



## Turkey's bloodless civil war is putting lawyers in the dock

THE BIG READ 16-17

## EU lawmakers near pact on hedge-fund legislation

EUROPE NEWS 6

# THE WALL STREET JOURNAL.

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# Markets unhappy with deal

A Wall Street Journal Roundup

European markets tumbled Tuesday, led by a sharp decline in Spain, shaking investors in the U.S. and sending the euro to a one-year low against the dollar.

### Greece worries

- How much of the bailout bill goes to the U.S.? ..... 4
- Wednesday's strike a test of political will ..... 4
- Stock markets sink in Europe and U.S. .... 19

The day's drops provided more evidence that the Greek bailout package has failed to stanch rising jitters about sovereign-debt problems along the euro zone's periphery. Euro-zone governments and the International Monetary Fund hoped that a €110 billion (\$145.14 billion) rescue package for Greece would soothe investors' nerves over high sovereign-debt levels in Spain, Italy, Portugal and Ireland. Instead, it had the opposite effect, with fears of contagion rising throughout the day—as markets aren't convinced that the package will be enough to restore Greece to solvency.

Spanish shares led the broad stock-market slide, with **Banco Santander** and **Banco Popular** each down more than 7%. Madrid's blue-chip IBEX



Demonstrators shout slogans near the Parliament building during a protest in Athens on Tuesday.

35 index shed 5.4% to close at 9859.1. The pan-European Stoxx 600 Index dropped 2.9%, while Italy's FTSE MIB lost 4.7% and Greece's ASE index slid 6.7%. U.K. losses were more modest, but the slide by the FTSE-100 index was enough to push it into the red for the year.

In the U.S., the Dow Jones

industrials dropped 2%.

"Just when you think everything with Greece is solved, you see protests over the austerity. You see all these things that make you think well, no, maybe it's not a done deal," said Art Hogan, chief market analyst at Jefferies & Co.

In foreign-exchange mar-

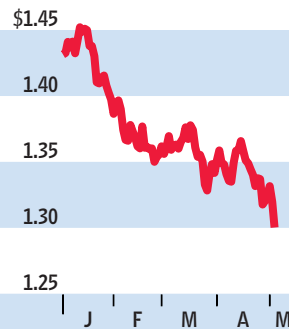
kets, the euro dropped to its lowest level since May 2009.

The markets' nervousness came as Greek civil servants staged the first day of a two-day strike, providing an early gauge of public sentiment on austerity measures imposed by euro-zone countries and the International Monetary Fund in exchange for aid.

The full effect of the walk-out isn't expected to become clear until Wednesday when it is scheduled to become a general strike that unions say they hope will paralyze the country. Tuesday's action came as the government submitted to Parliament a plan to raise taxes and cut pensions and public-sector wages.

### Downhill fast

How many dollars one euro buys



Source: WSJ Market Data Group

Some political analysts said the strikes are unlikely to shake the government's resolve to push through the cuts, at least for now.

Others caution that the government could be forced to reverse the planned austerity measures if demonstrations intensify over time.

Unions organized two general strikes earlier this year but this week's actions could be more serious because they follow harsher-than-expected steps that are close to being finalized.

The Greek government announced Sunday a €30 billion package of austerity measures. That came as a condition for the bailout announced Sunday by the EU and the IMF.

## Times Square bomb suspect trained in Pakistan

BY EVAN PEREZ, ZAHID HUSSAIN AND ANDREW GROSSMAN

Times Square bombing suspect Faisal Shahzad told interrogators that he received training in bomb making during a recent five-month trip to Pakistan, according to a senior U.S. official familiar with the matter.

The official said Mr. Shahzad received his training in the tribal region of Waziristan bordering the Afghan border. South Waziristan is currently the site of a continuing Pakistani military offensive against Islamic militants affiliated with al Qaeda. The region of North Waziristan is the locus of the Central Intelligence Agency campaign to kill militants with unmanned drone strikes. Mr. Shahzad, a 30-year-old



Evidence on the property of a house where Faisal Shahzad lived.

naturalized U.S. citizen originally from Pakistan, returned in February from a five-month visit to Pakistan, authorities said. He told Federal Bureau of Investigation interrogators that he acted alone in the

botched bombing attempt on Saturday.

Investigators are still pursuing leads and combing through evidence that may point to additional plotters in the U.S. or abroad. Nothing

has been ruled out by investigators, officials said.

U.S. Attorney General Eric Holder said Mr. Shahzad is providing useful information to law-enforcement officials. Mr. Shahzad was arrested late Monday while aboard a flight destined for Dubai and eventually Pakistan.

Mr. Holder, speaking at a news conference, characterized the botched attack as one that "transcended national borders," but had no information on reports of related arrests in Karachi. He said the act was a "terrorist plot aimed at killing Americans."

Mr. Holder said Mr. Shahzad would face terrorism and weapons of mass destruction charges. Mr. Shahzad was expected to appear in court Tuesday afternoon.

Pakistan police have de-

tained at least four people in connection with the investigation, Pakistani intelligence sources said. The suspects, who weren't named and haven't been charged, were picked up in a raid on Gulshan-e-Iqbal, a suburb of Karachi.

Mr. Shahzad was born in Pakistan's Northwest Frontier Province and left at an unspecified date for the U.S., Pakistan police and intelligence sources said. He appears to have traveled to Karachi for several visits, including one between July and August last year. During that trip he also visited Peshawar, a gateway town to the tribal regions where the Taliban have found refuge in recent years.

The raid targeted a house  
*Please turn to page 8*

### The Quirk



Life after the Penington: the sought-after boarding house where you can't stay. **Page 33**

### World Watch

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

### Editorial & Opinion

The Greek bailout has already failed. **Page 13**

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## PAGE TWO

## U.K. navel gazing as Europe seethes

## [ Agenda ]

BY IAIN MARTIN



When Queen Elizabeth II began her reign in 1952, Winston Churchill was prime minister. Britain's veteran leader—a product of the late Victorian era and the age of empire—was utterly entranced by the 25-year-old monarch. He had first met her when she was only two years old: “She has an air of authority and reflectiveness astonishing in an infant.”

The queen had considerable affection for Churchill, but she learned quickly to ignore the flattery of even the most charming politicians. She has dealt with 11 more prime ministers since Churchill, and had plenty of time to get used to the machinations of first ministers.

It is worth remembering that the government is hers, its ministers are her ministers, and she—technically—appoints the prime minister.

But even a monarch with as much experience as Elizabeth II has rarely had to face the potential chaos that may confront her on Friday. This is the tightest U.K. general-election contest in a generation. On the basis of the latest opinion polls, a hung Parliament in which no party has an overall majority still looks like the most likely outcome.

Against a backdrop of turmoil in the markets and economic strife, it is entirely possible that it will not be obvious who the queen should ask to form a government.

The closest comparison here is with February 1974, the last time there was an election that produced a hung Parliament and then hurried behind-the-scenes haggling over which leader should be the prime minister.

Of course, if there is a clear winner on Thursday it is relatively straightforward. Imagine that the Conservatives cross the finishing line winning 326 out of 650 seats



Sir Winston Churchill kisses the hand of Queen Elizabeth II.

and secure a majority of one. The queen then has a simple task.

Gordon Brown will telephone David Cameron, probably before dawn, and concede that he has lost. Sometime on Friday, Mr. Brown will be driven out of Downing Street for the last time as prime minister—having made valedictory remarks on the steps of Number 10. He will offer his resignation to the queen, she will

### On the basis of the latest opinion polls, a hung Parliament still looks like the most likely outcome.

accept and then he can be driven off into historical oblivion. Mr. Cameron will be sent for and shortly after he has “kissed hands” he will arrive in Downing Street to appoint a ministerial team and get to work. But in a hung Parliament what happens?

Experts who have devoted their lives to understanding the arcane corners of the unwritten British constitution are being telephoned round the clock by civil servants and journalists seeking quick tutorials.

The senior civil servant in the land, the cabinet secretary Gus O'Donnell, has drawn up guidelines that quite properly allow Mr. Brown to remain in

Number 10 until it is clear who has the best chance of forming the next government. This process may last for days, or even a week. It is entirely proper. The primary purpose is to ensure that the work of the queen's government can be carried on.

The palace would want to stay out of any discussions in this period until the last possible moment—waiting to be guided by Sir Gus on the best course of action as soon as he can work out what it is. There are several possible outcomes.

If Mr. Cameron falls just short of a majority he will attempt to govern with a minority administration, risking a vote of no confidence from other parties that would trigger another election. But no party would want to be seen to be forcing voters back to the polls too quickly—the public would hate it.

Mr. Cameron could expect Liberal Democrat support for his finance bills to keep the British show on the road. He would have to limit his ambitions on other legislation. He would seek to prove he could handle office then try for a majority at a later date.

Or the outcome in terms of seats might mean that Nick Clegg can choose which party to put in power, either by entering a coalition or propping up a partner on a vote by vote basis in Parliament. If he supported Labour he would demand the exit

of Mr. Brown and his replacement with a new leader.

The wild card is that Mr. Clegg does well enough to demand audaciously to be prime minister in coalition with Labour. He would try to drive through changes to the voting system for future elections. Mr. Clegg would have fewer seats in this scenario but greater moral authority. A desperate Labour Party might even agree to such a pact.

This is not, short of a clear result, sounding like a recipe for stability in extremely difficult times. Indeed, the speculation about how a hung Parliament should be handled by the various parties, the civil service and the queen, has added to the air of unreality around this election.

I would go as far as to say that it feels as though this contest in Britain is happening on a different planet. The scale of the national deficit and debt and the measures required to tackle both have barely been mentioned. The voters seem incapable of handling the truth and the parties do not want to break ranks and be the first to tell them.

Meanwhile, the crisis in the euro zone is metastasizing. The markets are unconvinced by the deal to support Greece. Debt-laden Portugal and Spain are next in line as the day of reckoning approaches for the high-spending European model with its vast borrowing and excessive welfarism. The talk is now of the European Central Bank potentially printing money just to keep the wheels in motion.

Into this chaos will step a British prime minister. He will instantly face searching questions from investors about what he plans to do about his country being as overborrowed as Greece. That person will need room for maneuver and a mandate. If the polls are right he will have neither.

Instead, barring a late surge for one of the parties, it looks as though Britain intends to spend the foreseeable future engaged in constitutional navel gazing. It is a frightening prospect.

## What's News

■ **UBS posted a profit** for the second consecutive quarter on a recovery in its investment bank and a slow-down in withdrawals from its wealth-management division, in a sign that the restructuring is yielding results. **19, 36**

■ **Pearson will sell its 61%** stake in Interactive Data to two U.S. private-equity firms, which are paying \$3.4 billion for the entire company. **21**

■ **EU ministers agreed** to speed up talks on new aviation rules to allow the bloc to be more efficient in facing emergencies, such as the Icelandic volcano ash cloud. **6**

■ **The agency that regulates** U.S. offshore oil drilling drew sharp criticism in Washington as BP worked to deploy a dome to cover the well gushing oil into the Gulf. **10**

■ **German retail sales** dropped in March, indicating domestic demand remains slack. Meanwhile, Spanish jobless claims fell in April. **7**

## Inside



What children need: The ABCs of missing vitamins. **31**



Has snooker gone to pot? A game facing crisis. **32**

## ONLINE TODAY

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## The Source

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“Nothing but cuts, cuts, cuts. Such a fate awaits our hero, whoever he is.”

**David Cottle** on the challenge facing the U.K.'s next prime minister to stabilize and cut the country's deficits



## Continuing coverage



Follow developments as Greek civil servants strike over austerity measures at [wsj.com/greekdebt](http://wsj.com/greekdebt)

## Question of the day

**Vote and discuss:** Who would you vote for the in U.K. general election?

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

## Previous results

**Q:** Do you think BP has done enough to contain the massive oil spill in the Gulf of Mexico?

Yes

**46%**

No

**54%**

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NEWS

# KFC seeks secret recipe for France

By PAUL ZIOBRO

NEW YORK—Yum Brands Inc.'s KFC brand is plotting a deeper move into France, hoping that the Colonel's recipe will strike the taste of a broader swath of French consumers.

This week, KFC launched its first round of national television advertisements in France as it prepares to open its 100th store there, giving it the scale needed for a broad marketing push. KFC plans to have 300 stores in France by 2015, and sees a possible tenfold increase over time.

"One day I'd like to have over 1,000 stores here, though we're going to take it 100 by 100" at a time, Ivan Schofield, general manager of KFC France, said in an interview.

Yum, the world's largest restaurant operator with more than 37,000 locations, also is one of the largest retail developers, a key strategy underpinning its growth. With the U.S. fast-food market mature, China has become by far Yum's most crucial growth market, and the company is also starting a major expansion in India to open 1,000 stores.

Even though these two fast-

growing markets dwarf France in terms of population, Yum executives see KFC's France business as an anchor for what could be a broader expansion in continental Europe. KFC's European footprint is under 800 restaurants, trailing burger chain McDonald's Corp., with about 5,600.

"It's their most important market in Europe," Stifel Nicolaus restaurant analyst Steve West said. "Obviously, China's the most important market, but there's a lot of growth opportunity for Yum in France."

Fast-food competition remains less intense in France, where McDonald's and local operator Quick dominate the market.

McDonald's, which was seen as an American invasion when the first store opened in 1979, worked hard to woo French diners by tailoring its menu to local tastes. The company sells beer as well as soft drinks, and it recently introduced a version of the macaroon, a national culinary institution. Last year, it opened a restaurant in the food court of the Carrousel du Louvre, the shopping center under the famous Parisian museum, raising some eyebrows.



The highest unit volume KFC in the world is in Paris's Les Halles area.

The chain has grown to about 1,100 stores in France.

Other American companies have had less success or moved more cautiously. Burger King Corp. withdrew from France in 1997. It said its 39 restaurants didn't give it a strong enough presence and that it wasn't sufficiently profitable. Starbucks Inc., the U.S. coffee chain, opened its

first outlet in France in 2004 and today has about 50 locations—a number dwarfed by its 650 in the U.K.

One of France's major appeals is that it is one of the largest dining-out markets in Europe. Many French consumers still frequent locally owned, corner restaurants, but fast food has made headway as diners cut their lunch to 30 minutes or

so, Mr. Schofield said. Fast-food customers also tend to prefer full meals with desserts, rather than just sandwiches, which bring the average sale to between €6 and €8 (about \$8 to \$10.50) at KFC. As a result, French KFCs have average sales of \$4 million a year, about three times that of outlets elsewhere.

KFC got off to a meek start in France. Its former parent PepsiCo Inc. opened just seven locations in 1992 before abandoning the effort in favour of expansion elsewhere.

Yum returned to France in 2001, as McDonald's began investing in its stores there. KFC tailored its menu to local preferences, introducing items like Boxmaster, chicken and other fillings in a tortilla wrap, and Brazer, a grilled line of products.

Yum has invested more than \$300 million in France since 2001, and is now profitable. Though Yum owns and runs most of the stores, by 2015 it wants to shift more of the development burden to franchisees, and thinks annual profits in France will reach \$100 million.

—Javier Espinoza in London contributed to this article.



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## EUROPE NEWS

# Greek civil servants launch walkout

Unions organize general strike Wednesday to protest austerity moves required to get the EU-IMF bailout

By ALKMAN GRANITSAS  
AND SEBASTIAN MOFFETT

ATHENS—Greek civil servants staged the first day of a two-day strike, providing an early gauge of public sentiment on austerity measures imposed by euro-zone countries and the International Monetary Fund in exchange for aid.

The full effect of the walkout isn't expected to become clear until Wednesday when it is scheduled to become a general strike that unions say they hope will paralyze the country. Tuesday's action came as the government submitted to parliament a plan to raise taxes and cut pensions and public-sector wages.

The strikes are a key test for Prime Minister George Papandreou as he tries to turn around his economically beleaguered country. Greece's fiscal problems have forced Athens to pay six percentage points more than Germany to borrow money, and they have sparked fears of similar problems in other weak European economies.

Some political analysts said the strikes are unlikely to shake the government's resolve to push through the cuts, at least for now.

"In all likelihood, tomorrow's protest will be a very big protest, but without meaning anything other than just that," said George Sefertzis, an analyst at Athens consultancy Evresis. "There is no risk of this leading to a change in policies. Even the participants of the protest do not expect the austerity measures to be withdrawn."

Others caution that the government could be forced to reverse the planned austerity measures if demonstrations intensify over time and become violent. German Finance Minister Wolfgang Schäuble warned that such a course would halt the aid effort. "Should there be any violations, payments will be stopped. Then Athens may be on the verge of insolvency again," Mr. Schäuble told Germany's Rheinische Post in an interview Tuesday, a comment con-



The PAME union, affiliated with Greece's Communist Party, staged a takeover of the Acropolis at dawn on Tuesday.

firmed by the German finance ministry.

Unions organized two general strikes earlier this year but this week's actions could be more serious because they follow harsher-than-expected steps that are close to being finalized. The Greek government announced Sunday a €30 billion (\$40 billion) package of austerity measures. That came as a condition for a €110 billion bailout announced Sunday by the European Union and the IMF.

The civil-service umbrella union, ADEDY, is expecting at least 100,000 people to take to the streets of Athens Wednesday, union officials said—more than twice the size of the biggest recent protests. Shopkeepers and small businesses—not usually big walkout participants—also planned to strike.

"We are heading into a deep re-

cession and things are just going to get worse," said Andreas Loupis, a 30-year-old news-kiosk owner who planned to go on strike Wednesday. "People are hungry and pretty soon they will start turning on each other."

Greece's austerity measures include a two-percentage-point increase in its top value-added tax rate to 23% effective July 1. In addition, excise taxes for fuel, tobacco and alcohol will be raised immediately. Public-sector wages will be cut, as will both private- and public-sector pensions. Labor laws will be liberalized to make it easier for companies to fire workers.

The strike on Tuesday shuttered ministries and public offices. State hospitals functioned with fewer staff; ambulance workers walked off the job. Teachers refused to work and Greece's two main carriers—

Olympic Airlines and Aegean Airlines—canceled dozens of domestic flights. In Athens, several thousand protesters, including retirees, civil servants and teachers, marched peacefully, chanting slogans and calling for a repeal of the measures.

"Participation in the strike is very high ... and it will continue tomorrow," said Andreas Petropoulos, spokesman for ADEDY, the umbrella public-sector union. "We want the government to take back all, and I mean every single austerity measure."

Still, many onlookers expressed resignation, saying that Greece is headed for a deep recession and that it is unlikely the austerity measures will be withdrawn.

"People are very scared about what is to come," said Sylvia Des Ronay, a 22-year-old shop worker. "The recession is surely going to af-

fect us all. But what are you going to do? We are all just spectators."

One factor in Mr. Papandreou's favor is relatively high approval ratings. Many Greeks blame the opposition New Democracy party, which ruled for five years until October 2009, for the descent into crisis.

Asked their voting intentions in late April in a poll for a privately owned television channel, 31% of respondents said if an election were held today, they would vote for the Socialists and only 21% for the opposition.

"Government policies are being endorsed by the public," said John Loulis, political commentator and managing director at consultancy Strategic Communications Ltd. "Most people believe these measures are necessary."

—Nick Skrekas  
contributed to this article.

## Who's on the hook for IMF's Greek bailout

By BOB DAVIS

Who is on the hook for the €110 billion (\$145 billion) loan to Greece?

The short answer is euro-zone governments—and their taxpayers—aside from Greece. Those 15 nations are in various stages of approving a total of €80 billion, divided according to their stake in the European Central Bank. Germany, would loan €22.3 billion, followed by France with €16.8 billion.

The U.S. contributes far more modestly as part of the €30 billion financed by the International Monetary Fund. But the U.S. is the largest shareholder in the IMF, which some commentators and lawmakers have taken to mean the U.S. is forking over a lot of money, too.

"It is simply unfair, as a matter of principle, to force American taxpayers to use their hard-earned money to prop up failed policies in relatively wealthy nations," wrote Rep. Todd Tiahrt, a Kansas Republican, opposing any U.S. participation in a Greek bailout.

So does the U.S. pay? In a way,

the U.S. does, but with little risk and as part of its obligations to the IMF.

As with everything concerning the IMF, an international financial institution with headquarters in Washington, the explanation is complicated.

Think of the IMF as a global credit union where members kick in money and the institution's board lends it out. Each member has a "quota"—that is, a financial stake in the IMF, expressed as a percentage—and contributes according to that quota. The U.S. quota is 17.09%, followed by Japan at 6.12%, Germany at 5.98% and France and Britain at 4.94% each.

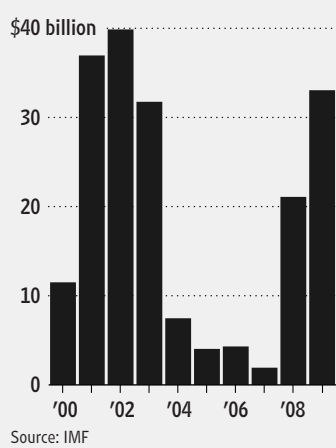
That, however, doesn't necessarily mean the U.S. is responsible for 17% of the IMF's portion of the Greek package.

First, though all countries are theoretically responsible for investing in the IMF's lending pool, not all have currencies that potential borrowers can use. (Think Zimbabwean dollars or Venezuelan pesos.)

The IMF doesn't say that outright. Instead, it uses the concept of

### Load rebound

Value of loans made by the IMF, in billions



Source: IMF

"usable resources," meaning it uses money from countries that are considered financially sound. About 21% of the quota contributions to the IMF were "non-usable," according to the IMF, as of January 2010.

Because the U.S., Japan and big European countries are in the "usable" camp, in reality, they finance a larger percentage of IMF funding than their quota would suggest.

But to arrive at an exact percentage isn't possible now for several reasons. The IMF draws on funds that are pledged to it but that continue to be held in national central banks. At the end of April, before it loaned any of the \$39 billion to Greece, the IMF estimated it could lend about \$250 billion overall (€195 billion) over the coming year.

But in addition these quota contributions, the IMF has two other pools of money, to which only wealthier countries contribute, that can be activated in an emergency. One isn't ready to deploy yet; together, they will add roughly €232 billion to the IMF's current lending ability. For Greece, the IMF plans to tap bilateral loans made to it by Japan and European countries, but not by the U.S. and which will be rolled into these emergency facilities. (The U.S. will have a combined 19% share of those kitties.)

Counting all loan sources, the 15 euro-zone nations would be responsible for a substantially larger stake in the IMF's Greek bailout than the U.S. European contributions to the IMF facility, of course, will in turn be dwarfed by euro-zone countries' far larger exposure through the European bailout.

To make its loan, the IMF will borrow from the U.S. Federal Reserve and other central banks and pay them interest of about 0.25% on the money; the IMF will then charge Greece about 3% on the loan.

Will the money be wasted? That depends on whether the Greek electorate swallows the cuts in salary and pensions required by the IMF and its European partners and whether a new economic strategy boosts Greece's competitiveness.

The IMF is always at the top of any list to be repaid because its blessing is crucial for any country to be able to borrow internationally. If there were to be any losses on Greek loans, IMF policy is to absorb them rather than passing them on to members.

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## EUROPE NEWS

# Close Berlusconi ally resigns

Italian minister quits after media reports say he paid too little for Rome apartment

BY GIADA ZAMPANO

ROME—Italian Industry Minister Claudio Scajola resigned Tuesday to address reports that he was allegedly involved in an improper real-estate deal, marking an unexpected setback for Prime Minister Silvio Berlusconi's center-right government after it won a regional-election test in late March.

The resignation of one of Mr. Berlusconi's closest allies and key ministers comes at a time when the Italian premier faces dissent within his own party.

Mr. Scajola, who announced his intention to step down at a news conference Tuesday, reiterated that he isn't under investigation and denied any wrongdoing. "I need to defend myself and so cannot continue to be a minister," he said.

Opposition lawmakers had been calling for Mr. Scajola's resignation for days after news reports alleged that he didn't pay the full market value for a luxury apartment in Rome's historic center.

The Berlusconi family-owned daily *Il Giornale* Tuesday ran a front-page headline saying: "Scajola must clear up or resign."

The allegations against Mr. Scajola focus on a central Rome apartment with a view of the Colosseum that he bought in 2004 for €600,000 (\$792,000), well below the market price. The real estate deal came to light during a separate investigation by prosecutors in the central city of Perugia into government tenders for public works.

According to media reports, the two sisters who sold the apartment



Claudio Scajola leaves a news conference Tuesday after announcing his resignation over news reports of corruption.

said they received an additional €900,000 in 80 cashier checks, which magistrates say they believe came from funds linked to a Rome businessman arrested in February as part of the probe into suspected corruption in the award of public works.

Perugia prosecutor Federico Centrone said Mr. Scajola isn't under investigation in the inquiry and said magistrates will question Mr. Scajola on May 14 as a person familiar with the matter.

"I could not live, as a minister, in an apartment partly paid by others," Mr. Scajola said, vowing to "clear up

any suspicion" about the real-estate transaction. He added that his lawyers will immediately terminate the apartment contract if any irregularity arises.

"I think my resignation will allow the government to continue to go ahead with its work," Mr. Scajola said.

Mr. Scajola, 62 years old, joined Mr. Berlusconi's Forza Italia party in 1995. In 2002, he resigned as interior minister after describing government welfare consultant Marco Biagi, who was killed by extreme-left Red Brigades militants, as "a pain in the neck."

Mr. Scajola has had a central role in the government's energy policy, heading efforts to make Italy a European natural-gas hub and relaunch the development of nuclear power in the country.

Under Italian law, his post may be temporarily filled by Mr. Berlusconi himself. The deputy industry minister for telecommunications, Paolo Romani, has been named as a likely successor.

Mr. Romani declined to comment about his being a possible candidate to take the post.

—Jennifer Clark in Milan contributed to this article.

## EU nears rules for hedge funds in tax havens

BY MATTHEW DALTON

BRUSSELS—European Union lawmakers are nearing an agreement on hedge-fund legislation that would significantly restrict the ability of funds based in some offshore tax havens to raise money from EU investors, the lawmaker in charge of the legislation at the European Parliament said Tuesday.

The proposal would require European authorities to create a "black list" of countries, with European investors being prohibited from sending their money to funds based in those countries. To escape the list, countries would have to satisfy a list of four or possibly five criteria, said Jean-Paul Gauzès, the French politician who is leading debate on the legislation at the Parliament.

The legislation has provoked alarm among hedge funds, which are mainly managed in London but often deposit their investments in the Cayman Islands and other offshore centers. U.S. Treasury Secretary Timothy Geithner has protested that some versions of the legislation would unfairly block U.S. funds from the EU market.

Before it becomes law, the legislation passed by Parliament must be reconciled with a different version being negotiated by national governments at the European Council.

Mr. Gauzès said in a telephone interview that he wasn't sure whether the Cayman Islands would now be placed on a black list. But, he said, the country could easily take steps to ensure it isn't on the list by the time the legislation would enter into force in 2012.

"If the Cayman Islands doesn't satisfy these conditions, then this is really a country that deserves to be on the black list," Mr. Gauzès said.

"It would be pretty sensational if the Cayman Islands were on the black list, because then you would be closing the entire British hedge-fund industry," said one hedge-fund lobbyist.

According to Mr. Gauzès's proposal, non-EU fund managers must pledge to follow the EU rules if they want to market across the EU. Non-EU regulators will have to enter an agreement with the EU to ensure their fund managers are following the EU rules.

To avoid the black list, countries must have regulations against money laundering and terrorism financing, a deal to share information with EU regulators, laws ensuring access for EU-based depositories, and tax agreements with EU nations based on conventions developed by the Organization for Economic Cooperation and Development.

Socialists in Parliament are pushing for a fifth condition: that countries must have signed the New York Convention of 1958, which ensures that arbitration awards can be enforced across national borders. But that condition may not survive a vote in Parliament's economics committee, which is scheduled for Monday, Mr. Gauzès said.

Mr. Gauzès's initial idea was to divide countries into three groups, with a middle category reserved for countries that didn't fully meet the conditions. But after discussions with lawmakers, he decided the middle category was too ambiguous. "A country that doesn't meet these four or five conditions isn't really up to snuff on the financial front," Mr. Gauzès told reporters.

# Irish, U.K. airports set to reopen

BY ALESSANDRO TORELLO AND STEVE MCGRATH

BRUSSELS—European Union ministers agreed to speed up talks on new aviation rules to allow the 27-country bloc to be more efficient in facing emergencies, such as the recent Icelandic volcano ash cloud.

However, ministers didn't give a warm reception to a commission proposal aimed at deferring airlines' payments to air-traffic controllers, European Transport Commissioner Siim Kallas said. The provision would help companies face cash shortages, the commission has said.

Governments didn't "show much enthusiasm" to the idea of giving public money to the airlines either, a person close to the negotiations said.

The diplomat explained that the issue of giving public money to airlines was touched upon only superficially during Tuesday's debate. Different economic sectors were hit in affected countries, so the stress in the debate was put on making sure that distortions in the economy as a whole are avoided, this person said.

The news came as Irish and British authorities said they will allow closed airports to reopen, after ash again caused disruptions. Major airports in southern Scotland and England weren't affected by the latest restrictions.

European ministers said they have agreed to have some key parts of the new rules—like the formation



A passenger stranded by a canceled flight naps at Dublin Airport on Tuesday.

of a new European body to give aviation authorities recommendations on how to run their air traffic—operational by the end of the year.

"We all agreed it must be accelerated," Mr. Kallas said of the new regulations, which had been due to take effect in 2012.

Mr. Kallas said that if the system—known as Network Manager—were already in place "it would have seriously facilitated" the resolution of the April crisis that cost the airlines up to \$2 billion. A large portion of European airspace was closed for days amid fears that an ash cloud created by an erupting

volcano in Iceland would be a danger for jet engines.

The 27 ministers also agreed that there is a need to urgently come up with limits as to how much ash is dangerous for airplane engines.

On Tuesday, Dublin and other airports in Ireland, Northern Ireland and the far northwest of Scotland were allowed to reopen. However, the U.K.'s Civil Aviation Authority cautioned that it will review the situation, as winds are forecast to continue blowing from the north for the next few days and could lead to further problems.

Airlines announced preventive

cancellations ahead of the latest closures. **Ryanair Holdings PLC** canceled all flights to and from Ireland until Tuesday afternoon, including those to and from Belfast and Londonderry in Northern Ireland. **Aer Lingus Group PLC** canceled all flights to and from Dublin, Cork, Shannon and Belfast airports prior to midday.

Regulators are still wrestling with how best to monitor and assess future threats from the Icelandic volcano after airlines criticized a wholesale shutdown of European airspace.

The April 15 eruption closed 80% of Europe's airspace for as long as six days, causing the cancellation of more than 100,000 flights and trip disruptions for 10 million people, according to European aviation officials.

The U.K.'s Met Office said the latest information from the Icelandic Meteorological Office had confirmed an increase in activity from the Eyjafjallajökull (ay-yah-FYAH'-t-lah-yer-kuh-duhl) volcano.

Signaling further caution as the ash cloud varies in size and intensity, the U.K.'s CAA said airlines were required to conduct their own risk assessments and thoroughly inspect each plane before and after each flight in the vicinity of the ash cloud. The authority will be monitoring the ash cloud closely in coming days, it said.

—Doug Cameron contributed to this article.

EUROPE NEWS

# Swing seats are key in U.K.

Conservatives face a challenge to convert their poll advantage to a parliamentary majority

BY LAURENCE NORMAN  
AND JOE PARKINSON

TYNEMOUTH, England—With a tight election hanging in the balance, this seaside constituency in northeast England is core to the U.K.'s opposition Conservative Party's quest to convert a lead in the polls into control of the British government.



The local race here is at the heart of the Tories' challenge: to overcome the governing Labour Party in more than 100 mainly Labour-held key swing seats, while holding off or making gains in an additional 20 seats it is contesting with the traditionally smaller Liberal Democrats, a party that has become a factor in the 2010 election.

If Conservative leader David Cameron fails to clear these hurdles, Thursday's election will very likely result in a hung Parliament, where no party holds a majority of the legislature's 650 seats.

In the latest YouGov poll, which surveyed 1,461 people on Sunday and Monday, the Conservatives had 35% and Labour had 30%, while the Liberal Democrats slipped to 24%.

Sealing the deal with undecided voters here is going down to the wire in a town that has a strong appetite for change and feels a 13-year-old Labour government has fallen short of expectations—but also bad memories of shipbuilding plants closed during the Tory reign of the 1980s.

"Sometimes a change is needed. Labour have been in government for 13 years and after a while, governments just get tired and complacent," said Simon Yellowley, a 39-year-old engineer.

"But I still don't know if that argument is going to swing it for me," he said. "The Conservatives have [moved toward the center] and that's important but I still feel closer to Labour policies."

Tynemouth is one of a cluster of closely watched seats up for grabs on Thursday. The Labour and Con-

## Key marginals

Opinion polls indicate the Conservatives are likely to pick up support at Labour's expense but the size of that 'swing' to the Conservatives from Labour will decide whether the Conservatives, Labour or no party gains a majority. A few marginal seats should provide key indicators of how large the swing will be.

### Tynemouth Labour hold

**Notional majority:** 4,143 over Conservatives  
**Requires** 5.83% swing to Conservatives from Labour  
If the Conservatives win a 5.83% swing nationally they will be close to an overall majority in Parliament.

### City of Durham Labour hold

**Notional majority:** 3,274 over Liberal Democrats  
**Requires** a 3.69% swing to Liberal Democrats from Labour  
If the Liberal Democrats win this seat expect Labour to lose a swath of seats to the Liberal Democrats.

### Derby North Labour hold

**Notional majority:** 5,691 over Liberal Democrats  
**Requires** 8.1% Conservative swing from Labour  
If the Conservatives win this seat they would achieve an overall majority if there is a uniform national swing.

### Stourbridge Labour hold

**Notional majority:** 1,280 over Conservatives  
**Requires** 1.46% swing to Conservatives from Labour  
A Labour loss in this seat would imply they no longer have a majority in Parliament.

### Luton North Labour hold

**Notional majority:** 6,439 over Conservatives  
**Requires** 8.3% swing to Conservatives from Labour  
If the Conservatives win then they have a significant majority of around 50 seats.

### Watford Labour hold

**Notional majority:** 1,151 over Liberal Democrats  
**Notional votes** in last election 33.6% Labour, 31.2% Lib. Dem., 29.6% Conservatives  
**One** of a cluster of three-way seats where any of the parties could emerge as winners. Will give a good sense of how the national three-way race is tipping since they all start from a similar position.

### Torbay Liberal Democrats hold

**Notional majority:** 2,727 over Conservatives  
**Requires** 3.01% swing to the Conservatives from Liberal Democrats  
**One** of a string of southwest seats the Conservatives had hoped to gain but facing resistance from resurgent Liberal Democrats.

\*Notional majorities adjust the 2005 general election results to factor in boundary changes made to the constituencies  
Source: Total Politics Guide Election 2010 in association with polling firm ComRes

servative parties are battling over seats like Stourbridge, in the West Midlands. But Labour is fighting the Liberal Democrats for northern seats like the City of Durham. And Torbay is emblematic of Tory battles with the Liberal Democrats for vital seats in the southwest.

Tynemouth is a district made up of a string of coastal towns, including Whitley Bay, once one of the U.K.'s most popular resorts, but which, like the region as a whole, suffered decades of economic decline. Inland, the seat hosts grittier working-class neighborhoods, where

Labour has performed strongly.

The seat is No. 110 on the Conservative target list—meaning victory here would leave the party close to a majority. It was one of the few safe Conservative seats in northeast England before 1997, when it swung to Labour. In recent years, it has picked up strength in the area around Tynemouth, with a Conservative mayor elected in 2009.

The party's candidate, businesswoman Wendy Morton, may also have benefited from the national race in recent days.

In Tynemouth, the Conservatives

hope that increased support for the Liberal Democrats will peel voters away from Labour.

Ms. Morton's rivals disagree. Liberal Democrat candidate John Appleby said he will be "very disappointed" if his party doesn't improve on its 16% share of the vote in 2005.

Labour incumbent Alan Campbell isn't making any predictions and accepts that the Liberal Democrats' national surge could affect his prospects of re-election. But he said he is finding wavering Labour voters coming back to him as they ponder a possible Conservative government.

# Germany posts 2.4% decline in retail sales

BY NINA KOEPPEN

FRANKFURT—German retail sales plummeted in March, indicating that domestic demand remains slack in light of uncertainties over the job market.

Meanwhile in Spain, the Labor Ministry said that Spanish jobless claims fell in April for the first time since July 2009, but unemployment in the country remained among the highest in the developed world. The data reinforced the difficulties Spain's economy is facing in returning to growth after its worst recession in decades following the collapse of its real-estate boom.

Germany's retail sales declined 2.4% in March from the previous month, in price-adjusted terms, after rising 1.1% in February, the Federal Statistics Office said. The outcome was well below economists' forecasts for a 0.2% monthly decline, highlighting persistent weakness in consumer spending.

German exports, on the other hand, have rebounded strongly. "The outcome supports our view that the German economy slightly shrank in the first three months of the year," said Commerzbank economist Simon Junker. But retail sales increased by a real 2.7% from March 2009.

The robust annual result could be partly explained by the fact that the government has supported the labor market throughout the crisis. That has helped avoid major layoffs, economists said. There was also one more working day in March 2010 than in March 2009, the statistics office said.

Separately, the European Union statistics agency said producer prices in the euro zone rose 0.6% in March from February, and were up 0.9% from March 2009. That was the largest annual increase since December 2008. Higher energy costs were the main factor pushing up prices at the factory gate, but economists said this is unlikely to fan consumer-price inflation. "Muted consumer spending across the euro zone suggests that the rise in producer prices will be largely absorbed by retailers," said Howard Archer, chief European economist at IHS Global Insight.

In Spain, jobless claims fell by 24,188, or 0.6%, to 4.1 million in April from March. Claims were up 14% on the year, the Labor Ministry said.

# U.K. manufacturing, jobs gain

BY ILONA BILLINGTON  
AND NATASHA BRERETON

LONDON—The British manufacturing sector had its strongest month in more than 15 years in April as the weak pound boosted exports, while the jobs market continued to improve, surveys showed.

But the good news for the U.K. economy is unlikely to give much of a boost to Prime Minister Gordon Brown's prospects in Thursday's election. Most voters appear to be focusing on the cuts in spending and increases in taxes that will follow the vote, whoever wins.

"Buoyant numbers from across Europe, the U.K.'s largest market, provide some confidence that together with a weaker exchange rate, the recovery across the sector is

looking more sustainable," said Lee Hopley, chief economist for EEF, the manufacturers' organization. "However, the outcome of the election and the market reaction to it remain the big unknown on the horizon."

The Markit/Chartered Institute of Purchasing and Supply purchasing managers index for manufacturing soared to 58.0 in April from March's revised 57.3 and ahead of economists' 57.5 forecast. "Manufacturers reported a flying start to the second quarter," said Rob Dobson, senior economist at Markit.

Export orders rose by the fastest pace since records for the subindex began in January 1996, lifted by orders from China, mainland Europe, the Middle East, North America and Scandinavia, the survey showed.

The strong rise in orders led to a

record increase in backlogs of work as well as a third straight rise in employment in the sector. The number of manufacturing jobs grew by the fastest rate since February 2007.

That increase in employment was echoed in the KPMG and Recruitment and Employment Confederation's monthly jobs report. "The U.K. jobs market is continuing on the road to recovery, albeit at a slower pace than [in March]," said Bernard Brown, partner and head of business services at KPMG.

Data from the Bank of England supported the positive view of the manufacturing data. The bank's preferred measure of broad money supply marked gains of 1.1% from March and 5.9% from April 2009.

—Paul Hannon  
contributed to this article.

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## U.S. NEWS

# Car-bomb suspect faced foreclosure

*Pakistan-born U.S. citizen was losing Connecticut home, disliked Bush and didn't stand out at university*

Faisal Shahzad was losing his Connecticut home to foreclosure, disliked President George W. Bush, and was an almost invisible presence at an American university where he obtained two degrees.

By Josh Barbanel,  
Andrew Grossman  
and Sumathi Reddy

Those are some of the details in the still-emerging portrait of the man who authorities say has confessed to the botched Times Square bomb plot.

Mr. Shahzad was born in Pakistan's Northwest Frontier province, according to Pakistan's U.S. embassy. He became a U.S. citizen last year.

At the time of his arrest, Mr. Shahzad and his wife, Huma Mian, were facing foreclosure on the compact home of gray vinyl shingles they owned on Long Hill Avenue near the center of Shelton, Conn. He is "financially bankrupt," said one high-level official briefed on the investigation.

Neighbors and brokers said Mr. Shahzad and his wife had moved away and abandoned the house months ago. A lockbox with a key was on the front door, and the lawn was being mowed on behalf of the bank, J.P. Morgan Chase & Co., which issued the mortgage when the house was purchased in 2004.

Mr. Shahzad purchased his house in July 2004 for \$273,000, brokers said, with 20% down and an 80% mortgage with Chase. It was a new house built on a lot in an existing neighborhood, and brokers said that Mr. Shahzad used the proceeds of the sale of a condominium he owned in Norwalk, Conn., to pay for it. He later added his wife to the deed.

Chase Home Finance filed a foreclosure action against the couple in September 2009, and the court dockets indicate that neither Mr. Shahzad nor his wife showed up to defend themselves. They were listed as "non-appearing" parties. The most recent papers were filed in the case on April 23.

Frank DelVecchio, a broker based



An image of suspect Faisal Shahzad is on a television Tuesday as U.S. officials hold a briefing in Washington on the probe.

in Trumbull, Conn., listed the house off and on for Mr. Shahzad since 2008. When the listing expired last spring, he said, Mr. Shahzad sent him an email message saying he "had to let the house go to the bank" and was returning to Pakistan to take care of his parents, in particular his ill father.

"He was very disappointed that he wasn't getting his house sold," Mr. DelVecchio said.

Igor Djuric, a broker who showed Mr. Shahzad the 1,356-square-foot home he eventually bought, said he remembered that Mr. Shahzad was quiet about himself, but was openly critical of President Bush during the aftermath of the Iraq war. "I didn't take it for anything, since a lot of people didn't like Bush," Mr. Djuric said, "but he was a little bit strong about expressing it."

The only thing strange about Mr. Shahzad that next-door neighbor Brenda Thurman could remember was his habit of going jogging at night wearing all black. He told her he didn't like the sunlight, she said.

At home, he sometimes wore an-

kle-length traditional Muslim garb, said Ms. Thurman, who lived next to Mr. Shahzad for more than three years, but he wore a shirt and tie to work. She said she thought he worked in New York, on Wall Street. He would leave the house in the morning in a burgundy Nissan and come home in the evening.

Sometimes, relatives would come to visit. They drove cars with New York license plates, she said.

Ms. Thurman's daughter occasionally played with his daughter. Then one day in May 2009, Mr. Shahzad disappeared.

His wife, two children and his wife's two sisters—who also lived in the house—held a tag sale in July. Ms. Thurman paid \$5 for four pillows—"a steal," she said. Then her neighbors were gone. She didn't know where they went. The house has sat empty since, she said.

"He was a little weird," she said. "I didn't know he was that damn weird."

Other real-estate brokers and a lawyer who worked with Mr. Shahzad described him as soft-spo-

ken, well-dressed and intelligent, but very reserved.

Mr. Shahzad received two degrees from the University of Bridgeport in Connecticut, a B.A. in 2000 in computer science and engineering, and an M.B.A. in 2005. Yet professors there said they had been discussing Mr. Shahzad for much of Tuesday morning, trying to remember what he was like. Few were able to.

Prof. Robert Todd said his records showed that Mr. Shahzad was in at least one of his classes, but "I don't remember the kid," Mr. Todd said. "He was not obviously outstanding or horrible."

Ward Thrasher, the director of the M.B.A. program, said he only remembered Mr. Shahzad's name, and that Mr. Shahzad took longer than most to complete his degree, because he was a part-time student, taking only one or two classes a semester.

"There are kids who over the years make an impression on faculty and advisers," Mr. Thrasher said. "This kid doesn't appear to have im-

pressed anyone, either favorably or unfavorably."

Mr. Shahzad initially lived in the U.S. under visas designed to facilitate his education and give him employment. In December 1998, he was granted an F-1 student visa. Immigration officials noted then that there was "no derogatory information" on Mr. Shahzad in any database, a law-enforcement official said.

He first attended Southeastern University in Washington, D.C., a small school that lost its accreditation last year. In 2000, Mr. Shahzad transferred to the University of Bridgeport.

In April 2002, he was granted an H1-B visa for skilled workers; he stayed in the U.S. for three years on that visa, gaining his M.B.A. It is not clear what company sponsored the visa, which is used to attract workers with a "specialty occupation," such as information technology.

On Oct. 20, 2008, he reported his marriage to a woman he identified as Huma Asif Mian, an American citizen. He became naturalized as a U.S. citizen on April 17, 2009.

While law-enforcement officials don't have exhaustive details of his travels after he was naturalized, one trip in particular stands out: He left New York on June 2, 2009, on an Emirates flight to Dubai. He stayed overseas for eight months, returning on Feb. 3, 2010, on another Emirates flight from Dubai.

In Bridgeport Tuesday morning, local business owners said that officials who appeared to be with the Federal Bureau of Investigation stopped at a mosque on Fairfield Avenue, known as the Bridgeport Islamic Society and Masjid An-Noor. Hasan Abunar, the imam there, said he did not know the suspect and condemned the failed bomb attack.

Mr. Shahzad was arrested late Monday on board an Emirates flight from New York City to Dubai. He was bound for Islamabad, according to people with knowledge of the situation.

—Keith Johnson  
and Siobhan Gorman  
contributed to this article.

## Shahzad said he received training in Pakistan

Continued from first page where Mr. Shahzad had stayed on previous visits to Pakistan. A senior government official said Mr. Shahzad's relatives were among those arrested. It was unclear exactly what relationship those de-

tained had to Mr. Shahzad.

It was also unclear whether Mr. Shahzad was affiliated with the Pakistan Taliban or any other Pakistan-based jihadi group.

Abdul Basit, a spokesman for the Pakistan Foreign Ministry, said the government was ready to cooperate with U.S. authorities in any investigation into Mr. Shahzad and his contacts in Pakistan. He gave no further details.

President Barack Obama, speaking at a meeting of the Business Council Tuesday, said "justice will be done," adding that the attempted bombing is "another sobering reminder of the times in which we live."

Meanwhile, federal agents and police conducted a search of a house in Bridgeport, Conn., related to the investigation early Tuesday morning, the agent in charge of the FBI's New Haven office said.

Officials from the FBI's Joint Terrorism Task Force, the New York Po-

lice Department, the state police from New York and Connecticut and the city of Bridgeport's police were also on the scene Tuesday.

Officials appeared to be searching a multifamily house on Bridgeport's east side, according to witness Ted Fiorito, who arrived at the scene shortly after 2 a.m. ET. Mr. Fiorito said officials appeared to have evacuated several buildings around the one they were searching. He said they removed bags from the building.

Kimberly Mertz, the special agent in charge of the FBI's New Haven office, said officials were carrying out a court-authorized search warrant.

The search followed the detention of Mr. Shahzad at Kennedy Airport. Dubai-based Emirates Airline said flight EK202 bound for Dubai was called back before taking off from New York and that three passengers were removed from the aircraft.

U.S. and United Arab Emirates

authorities are in contact with each other amid an international investigation, according to a person familiar with the situation. A preliminary investigation by U.A.E. authorities suggests that Mr. Shahzad hadn't previously flown into the country, at least using personal details the U.S. has shared with the U.A.E., this person said.

Law-enforcement sources said Mr. Shahzad was taken into custody by customs employees at the airport and handed over to New York Police and Joint Terrorism Task Force agents. The White House said Mr. Obama was notified shortly after midnight of the arrest.

Details are beginning to emerge about Mr. Shahzad. He received two degrees from the University of Bridgeport, Conn., a B.A. in 2000 in computer science and engineering, and an M.B.A. in 2005. Mr. Shahzad previously lived in Shelton, Conn., with his wife.

A number of Afghan Taliban lead-

ers are believed to be in Karachi, Pakistan's financial capital and a port city of 18 million people. Pakistan captured the Taliban's operations chief, Mullah Abdul Ghani Baradar, near the city in February.

Mr. Shahzad purchased the vehicle used in the botched attack, a 1993 Nissan Pathfinder SUV, from its last registered owner in Connecticut in recent weeks for \$1,300 in cash, according to law-enforcement officials. According to investigators, the seller, who isn't considered a suspect, didn't recall the buyer's name, but officials were able to use other evidence to identify him.

Earlier, New York investigators had said they were seeking a white man in his 40s captured on a security video looking "in a furtive manner" over his shoulder in the direction of the SUV. On Tuesday morning, police confirmed that the man was no longer a suspect.

—Chip Cummins and Devlin Barrett contributed to this article.

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U.S. NEWS

# GOP governors get tough

## Barbour leads the charge to tip critical state elections with a burgeoning war chest

BY DOUGLAS A. BLACKMON

EDGARTOWN, Mass.—A week ago, Massachusetts state treasurer Timothy Cahill, a conservative one-time Democrat now running for governor as an independent, thought he had just two serious opponents: Democratic incumbent Gov. Deval Patrick and the Republican nominee, former insurance company executive Charles Baker.

Then, last week—a few days after polls showed Mr. Cahill moving past the Republican candidate and edging up on Mr. Patrick—a television media buyer tipped off Mr. Cahill's campaign to a powerful new force in the race. The Republican Governors Association was about to launch a statewide radio and television blitz aimed at nipping Mr. Cahill's surging popularity and clearing the way for the GOP nominee.

The brass-knuckles media buy in Massachusetts—where the three candidates are clustered with about 30% of the vote each—is the first big move in a plan by the governors group to spend as much as \$65 million to tilt the political playing field in critical states in the 2010 election cycle. The RGA launched another media blitz Tuesday in Colorado, where Republican Scott McInnis and Democratic Denver Mayor John Hickenlooper are locked in a tight race for governor.

While the Republican National Committee and its chairman, Michael Steele, have been mired in criticism this year, the RGA and its silver-haired chairman, Mississippi Gov. Haley Barbour, have been muscling their way to the center stage of Republican politics. If their plan is credited with a string of new Republican governorships, many political strategists believe it will also lay the foundation for a 2012 presidential bid by Mr. Barbour, who chaired the Republican National Committee when his party swept into control of Congress in 1994.

Mr. Barbour has said he isn't planning a run for the White House but hasn't ruled it out.



Massachusetts Republican Charles Baker greets supporters. He's gotten a shot in the arm from the GOP governors group.

Governor's races are a critical, and often underestimated, factor in which of the two major parties dominates any election cycle. Controlling the governor's office in key swing states such as Ohio, Pennsylvania, Florida or New Jersey can give a big advantage to presidential nominees in local publicity for party policies, passage of state election rules and local fund raising.

Moreover, governors elected this year will oversee the once-a-decade apportionment process, in which new congressional district boundaries are drawn, a key element in control of the House and the fate of the current White House agenda.

With 37 governorships up for grabs in November, almost equally divided between the parties now, Mr. Barbour's group has raised more than ever before—\$30 million in cash and pledges this year. It has also been banking money for the

past four years, rather than doling out its entire budget to candidates every year. It began 2010 with \$25 million in cash on hand, and expects to rake in at least \$10 million more between now and November.

The Democratic Governors Association hopes to spend \$40 million, also a record for the organization but about 40% less than its rival.

Mr. Barbour believes his party could end up controlling 30 or more governorships, up from 24 currently. "The political environment is better for Republicans even than it was in March 1994," he said in a recent interview.

RGA's strategy is to focus large amounts of the \$65 million on races where party leaders believe they can shift the balance of the election. "We'll leave it all on the field. We won't leave any bullets in the chamber," said Nick Ayers, executive director of the RGA.

The group won't spend much on races where its dollars might be lost in a big political scrum, such as California. But in states like Maine, where as little as \$1 million in ad spending might change the playing field, RGA is likely to dive in.

Nathan Daschle, executive director of the Democratic Governors Association, said divisions between Republican groups would undercut the impact of the big dollars. He said the anti-Washington mood among voters didn't necessarily bode well for GOP candidates, and pointed to solidly conservative Georgia. There, Republicans in a fractious field have savaged one another in the primary.

"The anxiety that is out there and the unrest is not a clamoring for the Republican agenda," Mr. Daschle said. "The Republicans already ordered a bunch of champagne, and I think that's premature."

Nonetheless, current polling says Republicans are poised for solid gains. Analysts for the Cook Political Report say five governorships now held by Democrats are more likely to be won by a Republican this year, while only Hawaii is leaning toward a shift from Republican to Democrat.

More important are 17 races still considered toss-ups by Cook, including presidential swing states such as Pennsylvania, Ohio and Florida. Mr. Barbour said the swath of industrial states stretching from Iowa in the Midwest to New Jersey in the Northeast were particularly important to winning the White House in 2012.

Ohio is a telling example. After supporting George W. Bush in his presidential bids—both during the tenure of Republican Gov. Bob Taft—the state elected Democratic Gov. Ted Strickland in 2006. An aide to the governor ran Mr. Obama's Ohio general-election operations in 2008, and Mr. Strickland campaigned for Mr. Obama aggressively. Mr. Obama defeated Sen. John McCain in the state 52% to 47%.

This year, Mr. Strickland is in a tight race with former Republican Congressman John Kasich, and the RGA is certain to get involved.

"That is a very large bloc of electoral votes that Obama won," Mr. Barbour said. "And in every state the Republican is competitive."

# Oil regulator draws criticism in Congress on oversight

NEW ORLEANS—The agency that regulates U.S. offshore oil drilling drew sharp criticism in Washington as BP PLC moved ahead with an effort to deploy a containment dome designed to cover the well gushing oil into the Gulf of Mexico.

By Jeffrey Ball, Stephen Power and Russell Gold

BP and the Obama administration say they are focused on stopping the flow of crude from the damaged well more than 1.5 kilometers below the surface. But already lawmakers and interest groups are firing the first shots in a fight over financial liability and political blame.

The Obama administration and BP and Transocean Ltd. officials were reaching out to Capitol Hill. In addition to meetings taking place Tuesday, two congressional committees will next week hold hearings on the disaster, which started with an explosion on a Transocean rig and now centers on the well leaking thousands of barrels each day.

The sea calmed Tuesday, helping efforts to fight the oil slick. Only sheens have reached some coastal waters in the southeastern U.S.

BP Chief Executive Tony Hayward told reporters Tuesday that the containment dome would be on the seabed Thursday and would be hooked up to a drill ship over the weekend. The principal leak could be contained by early next week, the Associated Press reported. Still, he said, there were "no guarantees."

BP has been unable to shut off the well, but crews have reported progress with a new method for cutting the amount of oil that reaches the surface. They are pumping chemicals called dispersants into the oil as it pours from the well.

The disaster is ratcheting up congressional scrutiny of the Minerals Management Service, the federal agency charged with regulating the U.S. offshore oil-and-gas industry.

Rep. Darrell Issa (R., Calif.) said Monday that Republicans on the House Committee on Oversight and Government Reform would investigate whether the MMS has pushed for regulations necessary to ensure the safety of offshore operators in the Gulf. Citing a report in The Wall Street Journal, Mr. Issa expressed concern in a letter to Interior Secretary Ken Salazar that the MMS "may have sidelined regulatory efforts that would have brought the U.S. oil industry in line with prevailing industry safety standards."

The Journal's article revealed that the Deepwater Horizon oil rig, which caught fire and sank into the Gulf in April, didn't have a remote-control shut-off switch used in two other major oil-producing nations as a last-resort protection.

White House Chief of Staff Rahm Emanuel said he brought concerns over the failure of BP to use a remote-control shut-off switch to President Barack Obama, showing him the newspaper's coverage.

The MMS said that while it doesn't require the use of remote-control shut-off switches, it does require operators to employ at least one backup control system to shut off the well in an emergency.

—Stephanie Simon contributed to this article.

