



Boston: town where immigration tops the agenda in U.K. election

NEWS 4

BP fighting costly battle on all fronts after big spill

U.S. NEWS PAGES 6-7

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Ahmadinejad attacks U.S. over nuclear role



Iran's President Mahmoud Ahmadinejad makes an impassioned speech Monday at the United Nations in New York, attacking the stance of the U.S. over nuclear weapons. **Article on page 10**

Greece's costs seen topping EU-IMF help

By CHARLES FORELLE

BRUSSELS—The €110 billion (\$147 billion) three-year Greek bailout by euro-zone countries and the International Monetary Fund won't be enough to cover Greece's costs, an examination of Greek financial figures shows, setting Europe up for more tough choices if private markets don't start lending again.

The bailout announced here over the weekend will solve one pressing problem: Greece will have enough cash to repay an €8.5 billion bond that comes due in two weeks. But the bailout package is based on assumptions that by the end of 2011 Greece will be able to borrow again from capital markets. That may be optimistic, say some bond-market specialists.

"Investors are going to look at [a fresh debt issue] with a lot of trepidation," says Brian Yelvington, an analyst at Knight Capital in Greenwich,

Conn. "It will come down to how Greece performs."

Greece's big test over coming months will be putting in place massive budget cuts and tax increases announced Sunday that are the price of the bailout.

If they are able to do so, and bring the budget deficit down swiftly, "that would give investors a lot more confidence" about lending, says Mr. Yelvington. Still, "they were supposed to make these cuts 10 years ago."

In essence, although the bailout envisages three-year loans, the EU and the IMF have given Greece a 12- to 18-month audition to show it can change, economists say. Then, it is back to the markets. Greece needs a lot of cash.

Even if Athens can pare the budget gap as much as promised, it will run significant deficits in the coming years that need to be paid for. A deficit projected to be 8.1% of gross domestic product this

year is expected to fall gradually to 4.9% in 2013. That implies total deficits over the coming three years on the order of €50 billion.

Greece also will need to pay back past years' borrowing. According to data from Reuters, Greece has about €70 billion due between now and early May 2013. That brings the total financing to at least €120 billion.

Counting the continued rolling-over of short-term debt, Goldman Sachs economist Erik Nielsen estimates Greece's needs at about €150 billion over three years. The sum of €110 billion has "taken the market out of the equation for at least 12 months," he says, but not three years.

An official of the European Commission, the bloc's executive arm, said the bailout is indeed "a little short" of Greece's entire need. But, he added, the bailout plan foresees that "they will get back

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The Quirk



The museum that exposes children to thrills, chills and trial lawyers. **Page 33**

World Watch

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

Editorial & Opinion

Will Thursday's election spell the end of the special relationship? **Page 13**

For Karzai, U.S. trip is pivotal

By MATTHEW ROSENBERG AND PAUL BECKETT

KABUL—President Hamid Karzai's visit to the White House next week will kick off a critical phase in U.S.-led efforts to ensure the Afghan government has the credibility to secure allied battlefield gains, said the coalition's top commander, U.S. Gen. Stanley McChrystal.

The next stage in the war is starting in the southern city of Kandahar, the Taliban's heartland, and is likely to last for several months.

"It will take to the end of the calendar year to have the kind of things where people suddenly go, 'Wow, life is different here,'" Gen. McChrystal said Monday.

Ultimately, allied success in Kandahar and the rest of Afghanistan hinges on

whether ordinary Afghans have confidence in their own government, Gen. McChrystal said. For that to happen, he said, the coalition needs a strong partnership with Mr. Karzai's government.

The Afghan leader's visit to Washington, which begins May 10, is being touted by American and Afghan officials as crucial in reassuring both sides they can depend on one another well past the July 2011 date that President Barack Obama has given as a starting point for the withdrawal of U.S. forces.

The trip "is very important for public perceptions," Gen. McChrystal said. "Within Afghanistan, President Karzai's relationship with the largest of the donor nations is critical. It's critical to American support for the war; I think people have to

perceive a reliable, effective partnership."

He added: "I think less obvious, but equally important, the Taliban will watch it. And if they see a strong relationship that sends a very strong message to them—negative for them—I think it would have a good impact on what happens inside the country."

U.S. officials say they want to hear Mr. Karzai say he is committed to improving governance, reducing corruption, and that he wholeheartedly supports the North Atlantic Treaty Organization's efforts to win back the country from the Taliban and force the insurgents to the negotiating table.

Afghan officials say they want to hear specifics about how the U.S. intends to support Afghanistan well into the

Please turn to page 10

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PAGE TWO

A short and winding road for the euro

[Agenda]

BY PATIENCE WHEATCROFT



Greece now has its bailout but that has done nothing to lift the sense of impending gloom as to what lies ahead for Europe. Instead, the deal prompted legendary investor Jim Rogers to get off his motorbike and pronounce, not for the first time, that the euro would be a dead currency within 15 or 20 years.

Amidst the many voices now keen to sound the death knell of the euro, Rogers deserves some attention. An expert on commodities and currencies, he was co-founder of the Quantum Fund which, between 1970 and 1980, clocked up extraordinarily high returns. Rogers had the sense to quit while he was winning and embarked on an extended road trip, which he wrote about in "Investment Biker: on the Road with Jim Rogers." He showed he had not lost his sense for markets, calling the commodity boom perfectly. More recently, he has been voicing his concerns over sterling and, this year, it is the euro that has been the subject of his scathing comments.

On Monday, as the world digested details of the €110 billion (\$146.5 billion) deal to shore up Greece, his verdict was damning. Greece, he said, was clearly bust and it should have been allowed to go bust. What was the point, he asked, in simply loading the beleaguered country with more debt which it surely will not be able to service?

These are observations worthy of Hans Christian Andersen's hero, the boy who spotted that the emperor had no clothes. They are not, however, in tune with the thinking of the Eurocracy, those politicians and bureaucrats who are wedded to the idea of a state of Europe with a common currency. They have, after much



Prime ministerial hopeful David Cameron plans to put U.K. red tape to the torch.

haggling and cajoling, come up with a temporary sticking plaster solution which will only further convince Rogers and his fellow skeptics about the grim prospects for the currency.

For after Greece, there could be a queue for further transfers from the stronger euro countries to the weaker ones, notably Spain and Portugal.

There is little evidence that any of them have an appetite for the measures required to kick their economies into shape. Greece is certainly going to

A smaller, stronger common-currency zone will be debated behind closed doors in Berlin and Paris.

struggle to implement the cuts it has been forced to promise in return for help. Spain, where unemployment has now gone above 20%, has created a dependency culture that will be desperately painful to break.

As Rogers sees it, the risks for the euro are all on the downside. He may be wrong to be writing its epitaph but it surely must be doomed in its current form. This time, German Chancellor Angela Merkel has been persuaded to risk the wrath of her electors and agree to the bailout package for

Greece. It had become clear that the regional election in North Rhine-Westphalia was already lost to her party so there was little to be gained by delaying until after the May 9 vote, as had once appeared to be her plan.

Yet, as it is clear to Rogers and so many others—economists, academics and plain realists—that lending more cash to a bankrupt country is only a recipe for delayed financial calamity, Chancellor Merkel must be working on a Plan B. President Nicolas Sarkozy of France surely must be doing so too.

How to establish a smaller, stronger, common-currency zone will be the question being debated behind closed doors in Berlin and Paris. It is not what the great European dream was all about but it is the only realistic way ahead.

Bonfire of inanities

With the general election just days away, David Cameron has come up with an idea which should encourage support. No, it is not "the Big Society." Although the Conservative leader continues to maintain that this is the revolutionary concept that will inspire the public to get more involved in their communities, it doesn't seem to be dominating conversation in pubs and clubs or around the dining tables of the nation.

But at the weekend he promised "A Great Repeal Bill."

Now that is something which many in Britain will understand. Since 1997, when Labour came to power, the legal and regulatory burden has grown exponentially. It has added 4,300 offenses to the statute book, compared with only 494 under the previous Conservative administration.

The growth in regulation has more than matched this, in part because of the constant flow of new requirements from Brussels.

The cost to business of compliance is huge. As they prepare to raise their fees again, bursars at some of Britain's top public schools have explained that the cost of complying with Health and Safety regulations is partly to blame. They have calculated that their operations are governed by a total of 50,000 different regulations.

There has been occasional government acknowledgment of the drag on productivity occasioned by such a mountain of different measures, including the formation of a "Better Regulation" task force, but the red tape has not been unwound.

Hence there should be widespread rejoicing at the prospect of legislation to repeal at least some of the unnecessary measures.

People should waste no time in drawing up their lists of the most disposable regulations so that they can be ready for Cameron's pyre as soon as he is ready to light it.

Crisis management

Whatever, or whoever, was responsible for the catastrophic oil spill in the Gulf of Mexico, Tony Hayward, BP's chief executive, did the right thing when he categorically accepted responsibility for putting it right. Privately, he may have been feeling desperately aggrieved that BP should have found itself positioned squarely as the culprit in such a disaster. But with the U.S. president on the case, and so much, including thousands of livelihoods at risk, he was right not to prevaricate.

What's News

■ **U.S. auto sales jumped** in April as several car makers posted sizable gains, boosted by a rebounding economy. Chrysler, Ford and Toyota reported sales increases of about 25%. GM's growth was limited to 6.7% because it is phasing out four brands. 19

■ **U.S. manufacturing activity** strengthened in April, pointing to sustained growth in the sector. Also, consumer spending rose twice as fast as income in March. 7

■ **Apple sold** its one millionth iPad on Friday, the same day it released its 3G version of the computer. 19

■ **Avis told Dollar Thrifty** it would like to make a "substantially higher" bid for the car-rental firm than the \$1.27 billion deal Dollar Thrifty reached with Hertz. 21

■ **Dutch postal company** TNT said first-quarter earnings jumped 88% and predicted its markets will improve this year. 24

Inside



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How old master from Holland revived Bayern Munich's fortunes. 32

ONLINE TODAY

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Reader comment

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"Legally BP is responsible, but logically everybody failed to prepare for the worst."

Reader **Gautam De** commenting on "BP Crisis Undermines CEO's Reforms"



Continuing coverage



As the U.K.'s general election nears, follow the latest news and analysis at wsj.com/ukelection

Question of the day

Vote and discuss: Do you think BP has done enough to contain the oil spill in the Gulf of Mexico?

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

Previous results

Q: Do you expect shares of Goldman Sachs to fare worse this month?



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NEWS

Two rankings, two answers

By CARL BIALIK

Is Vancouver the world's best city to live in? Or is it Vienna? Two different rankings provide two different answers. No U.S. city makes either ranking's Top 20 list, but then American cities are busy competing for such titles as safest, drunkest and worst housing market. Other closely watched lists rate hospitals and schools.

"There is something about lists that just draws people's attention," says Peter Meyers, who oversees rankings for Relocate America, an informational website that last week named Huntsville, Ala., the top place to live in the U.S.

THE NUMBERS GUY

While rankings are ubiquitous, so are their flaws. Some suffer from bad or misinterpreted data, or lack of transparency, or arbitrary weightings. Rankings also purport to draw distinctions between top-ranked entities when, statistically speaking, there is very little light between them.

The better rankings take steps to mitigate these problems—and

let users produce versions that match their own preferences.

However rankings are designed, they can't overcome data problems. Forbes.com learned this last month when it ranked the 10 worst housing markets in the country, with Milwaukee finishing last and Denver second from the bottom. The list quickly drew scrutiny from Denver Mayor John Hickenlooper, who called Forbes to question the results. "We were in the process of coming out of [the housing downturn]," says Mr. Hickenlooper. "To hear that we're lagging just didn't make sense."

Two weeks later, Forbes retracted the ranking, blaming a misuse of inventory data from real-estate site Zillow.com. Zillow regularly adds vendors to its database, so an increase in listed houses from year to year might reflect more listings on Zillow rather than a real-world rise in homes that aren't selling. "It's not necessarily a complete picture over time of what's happening in those markets," says Stan Humphries, Zillow's chief economist.

After announcing the problems

with the ranking, Forbes withdrew both the ranking and the retraction from its website.

"We couldn't rerank in any meaningful way, so we didn't," Paul Maidment, editor of Forbes Media, said in an email.

How can consumers know when rankings are based on solid data? It helps when the methodology behind the list is disclosed.

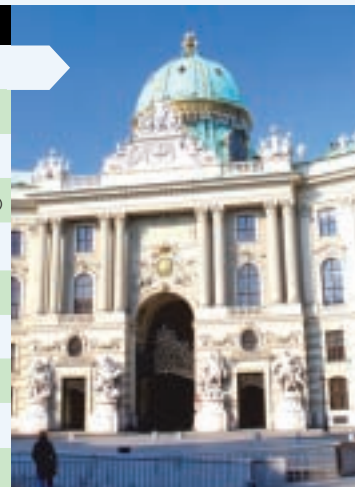
The Economist Intelligence Unit, a sister organization to the Economist magazine, is upfront about its methods for ranking the world's cities by livability. Each of 140 cities is rated by local correspondents on dozens of categories on a rather dour scale of intolerable to acceptable. These are vetted by staff and compared with objective measures such as publicly available statistics on crime, education and climate. Scores are combined and weighted to give more importance to categories deemed significant by the staff.

Under that system, the EIU rates Vancouver the world's best place to live, with a score of 98 out of 100. Vienna is second with 97.9.

Better living

Using different methodologies and data sources, the Economist and Mercer come up with different lists of the world's most livable cities.

Economist	Mercer
Vancouver (B.C.)	1 Vienna
Vienna	2 Zurich
Melbourne	3 Geneva
Toronto	4 Vancouver (B.C.)
Calgary	5 Auckland
Helsinki	6 Dusseldorf
Sydney	7 Munich
Perth	8 Frankfurt
Adelaide	9 Bern
Auckland	10 Sydney



Sources: Mercer, Economist Intelligence Unit; photo by Zuma

Note: Vancouver and Auckland are tied for fourth in Mercer's ranking, and Perth and Adelaide are tied for eighth in the Economist's survey.

The variations between the EIU's rankings and another high-profile list of most-livable cities illustrate the difficulty consumers can have in trying to glean meaningful information from these reports. Consulting firm Mercer uses some similar criteria to the EIU to rate cities, as well as a few

unique categories, such as air pollution and currency-exchange rules. The results have some similarities—both rank Vienna and Vancouver in the top four, but in different order—and some major discrepancies, such as Melbourne, which is third on the EIU list but 18th according to Mercer.



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EUROPE NEWS

Voters suffer immigration hangover

Influx of foreigners remade quaint town, some say, spurring a disaffection that could cost Labour votes

By ALISTAIR MACDONALD

BOSTON, England—The national firestorm that erupted after Prime Minister Gordon Brown branded a woman “bigoted” draws its fuel from places like Boston—a quintessentially English town of medieval lanes, an ancient marketplace and an overnight boom in immigration.

Foreign-born residents made up less than 3% of this east England port town’s population just a decade ago. Now they account for one in four residents, the government estimates. The town’s winding streets ring with Latvian, Polish and Portuguese.

Mark Rawlings, who works for an auto breakdown business, says he doesn’t remember knowing a single foreigner when growing up in Boston. “It just went like that,” he said, snapping his finger. “So suddenly, and we can’t cope.”

The foreign influx into this and other U.K. towns is shaping Thursday’s national vote, the culmination of the tightest British race in decades. The issue zoomed to promi-



Prime Minister Brown, campaigning Monday in Great Yarmouth, England, has been at the center of an immigration debate.

been born abroad, up from about 8% when the party took power. But now that the U.K. economy has soured, more locals are entering the scrum for low-wage jobs and some complain that immigrant workers have helped suppress wages.

The disaffection is expected to push some working-class white voters toward the Conservative Party and, on the margins, toward small far-right groups such as the British National Party. In recent polls, U.K. voters have named the economy as their chief concern. Immigration consistently ranked among the next few issues that voters said would influence their decision, along with health care and education.

Immigration has reshaped the U.K. for centuries, with a post-war wave turning London, Manchester, Glasgow and others into multicultural havens. Many in Boston and beyond say they like the U.K.’s immigrant-driven cosmopolitanism but say the recent influx came too fast and was poorly managed.

This port town has a history of migrant issues. It was here, in 1607, that Pilgrim fathers were arrested after their first attempt to emigrate from Britain. Now, the flow is in the opposite direction.

Unlike the U.S., whose rancorous

immigration debate largely centers on undocumented workers from Mexico and Latin America, the U.K. is host to immigrants who are often in the country legally. Many are from eastern European countries that joined the European Union in 2004, and have flocked to the fertile flatlands of east England to work in agriculture.

Locals say newcomers are putting downward pressure on wages. At £350 (\$465) a week, the average wage in Boston is well below the £400 average for the rest of Britain.

Laima Bezzima earns far less. Ms. Bezzima, who boxes flowers in a factory outside Boston for £5.80 an hour, says such work would earn her the equivalent of £2 an hour in her native Latvia, where unemployment has been over 22%.

“Horticulture in Lincolnshire couldn’t function without” immigration, said Alison Pratt, an official at the National Farmer’s Union.

The influx has sparked a wave of self-examination and finger-pointing. Some locals say newcomers are transient, with few trying to integrate, and crime has increased.

A 2008 report from the independent Association of Chief Police Officers concluded that eastern Europeans hadn’t triggered the crime

wave described by some, but were connected with increases in sex trafficking, extortion and other offenses.

Council leaders in Boston have complained that local budgets and amenities are under strain. This is because the Office of National Statistics figures used by the government to calculate the money it gives Boston to run local services estimates a population of 61,000, whereas the council claims that transient migration puts that figure at 5,000 and 10,000 more.

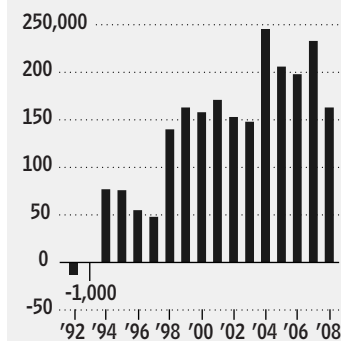
The immigrant influx has also helped transform an issue that was once the preserve of the right into part of the mainstream political dialogue.

In 2007, Labour Minister Margaret Hodge, who represents the east London constituency of Barking, was decried by her own party for saying that established families should take priority over new economic migrants in the allocation of public housing.

Ms. Hodge, a Jewish Egyptian immigrant who came to Britain as a child, says she champions immigration but that it has to be managed. “If you get this sudden transformation of your world around you, if your neighbors change, if your English butcher becomes a Halal

Welcome wearing thin?

Net migration to the U.K. has boomed under Labour government since 1997:



Note: Figures showing the difference between people coming to and leaving the U.K.
Source: U.K. Office for National Statistics

butcher...you are bound to feel unsettled,” said Ms. Hodge. For politicians “not to acknowledge and respond to that is daft.”

Increasingly, political leaders are acknowledging it. In 2007, Home Secretary Alan Johnson accused Ms. Hodge of using the language of the BNP, a party that advocates the repatriation of nonindigenous Britons but which has yet to gain a foothold in national politics. In a shift late last year, Mr. Johnson said some communities had “legitimate concerns about the strains” that come out of sudden immigration.

For many voters, Labour’s acknowledgment that immigration is an issue is a deathbed conversion.

In June 2009, Labour was wiped off Boston’s political map after losing all three of its seats in council elections. The U.K. Independence Party, which wants a five-year freeze on immigration, polled 9.5% of the local vote in the 2005 election, their highest results in the country.

In Boston, local BNP candidate David Owens says he expects to lose heavily to the Conservatives on Thursday. But watching mainstream politicians on TV increasingly debate immigration, Mr. Owens allowed himself a smile. “It’s very pleasing,” he says.



nence last week when Mr. Brown, the Labour prime minister, was caught on a live microphone calling a voter he had just met “bigoted” after she had asked about the influx of eastern Europeans in her town.

Media seized on the gaffe. But the exchange also underscored a preoccupation with immigration among some white working-class voters, long a Labour bastion.

It was Labour, in power since 1997, that threw the doors open to new arrivals. Foreign workers helped feed the past decade’s economic boom, in part taking many low-paying jobs Britons didn’t want. By late last year, some 14% of the U.K.’s working-age population had

U.K. candidates’ digital efforts fall short

By PAUL SONNE

The digital revolution minted by Barack Obama’s 2008 presidential campaign hasn’t quite translated to Britain’s May 6 general election.

The Obama campaign made clever use of the Web, social networking and other digital tools to raise money, draw voters and benefit from unofficial sensations like the “Yes We Can” video, which received millions of hits on YouTube.

But in the U.K. this campaign season, the most notable digital events have been mishaps and unofficial jeers.

Last month, a Labour candidate for Parliament in Scotland quit the race after tweeting offensive epithets, in what was dubbed a “Twitter suicide” by the British media.

On Thursday, Labour faced another digital debacle when its designated “Twitter czar,” parliamentarian Kerry McCarthy, saw the results of absentee ballots at a local train-

ing meeting and posted the information to Twitter. The mishap has prompted a local police investigation into whether the post constituted a breach of electoral law.

One of the most notable digital events of the campaign came as an unofficial salvo from Clifford Singer, an unaffiliated British graphic designer who built MyDavidCameron.com, a Web site mocking Conservative Party leader David Cameron.

The site attacked outdoor advertising posters that featured an airbrushed image of Mr. Cameron. It featured digitally edited versions of the posters, some under the tagline “Airbrushed for Change,” including one that said: “Maybe he’s born with it. Maybe it’s Maybelline.”

The U.K.’s three major political parties all have “new media” teams and boast robust Web sites, Twitter feeds and requisite social-networking platforms. But media experts in Britain say the digital efforts are pe-



A journalist tweets during Thursday’s debate among the U.K. candidates.

destrian and, so far, unexciting.

“There’s nothing from any of the parties that really captures the

imagination. That’s the biggest issue,” says Ajaz Ahmed, chairman of the digital agency AKQA Ltd.

The Labour and Conservative leaders have shown signs that they are less-than-fluent in trendy Web technologies. In an interview in the British magazine Radio Times, Mr. Cameron conceded he wasn’t on Facebook and didn’t tweet.

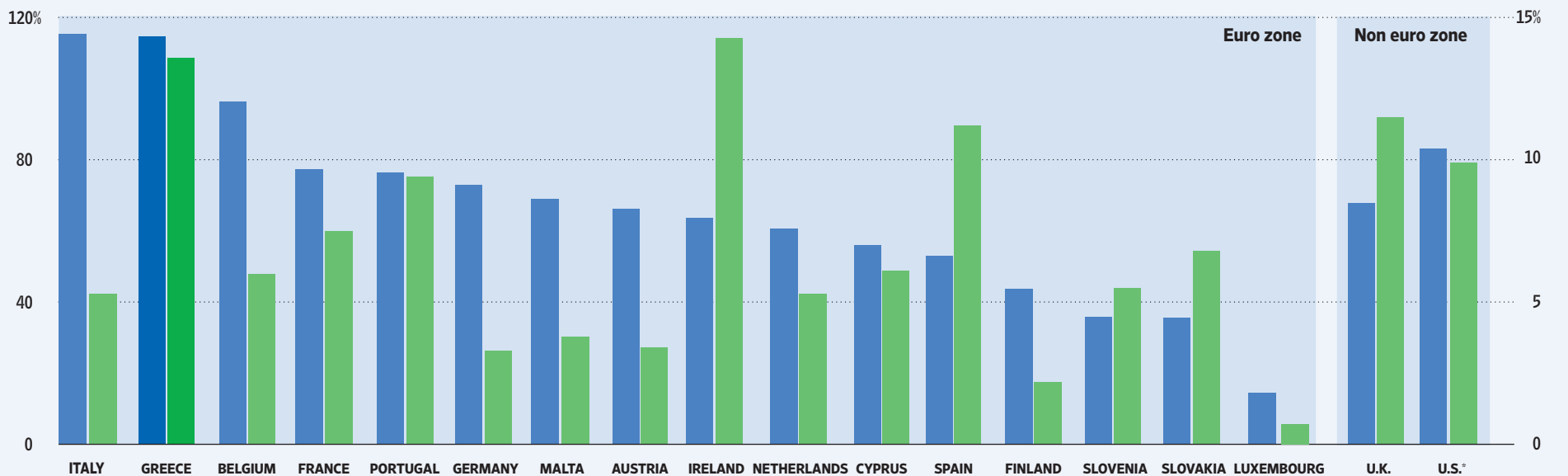
“Social media, I don’t really get,” the 43-year-old Mr. Cameron said. “Politically, I know it’s a great opportunity. Personally, I don’t want to be ‘poked’ or whatever it is.” In the same interview series, Prime Minister Gordon Brown, 59, whose incumbent Labour Party is trailing in the polls, mistakenly used the word “Twitter” as a verb.

The campaigns have digital initiatives—but in a way that many observers see as cautious. Conservative and Labour media strategists, however, say their digital efforts so far have been targeted and effective. They say the Obama campaign is an unfair benchmark because of the vast differences between the American and British political systems.

EUROPE NEWS

Twin peaks | How Greece compares to other countries on budget deficits and public debt

DEBT AS A PERCENTAGE OF GDP, 2009



Note: Data is for gross debt; *For FY2009; Sources: Eurostat; U.S. Congressional Budget Office (U.S. numbers)

Officials damp restructuring talk

BY BOB DAVIS

WASHINGTON—While the €110 billion (\$147 billion) rescue package for Greece requires deep sacrifices from the Greek electorate and business community, foreign lenders escape essentially unscathed.

The European Union-International Monetary Fund package is big enough to ensure foreign banks are paid in full over the coming year or two. Even talk of a debt restructuring—in which lenders would lengthen the terms of the loan or reduce the balance—is off-limits for European finance ministers, who fear making markets quake.

German Finance Minister Wolfgang Schäuble on Monday warned that any talk of restructuring could

weaken market confidence. He said that finance ministers representing the 16 nations of the euro zone on Sunday agreed “to talk with key representatives of [their] countries in order to lobby for the persuasive power of this program.”

Simon Johnson, a former IMF chief economist who is now a professor at the Massachusetts Institute of Technology, argues that a restructuring could be useful for Greece and global capitalism. “It’s good for creditors to pay for losses,” he said, as a way to make financial firms act more responsibly.

But he says that the Europeans waited too long to act and deepened the crisis. Now, markets could interpret a Greek restructuring as a prelude to similar actions by Portugal,

Spain and other countries with deep financial problems. “We’re not in favor of chaos,” he said. “The problems run deep in the structure of the euro zone.”

Columbia University economist Joseph Stiglitz, a Nobel Prize winner who is frequently critical of the IMF, said that it is too early to consider forcing creditors to take less than full value—known in the field as a haircut. “There’s not a necessity of restructuring if the global economy recovers” so Greece can repay its debts and grow as well, he said.

However, Mr. Stiglitz says he is pessimistic about global growth, in part because of Europe’s cutbacks in spending and increases in taxes, which tend to depress demand and

deepen recessions.

Argentina in 2000 tried policies somewhat similar to Greece’s fiscal austerity program and ultimately defaulted in 2001. Similarly, he said, Greece could be in a “downward death spiral” that could ultimately result in a default or restructuring.

In announcing the IMF’s \$40 billion part of the plan, Poul Thomsen, the fund’s mission chief for Greece, said debt restructuring “was never on the table.” Finance ministers insisted “it will not be discussed,” he said. “They think it’s not in their interest.”

In principle, the IMF isn’t opposed to debt restructurings, though it rarely uses the tactic. In the IMF’s \$16 billion loan to politically volatile Ukraine, the IMF

backed the restructuring of the debt of Naftogaz, the nation’s state-owned gas company, to get the nation’s finances in order.

“Obviously, it’s very important for the company to have good asset/liability management, and that may include discussions about some voluntary restructuring of its debt,” Ceyla Pazarbasioglu, the IMF’s mission chief for Ukraine, said last year.

Since then, the IMF has suspended payments to Ukraine, which failed to meet its financial targets, especially during a bitter election campaign.

But Ukraine’s economy is a side-show in the global economy compared with Greece, one of 16 nations to use the euro, one of the world’s reserve currencies.

Euro-zone output grows

BY PAUL HANNON

LONDON—Activity in the euro zone’s manufacturing sector grew at the fastest rate since June 2006 in April, driven by the fastest expansion in factory output in almost a decade.

Markit Economics said its Purchasing Managers Index for manufacturing rose to 57.6 in April from 56.6 in March, a little higher than the preliminary estimate published last month. Economists had expected the reading to remain unchanged from the first estimate at 57.5. It was the seventh straight month in which the PMI was above 50, which signals that activity is increasing.

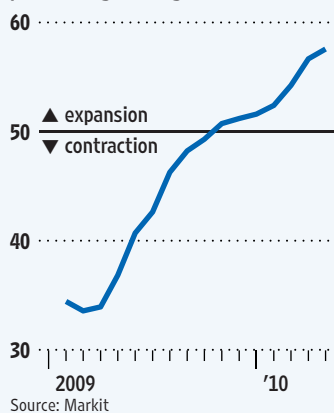
“April’s final PMI data point to manufacturing output growth approaching double-digits as export-driven expansion hits a record pace in Germany and continues to surge in many other nations,” said Chris Williamson, Markit’s chief economist.

Current output increased at record rates in Germany and Austria, but output also rose in Spain and Ireland, two of the euro-zone members hardest hit by the financial crisis and the subsequent recession.

The measure of current factory output reached its highest level since June 2000, and there are indi-

Manufacturing rebound

Euro zone’s manufacturing purchasing-managers index



cations that the increase is set to continue, with new orders rising strongly, including for export orders.

“The euro-zone manufacturing sector is building on its decent start to 2010, thereby boosting hopes that the euro-zone recovery is gaining further momentum in the second quarter,” said Howard Archer, an economist at Global Insight.

The euro zone’s recovery ran out of steam in the final quarter of last year, when the economy stagnated. Surveys and other data indicate that

manufactured exports have picked up in the first four months of this year, but there are few signs that consumer spending is rallying, raising doubts about the strength and durability of the recovery.

Germany’s manufacturing PMI rose to 61.5 from 60.2 in March to hit its highest level since the series began in April 1996. The previous record was reached in April 2000.

“Stronger export demand underpinned the recovery, with firms commenting on a particularly marked improvement in new business from Asia,” Markit said. “Manufacturers also commented on encouraging signs that the upturn in new export orders had broadened to the U.S. and Europe at the start of the second quarter.”

However, Greece’s manufacturing sector continued to contract. Its manufacturing PMI rose to 43.6 from 42.9, but remained well below the 50 level that signals expansion.

“PMI data for Greece and the euro area suggest that Greek manufacturers remain uncompetitive relative to their euro-zone counterparts,” said Gemma Wallace, an economist at Markit.

Markit said the gap between the euro zone’s highest manufacturing PMI reading—Germany’s—and its lowest—that of Greece—was the widest on record.

Greece’s costs top bailout

Continued from first page
to the market in 2011.”

The tale of the past months, however, has been of declining market access for Greece.

At each of several junctures—announcing a promise that Greece would be saved, disclosing that details of the plan were worked out, making those details public, saying countries were prepared to step in—European officials have expressed optimism that, this time, their words would soothe markets.

Instead, Greek bonds have stubbornly slid in price, making it ever more expensive for Greece to borrow.

On Monday, the optimism continued. “It could be that Greece’s funding needs in the next three years are higher, but we think Greece will be able to borrow again in that time,” German Finance Minister Wolfgang Schäuble told reporters in Berlin.

Still, the bailout didn’t help the euro, which by late afternoon in Europe had fallen more than 1% against the dollar to fetch \$1.3184. Fears persisted that Greece’s promised fiscal cuts would be too much to bear. And the gigantic sum—perhaps the biggest outside rescue of a European country since the U.S.-led Marshall Plan after World War II—gave a sobering glimpse at just how much would be needed if other peripheral euro-zone countries faltered.

Greece did get a boost Monday that could help ease any financing crunch: The European Central Bank agreed to continue accepting as collateral any current or future Greek government bonds, no matter how much debt-rating companies downgrade them. (Standard & Poor’s last week cut Greek debt to junk status.)

ECB President Jean-Claude Trichet said explicitly in January that the ECB wouldn’t take such a step. The ECB’s past rule had been to accept only bonds above a certain minimum rating.

As an immediate consequence, the new collateral rule will ward off any liquidity crises at Greek banks, which are major holders of Greek debt. They will be able to get cash from the ECB by pledging their Greek bonds as collateral.

More broadly, it may make euro-zone banks more likely to buy Greek debt, because they know they will be able to get cash for it. Greece could sell short-term debt to local banks, which could then turn around and place it with the ECB, no matter what the country’s credit rating. In effect, “you could be in a situation where private financing becomes irrelevant,” says Daniel Gros of the Centre for European Policy Studies in Brussels, “and Greece is financed by the ECB.”

—Marcus Walker and Geoffrey T. Smith contributed to this article.

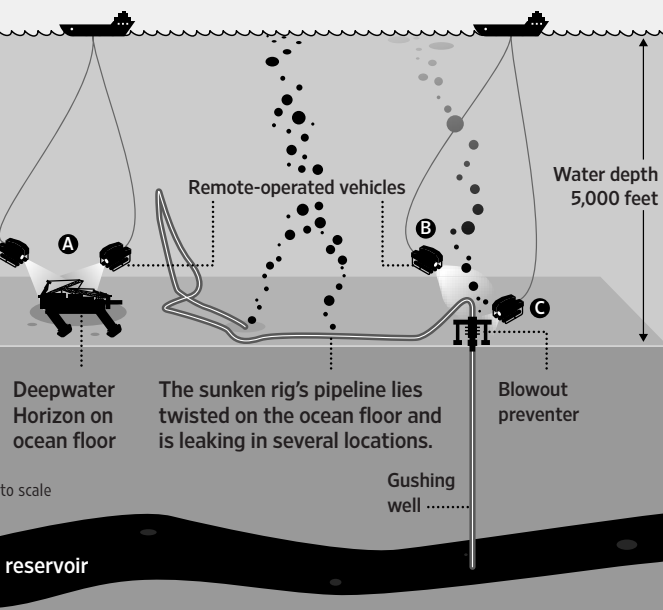
U.S. NEWS

The effort underwater

BP engineers are pursuing several ways to stop the flow from the leaking well off Louisiana.

1. Remotely-Operated Vehicles

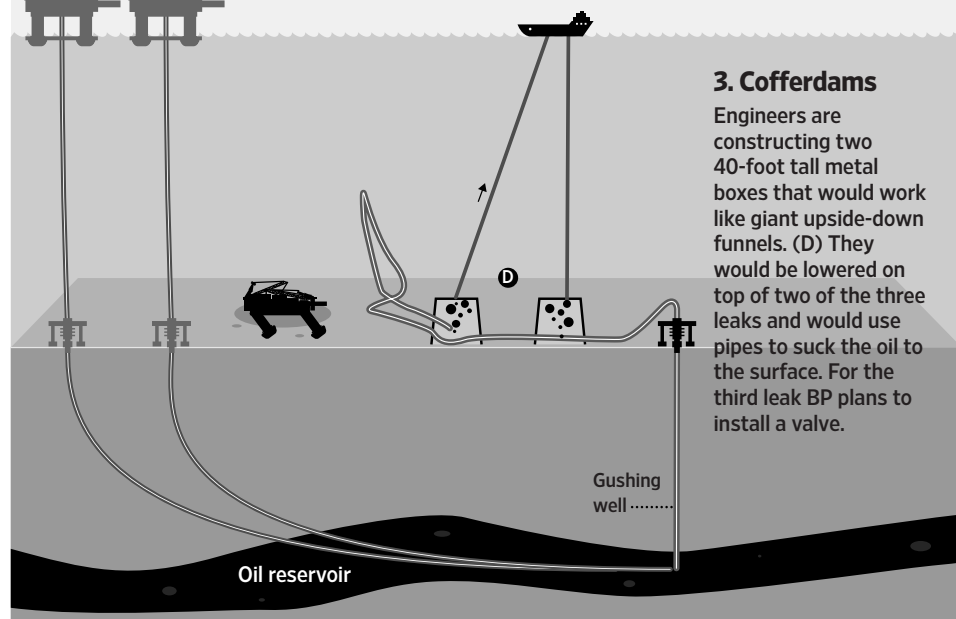
(A) Submersibles tethered to ships are surveying the wreckage; (B) spraying oil-dispersing chemicals onto the plume of oil as it leaves the wellhead; (C) using robotic arms to try to trigger an emergency shutoff valve called a blowout preventer, without success.



Note: Drawings are schematic and not to scale
Source: BP, Coast Guard

2. Relief well

Two other deep-sea rigs will drill additional shafts to relieve pressure on the gushing well. The relief wells will then inject a sludge containing concrete to stop the flow of oil. This could take several months to complete.



3. Cofferdams

Engineers are constructing two 40-foot tall metal boxes that would work like giant upside-down funnels. (D) They would be lowered on top of two of the three leaks and would use pipes to suck the oil to the surface. For the third leak BP plans to install a valve.

Safety device was questioned in '04

BY RUSSELL GOLD

Federal regulators learned in a 2004 study that a vital piece of oil-drilling safety equipment may not function in deep-water seas but did nothing to bolster industry requirements.

The equipment, called shear rams, is supposed to seal off out-of-control oil and gas wells by pinching the pipe closed and cutting it.

As oil companies drilled wells in deeper water, the shear rams had to become stronger and manufacturers responded. But the federally commissioned study questioned whether enough was known about the force required to shear off a pipe at these depths to set proper standards.

Experts theorize the rams may have failed to work as expected in the Deepwater Horizon disaster, contributing to the accident that left 11 dead and an open pipe spewing crude into the Gulf of Mexico.

BP PLC, the giant British oil company that leased the Deepwater Horizon, says it learned from evacuees who escaped the burning rig that workers had tried to activate the shear rams. BP was leasing the rig from Transocean Ltd. and most of the workers were employees of Transocean.

A Transocean spokesman declined to comment.

The shear rams are an integral part of the giant blowout preventer, which sits on the sea floor, 5,000 feet below the surface.

R. Scott Amann, a spokesman for the shear ram manufacturer, Cameron International Corp., said he didn't know exactly what happened. "We remind you that our devices have never been involved in an accident like this," he said.

The cause of the oil-well blowout remains unclear. Petroleum engineers say it was probably related to the cementing process, which is supposed to secure the well and prevent oil and natural gas from escaping. But once workers lost control of the well, the blowout preventer became the only option.

Investigators are expected to focus on whether the blowout preventer received a signal from workers on the rig. The Deepwater Horizon wasn't equipped with a backup re-

mote trigger that is a common drill-rig requirement in other oil-producing nations, but not the U.S.

If the blowout preventer did receive the signal, experts say, a critical question is why the rams didn't seal off the well.

Some newer rigs have blowout preventers with two separate pairs of shear rams—providing an added safeguard. The Deepwater Horizon had a single pair of shear rams.

The Interior Department's Minerals Management Service, which regulates offshore drilling, questioned whether shear rams were strong enough to shear through a pipe. In two offshore incidents in 2001, the rams didn't work as expected. The agency issued new rules in 2003 instructing the oil industry to make

sure the rams would work reliably.

In 2004, a study commissioned by the MMS raised significant questions about the ability of rams to cut through the stronger pipes used in deep-water drilling. The study noted there was no agreement on how to determine if the shear rams would work properly in deep-water conditions.

Only three of 14 newly build rigs had blowout preventers that were able to squeeze off and cut the pipe at the water pressure likely to be experienced at the equipment's maximum water depth, the study noted.

The study's authors, under contract to the federal government, didn't respond to repeated calls for comment.

BP starts drilling relief well to halt oil flow

BY JEFFREY BALL

GRETNA, La.—BP PLC began drilling a relief well Sunday night in hopes of stopping the oil gushing into the Gulf of Mexico from a leaking well.

The company had been waiting until bad weather cleared to begin drilling the relief well, which it hopes will ease pressure on the well that began leaking last month, after the Deepwater Horizon oil rig caught fire and went down about 80 kilometers off the Louisiana coast.

BP said it planned to begin drilling a second relief well in a couple

of weeks. Drilling the wells could take months.

The relief wells are the surest of several options the company is trying to contain the massive oil spill in the Gulf, company officials suggested. To succeed, BP must drill a hole through 4,000 meters of rock 1.6 kilometers under the ocean's floor to intercept the leaking well. The company can then pump in cement to try to plug the leaks. The operation is highly complex, in part because the drills must precisely hit the leaking well.

In addition to trying to essentially cap the leaking oil well, BP is trying to minimize damage from the oil slick in the water by applying chemical dispersants to break up the oil. BP Chief Executive Tony Hayward said dispersants seem to be having a significant impact in keeping oil from flowing to the surface, though he didn't elaborate, the Associated Press reported.

BP was also preparing a system never tried so far under water to siphon away the geyser of crude from a blown-out well. The plan to lower concrete-and-metal boxes being built to capture the oil and siphon it to a barge waiting at the surface will need at least another six to eight days to get it in place.

Crews continued to lay boom to try to keep the spill from reaching



Workers position an oil boom off Pass Christian, Miss., Monday as the spill continues to threaten the Gulf Coast.

the shore, though choppy seas rendered much of the oil-corralling gear useless.

In the Chandeleur Sound on Monday, about 65 kilometers north-east of Venice, La., thick, heavy oil was slicked in long clumps that looked like raw sewage.

Estimates of the amount of oil leaking from the pipe have been growing, though BP officials said they can't measure the amount. The oil slick from the spill covers thousands of square kilometers.

Oil is leaking from three spots in the twisted pipe that once con-

nected the rig to the well. While recent estimates have been that 5,000 barrels a day were leaking, administration officials said Sunday that they feared as much as 100,000 barrels a day could pour into the Gulf if the well infrastructure deteriorated further.

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U.S. NEWS

Oil spill hits oystermen near and far

Harvest in Gulf is in jeopardy, worrying Croatians who have traveled to Louisiana for generations for the catch

By ANA CAMPOY

EMPIRE, La.—Every year, as his family has done for generations, Ante Maticevic leaves his home in a picturesque Croatian town off the clear blue waters of the Adriatic Sea.

His destination is a sparse trailer he shares with a Croatian welder in this tiny Louisiana community where trash bobbles in the murky canals and oyster boats line piers still sagging from Hurricane Katrina.

Mr. Maticevic, who was born here, captains one of those boats, the Chicago. In years past he has made far more money than he could in Croatia, enough to support his wife and two small children, cover the \$1,200 airfare and the beer and cigarettes that fuel him during the eight-or-so months he is gone fishing for oysters.

But the oyster harvest may be over before it begins here because of the giant oil slick gushing from the wreck of the Deepwater Horizon drilling rig. State and federal regulators have closed much of the Gulf of Mexico to fishermen, and there seems little hope that the spill will be contained soon, much less stopped.

“The oil spill can shut this down for a couple of years,” said Mr. Maticevic, a soft-spoken 33-year-old with aquamarine eyes and a deeply tanned face who goes by the nickname Tony.

His family is panicking at the loss of income; captains can make more than \$1,000 on a good day when they go to sea. “My wife keeps calling me every five minutes,” he said. “We don’t know what to do.”

If Mr. Maticevic and his friends and family abandon Empire they will take with them a piquant part of the variety of cultures here. Along with Portuguese, Vietnamese, Italian and Irish families, among others, Croatian families have added their own flavor to the Creole and Cajun communities southern Louisiana is known for.

At the Morovich Canal here, Croatians have formed a tight-knit community and are known as “ta-

kos.” Local lore traces the nickname to a Croatian fisherman who was asked how the sea had treated him. “Tako-tako,” he answered, “so-so” in Croatian.

Croatian fishermen here developed the modern method for harvesting oysters, the dredge, in 1905, state officials say. Boats tow the dredge, a V-shaped iron frame with a yard-long metal-mesh bag that sweeps up oysters.

Their community—and this little town—were already teetering after the pounding of Hurricanes Katrina in 2005 and Gustav and Ike in 2008, which destroyed boats, buildings and oyster beds, the underwater surfaces on which oysters cling.

Now, the oystermen are again looking to the Gulf with dread as a oil glob approaches the coast.

“This is more agonizing than a hurricane, not knowing what to expect,” said John Tesvich, a fourth-generation Croatian oysterman and chairman of the Louisiana Oyster Task Force, which represents the oyster industry.

The state closed a big swath of the waters where the oystermen work on Friday. Mr. Maticevic can’t afford to remain out of work. He has two kindergarten-aged children back in Ston, a town near Dubrovnik, where his wife is studying to be a tour guide.

He has collected only three days of wages since he flew in from Croatia at the beginning of April; the most lucrative part of the oyster harvest was just about to begin when the slick started threatening.

With officials banning oyster fishing in the affected area, the Chicago, the 51-foot oyster boat Mr. Maticevic captains, has remained docked, as have many others owned and operated by dozens of Croatian and Croatian-American families.

Many of the oystermen were born here, descendants of a wave of Croatian sailors that came here in the 1800s. Others followed in the 1970s, escaping from the communist regime in Croatia, which at that time was part of Yugoslavia, and was subsequently ravaged by war.

Mr. Maticevic’s grandfather



Unloading oysters Saturday on the boat of Croatian oysterman Bo Ciblic at a marina near Empire, La.

fished the Gulf’s waters for oysters in the 1950s, and years later convinced his son-in-law, Mr. Maticevic’s father, to follow, which is how Mr. Maticevic came to be born in Empire. His family returned to Croatia when he was 13 and he began coming back to the area at 22 for oyster season.

Meantime, he is trying to get back on the water in the Gulf, this time as an oil-spill cleaner. He just took a course offered by BP and Plaquemines Parish that certified him to transform the Chicago into a cleaning vessel for a rate of \$2,000 a day.

If he gets the job, that money will have to be divided among the boat’s owner, deckhands and Mr. Maticevic after paying for expenses, such as food and fuel. He says he expects to make about the same he usually earns when he goes out to fish oysters, although he doesn’t know if he will be able to work as often.



Oyster-boat captain Ante ‘Tony’ Maticevic on his boat Saturday.

If he doesn’t get the clean-up work, he plans to head back to Croatia. While he relishes the thought of returning to his family and to the Adriatic’s clear waters, he doesn’t

expect to find work that pays as well.

“This is all I know,” he said as he sat with other fellow Croatians at a local bar. “Such bad luck!”

Manufacturing rose in April

By SARA MURRAY

Manufacturing activity grew stronger in April, pointing to sustained growth in the sector as both business and consumer spending rebounds.

A separate report by the Commerce Department confirmed that consumers opened their wallets in March, dipping into savings to increase spending faster than their incomes rose.

The Institute for Supply Management survey of factory purchasing managers shows the expansion was broad-based, with 17 out of 18 industries surveyed experiencing growth. The overall index for manufacturing activity climbed to 60.4 in April, up from 59.6 in March, and reflected underlying increases in production, new orders and employment. Any index reading above 50 shows manufacturing is expanding.

“It really suggests the strength is sustainable,” Michelle Girard, an RBS Securities Inc. analyst said of

the report. “Now what’s becoming evident is consumer and business spending is picking up.”

Among the positive details in the manufacturing report, the index for new orders rose by 4.2 points to 65.7, a sign that the sector’s expansion isn’t solely relying on growth from businesses restocking inventories after deep drawdowns during the recession. In fact, the index for inventories contracted in April after expanding the prior month, but manufacturing activity continued to grow from increased demand.

While that growth is strong, Norbert Ore, chair of the survey committee, noted that manufacturing is rebounding from extremely low levels thus making the expansion appear particularly strong. At some point manufacturing growth is likely to level out, experts said, though activity will likely remain at a “sustainable level of growth,” even as the large gains slow, Mr. Ore said.

The employment index was another highlight in the manufacturing

report, rising 3.4 points to 58.5, though that may not indicate across-the-board hiring. Mr. Ore said some firms are showing a willingness to add shifts, but are shying away from large-scale hiring.

Some, however, are ramping up. **General Electric Co.** announced Monday it has added 220 manufacturing jobs in Michigan to work in aviation producing jet engines. “We’re seeing better orders across the board so we have lots of reason to be more optimistic,” said Charlene Begley, a senior vice president for GE. She added that she understands many are frustrated that job growth isn’t keeping up with the increases in orders and that more companies are relying on increased productivity.

The strength in the factory sector isn’t translating into a surge of broad-based inflation. Experts said the increase wouldn’t likely be passed to consumers. A separate inflation gauge showed that price pressures remain in check.

Lending standards stay tight at banks in U.S.

By SUDEEP REDDY

The credit crunch isn’t over for small businesses and consumers.

Most U.S. banks kept credit tight in the first three months of the year, and some tightened lending terms further, according to the Federal Reserve’s latest senior loan officer survey.

Some categories showed improvement after years of lending cutbacks. Banks reported easing terms on commercial and industrial loans to large and medium-size firms. While the easing took place only at large banks, it marked the first time since 2006 that banks reported easing standards in two straight quarters.

Some consumer loans, such as home-equity lines of credit, also showed easing in standards. But key areas, such as residential mortgages and commercial real estate, saw

continued tightening in terms.

The Fed found a third of banks tightened terms and conditions on new credit-card accounts for small businesses, while more than a quarter of banks did so for existing accounts. More than 40% of banks said they raised minimum required credit scores. Almost a third said they widened spreads—interest rates over the bank’s cost of funds—on outstanding balances, and 15% reported charging higher annual fees. More than two-thirds of loan officers said their current level of standards and terms is tighter than their longer-run average.

Businesses and households across the U.S. are trying to cut their debt and increase savings, spurring a continued drop in loan demand. The Fed said demand for prime residential mortgages fell at a third of banks surveyed, while it was stronger at a fifth of banks.

U.S. NEWS



The U.S. may stockpile lithium, thin pieces of which are shown here at the Center for Lithium Energy Advanced Research lab in North Carolina.

A race for raw materials

Pentagon sees urgency in stockpiling minerals amid supply crunch

BY LIAM PLEVEN

The U.S. military is gearing up to become a more active player in the global scramble for raw materials, as competition from China and other countries raises concerns about the cost and availability of resources deemed vital to American security.

The Defense Department holds in government warehouses a limited number of critical materials—such as cobalt, tin and zinc—worth about \$1.6 billion as of late 2008. In the coming weeks, the Pentagon is likely to present a plan for Congress to overhaul its stockpiling program.

The new plan, dubbed the Strategic Materials Security Program by the Pentagon, would give the military greater power to decide what it stockpiles and how it goes about buying the materials. It would also speed up decision making at a time when military technology evolves rapidly, commodity markets swing widely and countries around the world fight to secure access to natural resources.

"It's a risk-management program," said Paula Stead, who oversees the effort for the Defense National Stockpile Center at Fort Belvoir, in Virginia. The goal is to be able to obtain "a much broader" array of materials in "a much shorter time," she said.

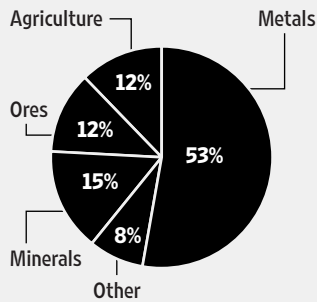
Right now, the U.S. military can't add to the stockpile list without congressional approval, a process that can take as long as two years. The military wants to remove that restriction. It also wants the authority to strike long-term deals with companies or allied nations to provide emergency supplies of materials that the military says are irreplaceable for making weapons, jet engines, high-powered magnets and other gear.

U.S. allies are also increasingly alert to possible supply threats. Last year, Australia blocked a Chinese firm's bid for control of a company that was developing a mine for rare-earth elements, which are used in products such as alloys, electronics

Stockpiling

Resources the Pentagon is hoarding and using.

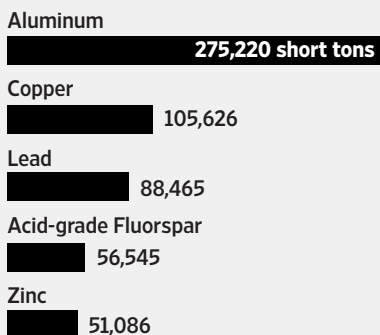
National Defense Stockpile inventory, as of Sept. 30, 2008



Total value: \$1.57 billion

Sources: U.S. Defense National Stockpile Center; Institute for Defense Analyses

Defense Department's annual usage of raw materials (top 5)



and computer monitors.

China controls more than 90% of global production of rare-earth elements, which the U.S. military uses in lasers and high-powered magnets. The U.S. in October added several of these elements to its list of materials that it might warehouse.

The proposed changes to the stockpile system are part of a broader overhaul of the way the Pentagon buys raw materials. The military currently uses hundreds of millions of dollars of raw materials annually, for building weapons and equipment, among other things.

The military has recently tested a system of bulk-buying commodities—by putting in joint orders across the armed services—which could cut purchasing costs. The military also wants the latitude to have private companies stockpile materials in "buffer stocks" that it can tap if other supplies dry up.

Critics argue that the current stockpiling system—set up in 1939 for World War II and shaped by the Cold War—is outdated and leaves the U.S. vulnerable to a shortage of critical supplies. That could weaken the military's negotiating position or leave it at the mercy of wild price swings in the market, or unable to get the material it needs.

The huge purchasing power of

other nations such as China and India makes this even more critical, according to a Department of Defense report given to Congress last year. Worries about potential shortages of strategic materials escalated in 2007 and 2008, as commodity prices jumped and demand from emerging economies soared.

At a hearing on the stockpile last July, a Defense Department official told Congress that the price of rhenium, whose heat-resistant qualities help jet engines operate at higher speeds, at one point shot up 1,000%. Rhenium is one of many materials already screened for stockpiling.

China looms large in the debate. In addition to dominating production of rare-earth elements, China is an aggressive deal maker with countries and companies that produce raw materials. The Chinese government also stockpiles a range of natural resources.

The rising competition for raw materials has sparked fears in the U.S. military that some materials that once seemed abundant could suddenly become hard to get at any price. In 2008, the military suspended or limited sales of 13 commodities it had previously considered excess. Last year, the Pentagon added 14 materials to its list of resources it considers for stockpiling.

U.S., Israel spar in public, but defense ties are strong

[Capital Journal]

By GERALD F. SEIB



A serious accusation, one rarely heard previously, was leveled against the Obama administration on Monday. The charge: It is too vigorously defending Israel.

Patrick Seale, a prominent British writer on Middle East affairs, published an article declaring that the administration "is beginning to adopt the vociferously pro-Israeli, anti-Arab rhetoric of its predecessor—the neocon-dominated administration of former President George W. Bush." He cited a speech last week by Secretary of State Hillary Clinton in which she "used unusually strong language" to warn Syria and Iran that "America's commitment to Israel's security was unshakable."

Hyperbole aside, Mr. Seale's assertion points to an important but little-noted reality. The very public feuding between the Obama administration and Israel over the Palestinian peace process has gotten lots of attention, as has the strained relationship between President Barack Obama and Israeli Prime Minister Benjamin Netanyahu.

But beyond those headlines, the two countries actually have undertaken a broad effort at military and strategic cooperation—including supplying Israel with sophisticated American military equipment—to counter threats from Iran and Hezbollah fighters armed by Syria.

In a week when Iranian President Mahmoud Ahmadinejad is at the United Nations to talk at a nuclear nonproliferation conference—an ironic appearance given that most of the world worries he's seeking to proliferate—the level of security cooperation between Israel and the U.S. is of more than passing interest.

Israel believes Iran and Syria are creating a here-and-now threat by supplying Hezbollah fighters in Lebanon and the Gaza Strip with rockets and, possibly, missiles. But, of course, for Israel the real long-term threat lies in Iran's potential development of nuclear arms.

In the face of those dangers, the crucial question is simply: What are the U.S. and Israel doing about them?

Actually, they're cooperating more than most people think. It's important to note that this cooperation isn't designed to facilitate an Israeli attack on Iran's nuclear facilities. Actually, it's more the opposite. By making Israel feel its has, on its own and in conjunction with the U.S., the defenses needed to either deter or defend against Iran, the Obama administration undoubtedly hopes to reduce Israel's inclination to launch a pre-emptive strike on Iran, which the chairman of the Joint Chiefs, Adm. Mike Mullen, for one, has openly fretted might be ineffective and destabilizing.

Beyond that, making it clear that there is a robust American-Israeli security relationship is one way of preventing miscalculations by the Middle East's more dangerous characters.

If Iran, Syria, Hezbollah or their extremist friends think U.S.-Israeli relations are so strained that Washington is backing away from its commitment to defend Israel, the perception of a newly vulnerable Israel might well invite attacks that could spin out of control.

That's one reason why both Secretary Clinton and Defense Secretary Robert Gates have gone out of their way in the last two weeks to publicly restate America's commitment to Israeli security.

And in fact, officials from both countries say that military and security cooperation has weathered the political storms of recent months, and in some areas actually thrived. An advanced American radar system, for example, has been deployed to Israel's Negev Desert, whence it can help the burgeoning Israeli missile-defense network.

A large military exercise last fall, code-named Juniper Cobra, was used to practice linking up that radar with American defense systems. The U.S. is funding the development of an advanced Israeli long-range, high-altitude system for knocking out ballistic missiles of the kind that might come from Iran. Israel is discussing purchasing the new American F-35 fighter jet, now nearing completion.

At the heart of much of this joint work is the relationship between Mr. Gates and his counterpart, Israeli Defense Minister Ehud Barak. Both men are veteran political survivors and hard-eyed realists, and their ties seem to have grown stronger even as political strains between the White House and Prime Minister Netanyahu have increased. The two defense chiefs met last week and emerged uttering strikingly similar statements of warning to Israel's enemies.

U.S. officials also say there is a high level of intelligence sharing. One outgrowth appears to be a significant effort to detect and then stop arms shipments going from Iran to Syria, and potentially on to Hezbollah fighters in Lebanon.

Last fall, for example, U.S. forces stopped and inspected a ship called the Hansa India, which was carrying shipping containers that originated in Iran and were headed for Syria. The ship later was detained in Malta, where, the American government asserts, it was found to be carrying tons of bullet casings.

None of this means there aren't real strains between Washington and Tel Aviv over settlements in the West Bank, or over the value of a robust Arab-Israeli peace process to the broad American effort to knit Arab states into a coalition opposing Iran.

It simply means that, as in all matters Middle Eastern, the situation isn't entirely as it appears on the surface.

U.S. NEWS

Shooting stokes immigration debate

Proponents and critics of new Arizona law use Friday's crime to argue their side in the border-control fight

By LAUREN A.E. SCHUKER

The shooting of a law-enforcement officer in Arizona's South Central Desert by people officials suspect are drug smugglers has fueled further disagreement over Arizona's new immigration law.

Proponents and critics of the legislation have used the crime, committed Friday by people who the Pinal County Sheriff's office say may have gained illegal entry to the U.S., to argue their sides in a growing debate over how the state, and the country, should control its borders.

Many detractors of the new law, set to take effect in late July or August, spent the weekend protesting in symbolic May Day rallies across the state.

Critics say that Friday's shooting reflects how border control—to prevent rampant drug smuggling often connected to violent crime in the state—stands as a more pressing issue for Arizona than sniffing out illegal immigrants working quietly in the state's cities.

"Border crime should be the hot-button issue," says Arizona Attorney General Terry Goddard, an opponent

of the law who is running for governor. "That is very different than picking up very small offenders on the streets of Tucson who are here without papers but are in no way part of organized crime."

Meantime, supporters of the law seized on the shooting of Pinal County Sheriff Deputy Louie Puroll, 53 years old, in an isolated area south of Phoenix as evidence of why tough new measures, such as the immigration law, are needed to tamp down illegal immigration.

Widely considered the toughest measure on illegal immigration in decades, Senate Bill 1070—which Arizona Gov. Jan Brewer signed into law last month—makes the failure to carry immigration documents illegal and gives police the power to detain people they suspect of being in the country illegally.

"What happened Friday put an exclamation mark on Senate Bill 1070," says Jason Rose, a Republican political consultant. "It's a real-world example of what elites who are condemning the bill don't understand about what life is like in this state."

Meanwhile, the debate is costing some cities in Arizona money since the law has triggered a widespread boycott.

Thousands gathered on Saturday to protest the new law and rally for immigration reform. In Phoenix, some 8,000 people rallied downtown, carrying signs denouncing Ms. Brewer and asking questions such as, "What does an illegal alien look like?" Other protesters donned T-shirts reading "Legalize Arizona."

Alex Rodriguez, a 20-year-old community-college student living in Mesa, Ariz., traveled to Phoenix on Saturday night with his father, mother and 10-year-old brother to protest the law.

He says the law will force him and his family to move out of the state. Hailing originally from Mexico, Mr. Rodriguez and his family have lived in Arizona illegally for the past 10 years.

"We came tonight because we



Demonstrators protesting Arizona's new immigration law clasp hands in front of a police line during a May Day rally in Phoenix on Saturday. The debate is costing some cities money since the law has triggered a widespread boycott.



European Pressphoto Agency

An SB 1070 supporter, Saturday.

have to stop this law from happening," he says. "It will prevent us from being able to walk down the street. It makes me afraid just to, say, wave my hand out of fear that somebody will stop me."

Mr. Rodriguez says he has talked with his parents, a house cleaner and handyman, about moving to California or New Mexico if the law takes effect.

The largest demonstrations took place outside Arizona, however. Some 50,000 people gathered in Los Angeles, demanding that President Barack Obama tackle immigration reform.

"The debate comes down to two questions—what happens when a cop pulls over a Latino for no reason and what happens when an illegal immigrant shoots an innocent person," Mr. Rose says. "The latter happened on Friday, and it has absolutely poured lighter fluid on" the

right wing.

Former Maricopa County Attorney Andrew Thomas, who is running for Arizona Attorney General and wrote part of the law, says that the shooting on Friday further highlights the need for the state and local government in Arizona to curb illegal immigration to preserve public safety.

"The recent shooting of the deputy sheriff underscores the growing problem of violence and mayhem spilling over from the Mexican side of the border," he says. "That event, in addition to the murder of the rancher Robert Krentz about a month ago and countless other killings and violence crimes before that, serves as a constant reminder to Arizonans that their very way of life is being threatened."

Indeed, Friday's incident is the latest in a string of violent crimes to befall Arizona residents committed

by what appear to be illegal entrants, further raising local furor over how the state should handle border control and immigration.

Mr. Thomas says that he personally stepped into the immigration debate after Arizonans had "lost faith in the federal government's willingness to do something about the immigration problem."

He adds that he is "incredibly confident" that the law will uphold as "both legal and constitutional" if challenged in court.

Mr. Obama criticized the law at a recent naturalization ceremony for 24 active-duty service members in the White House Rose Garden. There, he called for a complete federal overhaul of immigration laws and said the Arizona law threatened "to undermine basic notions of fairness that we cherish as Americans, as well as the trust between police and our communities."

'Miracle on the Hudson' gets closer study

By ANDY PASZTOR

When federal crash investigators on Tuesday issue their final report about last year's emergency landing of a US Airways jet in the Hudson River off New York City, they will focus on the captain's skill and the airplane's durability.

But tucked inside thousands of pages of testimony and exhibits assembled by the National Transportation Safety Board, simulator results hint at a somewhat contrarian view of the crew's actions in what has been widely dubbed "The Miracle on the Hudson."

Pilots who used simulators months later to recreate the accident—including suddenly losing both engines after sucking in birds at 2,500 feet—repeatedly managed to safely land their virtual airliners back at LaGuardia Airport. In some versions of the exercise, according to board documents, every simulated return ended successfully.

The results haven't changed the conclusions of board investigators



Passengers stand on the wings of the US Airways plane after it landed in New York's Hudson River last year.

or outside aviation-safety experts, who unanimously agree that Capt. Chesley "Sully" Sullenberger made the right call by opting to put his crippled jet down in the river. Neither he nor his first officer, Jeffrey Skiles, had any assurance that the Airbus A320—which suddenly turned into a 70-ton glider—would be able to clear Manhattan's skyline had they opted to return to the Queens airport they had left min-

utes before.

"The downside risk of being wrong was catastrophic" considering the potential for fatalities to bystanders, according to safety consultant John Cox, an ex-Airbus pilot at the same airline. Mr. Sullenberger "could have made a different call," said Kitty Higgins, a former safety board member, "but his decision used the best information he had . . . and was based on his experience

and instincts."

In his own book, published last year, the captain recalled briefly considering coasting over densely populated areas to turn back toward LaGuardia. But "I had to be certain we could make it," he wrote, because "it would rule out every other option" and could kill "who knows how many people on the ground."

Current safety-board officials echo those sentiments, stressing

that the cockpit crews sitting in the simulators had a huge advantage: knowing the precise nature of the emergency they would confront.

Still, the simulations have sparked some consternation and controversy among investigators, since they were completed almost a year ago. Early on, Airbus officials were so squeamish about potentially being seen as second-guessing the heroic actions of the pilots, according to people familiar with the details, that they broached the idea with the safety board of keeping the results private.

The data eventually made it into the board's public file and has since been mentioned in passing in at least one book about the accident.

Through a spokesman, Mr. Sullenberger declined to comment. Spokesmen for Airbus and the safety board also declined to comment. A senior federal investigator said the simulations "were an important part" of the probe, but are likely to get a relatively brief mention at Tuesday's public hearing.

WORLD NEWS

Long road | Recent events on the path to peace talks



Activists protesting the construction of an Israeli barrier in the West Bank confront Israeli troops Sunday.

March 7: Palestinians approve indirect talks with Israel, after securing Arab League endorsement.

March 9: Israel announces plan to build homes in East Jerusalem, as Vice President Joe Biden visits. Biden condemns move.

March 10: Palestinian President Mahmoud Abbas tells Arab League he will withdraw from talks until Israel reverses its construction plan.

March 11: Biden leaves Israel. Israeli Prime Minister Benjamin Netanyahu apologizes for the flap.

March 16: U.S. Envoy George Mitchell delays a peace mission to Israel, while hundreds of Palestinians clash with Israeli police over building plans and other issues.

March 23: Netanyahu and President Barack Obama meet at White House, but don't resolve differences over East Jerusalem.



Joe Biden in Israel, March 11

April 17-18: Netanyahu tells U.S. that Israel won't curb construction plan, but agrees to other measures to support peace talks.

April 22: Mitchell arrives in Israel for efforts to resume indirect talks.

April 23: U.S. tells Abbas it will consider not issuing a veto of a UN Security Council resolution condemning disputed construction.

April 26: Abbas signals he's ready to resume talks; Arab League approval comes May 1.

May 3: Mitchell arrives in Israel.

Ahmadinejad assails the U.S. at U.N. forum

By JAY SOLOMON

UNITED NATIONS—Iranian President Mahmoud Ahmadinejad, in a speech Monday before the U.N., called for a vast remaking of the global institutions guarding the development of nuclear technologies, while denying his own nation was seeking atomic weapons.

Mr. Ahmadinejad demanded during his 35-minute address that the world's nuclear-weapons states agree to a clear timetable for the disbandment of their arsenals, as well as to accept an independent body to oversee this process.

Iran's leader also called for U.S. and other world powers to provide security assurances to non-weapons states and charged that the U.S. itself should be banned from its role in governing the International Atomic Energy Agency. He specifically cited the U.S.'s use of atomic weapons during World War II and the Obama administration's stated policy of maintaining a nuclear first-strike capability against countries such as Iran and North Korea.

"The possession of nuclear bombs isn't a source of pride; it is disgusting and rather shameful," Mr. Ahmadinejad said, often imbuing his words with religious idioms and imagery. "And even more shameful is the threat to use or to use such weapons, which isn't even comparable to any crime committed throughout the history."

British, American and French diplomats walked out of Mr. Ahmadinejad's speech in quick succession about 10 minutes into its delivery.

The Obama administration is particularly worried that Iran will seek to use this month's U.N. conference on the enforcement of the Nuclear Nonproliferation Treaty to divide international support for new Security Council sanctions on Iran. Secretary of State Hillary Clinton was expected to charge Tehran with defying the Security Council during her speech later Monday.

Mr. Ahmadinejad reached out to developing nations by describing an international system that he said was skewed in favor of the West and the nuclear-weapons states. He said the U.S. was seeking to deny them to the benefits of nuclear power while maintaining nuclear stockpiles that threaten international stability.

"The same states impose various kinds of pressure on the members of the IAEA on the false pretext of probably diversions in the peaceful nuclear activities without providing even a single credible proof," Mr. Ahmadinejad said.

Indeed, Iran's president stressed his nation's peaceful pursuit of nuclear power, but also suggested that the U.S.'s possession of nuclear weapons justified other countries feeling threatened and defending themselves.

The U.S. hopes to gain international support for sanctions against Iran by highlighting its own moves towards disarmament. President Barack Obama signed the Strategic Arms Reduction Treaty in March with Russian President Dmitry Medvedev that significantly reduced the number of deployed U.S. and Russian nuclear weapons. Mr. Obama also hosted the first Nuclear Security Summit in Washington last month in a bid to better monitor the supply of the world's fissile materials.

How U.S. brought Abbas to talks

White House offered to consider allowing censure of Israel at U.N. Security Council

By CHARLES LEVINSON

JERUSALEM—The White House brought Palestinians back on board for derailed Mideast peace talks with a pledge that the U.S. would consider allowing a United Nations Security Council resolution—if one should arise—condemning Israel for building in disputed territory, according to officials briefed on the diplomacy.

The White House's Mideast peace envoy, George Mitchell, arrives in Israel Monday for what a senior administration official said would be the resumption, likely by Thursday, of U.S.-brokered, indirect peace talks between Israel and the Palestinians.

On Saturday, the Arab League endorsed the talks for the second time in as many months, and Palestinian President Mahmoud Abbas is expected to get a final green light to proceed from a Palestinian policy-making body later this week. Israeli

Prime Minister Benjamin Netanyahu said Sunday he welcomed the start of talks.

Withholding a veto from a U.N. resolution critical of Israel—though there is none now before the Security Council—would be a significant reversal of decades of U.S. policy of largely unwavering support for Israel in the body.

The U.S. has vetoed more than 40 U.N. resolutions critical of Israel since 1972—at least three of them condemnations of Israeli construction activity in East Jerusalem.

"This sounds very conditional," a senior Israeli official said about reports of the pledge. "If the Palestinians think that this is another tool with which they can corner Israel, they may be in for a very gross miscalculation."

Earlier efforts to start what officials involved refer to as "proximity" talks—in which U.S. officials will shuttle among Jerusalem, Ramallah and Washington relaying

messages between negotiating teams—have faltered.

Mr. Abbas pulled out of the talks in early March after Israel announced fresh plans to build 1,600 new Jewish homes in the Ramat Shlomo neighborhood of East Jerusalem in early March. The building announcement came at the beginning of a visit to Israel by U.S. Vice President Joe Biden, and became a major thorn in U.S.-Israel relations.

The assurances to the Palestinians were given to Mr. Abbas by David Hale, an assistant to Mr. Mitchell, at an April 23 meeting in the West Bank city of Ramallah, said officials briefed on the diplomacy.

Officials involved in the diplomacy have different interpretations of what was promised.

Palestinians briefed on the meeting say Mr. Hale read from a letter in which the U.S. said it "may consider taking action against significantly provocative settlement activity including not using the veto in

the Security Council." The U.S. refused to put their assurances in writing, according to the Palestinians briefed on the meeting.

But other officials familiar with the exchange said the U.S. threat to withhold a veto in the Security Council was limited to any further building in Ramat Shlomo.

Mr. Netanyahu has already said publicly that Israel wouldn't begin construction in Ramat Shlomo for at least two years, meaning the U.S. wouldn't have to deliver on a pledge related specifically to construction there until at least 2012.

Mr. Hale also told the Palestinians the U.S. would take punitive actions in response to provocations by the Palestinian side, according to officials familiar with the exchange.

The U.S. made no firm commitments about what exactly would trigger such a move and stressed that withholding its veto was only one possibility of what it may do, these officials said.

Karzai's U.S. trip is a key to progress

Continued from first page
future even as the Afghan government prepares to take more control of security, its own institutions, and the judicial process from NATO.

Mr. Karzai's relationship with the Obama White House has been fraught. Administration officials have often complained of Mr. Karzai's lackluster efforts to combat Afghanistan's deep-rooted corruption; Mr. Karzai has repeatedly criticized coalition forces for killing civilians and has at times suggested Americans could soon be seen as "occupiers"—not allies.

Soon after Mr. Obama made a surprise visit to Afghanistan in late March, Mr. Karzai accused the U.S. and its allies of trying to steal last year's presidential election from him. He then told lawmakers he

would "join the other side"—the Taliban—if the U.S. didn't back his efforts to take control of Afghanistan's election watchdog.

The White House responded by suggesting it might call off Mr. Karzai's Washington trip before both sides stopped the verbal sparring.

The spat doesn't appear to have undermined Mr. Karzai's relatively close working relationship with Gen. McChrystal, one of the few U.S. officials to whom the Afghan leader responds. That's made Gen. McChrystal and his staff key players in planning a trip that is far more political than military; the general will be among the American officials who travel to Washington for the visit.

Mr. Karzai is a "very reliable partner," Gen. McChrystal said. "We

travel together, we work through very difficult issues together. I get to see him make wartime decisions."

Other senior Western officials aren't as confident in Mr. Karzai. Many Afghans view his government as weak and ineffective and, ultimately, unlikely to last long against the Taliban without the backing of NATO troops. But if Mr. Karzai's trip goes well, it could help persuade Afghans that their future is with the government, not the Taliban, Gen. McChrystal said.

After his Washington visit, Mr. Karzai will host a so-called Peace Jirga, a gathering of hundreds of legislators, governors and other power brokers tentatively scheduled for late May in Kabul. Afghan and U.S. officials say the meeting is a chance for Mr. Karzai to gain na-

tional legitimacy to pursue the rehabilitation of low-level Taliban into Afghan society as well as peace talks with some senior Taliban leaders.

Around the same time, U.S.-led forces are expected to step up their efforts to rout the Taliban from Kandahar.

Taken together, a successful series of events that improve the writ of government and beat back the Taliban "could then move the country forward toward the end of this year into a much more credible position than some people perceive right now," Gen. McChrystal said.

But if each of the events turns out to be less effective than hoped, "you end up in the fall not necessarily in a bad position or a good position but it will be much less clear."