepwater Horizon rig blew up and sank. It has become the worst oil spill in U.S. history, surpassing the 1989 Exxon Valdez disaster in Alaska.

"We're all disappointed the top kill didn't work," Mr. Dudley said.

Mr. Dudley said it was "very premature" to conclude that BP cut corners on the rig.

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## Prudential, AIG race to rescue AIA deal

BY DANA CIMILLUCA

U.K. insurer **Prudential PLC** continued talks over the weekend to restructure its troubled purchase of **American International Group** Inc.'s Asian life-insurance unit, people familiar with the matter said, but the huge deal, crucial to both insurers' future, still hangs in the balance.

Prudential, which is unrelated to Prudential Financial Inc. of the U.S., is confident it can salvage the deal after the U.K. insurer's shareholders forced the companies back to the negotiating table last week, people familiar with the

matter said. But another person cautioned that saving the deal was far from certain. The \$35.5 billion transaction has run into one problem after another since it was announced three months ago.

Given the demands of AIG and Prudential's restive shareholders, should the two sides be able to agree on a new price, it would most likely be in the range of \$30 billion to \$32 billion, people familiar with the matter said. Prudential was hoping to have a new deal to announce to the market Tuesday morning following holidays Monday in the U.S. and U.K., but that timing could slip. AIG's board dis-

cussed the deal Friday and plans to do so again Monday.

People familiar with the matter said last week that the focus of the negotiators' efforts is on cutting the amount of Prudential stock AIG would get in the deal. One possibility being discussed was adding a so-called earn-out to the deal, which would boost payments to AIG down the road should the merged business hit certain performance targets.

Prudential agreed in early March to pay AIG \$25 billion in cash and \$10.5 billion in Prudential shares and other securities for AIG's AIA Group Ltd. Earlier in May, AIG

*Please turn to page 3*

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# To really save the euro, Europe needs to take an ax to its tangle of red tape

## [ Agenda ]

BY IRWIN STELZER



Phase One of the save-the-euro campaign is completed. After a lot of huffing and puffing, the euro-zone countries, the International Monetary Fund, and the European Central Bank have cobbled together a bailout that might see Greece and other members of Club Med through this year and part of next. You might term this a success—if you don't count the facts that it might threaten German Chancellor Angela Merkel's political career, that the ECB has lost its reputation for political independence and that the bailout has reduced the penalty for improvident bank lending.

Phase Two is underway. Its creators have always yearned for central control of the fiscal policies of euro-zone members, and are on a path to getting it. No longer will Brussels and the richer North turn a blind eye to the spending and shenanigans of the poorer South. Instead, they will impose fines, a loss of voting rights, or some other form of Germanic sanction on the persistently profligate.

The markets remain skeptical. The promised austerity measures are not certain to succeed. After all, Greece has just fired as many as 234 finance ministry officials for their failure to pay taxes since at least 2007. Some 60 lesser civil servants can't be axed, and will be reassigned to other jobs. I mention this not to amuse but to point out that government promises of austerity have to be weighed alongside the history of the officials charged with honoring them.

Still, there is progress. Spain, in the gun sights of the bond



Robert Zoellick says the EU should pursue 'tax policies that encourage work.'

vigilantes, could not avoid being shorn of Fitch's triple-A rating, although parliament approved the government's austerity program—by one vote. The Zapatero government has finally begun to force consolidation of the banking system, forcing troubled regional *cajas* to merge. It is doubtful that combining two

## Only an exquisite combination of well-timed policies can avoid a financial panic

or more failing banks without cleaning up their balance sheets will accomplish very much, but let's not quibble: at least the problem of banks that have lent too much to property developers is being attacked.

Both Spain and Portugal are cutting and freezing the salaries of civil servants, and following Ireland in reining in the most generous portions of their welfare states. Italy, its new austerity program put in place last week, has a bit of room for maneuver because its debt-to-GDP ratio is

far lower than Greece's.

But none of this will matter unless there is a Phase Three. Even if some taxes are raised, and some outlays cut, Europe cannot grow at a rate sufficient to restore its finances (even France has an unsustainable deficit of 7% of GDP) without basic policy changes. The Organization for Economic Cooperation and Development predicts the euro zone will be the world's growth laggard, growing at 1.2% this year and 1.8% in 2011, while the U.S. racks up growth of 3.2% in both years, and Japan records 3% and 2% growth rates in 2010 and 2011, respectively. And those projections might be overly optimistic: retail sales in the euro zone have declined for five consecutive months.

Which brings us to Robert Zoellick, CEO of the World Bank. Mr. Zoellick knows a thing or two about what drives economic growth, and although I don't always agree with the policies of international funding institutions—be wary of policy makers bearing gifts of other people's money—I do think Mr. Zoellick has got it right.

In an exchange of correspondence, which he has

given me permission to reference, the World Bank boss points out that the way out of Europe's problems involves a lot more than austerity, or Keynesian pump-priming.

"To enable Europe to grow at a rate that will contribute deficit-reducing remedies to its Treasuries and create jobs," says Mr. Zoellick, "the EU should look at cutting red tape that holds back new businesses, at increasing competition, and pursuing tax policies that encourage work and private investment." It is the adoption of these policies in several developing countries that Mr. Zoellick argues is helping them to grow at more than twice the rate of Western economies.

My own view is that only an exquisite combination of well-timed policies can avoid a financial panic. First: a dose of austerity now to signal that the bond market's message has been received. Second: a credible plan for future reductions in the scale of state spending. Third: a bout of quantitative easing by the ECB, which means continuing to buy Greek and other sovereign debt, and, to use a term clearer than "quantitative easing," printing money. Fourth: serious growth-oriented structural reforms that favor job-creating small businesses, reduce the burden of state pensions, encourage hiring by making firing easier, and stabilize the financial system. Remember: Spain's debt was downgraded because austerity measures "materially" reduce its growth prospects.

That only partial list of what needs to be done indicates the massive exercise of wisdom and will required of policy makers. Past experience does not suggest that either virtue is in oversupply in the eurocracy.

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

## What's News

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Iain Martin on the challenge facing the U.K.'s Work and Pensions secretary



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## NEWS

# The real battle for Kingston begins

By NICHOLAS CASEY

KINGSTON, Jamaica — The government here defended its actions after a three-day siege in search of an alleged drug lord in a Kingston shantytown claimed at least 73 lives. But many Jamaicans questioned the deadly cost of the raid—while police said their target, Christopher “Dudus” Coke, was nowhere to be found.

Police did claim victory Friday in taking control of the Tivoli Gardens slum, Mr. Coke’s stronghold. All but a handful of the roughly 980 Jamaicans detained during raids by security forces in gang-heavy Kingston slums have been released, according to the Associated Press.

The raid could mark a turning point on the island. For more than a generation, men like Mr. Coke took charge of much of Jamaica as “dons.”

On Friday, Tivoli Gardens looked like a section of an occupied city. Soldiers stood with assault rifles and machetes. One bored soldier kicked at a few spent rounds on the street. Some residents were unable to leave their streets, penned in by barbed-wire blockades set up by security forces.

“We’re starving here,” said Elva Williams, 52 years old, standing next to soldiers.

Mr. Coke is wanted in the U.S. on drug-trafficking charges. Jamaican Prime Minister Bruce Golding balked at an extradition request late last year, but was criticized by Washington and opposition politicians in Jamaica for trying to shield the alleged drug lord. Tivoli Gardens has been a reliable bastion for Mr. Golding’s Labour Party.

Last week, Mr. Golding issued a warrant for Mr. Coke’s arrest. Violence erupted Monday, soon after police went to capture the 41-year-old. Col. Rocky Meade, who coordinated the military arm of the operation, said Friday that while the problem of organized crime had grown in Jamaica for years, this week’s action was necessary because this was the first time a group had presented such a threat to the government.

“What we’re seeing is organized crime taking over the state,” Col. Meade said.

Mr. Coke was raised in Kingston in the 1970s at a turning point in Jamaican history when politicians be-



Soldiers maintained checkpoints in Kingston’s Tivoli Gardens on Friday, but police said the target of a raid there, alleged drug lord and shantytown ‘don’ Christopher Coke, above, hadn’t been found.

gan yielding authority to neighborhood bosses in Kingston who said they could deliver votes. By the 1980s, these dons began raising money for political campaigns by trafficking cocaine into the U.S., solidifying their power by arming neighborhood militias.

A new shantytown unit, known today as the “garrison,” was born. The dons formed “a kind of state within the state,” says Theodore Leggett, a drugs expert at the United Nations. “Wealth from the cocaine trade essentially liberated these men from their political masters.” Mr. Coke’s father was believed to be one of these bosses, leading the “Shower Posse,” a fierce gang that operated in New York and Kingston, and got its name from “showering” crowds with bullets to kill rival drug lords.

The elder Mr. Coke’s power grew, and so did the influence of his garrison, Tivoli Gardens. Through Mr. Coke’s political patronage, Tivoli Gardens’s pull in Jamaica’s Labour Party increased; politicians soon knew they were unlikely to win elections without the district.

The senior Mr. Coke’s reign was cut short by an extradition request from the U.S. His body was found charred after a fire in a Jamaican jail cell. The younger Mr. Coke took

charge of his father’s business, according to U.S. authorities.

In Tivoli Gardens, Mr. Coke cuts a mysterious figure. In late December, city residents gathered for a “passa passa”—an outdoor party popular in Tivoli Gardens. Mr. Coke decided to make an unannounced appearance. The music stopped, the crowd parted. “It was almost as if they were watching a mirage,” said Anicee Gaddis, a writer who was

there. Mr. Coke took the stage and appealed for a truce between the garrisons, Ms. Gaddis recalls.

Violence in Jamaica has reached all-time highs as the flow of cocaine into the U.S. had shifted to Central America as Jamaican marijuana lost market share to Mexican cannabis. The Jamaican dons were “fighting over a shrinking pie,” says Mr. Leggett of the U.N. Jamaica ended 2009 with 1,674 murders,

making it one of the world’s most dangerous places.

Mr. Leggett says it is a problem the broader region must grapple with to establish law and order. “Many Latin American countries need to address organized crime before it becomes a threat to the state, and particularly before these groups become institutionalized,” he says. “In both Mexico and Jamaica, this time has long passed.”

## The race to save AIA deal

*Continued from first page*  
agreed to possibly take a bit less cash in exchange for an allocation of subordinated debt, to address U.K. regulators’ concerns over the capital cushion of Prudential-AIA.

Prudential shareholders objected to the price tag, however, given what they saw as the risk of integrating such a far-flung operation and the inexperience of the company’s chief executive, Tidjane Thiam, who has been in the job less than a year. Mr. Thiam has countered that AIA is a once-in-a-lifetime opportunity that would soon have been unavailable, given AIG’s plan to sell shares in the business to the public—a plan that it would likely fall back on should the Prudential deal fall apart.

Three or four of the Prudential shareholders most opposed to the deal’s original terms have told the

company that a price cut of 10% to 15%—in the range of what is now under discussion—could be enough to bring them around, one of the people said. **BlackRock Inc.**, **Legal & General Group PLC** and **Fidelity** are among the funds forcing Prudential back to the negotiating table. The deal has a relatively high bar for approval; holders of three-quarters of the shares voted must say yes for the deal to go through.

If the two sides can reach a compromise in time, by early Tuesday or Wednesday at the latest, Prudential may be able to stick to a plan to hold a shareholder vote on the deal on June 7, two of the people said. The \$21 billion that Prudential was to raise from its shareholders in a rights issue would be unchanged.

—Anupreeta Das, Erik Holm and Serena Ng contributed to this article.

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## EUROPE NEWS

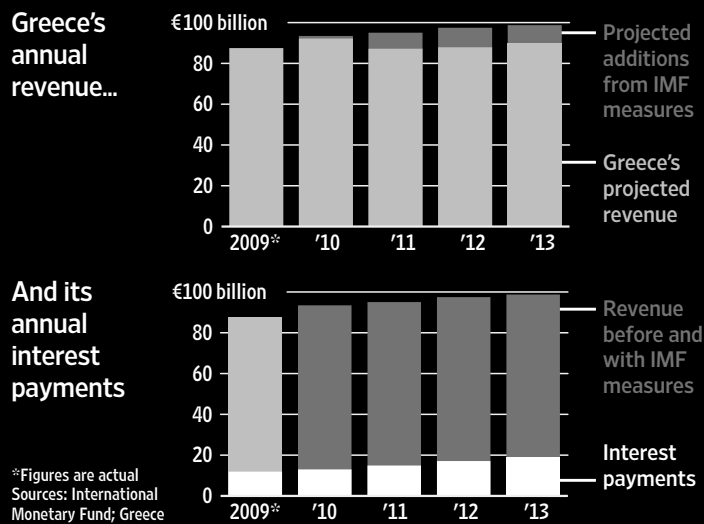


Austerity measures imposed by the IMF and EU have roiled Greeks, and Athens will face pressure from unions seeking exemptions from the cuts. Above, protesters in Athens on May 12.

Agence France-Presse/Getty Images

## Heavy burden

IMF measures will increase Greece's projected revenues, but interest payments could consume about one-fifth of revenue.



# IMF faces Herculean task in Greece

For the International Monetary Fund and its European allies, the Greek rescue package presents an unprecedented opportunity to remake one of Western Europe's most shuttered and regulated economies.

By Bob Davis in Washington and Sebastian Moffett, Alkman Granitsas and Nick Skrekas in Athens

For Savvas Tsakiris, the coming changes mean lower profits, lower pay and more competition. Mr. Tsakiris, a 48-year-old pharmacist in Athens, fears deregulation will mean "handing over the profession to multinationals that are not pharmacists, but entrepreneurs."

The diverging visions are at the core of the IMF's challenges in Greece.

Here, the fund faces its most far-reaching effort at economic reconstruction since the Asian financial crisis of a decade ago, when it forced countries to dismantle monopolies and slash subsidies to get rescue loans.

But Greece presents an even bigger challenge. Its Western European population has grown used to decades of job protections, state regulation and government support. The IMF is seeking much more change from Greece than the country has had the political will to impose on itself in recent years.

"The scope of the conditions is brutal," says Domenico Lombardi, a former adviser to Italy's IMF representative.

The stakes may be higher than they were in Asia. If Greece can't muster the political will to deregulate

and improve productivity, it could be forced to restructure its debts or get out of the euro.

Either scenario could touch off fears over the ability of other euro-zone members, such as Spain or Portugal, to rein in their own spending to avoid a Greece-style meltdown.

The IMF can't work from the playbook it used to put other countries on the road to recovery. For one thing, it is working jointly with the EU, which is providing the bulk of the €110 billion (\$135 billion) rescue loan. Because Greece is a member of the euro zone, it doesn't control its own interest-rate and currency policies. So the IMF can't tell Athens to tweak interest rates to spur investment or devalue its currency to make exports more attractive.

The only way for Greece to grow fast enough to pay its debts is to make its economy more nimble. That means cutting wages and prices to make its wares more competitive, dismantling decades of regulations and selling state-owned businesses.

Many Greeks disdain the IMF program as a kind of "restraining order" to bar Greeks from spending, says Theodore Coulombis, a University of Athens professor of international relations. "We Greeks are proud; we don't like to be restrained from outside."

Resistance remains high. On Monday, Greek maritime workers are expected to strike to protest Greece's proposal to lift cabotage laws, a move that would allow non-EU-flagged cruise ships to call Greek ports home with no obligation to

hire Greek crew. In a similar strike in April, workers kept some 870 mainly Spanish passengers from boarding a passenger ship in Piraeus for a weeklong cruise, sending a signal to the government that unions may target Greek's tourist trade, which accounts for about 15% of the economy.

The IMF's deputy managing director, John Lipsky, says the Greek government and much of the electorate understand the need for the economy to change sharply. "Our understanding is that [the IMF-EU program] is broadly accepted, if not enthusiastically supported," he said.

The imprimatur of the euro made it easier for Greece to borrow and run a government deficit that reached 13.6% of gross domestic product, more than four times what EU rules allowed. Greeks became used to the perks of the European welfare state—including government jobs that became lifetime appointments and salaries that included two months of additional wages for Christmas, Easter and summer.

All that must go under the conditions imposed by the IMF and other European countries as a price for lending Greece money to pay foreign creditors. The cost, the IMF estimates, will be an economic contraction this year of 4%, and unemployment next year of nearly 15%.

Dimitris Anagnostis, 59, a middle-school teacher in Gerakas, an Athens suburb, makes €1,600 a month. Along with many other government workers, he knows his paycheck will shrink. He has already taken an €85-per-month cut and expects his bonus to be slashed to

€1,000 a year from €2,400. He says his family has cut back on movies, theaters and taxis, and ditched summer-vacation plans.

"It's OK for us parents to make some sacrifices, but our real worry is for our children," says the father of two. "Will they be able to find jobs?"

Cutting wages and benefits is easy to understand and quick to hurt. More striking and less anticipated by many Greeks are changes that would deregulate parts of the economy that are bound up in red tape and closed to competition. Those protections guaranteed a middle-class lifestyle for many Greek business owners and professionals, and their employees, who long haven't had to worry about competition with other Greeks or foreigners.

Pharmacies and other service industries, for example, are due to be remade. Currently the state determines the price of drugs and makes sure they are applied throughout the country, assuring pharmacists a gross margin of about 35% of sales, says Mr. Tsakiris, 48, who has owned his pharmacy for 20 years.

He and other pharmacists expect cuts of about 20% to 25% on drug prices, which will eat into profits. The savings will help cash-strapped state social security and pension funds, which pay for the bulk of prescriptions.

The government has also said it will spur competition by rescinding rules that limit the number of pharmacies in a given population area and bar a new pharmacy from opening within 100 meters of an existing one. In response, pharmacists across Greece went on strike for four days

recently.

The trucking industry is also in the crosshairs. Greece agreed to scrap a system that has kept trucking licenses severely restricted, boosting the value of a license to as much as €90,000 for a 40-ton tractor-trailer. There are currently about 33,000 licenses circulating in Greece. The government hasn't issued new ones in several years.

Greece is now considering a system that issues licenses according to demand—and only to trucking companies, not to individuals, as a way to consolidate the sector and develop economies of scale. That will slash the value of existing licenses—"by about 50% in the first year" and then gradually for another five, estimates Theoharis Tsiokas, secretary general for Greece's transport ministry.

Truckers are livid. "Truckers are going to be hit twice, from the loss in the value of their licenses and from the recession," says Nikos Papastamatopoulos, vice president of Greece's trucking union, the Panhellenic Union of Overland Commercial Transporters. If Athens doesn't change its plan, he says, "we will take to the streets and we will not leave."

The benefits of such deregulation may take years to be felt. Encouraging more foreign cruise ships to stop in Greece, for example, could eventually buoy hotels, restaurants and port-town economies. But Yanos Grammatidis, president of the American-Hellenic Chamber of Commerce, worries about pushing labor unions too hard in the meantime. "You have to be careful to avoid violent protests," he says.

# Finance minister defends austerity steps

By Alkman Granitsas

ATHENS—Greece's finance minister said the country has no plans to restructure its giant public debt and has no need to adopt new austerity measures to meet its budget targets.

In an interview in the Sunday Eleftherotypia newspaper, Finance Minister George Papaconstantinou also said Greece had no other choice but to follow through with its budget and reform plans to the letter.

In May, the Greek government agreed to a three-year, €30 billion (\$36.8 billion) austerity and reform program in exchange for a €110 billion bailout package from the European Union and the International Monetary Fund.

But those austerity measures, part of a series of belt-tightening programs announced by the government to cut Greece's budget deficit, include deep spending cuts and tax increases that have angered the

country's labor unions and stoked public discontent.

Greece's economy, already stumbling through a yearlong recession—its first in more than 15 years—is expected to contract 4% in 2010 as a result of the austerity program.

"Greece does not need to take further measures, especially painful ones," Mr. Papaconstantinou said. "I see only one choice ahead of us, to consistently achieve our targets."

With €110 billion in EU and IMF financing secured, Greece has one to two years to meet its budget targets before needing to return to the financial markets for fresh financing.

However, many investors think it increasingly likely that Greece will have to restructure its giant public-sector debt burden, which is forecast to hit 125% of gross domestic product this year—the highest in the euro zone. And even under the EU-IMF program, that debt burden is

due to peak at close to 150% of GDP in the years ahead.

However, Mr. Papaconstantinou said any debt restructuring would be "catastrophic" for Greece.

"A renegotiation (of our debt) would be catastrophic for the credibility of the country," he said. "It would lead to the effective marginalization of the country from the capital markets. It would require even bigger spending cuts and a very deep recession."

## EUROPE NEWS

# Czech poll sets stage for budget cuts

Leaders of three center-right parties hold coalition talks; new government is expected to focus on reducing deficit

By GORDON FAIRCLOUGH

PRAGUE—Czech voters handed an unexpectedly strong victory to a group of more conservative political parties in parliamentary elections over the weekend, setting the stage for a right-leaning government expected to cut spending in step with a broader European shift toward fiscal austerity.

Three center-right parties, led by the Civic Democrats, together captured nearly 48% of the popular vote, winning a combined 118 seats in the 200-seat lower house of the Czech legislature. Party leaders began a meeting to discuss the formation of a coalition government.

If they succeed, it would likely cheer investors, who generally see the conservative parties—which campaigned with pledges that they would prevent a Greek-style crisis—as the most likely to revamp the country's pension system and take other steps to curb growth in government deficits.

The Czech Republic is in far stronger fiscal shape than Greece and other European states with debt woes. Prague's national debt, at a level equal to about 35% of gross domestic product, is less than half the European average. But without changes in social-welfare programs, it could grow.

Czech policy makers, like their counterparts in other European capitals, are having to weigh the benefits of tighter limits on government spending against the risks posed by budget austerity for nascent recoveries in national economies as well as for the region and the world.

Last year, the Czech Republic's



Karel Schwarzenberg, left, leader of the TOP 09 party, talks with Civic Democrat leader Petr Necas on Sunday in Prague.

GDP shrank 4.1%. It is expected to grow 1.5% this year. Analysts caution that overly tight fiscal policies could act as a brake on expansion.

Petr Necas, the leader of the Civic Democrats, said on Czech television Sunday that his party "was on a good path" in informal discussions with its potential coalition partners. He said he supported more robust deficit-reduction efforts than those proposed by the country's current caretaker government, which planned to cut the budget gap

to 4.8% of GDP in 2011 from 5.8% this year.

"It is our duty to be more ambitious," Mr. Necas said. He said he would aim for a deficit of about 4% to 4.5% of GDP.

Government overspending "is a big problem for Europe," said Martin Stoces, a 20-year-old student in Prague who said he voted for the Civic Democrats. Parties on the left "are for workers," he said. "They aren't good for business."

Governments across Europe are

pushing ahead with austerity plans in the wake of the debt crisis in Greece and worries about government spending in Spain, Portugal and Italy. Public reactions have been mixed, with union members and others taking to the streets to protest cuts in some countries.

Romanian public-sector unions are planning demonstrations against government plans for wage cuts to shrink the country's budget deficit. Doctors, teachers and others are expected to walk off their jobs Mon-

day, and transport workers in the capital, Bucharest, have called a one-day strike for Tuesday.

Czech voters also showed ambivalence about austerity measures. The center-left Social Democrats, who had promised to boost welfare payments and shrink the deficit by raising taxes, received the most votes of any single party in the election, which was held Friday and Saturday.

But the party's vote tally—with 22.1% of the popular vote and 56 seats in the lower house—fell far short of the outcome forecast in the run-up to the elections, when opinion polls showed the Social Democrats likely to win about 30% of the vote. The Social Democrats' chairman resigned after the election. The party will likely be given an opportunity to form a government, since it was the largest vote-getter. But even party officials said it appeared unlikely to be able to find coalition partners.

"The onslaught of assertions that we are going down the road of Greece unless we start saving" may have pushed voters toward center-right parties, said Jiri Pehe, director of New York University's Prague campus and a political analyst.

But Mr. Pehe said much of the election dynamic appeared driven by distaste for politics as usual and for the two big parties, the center-left Social Democrats and the center-right Civic Democrats. Both did significantly less well than in the 2006 elections. "People just said, 'enough is enough,' and gave their support to new parties," including the center-right TOP 09 and Public Affairs parties, Mr. Pehe said.

## Rift between Germany and ECB widens

By BRIAN BLACKSTONE

FRANKFURT—The rift between the European Central Bank and Germany appeared to widen, as a top bank official offered what economists saw as a critique of the response of the euro zone's largest member to the rescue of Greece and other debt-burdened economies.

In a speech Friday in Morocco, ECB executive board member Lorenzo Bini Smaghi said that "in one large

**'This is very strong and unusual for the ECB to call out a single country; without any doubt it refers to Germany,' says ING economist Carsten Brzeski.**

euro-area country it was thought that public support for swift action could be achieved only by dramatizing the situation, for instance, by telling the public that "the euro is in danger" or by considering the possibility of expelling a country from the euro area."

Mr. Bini Smaghi didn't specifically name Germany. But the implication is clear, says Barclays Capital economist Julian Callow, that "this is a public chiding of Germany."

In March, German Chancellor Angela Merkel said there needs to be a

mechanism under which "as a last resort, it's possible to exclude a country from the euro zone if again and again it doesn't fulfill the requirements."

Such rhetoric made the eventual price tag higher, Mr. Bini Smaghi suggested. In the middle of a crisis, speaking about the euro being in danger or about expulsion of a member country is "like fanning the flames," and made the cost of the support package higher, he said.

"This is very strong and unusual for the ECB to call out a single country; without any doubt it refers to Germany," says Carsten Brzeski, economist at ING Bank.

The ECB declined to comment on whether Mr. Bini Smaghi's reference was directed at Germany.

The relationship between Germany and the ECB is critical for the long-term success of the euro. In addition to being the region's most powerful economy, Germany's anti-inflation focus and separation of monetary policy from politics formed the core of the ECB's founding philosophy. Other countries in the euro zone benefited, via lower interest rates, from the credibility Germany brought to monetary union. Germany's export-driven economy, in turn, benefits from unfettered access to one of the world's largest economic zones.

Although Athens's deficit was just €32 billion (\$39.5 billion) last year, the severe rise in Greek debt

yields earlier in the spring while European governments delayed committing funds eventually led to a three-year €110 billion aid package from the European Union and the International Monetary Fund. Investors then became spooked by other countries such as Spain, Ireland and Portugal that face years of stagnant growth. Those fears drove up debt-financing costs and fanned fears of broader defaults. The EU and IMF eventually kicked in another €750 billion in loans, if needed, as part of a stabilization fund.

Germany's parliament eventually approved Germany's share of the both rescues, which is the largest of any EU country based on the size of its economy. Mr. Bini Smaghi's larger point was that Europe's response to the crisis isn't unusual, given that democracies have to weigh public opinion and make a trade-off between short-run costs and long-term benefits. In Europe's case, "whenever a decision was needed it was ultimately taken," said Mr. Bini Smaghi. That is in contrast to the U.S., where the \$700 billion bank-rescue package in 2008 was initially rejected by Congress.

Other advanced countries face financial difficulties, too, he said, but Europe is being forced to address its problems earlier in part because the ECB's anti-inflation mandate means countries can't erode the cost of their debt through higher inflation.

Others in Europe have directly



The ECB's Lorenzo Bini Smaghi

criticized Germany. At a conference in Frankfurt last week, Dutch central-bank head Nout Wellink called Berlin's unilateral decision to ban short-selling on certain financial assets "not helpful" and said it should have consulted others in Europe.

France has criticized Germany's reliance on exports and its large trade surplus for economic growth, saying it isn't necessarily in the interest of the euro zone as a whole.

German members of the ECB have, in turn, distanced themselves from the central bank's most controversial May decision in its 12-year history, made earlier this month, to

purchase the government debt of its most vulnerable members like Greece, Spain, Ireland and Portugal. The fear, particularly pronounced in Germany, is that such steps could hamper the central bank's independence and credibility.

In a rare show of defiance for the consensus-driven ECB, Germany's central-bank head, Axel Weber, told German newspaper *Börsen-Zeitung* that he viewed the bond-buying decision "critically" and that it carried "substantial stability risks." Central-bank governors such as Mr. Weber sit on the ECB's policy-setting Governing Council. Germany's Jürgen Stark, who like Mr. Bini Smaghi is on the ECB's Frankfurt-based executive committee, later said in a German television interview that he shared Mr. Weber's view that the bond purchases potentially posed risks to stability. The European Central Bank could start exiting the current period of loose monetary policy in July, weekly magazine *Wirtschaftswoche* quoted Mr. Jürgen Stark as saying Sunday.

The ECB has cast a wary eye on German public opinion, which was overwhelmingly against the Greece bailout. ECB President Jean-Claude Trichet gave three interviews to German publications in the two weeks after the bond-buying decision, using those opportunities to stress that the ECB has kept German inflation lower in the last dozen years than it has ever been.

## EUROPE NEWS

# Coalition's honeymoon ends

U.K.'s point man on fighting deficit steps down amid flap over rent payments to a lover

LONDON—Less than three weeks after its formation, the U.K.'s coalition government suffered an embarrassing setback when a top government minister resigned his post after questions were raised about his use of parliamentary expenses to pay rent to a lover.

By Bruce Orwall,  
Alistair MacDonald  
And Paul Hannon

David Laws of the Liberal Democrat party held the No. 2 post in the Treasury, where as chief secretary he was charged with seeing through tough government-spending cuts needed to reduce the country's huge budget deficit. The former banker played a central role in forming the coalition government with Prime Minister David Cameron's Conservative Party after this month's general election failed to generate a majority of seats in Parliament for any party.

But Mr. Laws resigned the position Saturday night, less than 24 hours after a report in the Daily Telegraph newspaper said he claimed £40,000 (\$58,000) for rental and other housing-related payments made to James Lundie. In a statement earlier Saturday, Mr. Laws had admitted that he had been in a relationship with Mr. Lundie since 2001. Mr. Osborne said Danny Alexander would fill Mr. Laws' role as chief secretary.

Beyond the strains on the coalition, Mr. Laws' departure is a blow because he was seen as eminently qualified for the job of deficit management. Having won high grades in economics from Cambridge University, Mr. Laws went on to a career as an investment banker at J.P. Morgan and Barclays de Zoete Wedd, a predecessor of Barcalys Capital, before leaving the City to become economic adviser to the Liberal Democrats in 1994. As a politician, Mr. Laws has held a series of posts shadowing the Treasury as a Liberal Democrat spokesman. Mr. Alexander, meanwhile, has little track record in finance, becoming an MP after a career mainly in communications.

"As part of the team that negoti-



David Laws leaving 10 Downing Street earlier this month

ated the coalition agreement I am absolutely committed to taking the necessary steps to address the deficit rapidly," Mr. Alexander said in an emailed statement.

The problem for Mr. Laws was that payments to partners have been prohibited since 2006. Mr. Laws initially responded to the controversy by referring himself to the Parliamentary Standards Commissioner, a decision that was welcomed by Mr. Cameron.

While accepting Mr. Laws' resig-

nation, however, leaders of both coalition partners, including Mr. Cameron, heaped praise on him as an "honorable" man.

Mr. Laws had sent a letter saying he couldn't escape the conclusion that "what I have done was in some way wrong, even though I have not gained any financial benefit from keeping my relationship secret in this way." Mr. Cameron sent a letter back thanking Mr. Laws for his resignation and seeming to accept Mr. Laws' privacy explanation.

Treasury Chief George Osborne issued a statement saying he was "very sorry to lose David from the Treasury. ...Public life should have a future place for such an honorable, talented person."

The revelations concerning Mr. Laws' claims are an aftershock from the expenses scandal that rocked Britain's political classes last year, when documents obtained by the Daily Telegraph revealed widespread abuse of a system designed by the lawmakers themselves.

Mr. Laws' arrangement didn't come to light at that time because his relationship with Mr. Lundie wasn't known; Mr. Laws said he had wanted to protect his privacy rather than make a financial gain.

The claims are particularly embarrassing for the Liberal Democrats, who during the election campaign often talked about how they had a better record on expense claims.

Mr. Laws also had appeared the archetype of the "new politics" that Mr. Cameron promised after the expenses scandals. Mr. Laws' first decision in the Treasury was axing his chauffeur-driven car, to save more than £110,000 per year.

Mr. Cameron faces disquiet within his own Conservative Party about the coalition. Some right-wing Conservatives are unhappy about agreements to satisfy the Liberal Democrats on an increase in the capital-gains tax and changes to the electoral system.

This week, the government will try to regain the initiative and take focus off Mr. Laws. On Monday, Mr. Cameron will send a letter to all government departments, setting out deadlines for the publication of key government data, including crime, hospital infection and government spending. Transparency was part of the agreement that set the terms for the coalition. Data on senior civil-service salaries, for instance, will be released this week.

On Sunday, Eric Pickles, the new minister for Communities and Local Government said he has vetoed a £240,000 salary for the head of the Audit Commission, which audits public bodies.

## U.K. recovery is vulnerable to euro crisis

By NICHOLAS WINNING

LONDON—The U.K. economic recovery is under way, but the country faces heightened threats from the worsening crisis in the euro zone and upheaval in global financial markets, the British Chambers of Commerce said Sunday.

The business group raised its forecast for economic growth this year to 1.3% from 1.0% predicted in March, but cut its forecast for gross domestic product growth for next year to 2.0% from 2.1% because of the higher medium-term risks. The economy contracted 4.9% in 2009. David Kern, the BCC's chief economist, said that after two consecutive quarters of economic growth, the risk of a relapse is less severe.

"The recovery is still weak, and it would be unwise to disregard the threat of a double-dip recession," he said in a statement.

He welcomed the coalition government's "forceful" measures to deal with the budget deficit, but cautioned that significant fiscal tightening beyond the recently announced £6 billion (\$8.7 billion) should be implemented when the economic recovery is more secure.

"Over the next four to five years, growth in GDP is likely to average just under 2% per year—considerably less than the 2.7% average growth recorded in the period 2003-2007," he said.

Unlike the Paris-based Organization for Economic Cooperation and Development, which said last week that the Bank of England should raise rates to 3.5% by the end of next year, the BCC recommended it keep rates low for a prolonged period to support businesses.

The BCC forecast the Monetary Policy Committee would raise rates to 1.0% from the current record low of 0.5% in December, and up to 2.5% by the end of 2011. It also predicted that inflation would average 3.3% this year and 2.9% in 2011.

The business group said it expected the new coalition government to cut public sector net borrowing to £147 billion, or 9.9% of GDP, in the 2010-2011 financial year, and then £116 billion, or 7.5% of GDP, the following year.

# Comic's party bests rivals in Iceland vote

By MICHAEL CASEY

REYKJAVIK—Voters here blew a loud raspberry at Iceland's political establishment Saturday, handing victory in the capital's municipal

elections to an upstart political party that ran a blatantly satirical, humor-based campaign.

After promising a polar bear for the Reykjavik zoo and making other unorthodox proposals, the six-month-old Best Party won 34.7% of the vote, securing six of the 15 seats on the city council. It was closely followed by the Independent Party—the traditional powerhouse in the city—with 33.6% of votes and five seats. The Social Democratic Alliance, which currently governs Iceland in coalition with the Left-Green Movement, won three seats while its coalition partner was left with one.

The win for the Best Party—whose slogan loosely translates to "Whatever Works!"—puts its leader Jon Gnarr, Iceland's best-known comedian, in a strong position to become mayor of Reykjavik, a post that is sometimes a launching pad for national politics. Although the Bests are two seats short of an

absolute majority, longstanding enmity among the other parties will make it hard for them to agree on an alternative candidate.

Speaking Sunday, Mr. Gnarr said his party's entry into government opened up "a new option for politics."

He added that his team "will have to work on the infrastructure of the party so that people have a way to understand what the Best Party is about and to learn the benefits are of what we are calling 'anarchical surrealism.'"

Mr. Gnarr said he is confident he will be named mayor, at which time he will immediately order the construction of a polar bear enclosure at the city zoo, all part of his bid to "make Reykjavik a friendlier, nicer and safer place to live."

As polls began predicting a strong showing by the Best Party earlier this month, its meteoric rise sparked a firestorm of debate in Ice-

land. Government and opposition leaders alike warned against putting the city in the hands of what they characterized as clowns at a time when Iceland is mired in an economic crisis. But many Icelanders embraced the party as a way to do away with a broken political system.

While the Best Party's critics implored its team of comedians, actors and musicians to end their campaign, Mr. Gnarr insisted he would follow through to the end. It was the best way to expose the "ridiculous" state of traditional politics, he said.

The Bests' victory comes at a pivotal moment for Iceland's 320,000 people. Their tiny economy was arguably the hardest hit by the 2008 global financial crisis, which devastated a domestic banking system that had swollen to 10 times the country's gross domestic product.

The meltdown left Icelanders distrustful of traditional politicians, even more so after a parliamentary

report exposed close ties between the previous Independent Party government and the brash bankers who had fueled Iceland's giant credit bubble, as well as widespread corruption.

Many have seized upon the Best Party as a means to overhaul that system, even if they aren't sure what it will do once in government.

"I think this is very important, because change is a good thing right now," said Oskar Gudson Einarsson, a contractor who didn't vote in the election because he is from the town of Gardabair. "Whether [Gnarr] is the right man to bring that change, I don't know."

Supporters of the other parties are dismayed, however.

"I'm in shock," said Riky Eggeertsdottir, a student who voted Left-Green in the Reykjavik election. "I thought people were just joking with their responses to pollsters during the campaign."

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## U.S. NEWS

# Circus returns to Palin's hometown

Media again rev up in Wasilla as author moves next door to former Alaska governor, the subject of his next book

By JUSTIN SCHECK

WASILLA, Alaska—At the Kaladi Brothers coffee shop, countermen Jeremiah Collins and Tyler Montanez said they didn't care much one way or the other about Sarah Palin's politics. But they've tired of the unwanted attention that's accompanied her rise since the U.S.'s 2008 presidential election.

For months during the campaign, complained Mr. Collins, the media "wanted to say that we're all hillbillies."

The media parade revved up again last week with news that author Joe McGinniss moved next door to the Palins while he works on a book about the ex-governor.

After Ms. Palin and her husband, Todd, learned of their new neighbor, Ms. Palin wrote on Facebook: "Wonder what kind of material he'll gather while overlooking Piper's bedroom, my little garden, and the family's swimming hole?"

Residents of the Mat-Su Valley, which includes Wasilla and nearby Palmer, have mixed feelings about the renewed national attention.

Some residents want to protect the Palins, while others worry only about another swarm of reporters like the crowd that descended after Ms. Palin became the Republican nominee for vice president.

Some of Ms. Palin's supporters have called for a boycott of Mr. McGinniss's publisher, Random House. A spokesman for the publisher said Mr. McGinniss was acting within the boundaries of the law to collect information for his book.

A spokesman for Ms. Palin said she and her husband weren't available to comment.

Ben Harrell, the handlebar-mustachioed owner of Mocha Moose, a coffee shop nearby that's decorated with a red "Palin fever" banner, said he was OK with Mr. McGinniss being in town, as long as he's "only writing a book."

Mr. McGinniss said in an inter-



Author Joe McGinniss, right, on Thursday stands outside the Wasilla, Alaska, home he is renting next door to ex-Gov. Sarah Palin, whom he calls 'a phenomenon.'

view Thursday that he was just taking advantage of an unexpected opportunity. The owner of the house on Lake Lucille called him with a rental offer of \$1,500 a month.

"I hoped we could at least assume a position of benign neglect to each other," Mr. McGinniss said of the Palins.

Mr. McGinniss is best known as a writer of true-crime books. His book "Fatal Vision" reconstructed the 1979 trial of Jeffrey MacDonald, a Green Beret convicted of murdering his family. Mr. MacDonald later sued Mr. McGinniss, alleging the author had gained his confidence by misrepresenting himself and saying he thought Mr. MacDonald was innocent. The suit was settled, and became the subject of a book by Janet Malcolm that suggested Mr. McGinniss had misled Mr. MacDonald. Mr. McGinniss denies this.

Last year, Mr. McGinniss wrote a story for Portfolio magazine about Ms. Palin's efforts to build a natural-



Justin Schreck/The Wall Street Journal

gas pipeline in Alaska, an account she called "yellow journalism."

Until 2007, the house operated as a way station for recovering drug addicts. Catherine Taylor, who inherited the house decades ago, said the Palins never complained about the recovering drug addicts and ex-cons who lived next door.

Last Monday, Mr. McGinniss said, he was listening to Hank Williams on the back porch when Mr. Palin came over to ask whether Mr. McGinniss would be living in the house. Mr. McGinniss said he was, and then told him he was writing a book about Ms. Palin.

"I said, 'Your wife is a phenomenon.'" Mr. Palin, he said, replied with a critique of McGinniss's pipeline story.

Mr. McGinniss said he told Mr. Palin that they could disagree cordially.

Mr. Palin, he said, "got silent, folded his arms, and said, 'We'll just see.'"

Three hours later, a photo of Mr. McGinniss was posted on Ms. Palin's Facebook site, along with comments about the author moving in next door.

The following morning, the Palins added another 1.2 meters of wood to the three-meter-high fence that separated the two houses.

By Thursday, Mr. McGinniss's presence had created a firestorm of publicity. "Simon and Shuster would've loved to have a hullabaloo like this for my last book," he said.

Don Benson, a former bush pilot in Palmer who volunteered for Ms. Palin's campaigns, said that "Sarah Palin draws positive people." But, he added, "There's always some that come in for the wrong reasons."

As reporters began arriving last

week, Mr. McGinniss put up a chain across his driveway to keep out trespassers. A tourist from Minnesota drove up the driveway, past "No Trespassing" signs, to photograph the Palin house.

"You're trespassing," Mr. McGinniss said. He later called the police to report a death threat that had been posted online.

Until Mr. McGinniss moved in, he said, he was planning for his new book, tentatively titled "Sarah Palin's Year of Living Dangerously," to be a third-person account of Ms. Palin's recent career. But after a week of being accused of stalking and being a "creep," the 67-year-old author said his new book may be shaping up to be a first-person account.

"Frankly," Mr. McGinniss said, "she's giving me a whole new plotline."

# Clinton carried White House offer to Sestak

By EVAN PEREZ

WASHINGTON—The White House said Friday that it tapped former President Bill Clinton last year to try to nudge Democratic Rep. Joe Sestak out of Pennsylvania's U.S. Senate primary contest.

Mr. Sestak has said since February that he was offered a high-level job in exchange for dropping his challenge to Sen. Arlen Specter, which Mr. Sestak ended up winning. Republican critics have alleged that the approach may have broken federal law.

The Obama administration on Friday released a memo giving its most extensive description of events, which the White House counsel's office investigated beginning in February. The memo said "no impropriety occurred."

The memo said Mr. Clinton, acting at the request of White House Chief of Staff Rahm Emanuel, raised with Mr. Sestak the possibility of an "uncompensated advisory board" position. That would have given Mr. Sestak a new opportunity for public service, allowed him to keep his

House seat and "avoid a divisive Senate primary," the memo said.

Mr. Clinton made the approach during a phone call in June or July 2009, according to an official familiar with the matter, who provided additional details in a briefing. Mr. Sestak declined the offer, the memo said.

Mr. Sestak, speaking to reporters Friday on the Capitol steps, gave a slightly fuller account. He said Mr. Clinton called him and said, "Joe, if you stay in the House, Rahm has brought up being appointed to a presidential board."

When Mr. Sestak interrupted the former president to refuse, he said, Mr. Clinton chuckled and replied, "Joe, I knew you were going to say that." The two of them never discussed it again, Mr. Sestak added.

A spokesman for the Clinton Foundation declined to comment on Mr. Clinton's role. Mr. Sestak, a former Navy officer, had served on the White House National Security Council under Mr. Clinton.

Some Republicans say the White House may have violated Section 600 of the federal criminal code,

which makes it illegal to promise an appointment in exchange for political activity, or in exchange for supporting or opposing a candidate.

"It says you can't offer an appointment, and that is exactly what the memo admits they were doing," said Hans von Spakovsky, who was appointed to the Federal Election Commission by President George W. Bush and is with the conservative Heritage Foundation. "All the admissions they made provide the elements for a violation of the statute."

The administration's defenders say that interpretation misses the point of the law, which they say was aimed at machine politicians who offered people jobs to support their candidates.

"It's not about offering someone a job to sideline them," said Richard Painter, who was chief White House ethics lawyer under Mr. Bush. "It was about the spoils system and getting people to get out there and support someone in exchange for a job."

The attorney general has the power, without White House interference, to order an investigation or to decide whether one isn't merited.

In a letter to Rep. Darrell Issa, a California Republican, last week, the Justice Department said its career

prosecutors and investigators were capable of handling any criminal probe "if warranted."



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## U.S. NEWS

# Political stakes climb for Obama

By STEPHEN POWER

WASHINGTON—The failure of BP PLC's latest effort to stop the under-sea gusher in the Gulf of Mexico leaves the Obama administration to face multiple political and policy challenges against the backdrop of an environmental disaster that could drag on for weeks.

Despite an escalating federal response, President Barack Obama has faced growing criticism of his response to the worst oil spill in U.S. history. On Saturday, Mr. Obama, in a statement, said the administration would pursue "any and all responsible means of stopping the leak until the completion of the two relief wells currently being drilled."

"Every day that this leak continues is an assault on the people of the Gulf Coast region, their livelihoods, and the natural bounty that belongs to all of us," he said. "It is as enraging as it is heartbreaking, and we will not relent until this leak is contained, until the waters and shores are cleaned up, and until the people unjustly victimized by this manmade disaster are made whole."

But Mr. Obama's frustration can't change the fact that a new fallback effort to control the leak will be difficult and risky. BP says it plans to try for a second time to contain the oil flowing out of its broken well. The company says it will try to cut a riser pipe and fit a containment structure over the leak.

Mr. Obama said this method is "not without risk and has never



U.S. President Barack Obama, left, LaFourche Parish President Charlotte Randolph and Coast Guard Admiral Thad Allen, national incident commander for the spill, take a tour Friday of areas affected by the Gulf Coast oil spill.

been attempted before at this depth," and he said that was why it had not been activated until now. The only sure way to stop the spill is for BP to drill a relief well under the sea floor to divert the flow. That could take another two months.

Until the flow of oil stops, the disaster will consume time, attention

and resources that the White House could have deployed to advance other priorities—such as new measures to fight unemployment or climate and energy legislation.

BP's failure could intensify calls for Mr. Obama to take a more aggressive role in controlling the spill.

At least one member of Mr.

Obama's party—Sen. Bill Nelson of Florida—has called on Mr. Obama to "completely take over" the spill-containment effort, possibly with the military in charge.

Sen. Lamar Alexander (R, Tenn.) suggested Sunday in an appearance on C-SPAN's "Newsmakers" program that a 1990 law could be used by Re-

publicans as a way to challenge the president's response. He said the law puts the onus for cleaning up oil spills on the president.

Mr. Obama, in a press conference Friday, said it was "simply not true" that the federal government was allowing BP to make all the decisions and White House Energy Czar Carol Browner has portrayed the government as assertive in its interactions with BP.

She said the government demanded that BP halt its "top kill" procedure after becoming concerned the operation was putting too much pressure on the well, for example.

Mr. Obama has put Energy Secretary Steven Chu, a Nobel prize winning physicist, in charge of a team of scientists working with BP officials. Mr. Obama's aides have said the technical expertise and resources lies with BP and the oil industry, not the government.

In the meantime, Mr. Obama is escalating federal efforts to clean up spilled oil offshore and along the Louisiana coastline.

U.S. Interior Secretary Ken Salazar, Environmental Protection Agency Administrator Lisa Jackson and NOAA Administrator Jane Lubchenco will return to the region to inspect coastline protection and cleanup activities and meet with top BP officials and government and independent scientists and engineers who are working with BP to stop the spill, the administration said.

—Jessica Holzer  
contributed to this article.

## BP to try new well cap

*Continued from first page*  
saying investigations by federal authorities as well as the companies involved would determine what caused the accident. He added that the accident "will have implications for the oil industry not just in the U.S. but around the world."

The failure of the top-kill attempt is a huge blow to BP, which had big hopes for the effort, and will increase the pressure being piled on the company by the Obama administration and legislators from both parties on Capitol Hill, where a number of investigations are under way.

BP started the top-kill effort Wednesday afternoon, shooting heavy drilling fluids into the broken valve known as a blowout preventer. The mud was driven by a 30,000-horsepower pump installed on a ship at the surface. But it was clear from the start that a lot of the "kill mud" was leaking out instead of going down into the well.

BP tried to get around that problem with a series of "junk shots," in which materials like shredded rubber tires, pieces of rope and golf balls were fired in to clog holes in the valve. BP said that despite pumping more than 30,000 barrels of mud in three attempts at rates of as much as 80 barrels a minute, the operation "did not overcome the flow from the well."

Ms. Browner said the administration told BP on Saturday to halt the top-kill procedure, after becoming "very concerned" that the operation was putting too much pressure on the out-of-control well.

Rep. Edward Markey (D., Mass.) who sits on a congressional committee investigating the disaster, told

"Face the Nation" on CBS Sunday that he had "no confidence whatsoever in BP."

"I don't think that people should really believe what BP is saying in terms of the likelihood of anything that they're doing is going to turn out as they're predicting," he said.

Residents along Louisiana's coastline say they are concerned that the still-spewing oil could wreak further economic and environmental damage if it isn't fixed soon. "I don't think they have a clue what to do next," said Walter Williams, a 46-year-old Plaquemines resident who also works for the parish.

BP Chief Operating Officer Doug Suttles said the new procedure, using what is known as a lower marine riser package, would take four to seven days. The LMRP cap is a newly made version of a type of device referred to as a top hat.

"Based on what we know now, we believe the containment cap is the most effective way to minimize the impact of the oil leak on the Gulf ecosystem and the people of the region," said BP Chief Executive Tony Hayward, in a statement. "We'll continue to refine the effort, to create the most stable and effective containment process possible."

This latest plan is in some ways more complex than the containment dome structure BP tried earlier this month without success, experts say.

If the LMRP cap containment attempt fails, Mr. Suttles said earlier Saturday that the next step would be to try and place another blowout preventer atop the broken one.

—Lauren Etter, Ana Campoy, Guy Chazan, Mark Peters and Angel Gonzalez contributed to this article.

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## WORLD NEWS



Xinhua/Zuma Press

South Korean President Lee Myung-bak, left, Japanese Prime Minister Yukio Hatoyama, center, and Chinese Premier Wen Jiabao end their summit in South Korea on Sunday.

# China seeks easing of Korea tensions

*Leaders of South Korea, Japan and China end summit split over how to respond to alleged sinking of warship*

BY EVAN RAMSTAD  
AND JAEYEON WOO

SEOUL—Leaders of China, Japan and South Korea on Sunday left their annual summit meeting divided on how to deal with North Korea's alleged sinking of a South Korean warship.

Chinese Premier Wen Jiabao didn't give a clear signal whether his country would support South Korea's effort to penalize North Korea at the United Nations Security Council for destroying the Cheonan in March. China, as one of five permanent members of the council, can veto any action.

"What is most pressing right now is to gradually ease any tension created by the Cheonan incident, and we should avoid a clash," Mr. Wen said at a news conference with South Korean President Lee Myung-bak and Japanese Prime Minister Yukio Hatoyama.

The three countries have long worked together to prod North Korea into giving up its pursuit of nuclear weapons. But they have at various times taken different approaches to working with Pyongyang economically. Now, South Korea's belief that North Korea is responsible for the sinking of its Cheonan warship has become the most urgent security matter in the region. Forty-six South Korean sailors died in the March 26 incident.

South Korea plans to refer the matter to the U.N. Security Council as soon as this week. Mr. Hatoyama on Sunday said that is a "natural course" after such an incident and encouraged South Korea to proceed.

Full-throated support by China was too much to expect, analysts say, because the country is North Korea's chief economic benefactor and political ally. But during his three days in South Korea, Mr. Wen took small steps to signal that Bei-

jing remains open to learning more about what happened.

Mr. Wen on Saturday offered condolences to the families of the South Korean victims. A day earlier, he said China will review South Korea's investigation, which turned up evidence of a torpedo blast on the salvaged ship and parts of a North Korean torpedo in the area where it sank, and won't protect anyone responsible for it.

After the summit, Mr. Lee said he believed that Messrs. Wen and Hatoyama "highly regarded" South Korea's investigation into the sinking, which involved a 74-person committee with both civilian and military experts, including 24 from the U.S., Canada and other countries.

"The leaders of the three countries agreed to continue our consultation on this issue and appropriately respond to this in order to maintain peace and security," Mr. Lee said.

Mr. Lee's spokesman later told

reporters that the South Korean delegation was encouraged that China permitted the joint press release from the summit to mention the sinking.

Mr. Hatoyama said the three countries agreed the sinking is "a serious matter for peace and stability in Northeast Asia." On Saturday, he visited the cemetery where the South Korean sailors were buried.

North Korea blames South Korea for the sinking and, since the South Korean investigation was made public on May 20, has issued a series of statements and conducted events to draw attention to its point of view.

In the latest event, thousands of people gathered Sunday at Kim Il Sung Square in the middle of Pyongyang for a protest rally against Seoul and the U.S.

The North's government regularly tells citizens to be fearful of invasion by South Korea, the U.S. and Japan.

It is using the South's implication of it in the Cheonan sinking to stoke war fears at home and boost its legitimacy.

In other developments at the three-way summit, China, Japan and South Korea said they would reduce technical standards that form trade barriers between them. And they formally launched a joint study for a trilateral free-trade agreement with a target completion date in 2012. If the study proves successful, they may subsequently undertake FTA negotiations.

The leaders also said they would step up discussions of law-enforcement cooperation and a dialogue between defense ministries. And they signed a pledge to boost exchanges of students and other groups between the countries.

The three-way meeting was the third within two years, after sessions in Japan in December 2008 and China last October.

# Militants attack minority sect in Pakistan

BY ZAHID HUSSAIN  
AND REHMAT MEHSUD

ISLAMABAD—Militants with assault rifles and grenades attacked a pair of mosques of a minority religious sect in eastern Pakistan, killing at least 93 people and taking a number of worshippers hostage before being overcome by police.

A senior police officer in Lahore told the Associated Press that the interrogation of one of the suspects revealed that the gunmen were involved with the Pakistan Taliban, which has staged attacks across the country for years.

The near-simultaneous attacks on mosques in separate neighborhoods of Lahore began with a barrage of grenade blasts, followed by gunfire, police and witnesses said.

"There were thousands of worshippers in the mosque. Everyone was running for his safety," said

Muhammad Naeem, who lives near one of the mosques targeted in the Friday afternoon attack, both belonging to the Ahmadi sect. Three of the assailants blew themselves up inside the prayer halls, said Sajjad Bhutta, a senior city official, told reporters.

A man claiming to represent the "Punjab branch" of the Pakistan Taliban, formally known as the Tehrik-e-Taliban, said the group was behind the attack, according to the private Geo TV news station. Rana San-aulah, the law minister in Punjab province, said the attackers were from South Punjab and studied in a madrassa in Karachi.

Bustling Lahore has seen numerous attacks over the past few years as the Islamist insurgency that besets Pakistan has spread from its mountainous northwest to the settled plains of Punjab. The province is Pakistan's economic, political and

military heartland, and Lahore is its capital. But Friday's attack was the first on the Ahmadis in Lahore.

Interior Minister Rehman Malik said the federal government had alerted Punjab province's administration about threats to the Ahmadi community, and that the latest warning was sent Wednesday, according to the AP.

The Ahmadi sect considers itself Muslim but isn't recognized as such by other members of the religion's mainstream sects.

Pakistan's constitution doesn't consider Ahmadis to be Muslims, and adherents have experienced years of discrimination, some of it state-sponsored. Radicals from the dominant Sunni branch of Islam in Pakistan have targeted Ahmadis before.

But even in violence-racked Pakistan, where Taliban and allied militants frequently target minority re-

ligious groups, especially Shiite Muslims, the Ahmadis have been spared large-scale attacks, making Friday's assault notable for its sweep.

At an Ahmadi mosque in Lahore's Model Town neighborhood, police and witnesses said five to six gunmen, some of them wearing suicide vests, broke through the light security cordon surrounding the place of worship and opened fire.

"There were six huge blasts before the indiscriminate firing started," Faraz Ahmed, a witness, told Geo TV.

About 1,500 worshippers were inside the mosque at the time of the attack, police said. It wasn't immediately clear how the assailants so quickly made it past the police protecting the building.

The pitched firefight that broke out as police tried to retake the initiative could be heard for blocks.

Two attackers were captured; the rest were killed, officials said, though they didn't give a tally for the total number of assailants.

At Lahore's Jinnah Hospital, where many of the bodies were brought, doctors were treating two dozen wounded, and nine were in critical condition, Javed Akram, the hospital's chief executive, said in a telephone interview.

As Dr. Akram spoke, police were still battling to retake a mosque in the Garhi Shahu neighborhood, a few kilometers from where the other attack took place.

There, news television stations showed footage of one gunman firing on police from the minaret of the red-brick mosque.

Khusro Pervez, a senior official in Lahore, told reporters that a dozen gunmen took part in the attack, including one who blew himself up.

## WORLD NEWS

# Thai premier seeks a political center

*Abhisit says he will try to bridge social gaps*

By JAMES HOOKWAY

BANGKOK—Thailand's Prime Minister Abhisit Vejjajiva is launching a charm offensive in an effort to win over the political middle ground after the worst political violence in modern Thai history, saying he is more interested in securing peace than holding onto power.

But the aftermath of May's bloody street battles and a deepening feud with ousted leader Thaksin Shinawatra show that Mr. Abhisit has a long way to go.

**The biggest challenge for the prime minister, some analysts say, is how to deal with ousted leader Thaksin Shinawatra, who has proved his ability to inspire protests.**

Early Monday, Mr. Thaksin's legal team said it had hired a Dutch war-crimes specialist to investigate whether it can prosecute Mr. Abhisit's government overseas for alleged human-rights abuses during the Thai army's May 19 crackdown on opposition protesters. Though it is unclear whether such a case

would be accepted, if it were, it could embarrass Thai authorities.

In his weekly televised address Sunday, Mr. Abhisit, 46 years old, said he will invite people from across Thailand's political spectrum to find ways to bridge the economic and social gaps that helped drive the protests before he calls an election, which he must do by the end of 2011.

Mr. Abhisit met with foreign diplomats and reporters on Saturday to explain how he hopes to heal the deep wounds dividing Thailand, an important tourist destination and a manufacturing and export hub for many global businesses. Elections are unlikely this year, he told them. What is more important, Mr. Abhisit said, is to cement Thailand's economic revival and find some common ground with moderate members of the opposition Red Shirt protest movement, whose two-month rally for fresh polls led to the deaths of at least 88 people and a series of arson attacks as the army cordoned off the protests on May 19.

Thailand's stock-exchange headquarters and its biggest shopping mall were among the buildings fire-bombed in a day of violence that further polarized relations between the Red Shirts' mostly provincial sympathizers and Bangkok's urban middle classes.

Yet some analysts say the biggest



Thai Prime Minister Abhisit Vejjajiva briefs the foreign press in Bangkok on Saturday.

challenge for the prime minister, an Oxford-educated economist, is how to deal with Mr. Thaksin, the former populist prime minister now wanted on terrorism charges for allegedly orchestrating much of the violence in Bangkok.

Thailand's corrosive politics are driven as much by personalities as ideas, and Mr. Thaksin in recent months has proved his ability to inspire—and, the government says, finance—massive street protests. By labeling Mr. Thaksin a terrorist, political analysts say the government is attempting to separate moderate Red Shirt protesters from Mr. Thaksin's diehard supporters, who government officials say are interested only in restoring his premiership. The problem is that many protesters and sympathizers see Mr. Thaksin's legal problems as a mirror of their own frustration in getting their voices heard in Thailand.

A telecommunications magnate, Mr. Thaksin turned Thai politics upside down by introducing populist-style politics that enabled him to win a series of elections despite widespread opposition from the military and bureaucratic power brokers in Bangkok.

Alarmed by Mr. Thaksin's rising power and by corruption in his government, the army intervened in 2006, toppling him in a military coup and creating a special panel to investigate his activities. Mr. Thaksin, 60 years old, was convicted of graft in 2008, and now lives overseas and travels on a Montenegrin passport to avoid imprisonment. He denies the government's terrorism charges, and spends much of his time spurring on his followers via Twitter and the Internet.

Pavin Chachavalpongpun, a fellow at the Singapore-based Institute of Southeast Asian Studies, suggests that instead of defusing the crisis, the terror charges against Mr. Thaksin "could intensify the deep-seated anger among his supporters in the remote provinces."

The terrorism charge could ramp up tensions on other fronts. Last week, Mr. Thaksin told The Wall Street Journal in an interview that he and his lawyers were assessing whether a case could be brought against Mr. Abhisit's government for human-rights violations associated with the army crackdown at an international court, possibly the International Criminal Court at The Hague, the Netherlands. Early Monday, Mr. Thaksin's legal team said it

has hired Netherlands-based lawyer G.J. Alexander Knoops, who previously has been involved in cases involving the former Yugoslavia, Rwanda and Sierra Leone.

Thai officials couldn't immediately be reached for comment, but government spokesman Panitan Wattanayagorn has previously said that top government and security officials were confident of explaining their actions at a parliamentary censure motion scheduled to begin Monday, as well as a planned independent inquiry into the shootings.

Mr. Abhisit says he is determined to strengthen the rule of law in Thailand to prepare the ground for peaceful elections some time before the end of next year, though a state of emergency remains in place in Bangkok and 23 other provinces around the country. On Saturday, the government lifted a nighttime curfew in those areas that had been in effect since May 19.

In his meeting with the foreign diplomats, Mr. Abhisit said Thailand was less prone to an army coup now than in its past. He noted that when faced with extreme political pressures before, Thailand frequently succumbed to military takeovers. This time, Mr. Abhisit said, he embarked on lengthy negotiations with the Red Shirt leaders to end the protests, offering elections in November—a move many analysts said was likely to jeopardize Mr. Abhisit's own career because of Mr. Thaksin's enduring support in the vote-rich north and northeast of Thailand.

"I tried, like no other prime ministers have tried, to seek a peaceful solution," Mr. Abhisit told reporters after meeting with the diplomats. "When was the last time a prime minister sat face to face with protest leaders for five hours? When was the last time you saw a prime minister ... offering to cut his term short by a year?"

The Red Shirts countered Mr. Abhisit's election offer with delays and fresh demands. Mr. Thaksin said last week that he warned protest leaders not to trust the government. The protesters' hesitation ultimately led Mr. Abhisit to lose patience and send in the army to choke off the demonstrations.

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