In Greece, a system that defies efforts at revival

ATHENS

Economic turnaround depends on growth, but many have deep doubts

BY LIZ ALDERMAN

A few months after Greece was seized by its debt crisis, Prime Minister George A. Papandreou had a grand idea to revive growth: sun-drenched islands would be dotted with solar panels and wind turbines to transform the country into a "green economy," attracting badly needed investments and creating hundreds of thousands of new jobs.

So when George Peristeris, the chief executive of Gek Terna, a large energy company, wanted to plow funds into an offshore wind project, he thought he would be welcomed with open arms. But it turned out that the government decided it could run things better.

"Private investors with money in hand were shut out," Mr. Peristeris said. "At first I thought it was a joke. But now we've lost an entire year that would have been crucial for the economy."

With Greece essentially bankrupt, it desperately needs to generate sustainable growth and lift competitiveness if it ever is to pay down its debt and disengage itself from a chain of international bailouts that is now threatening the stability of the European monetary union.

But while Mr. Papandreou's government has made some strides, it is still falling far short of what is needed, economists say. That raises the risk that the country will be unable to avoid defaulting on its debts, putting Europe and its still-fragile banking system at great risk.

While that may be what it takes to clear the way — if anything will — for a Greek economic revival, putting the country on a growth track will be almost impossible unless politicians in this increasingly chaotic society manage to

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TOWARD A NEW BAILOUT FOR GREECE

Seeking to avert a Greek debt default, euro zone finance ministers worked Sunday toward a deal to extend an immediate lifeline to Athens. *PAGE 19*

MOISES SAMAN FOR THE NEW YORK TIMES

Death in Tripoli Neighbors carrying a corpse from the site of an alleged NATO bombing on Sunday that the Libyan government said had killed five civilians. *PAGE 4*

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Merkel's central role is tested by crisis

BERLIN

No other leader faces as much pressure to save the European project

BY ALAN COWELL

NEWS ANALYSIS

When the euro became the common coin for many Europeans less than 10 years ago, it was celebrated by supporters as a grand opportunity, turning a historic page toward integration. Now, with the euro-zone debt crisis threatening to spread from Greece, the currency represents an equally epochal challenge to shield the broader European project from derailment.

And in that effort, perhaps no other European leader has come under the same pressure to display leadership, or under the same gimlet-eyed scrutiny for failing to do so, than Chancellor Angela Merkel of Germany, the steward of Europe's most powerful economy.

Less than two weeks ago, Mrs. Merkel stood in the Rose Garden at the White House alongside President Barack Obama, basking in diplomatic accolades — an unusual state dinner and the award of the Presidential Medal for Freedom. But just two days ago, she stood alongside President Nicolas Sarkozy of France at a news conference in her own chancellery to announce a retreat from the central element of Germany's plan to rescue the Greek economy even as she struggled with domestic political woes.

"The balance-sheet is miserable," columnist Daniel Brössler wrote in the Süddeutsche Zeitung, which is often critical of the Berlin government. "Merkel is failing to secure German demands in Europe and she has not succeeded in winning Germans over to the rescue of the euro."

At the heart of that assessment lies the sense among many Germans that they are no longer prepared to bankroll Europe as they once did. That readiness began to ebb when Germans realized the perils of institutionalized bail-outs after their own reunification in 1990, said Christian Deubner, an economist, and ended up transferring billions into the poor states of the former communist east. The experience has left them ever more reluctant to divert their tax-euros to the rescue of Greece, a land widely seen here as profligate, ill-disciplined and unworthy of support.

For some, there is the broader issue of European leadership, long entrusted to a succession of French and German leaders who together provided the mo-

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Business
WITH REUTERS

Explosion in Internet universe

Eric Pfanner

MEDIA CACHE

PARIS One of the biggest changes in the history of the Internet could be set into motion Monday. Whether that is a good thing or a bad thing remains open to fierce debate.

At a meeting in Singapore, the Internet Corporation for Assigned Names and Numbers, which oversees the Internet address system, is expected to approve a huge expansion of the range of addresses available. The group wants to make it possible for Internet users to create their own extensions like .com, .net or .org.

So, get ready for Web sites that end with the names of cities or brands, like .berlin or .canon, to name just two entities that have expressed interest in the proposed system. Crafty entrepreneurs are busy thinking up sites like iwant.beer or whatsfor.dinner.

Icann envisions hundreds of new extensions, and that is just in the first round of applications. The overall range of Internet addresses on offer would increase exponentially.

Crafty entrepreneurs are thinking up sites like iwant.beer or whatsfor.dinner.

Icann has been working on this for years. At a meeting in Paris three years ago, its board recommended going ahead. Since then, however, final authorization has been delayed several times, even as Icann has gone ahead with other expansions, including the use of non-Latin alphabets in domain names.

This time around, Peter Dengate Thrush, the chairman of Icann, said he thought the board would give the go-ahead. "We're feeling reasonably confident at this stage because of the feedback we've been getting from all the players," he said.

Such a vote would be a personal triumph for Mr. Dengate Thrush, given that the meeting in Singapore is set to be his last as chairman. Icann says the expansion would give Internet users vastly greater choice, leading to innovations in online marketing, among other things.

Yet critics of Icann question the need, saying existing suffixes provide plenty of choice. They say Icann wants to railroad the plan through without addressing their concerns.

Owners of corporate brands and other trademarks — who remember the cybersquatting that marred the early days of the Internet, when profiteers claimed brand names and then resold them to their owners — say the expansion would open the door to a new round of intellectual property abuses.

"It's an unproven idea that has been handled very poorly from a project management standpoint," said Alan C. Drewsen, executive director of the International Trademark Association.

The primary beneficiaries of the change, critics contend, will be the registrars that maintain Internet addresses; unlike Icann, a nonprofit organization, many registrars are commercial entities.

"The more domains they have out there, the more names they can register and the more money they take in," said Josh Bourne, president of the Coalition Against Domain Name Abuse, a Washington-based lobbying group.

Icann plans safeguards to thwart cybersquatters and other opportunists. The price of the new extensions has been set at a steep $185,000, for example, with a further $25,000 annual fee to maintain them. Trademark owners would be allowed to claim their names for use in addresses during "sunrise" periods following the rollout. These protections have been strengthened since the proposal was outlined.

"My expectation is that people will look at this in a fairly commercial way," Mr. Dengate Thrush said. "My hope is that they aren't going to waste a lot of time and money applying for names that don't stand a chance."

Mr. Dengate Thrush acknowledged there were still unresolved issues around implementation. But he said these could be resolved after a vote to go ahead. Icann plans a four-month communication period before applications for addresses will be accepted.

During that time, trademark owners will have to wrestle with some big questions. Should they apply for the new suffixes? Should they register their names for use with other new ex-

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ONLINE: MEDIA CACHE
Get more of Eric Pfanner's behind-the-scenes look at the media sector.
global.nytimes.com/business

Euro zone officials weigh new bailout for Greece

Talks aim at averting further damage from sovereign debt crisis

LUXEMBOURG

BY STEPHEN CASTLE AND NIKI KITSANTONIS

Seeking to avert a Greek debt default, euro zone finance ministers worked Sunday toward an agreement on extending an immediate financial lifeline to the government in Athens and started crafting a second rescue package for the debt-laden country.

At a meeting that began Sunday night in Luxembourg, finance ministers from the 17 countries in the euro zone were expected to pledge to release the next €12 billion installment of a loan package of €110 billion, or $155 billion, that Athens was granted a year ago.

The finance ministers will also grapple with the complex task of designing another package of assistance, similar in scope to the first bailout from the euro zone member states and the International Monetary Fund. Unlike the first bailout, the second package would call for banks and other private sector creditors to also help — but not on terms that would put Greece technically in default on its debt.

Diplomats hope that an agreement to release the next installment of aid will send a strong signal to the financial markets that the European Union is ready to stand by Greece.

As finance ministers gathered, Prime Minister George A. Papandreou of Greece opened three days of parliamentary debate in Athens. The debate is to end Tuesday night with a confidence vote on the new Pafpandreou cabinet, which features Evangelos Venizelos, a veteran of the ruling Socialists, as the new finance minister.

After a week of intense political and social turmoil that ended with an overhaul of the cabinet on Friday, Mr. Papandreou signaled Sunday that he was prepared to make radical changes in how the government operates.

Declaring that the bloated public sector was largely to blame for the dire state of the economy, Mr. Papandreou called for a referendum in the autumn on a proposal to "change the political system" and revise the Constitution, which protects some 800,000 government employees.

Mr. Papandreou told Parliament that "a lack of meritocracy and transparency

"We wouldn't be able to control an insolvency."

in the state sector, along with corruption and overconsumption, have contributed to the current economic situation."

He heralded the formation of an independent panel to examine proposals for changes to the Constitution, including a reduction in the 300-seat Parliament, the repeal of a law protecting government ministers from prosecution, and an overhaul of the electoral system.

In opening the debate, Mr. Papandreou said his government had renewed its efforts to curb rampant tax evasion. "As you know I am in contact with the Swiss prime minister with the aim of fighting tax evasion through the deposits by Greek citizens in banks in Switzerland," the prime minister told Parliament. "We are looking into the issue of the transfer of capital abroad."

The government's top tax official was in March for failing to increase revenue collections. The official, Dimitris Georgakopoulos, who was in charge of dozens of tax collection offices, submitted his resignation after a performance evaluation In 2010, Greece brought in €52.5 billion in tax revenue, up only marginally from €50 billion in 2009.

As Mr. Venizelos joined his counterparts in Luxembourg, Mr. Papandreou confirmed that talks were progressing between Greece and its foreign creditors for a second bailout package "approximately equal" to last year's emergency loan package of €110 billion.

The talks in Luxembourg follow a meeting Friday between Chancellor Angela Merkel of Germany and President Nicolas Sarkozy of France and come ahead of a meeting of European Union leaders in Brussels scheduled to begin Thursday night and continue Friday. After weeks of brinkmanship, Germany has backed away from its insistence that the private sector play a very prominent role in any new bailout.

Yet the stakes remain high, with politicians aware that the sovereign debt crisis, which has already touched Greece, Ireland and Portugal, may spread further.

"The point is that we wouldn't be able to control an insolvency," Mrs. Merkel told an activist of her Christian Democratic Union who questioned Germany's support for Greece at a gathering Saturday in Berlin, Bloomberg News reported.

For its part, the reshuffled Greek government faces a fierce battle to win parliamentary approval for the tough austerity measures that will come as a

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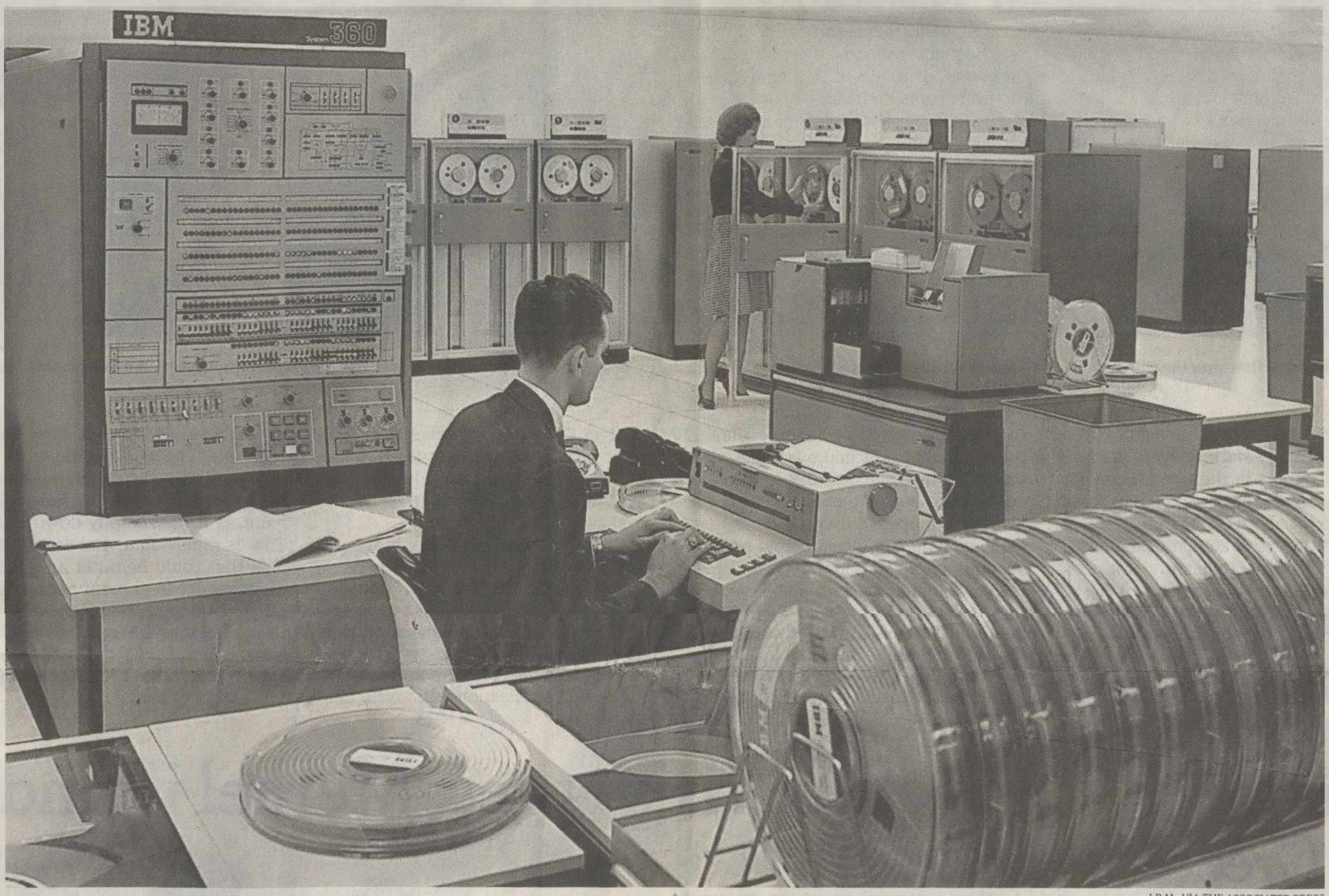
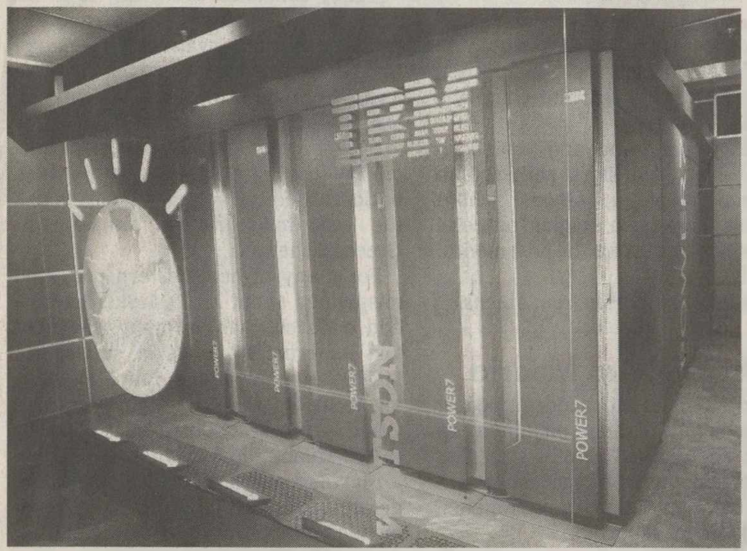


I.B.M., VIA THE ASSOCIATED PRESS

MARIO ANZUONI/REUTERS



I.B.M., VIA THE ASSOCIATED PRESS

Founded 100 years ago, I.B.M. was for many years the very model of the successful American company, as in 1964, when the top photo, of the System 360, was taken. In the 1990s, though, it nearly went under. Today it is thriving again, with inventions like Watson, a question-answering machine, above right. The challenges facing market-dominant companies like Microsoft today are similar; one of its responses has been to use artificial intelligence in games, as in the Xbox 360 Kinect, above left.

I.B.M.'s longevity holds lessons for other giants

Finding ways to build on past success is key to 'post-monopoly' survival

BY STEVE LOHR

As it turned 100 last week, International Business Machines was looking remarkably spry. Consumer technologies get all the attention these days, but the company has quietly thrived by selling to corporations and governments. Profit is strong, its portfolio of products and services looks robust, and its shares are near a record high. I.B.M.'s stock-market value passed Google's earlier this year. Not bad for a corporate centenarian.

Yet, not so long ago, I.B.M.'s corporate survival was at stake. In the early 1990s, it nearly ran out of money. Its mainframe business was reeling under pressure from the lower-cost technology of personal computing.

New leadership was brought in, and thousands of workers were laid off. It was part of the company's painful journey to what might be called "post-monopoly prosperity" — that is, a new path to corporate success, once a dominant product is no longer the turbocharged engine of growth and profit it once was.

"I.B.M. faced the challenge that all great companies do sooner or later — they dominate, they lose it, and then they recreate themselves or not," said George F. Colony, chief executive of Forrester Research.

I.B.M. met the challenge, moved beyond the mainframe and built a business increasingly based on software and services. So as it celebrates a milestone, the company holds lessons for others.

How to evolve beyond past success is a daunting task for companies in all industries. But that problem is magnified in the technology area, where companies can quickly rise to rule a market, seemingly invincible, until a shift in the technological landscape opens the door to a new generation of corporate dynamos.

How to evolve is a daunting task for all companies. But the problem is magnified in the technology area.

That is certainly the test that Microsoft is struggling with today, as it searches for growth beyond its lucrative stronghold in personal computer software. If they are to prosper for the long haul, Google and Apple, too, must reach beyond their dominant businesses. Each of these companies, in its way, is trying.

So, then, what broader insights are to be drawn from the I.B.M. experience?

One central message, according to industry experts: Do not walk away from your past. Build on it. The crucial building blocks, they say, are skills, technology and marketing assets that can be modified to pursue new opportunities.

Though once a mainframe company, I.B.M. has recast itself as the supplier that can best manage and stitch together all the diverse technologies in modern data centers. Mainframes still have a role, and I.B.M. has invested heavily in them — $5 billion in mainframe research in the past decade — so that different kinds of software and processors can run on them.

But it is the technology surrounding the mainframe that really pays off for the company today. Mainframe hardware alone accounts for less than 4 percent of I.B.M.'s revenue. But when the software, storage and services contracts linked to mainframe computers are included, the figure rises to 25 percent — and as much as 45 percent of operating profit, A.M. Sacconaghi, an analyst at the research firm Sanford C. Bernstein, estimated.

I.B.M. has redirected its research labs and sales force to focus on services and software, retraining thousands of people, and supplementing its in-house programs with acquisitions.

At the moment, Microsoft is the technology company that most squarely confronts the post-monopoly predicament, as I.B.M. once did. Some of the similarities are striking, right down to the long-running U.S. antitrust suits that both companies endured. But unlike I.B.M. in the early 1990s, Microsoft is not a company in crisis. It is growing steadily and remains immensely profitable. It has nurtured new businesses beyond its lucrative stronghold in personal computer software: the Windows operating system and its Office suite of programs.

Microsoft has invested for nearly two decades to build up business database software and server operating systems that run larger data centers. An I.B.M. executive once declared that Microsoft's attempt to move into data center computing would be its "Vietnam," a humbling setback. And many analysts predicted that Microsoft would be thwarted in data centers by competition from Linux, the free operating system. Linux has done well, but so has Microsoft.

Today, Microsoft's server software division is a comfortably profitable business, with $16 billion a year in revenue. If that unit were a separate company, it would be among the top five in the software industry.

Microsoft's other sizable business beyond personal computer software — also more than a decade in the making — is its Xbox video-game console, software and online game franchise. That division of Microsoft is a solidly profitable, $8 billion-a-year business. But the long-term problem for Microsoft is that more than 80 percent of its operating profit still comes from its personal computing software franchise. "Microsoft has delivered some singles and doubles, but is there going to be another home

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Airbus jet delayed for 18 months

PARIS

Stronger engine sought to increase payload and range of largest A350

BY NICOLA CLARK

Airbus will delay delivery of the largest version of its A350 wide-body jet by 18 months, until mid-2017, to meet buyer demands for a more powerful engine that would increase the plane's range and payload, the company has said.

The new engine will also allow the plane, the 350-seat A350-1000, to compete more aggressively with Boeing's long-range, twin-engine competitor, the 777-300ER, Airbus said Saturday.

In addition, Airbus said, delivery of the smallest plane in the twin-engine A350 family, the 270-seat A350-800, will be postponed two years, to 2016, so the company can focus on building its top-selling version, the 314-seat A350-900.

The A350-900 is still expected to enter service before the end of 2013, Airbus said.

Airbus, the European rival to Boeing of the United States, and Rolls-Royce, the British engine maker, said they would jointly develop the largest version of the wide-body jet with an upgraded engine that could deliver 97,000 pounds of thrust at takeoff, making it the most powerful propulsion system ever built for Airbus. The previous

"Everything so far is consensual. Nobody is pounding the table and saying, 'You're breaching my contract.'"

design of the engine, the Trent XWB, had a takeoff thrust of 93,000 pounds.

Airbus said the added engine power would increase the maximum takeoff weight of the aircraft and extend its range on one tank of fuel about 400 nautical miles, to 8,400 nautical miles, or 15,550 kilometers — the equivalent of about an hour of flight — while burning 25 percent less fuel than Boeing's 777-300ER, a 365-seat jet with a range of 7,900 nautical miles that entered service in 2004. The revamped plane would also be able to carry 4.5 tons of additional cargo, Airbus said.

Boeing said it was not surprised by Airbus's decision, but would take the competitive challenge posed by the upgraded A350-1000 very seriously

"We will have an answer on the 777," James F. Albaugh, chief executive of Boeing's commercial aircraft division, said Sunday, though he did not provide a timetable. "Whether that is incremental improvements or a significant derivative of that airplane remains to be seen."

Mr. Albaugh said that Boeing's 777-300ER was currently the most efficient aircraft in its class. "We'll take whatever action we need to take on the 777 to make sure that we maintain that advantage."

"The one thing that we have right now is we have the most efficient airplane in all of our markets that we compete in," he added.

Until now, Airbus has struggled to drum up demand for the A350-1000, having secured 75 orders from four airlines in four years. Those carriers — Emirates of Dubai, Etihad of Abu Dhabi, Qatar Airways and Asiana Airlines of South Korea — have urged Airbus to enhance the capabilities and the fuel efficiency of the plane.

John Leahy, the Airbus chief salesman, said the company had consulted the affected airlines about the delays and did not expect them to seek compensation for the later deliveries.

"Everything so far is consensual,"

AIRBUS, PAGE 22

In Greece, the system is an obstacle to economic revival

GREECE, FROM PAGE 1
follow through with fundamental changes.

"We're not talking about two or three years to get to recovery," said Yanos Gramatidis, the president of the American Chamber of Commerce in Greece. "It's easily going to take up to 10 years to create a surplus and stabilize the economy, especially if persistent political turbulence hinders the ability to enforce reforms."

Few in Athens believe International Monetary Fund forecasts that the Greek economy will grow 1.1 percent next year, after two years of the deepest recession of any country in Europe.

Under pressure from its European partners to meet the terms required to receive its next €12 billion, or $17.2 billion, installment of financial aid, Greece has little choice but to accept the requirement that it impose more austerity measures to find at least €78 billion in new savings.

That is why structural changes to lift productivity and attract investors like Mr. Peristeris are so important. These include opening protected sectors and labor markets to competition, reducing bloated government payrolls and addressing pernicious tax evasion, which robs the treasury of an estimated €50 billion in income each year.

But after sweeping social unrest led Mr. Papandreou to shake up his cabinet last week, many analysts — and most ordinary Greeks — believe that it will be years before the country can invigorate growth, either by tapping potential in new areas like green technology or by lifting activity in the few sectors that do work, like tourism. The task will be even harder when new austerity measures kick in.

"If they just continue with the European Union's austerity program, they're going to be in slow growth or recession as far as the eye can see, and at the end of the day they're still going to default," said Kenneth S. Rogoff, a former chief economist at the I.M.F. who is now a Harvard professor. "They have to raise productivity spectacularly."

To be sure, some of Greece's efforts are paying off. Although the economy contracted 4.5 percent last year and is forecast to shrink an additional 3 percent this year, Greece has managed to cut its deficit by a substantial five percentage points of gross domestic product, although it is still high at 9.6 percent of G.D.P, according to the I.M.F.

In addition to domestic investors like Mr. Peristeris, foreign investors from China, Germany and elsewhere are looking for bargains in the Greek economy, including in the tourism industry, which accounts for about 20 percent of G.D.P., and in the lucrative shipping business.

SAKIS MITROLIDIS/GETTY IMAGES-AFP

Strikes, like one that shut the rail system, have swept through Greece in opposition to austerity programs. The government is under pressure to find €78 billion in new savings.

"Greece has significantly improved its position," said Claude Giorno, the senior economist for Greece at the Organization for Economic Cooperation and Development.

And if Greece can find the political will to carry through its promised economic overhaul, that will make an enormous difference over the next five to 10 years, economists say. Canada, Sweden and Switzerland opened up their labor markets and changed their tax and pension systems in the 1990s in ways that helped their economies become more productive. Germany is the most robust country in the euro zone today largely because it imposed painful measures for nearly a decade to improve competitiveness.

Yet in Greece, even when new economic measures are approved, enforcement is spotty — and is likely to remain so as long as government instability persists.

Athens, for example, has moved to clean up an erratic system of pension disbursements, but some pension checks are still being mailed to people who have died. Big businesses, particularly in the shipping industry, continue to send a considerable amount of profit to offshore tax havens, depriving the economy of needed income.

Adding to the problems are moves by the government to cut public investment as it tries to pay down its debts. That is removing a vital source of stimulus that could help cut an unemployment rate of 16 percent over all and 40 percent among young people.

Greek banks are tight with credit, and have further reined in lending as ordinary people, lacking faith in the political system, have pulled billions of euros [illegible] of their own country en masse.

"They're going to be in slow growth or recession as far as the eye can see, and at the end of the day they're still going to default."

Many shops in downtown Athens have closed because their owners cannot pay their loans. Even more crucial, the government's tendency to flip-flop on promising measures, like the green growth initiative, has bewildered the very investors Greece needs to build a new foundation for the economy to grow in the coming decades.

From the moment Mr. Papandreou declared he wanted to drive Greece toward a green economy, "everyone congratulated him," said Mr. Peristeris, whose company is trying to deepen its investments in renewable energy. But the government never took bold steps to facilitate investments, he said.

"Greece has big potential for the development of green, but it's hard to do," he said.

Regulatory hurdles remained in place after Mr. Papandreou's announcem[illegible] Then the Environment Ministry s[illegible]denly decreed last year that no bids would be allowed for the offshore wind and hydroelectricity projects that Mr. Peristeris and others sought to invest in.

"They wanted it to be centrally developed," Mr. Peristeris said. "I never understood the real reason behind the reversal, and I never got any answer. But now no one can invest in these sectors, even though there's interest."

That makes other potential investors wary. Wang Fuming, the director of the Economics Cooperation and Development Center at the University of International Business and Economics in Beijing, said China was eager to put money into Greece, especially in tourism. But Chinese investors wonder whether they, too, could get ensnared if the ground rules can shift so easily.

What is more, China has taken note of the flood of withdrawals from Greek banks, evidence of uncertainty that Greeks have about their own country.

"What's happened here in the last few days is Looney Tunes," said Demetri Politopoulos, chief executive of the Macedonian Thrace Brewery, who himself ran into thickets of regulatory hurdles when he tried to make new investments in Greece. "We're trying to attract investors? Good luck."

Euro zone officials weigh a new bailout for Greece

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condition for the new bailout. But in his first test as finance minister, Mr. Venizelos was expected to ask his euro zone counterparts on Sunday for changes to the austerity plan already on the table, although his mission is to secure the release of the next instalment of rescue funding.

All this comes a little more than a year after the first bailout, which spared the country from having to borrow at crippling rates on the financial markets. But since then Greece has failed to meet its economic goals because of a worse-than-expected recession, which has depressed government revenues, and through its own failure to put in place needed reforms.

Besides the amount of the new bailout for Athens, finance ministers will try to decide how to construct a package of loans that will encourage private investors to roll over their maturing [illegible]eek debt on a voluntary basis, thereby warding off a default.

Greece's creditors have demanded of Mr. Papandreou that he secure a broad political consensus on a raft of austerity measures — chiefly tax increases, cuts to public spending, and the privatization of €50 billion in state assets — which Parliament is to vote on this month.

The prime minister has made four attempts during the past month to reach an agreement with his political rivals, and met with failure each time. On Sunday, Mr. Papandreou called again on the opposition "to stop fighting in these critical times, stop projecting the image that the country is being torn apart."

"The consequences of a sudden bankruptcy or exit from the euro would be immediately disastrous for Greek households, banks, and the country's credibility," he said.

As Mr. Papandreou and his rivals traded barbs, protesters gathered in Syntagma Square in Athens, where thousands have been staging peaceful anti-austerity rallies for the past month.

Niki Kitsantonis reported from Athens.

Protest swells in Madrid

In Madrid, tens of thousands of people converged on Parliament on Sunday as part of coordinated protests across Europe against austerity measures imposed by debt-laden governments, Raphael Minder reported.

Spain has been at the heart of such protests since May 15, when a youth-led movement took over Puerta del Sol, a square in Madrid, and then spread across major Spanish cities to seek an overhaul of the political system. The encampment was dismantled a week ago, but street protests have continued, some of which set off violent clashes with the police in Valencia and Barcelona.

The police estimated that 35,000 to 45,000 people were taking part in the protests in Madrid on Sunday, according to national radio. There were no reports of violence.

ONLINE: GREECE'S DEBT CRISIS
For the latest news on euro zone finance ministers' meeting on further support to Greece, go to **global.nytimes.com/business**

As euro crisis rages, Merkel is under pressure

MERKEL, FROM PAGE 1
tor of European integration.

"They consulted every day to avoid surprises," the columnist Andrea Seibel wrote in the conservative Die Welt, referring to previous German chancellors. "Kohl did it intensively, Schröder less so, and Merkel not at all."

"France and Germany need each other. But they are speaking with their backs turned to each other. This is not the way to solve the situation in Greece," she said.

For many of her Western partners, misgivings about Mrs. Merkel intensified in March when Germany refused to join its principal allies in supporting NATO's air campaign in Libya, abstaining from the United Nations Security Council vote to support rebels opposed to Col. Muammar el-Qaddafi.

"It was a serious political blunder, the greatest mistake of Merkel's government in foreign policy," said Heinrich August Winkler, a history professor. The move reflected "the primacy of domestic politics," he said, in a land where the desire to support democratic stirrings in North Africa was outweighed by a historical reluctance to send troops abroad.

By turning away from their allies, German leaders "underestimated the impact on the European and American view of Germany," he said. The decision also fed a creeping sense that, after decades promoting the European ideal, Germany had resolved to embark on a go-it-alone pursuit of narrower self-interest.

That began to be recalibrated after Mrs. Merkel's visit to Washington. Foreign Minister Guido Westerwelle traveled to Benghazi and offered German recognition of the anti-Qaddafi rebels as "the legitimate representation of the Libyan people." Days earlier, Defense Minister Thomas de Maizière said Germany might deploy troops for reconstruction efforts in a post-Qaddafi era.

MARKUS SCHREIBER/THE ASSOCIATED PRESS

Chancellor Angela Merkel and President Nicolas Sarkozy at a meeting in Berlin.

"The Germans are now in their own retreat," said Gero Neugebauer, a political scientist in Berlin. "The special way is a dead end, and they have seen where it ends. So, in small steps, they are turning from right to left and at some point they will be back to where they came from."

Mrs, Merkel, 56, was elected chancellor in 2005 — the first woman and the first former East German to lead her country — and returned to office in 2009. Elections are due again in 2013. Conversations with several analysts left a clear impression that, mid-term, she is caught uneasily between the demand for leadership within Europe and the shifting ground of domestic politics, where the governing coalition of her Christian Democrats and the smaller Free Democrats is under increasing strain.

"In foreign policy, she has power and Germans recognize that," said Richard Hilmer, a leading pollster. "But in domestic politics it's different."

Nowhere was that more evident than in Mrs. Merkel's abrupt reversal after the Fukushima nuclear disaster in Japan that deepened an already profound aversion to nuclear power.

After losses in regional elections, she abandoned a core pledge to extend the life of Germany's 17 nuclear power stations and instead promised to turn them off by 2022, to the consternation of neighboring France, which is heavily dependent on nuclear power.

With the shift, Mrs. Merkel seemed to be seeking to gather some of the support that Germans are increasingly offering to the environmentalist — and anti-nuclear — Greens. But the maneuver "made no difference," Mr. Hilmer said. "Only the Greens won. They have the greatest credibility on this issue."

Indeed said Reinhard Bütikofer, a Greens politician in the European Parliament, Mrs. Merkel's retreat was "a huge success of my party of historical dimensions."

Compounding her woes at home, Mrs. Merkel has done little to shore up the governing coalition, said Gerd Langguth, a political analyst at the university in Bonn, displaying "no real interest" in allowing her Free Democrat junior partner to "have its victories or successes."

Rather, many analysts depicted Mrs. Merkel as a pragmatist, driven by expediency without the finer political instincts of her mentor, former Chancellor Helmut Kohl. To that extent, her reversal on Friday alongside Mr. Sarkozy — abandoning Germany's demand for measures to force private lenders to participate in the Greek rescue — may have won some breathing space.

On Sunday, European finance ministers met in Luxembourg to discuss the release of €12 billion, or $16.8 billion, in further emergency funding for Greece.

"The fact that Paris and Berlin have manifestly narrowed the gap between them offers a ray of hope," said the columnist Günther Nonnenmacher in the Frankfurter Allgemeine Zeitung. But if the debt crisis is permitted to smolder, he said, "sooner or later, it will inevitably ignite the whole European project."

Waking Web's snoozing guards: Companies take arms against hackers

B[illegible]RISTOPHER DREW
AND VERNE G. KOPYTOFF

Trying to secure a computer network is much like trying to secure a building — the challenge is trying to screen out real threats without impeding the normal traffic that needs to go in and out.

But even sophisticated security systems can be breached, as has been demonstrated by the recent hacking attacks against Citigroup, RSA Security, Lockheed Martin and, most recently, the video game company Sega (page 21).

"We're seeing an inflection point where the attackers are extremely smart, and they are using completely new techniques," said Nir Zuk, the chief technology officer at Palo Alto Networks, a firewall company based in Santa Clara, California. "Every piece of content that you receive can attack you."

Historically, the first line of computer defense, the firewall, is like the guard desk at a building. It scrutinizes the traffic passing by, looking for obviously suspicious characters.

Virtually every company also has antivirus software, which typically keeps an eye out for anything on a "black list" of well-known malware and prevents it from entering the computer system or causing havoc once inside. A rarer type of security grants access only to programs on a "white list" of safe software— the equivalent of allowing employees with I.D. cards to come and go as they please but preventing anyone else from entering.

But as hackers unleash ever-sneakier attacks, corporations and government agencies are scrambling to deploy new tools and procedures to deal with all the delicate gray areas in between — the cool-looking new smartphone app, the funny Facebook link, the unfamiliar Web site. The flood of malicious software is also prompting renewed debate about how to balance access and protection.

"Right now, if an application is not known, we let it run," said Peter Firstbrook, an analyst at Gartner, a research firm, referring to the prevailing view in most companies. "That's the wrong thing to do."

Businesses like Symantec, the giant Internet security company, are introducing services that assess the "reputation" of software, weighing factors like how old it is and how widely it is used to decide whether it is safe. Other vendors are selling enhanced firewalls and products that can sniff out impersonators by detecting unusual file-use patterns.

People are being bombarded with all kinds of links, and a threat can be hidden in any.

Nearly everyone agrees that a mix of defenses is vital and that even so, some hackers will still slip through. Experts also say that the proliferation of smartphones, the growing workplace use of social media tools and the shift toward storing more data in a computing cloud are providing new avenues for attackers.

Symantec's chief executive, Enrique Salem, acknowledged at a conference in February that traditional antivirus scans "long ago failed to keep up." As points of entry into corporate and government networks "proliferate on this seemingly insane trajectory," he added, "so do the threats they attract."

The growth in malicious software has been staggering, as criminal organizations seek to ferret out credit card numbers and other ways to make money, and hackers in China and Russia are believed to be seeking national security secrets.

Last year, Symantec discovered 286 million new and unique threats from malicious software, or about nine per second, up from 240 million in 2009. The company said that the amount of harmful software in the world passed the amount of beneficial software in 2007, and as many as one in every 10 downloads from the Web includes harmful programs.

New security technology should protect against all sources of malicious files, whether from e-mail, a LinkedIn feed or a Twitter link, Mr. Zuk said.

He said stronger firewalls, which monitor computer networks for suspicious traffic, could also help.

Security experts say companies must also adapt their security systems to protect against attacks through smartphones and tablet computers. Although such mobile devices increase convenience for workers, they essentially a create a new door into the network, which then needs its own security watchdogs.

And humans remain a prime weakness in all computer networks that no security system can completely offset, said Mark Hatton, chief executive of Core Security Technologies, a company based in Boston that tests corporate networks for security holes.

"You tell the guy not to click on the link to the free iPad, and he still always clicks on the link to the free iPad," he said.