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THE WALL STREET JOURNAL.

VOL. XXVII NO. 221

Monday, December 14, 2009

DOW JONES
A NEWS CORPORATION COMPANY

EUROPE

europa.WSJ.com

Climate summit pits U.S., China in a showdown

BY JEFFREY BALL

COPENHAGEN—The political script for a big climate-change conference in this Danish city has U.S. President Barack Obama and other world leaders flying in later this week to christen a new era of global environmental cooperation. In reality, the summit is shaping up as a pivotal economic showdown between the U.S. and China.

The International Energy Agency projects that nearly all the growth in global greenhouse-gas emissions over the next two decades will come from developing countries—and that fully half that total will come from China alone. A central point of contention is whether China, with its newfound economic might, still deserves billions of dollars in annual aid from the U.S. and Europe to help it shift to a cleaner pattern of growth.

China says the answer is yes. He Yafei, China's vice foreign minister, said Friday that rich nations, which built their prosperity on fossil fuels, are

like people who go out for a fancy dinner and then, when a poor guest arrives late for dessert, demand that he pay the same bill for his meal as everyone else.

"It's not fair," Mr. He said. "Whoever created this problem, they're responsible." Although he said the European Union had largely lived up to its emission-reduction promises, he singled out the U.S. several times by name as a country that hadn't done its share.

Mr. He is arguing that not much has changed since the late 1990s, when the basis for the current United Nations-led international framework designed to combat global warming—a treaty called the Kyoto Protocol—was negotiated. Kyoto called on industrialized countries to cut their own emissions and help developing countries with subsidies to promote cleaner technologies, such as energy-efficient cars and solar panels.

But the U.S. argues China no longer deserves special treatment. Though poorer de-

veloping countries still need Western help to nurture clean-energy technologies, China is different, Todd Stern, the chief U.S. climate negotiator, told a news conference here last Wednesday. "I don't envision public funds—certainly not from the United States—going to China," he said. "There is no way to solve this problem by giving the major developing countries a pass."

Environmentally speaking, the U.S. and China, which together account for some 40% of global greenhouse-gas emissions, are the countries that matter most in the U.N. climate debate. So far, the Copenhagen summit has served mainly to illuminate their profound disagreements. The arguments over the details of climate policy reflect the broader contest between the U.S. and China for economic power in the decades ahead. Many business leaders in the U.S. worry that efforts to dramatically cut fossil-fuel consumption could raise their production costs and put them at a disadvantage to rivals in a China

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Berlusconi is attacked at Milan political rally



Italian Prime Minister Silvio Berlusconi was rushed to the hospital Sunday with a fractured nose, two broken teeth and bloodied face after a man struck him at the close of a political rally. See article, page 3.

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The sanctions that could pull Iran back from the nuclear brink. Page 15

Defense firms resist fixed prices

BY DANIEL MICHAELS AND AUGUST COLE

The Airbus A400M military transporter finally flew for the first time on Friday, but the delayed European airplane is still weighed down by an issue burdening defense projects on both sides of the Atlantic: an inflexible contract.

The flying truck is being developed under a type of fixed-price deal that the U.S. and the U.K.—two of the world's biggest arms buyers—largely abandoned years ago because of repeated cost overruns.

But the U.S. Defense Department is again considering imposing such terms in an effort to trim its bills. Military contractors are grumbling, and some analysts say the A400M shows what can go wrong.

"Everybody thought we learned our lessons," said Jacques Gansler, who was the Pentagon's top weapons buyer from 1997 to 2001. Mr. Gansler calls the A400M "a good example of the problem" posed by fixed-price contracts.

When seven countries from the North Atlantic Treaty Organization ordered the four-engine A400M from Airbus in 2003, its parent company, European Aeronautic Defence & Space Co., agreed to build 180 of them for €20 billion (\$29 billion). EADS promised to swallow any cost overruns.

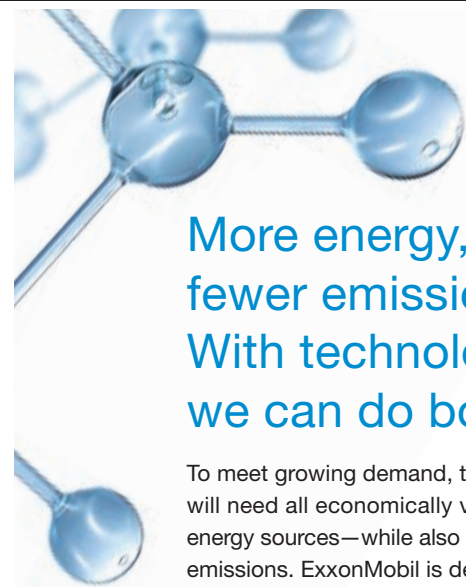
The project has since blown its budget by several billion euros and EADS wants the seven governments to share the burden that it had promised to shoulder. EADS officials say that would be fair

because the extra expense comes partly from changes in contract terms and designs forced on it by the governments. The governments, whose individual positions vary, say they want to reach an agreement with EADS. The two sides are locked in heated negotiations and hope to strike a deal before year-end that keeps the project alive.

"The aircraft is much more complex and expensive than expected," Domingo Urena-Raso, chief executive of Airbus' military division, said in a recent interview. "Industry cannot bear the full burden of the project alone."

The complaint reminds some industry veterans of spats in the U.S. before the Pentagon in the 1990s shifted away from fixed-price contracts toward deals that share

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PAGE TWO

Underneath the frothy headlines, Italy's economy has substance

[Agenda]

By IRWIN STELZER



Reports of the recovery in the euro zone conceal a wide divergence in the outlook for the area's

individual members, which is why we have been examining the prospects for individual nations, as we have been doing in recent weeks. This week: Italy.

The outlook for the economy seems to be of less interest to the news media than the legal trials and marital tribulations of Prime Minister Silvio Berlusconi, the to-be-appealed murder conviction of American Amanda Knox, and the bribe conviction of Tessa Jowell's husband. Unfortunate diversions, worth overcoming.

Start with the poor performance of the Italian economy, which for a decade or more has grown at an annual rate of around 1.5%, well below the euro zone's 2.2%.

A red-tape-creating bureaucracy, powerful trade unions, and enough changes of government to create the sort of policy uncertainty that isn't conducive to high levels of investment, have kept Italy a laggard in the race to grow.

Many of the Italian businessmen with whom I speak see things differently. The villain, they say, is the euro. In what many Italians regard as the good old days of the lira, Italy could devalue its way out of recession. Or so the merchants and manufacturers, or at least many of them, fondly recall. Never mind that the government had to add increasing numbers of zeros to the lire, or that in the long run periodic devaluations didn't do much to fuel economic growth.

Besides, that was then and this is now. In part because of past



A Fiat worker assembles a car in the southern Italian town of Pomigliano

excesses, Italy is in a better, or perhaps more accurately, less-bad position than other countries. It had its house-price bubble—and its bursting—before the current global recession began to bite. In

'The Gucci effect' might enable Italy to avoid competing with China

recent years, house prices increased at rates less than half those of, say, Spain, so the continuing correction is much less severe and consequential for the overall economy.

Italy also had its runaway fiscal-deficit problem early on. That prevented the government from responding to the recession with a major stimulus program—not a bad thing given the uncertain effects of the programs adopted in the U.S., U.K. and other countries.

Then there is the employment picture. Italy's unemployment rate

is the lowest of all the large euro-zone countries, a bit below Germany's and Britain's, and well below the rate in France. This relatively good performance is due in part to a development that some see as a negative, others as a positive. The fastest growing segment of the work force includes part-time workers and workers employed under temporary contracts—such workers accounted for about 18% of the labor force in 1995, and 27% in 2007 (the last date for which data are available).

Depending on your point of view, that is either a negative—more workers in precarious, risky employment—or a positive—a sign that the traditionally rigid Italian labor market is becoming more flexible, and the inability to devalue is placing pressure on employers and workers to bring labor costs down to more internationally competitive levels.

All in all, the outlook for the Italian economy is nowhere near as bleak as it was at the start of the century. Economists at Goldman Sachs expect the Italian

economy to grow 1.6% next year —“solid by historic standards.... With a savings rate slightly above 14% and mortgage debt that is a modest fraction of real disposable income, Italian households remain among the least leveraged of the euro zone...” That should allow the household sector to contribute to a robust recovery.

The economists also note that the increase in the unit value of Italy's exports—“the Gucci effect”—might enable Italy to avoid competing with China and other low-labor-cost countries.

Believe it or not, government policy is also seen as a plus. Outstanding public debt is being kept on “a manageable path,” Goldman Sachs says. But because annual growth is projected to be in the modest 1.2% range, the health of public finances will depend heavily on reining in spending and actually collecting taxes, rather than on rapid economic growth.

Another bit of good news comes from a survey by the Janus Capital Group. Roughly 54% of Italians surveyed say they prefer more income and less leisure time, while only 8% prefer the reverse. This compares with a 43%-to-11% split in all of Europe.

Downside risks remain, of course. The two main banks, Intesa Sanpaolo SpA and UniCredit SpA, are exposed to Eastern Europe, and private-sector companies are having a hard time obtaining credit. Perhaps even more important, it is difficult to predict what the effect on Italy will be when the European Central Bank decides to sop up the excess liquidity it has created.

The euro zone's one-size-fits-all monetary policy just might be a bit too tight a fit for Italy to wear comfortably.

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

What's News

■ **The Copenhagen summit** on climate change is shaping up as a pivotal economic showdown between the U.S. and China. The main point of contention is whether China deserves billions of dollars in annual aid from the U.S. and Europe to help it shift to a cleaner pattern of growth. **1**

■ **Beijing Auto plans** to buy certain assets of GM's Saab unit, including equipment and intellectual property to produce two sedans. **19**

■ **The Airbus A400M** military transporter finally flew for the first time on Friday, but the delayed European airplane is still weighted down by contract pricing issues. **1**

■ **Western officials** said Iran's offer to make a uranium trade in small batches, and on Iranian soil, fell well short of their demands. **11**

■ **Iraq awarded** some of its most promising oil fields to foreign bidders in an auction hailed by Baghdad. **23**

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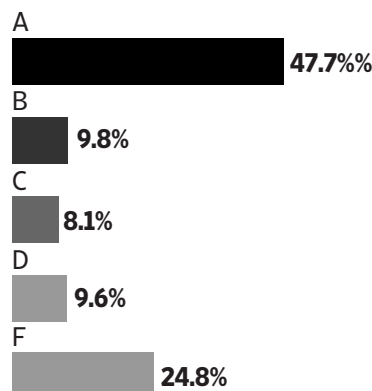
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THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Stapleton House, 29 - 33 Scrutton Street,
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SUBSCRIPTIONS, inquiries and address changes to:
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8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com.
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ADVERTISING SALES worldwide through Dow Jones
International. Frankfurt: 49 69 9714280; London: 44 207
842 9600; Paris: 331 40 17 17 01.

Printed in Belgium by Concentra Media NV. Printed in
Germany by Dogan Media Group / Hürriyet A.S. Branch
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Printed in the United Kingdom by Newsfax International
Ltd., London. Printed in Italy by Telesampa Centro Italia
s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland
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Dünya Basınevi.

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M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200
Brussels, Belgium

NEWS

Attacker sends Berlusconi to the hospital

By STACY MEICHTRY

Italian Prime Minister Silvio Berlusconi was rushed to the hospital Sunday evening with a fractured nose and bloodied lip after a man struck him in the face at the close of a political rally in Milan.

Mr. Berlusconi had been shaking hands with supporters in a dense crowd when a man wielding a statuette broke through the crush of people and assaulted the premier. Mr. Berlusconi's bodyguards hustled the premier into the back of a car while police detained the attacker, who was identified as 42-year-old Massimo Tartaglia. Police said Mr. Tartaglia didn't have a criminal record.

Mr. Berlusconi, a billionaire media mogul with a penchant for making controversial public statements, has long been one of the most polarizing figures in Europe's political landscape. Sunday's attack, however, shows how tensions in Italy are running higher than ever.

Support for Mr. Berlusconi remains strong among many Italian voters. However, there are swaths of the Italian public that have become increasingly angry with the premier during the past year. Mr. Berlusconi's personal life has undergone heavy scrutiny since last spring, when his wife announced she wanted a divorce. More recently, Mr. Berlusconi has made repeated calls for deep changes to Italy's constitution and judicial system after Italy's Constitutional Court struck down a law shielding sitting prime ministers and other top officials from criminal prosecution.

Defense Minister Ignazio La Russa, who had been standing near Mr. Berlusconi when he was assaulted, told an interviewer on television that the attack stemmed from "all the tension we've seen in this period," adding: "For months there's been a campaign of hatred against Berlusconi."

The attack occurred moments after Mr. Berlusconi addressed a political rally in Milan that drew a group of protesters who repeatedly shouted at him during his speech. Mr. Berlusconi had interrupted his speech to challenge the protesters, booming: "We must oppose you, because you want you transform Italy into a screaming piazza."

"Shame on you! Shame on you! Shame on you," Mr. Berlusconi yelled, pointing his finger at the protesters.

Police said Mr. Tartaglia had wielded a souvenir sculpture of Milan's spire-laden cathedral when he assaulted Mr. Berlusconi. It was unclear if Mr. Tartaglia had used the object to strike Mr. Berlusconi.

Doctors attending to Mr. Berlusconi planned to keep him in the hospital under observation, according to the premier's spokesman, Paolo Bonaiuti. Mr. Bonaiuti said the premier had suffered a cut to his lip and damage to two teeth. He also sustained a fracture of the bridge of his nose, Mr. Bonaiuti said.

The attack is likely to fuel debate in a country already highly divided over Mr. Berlusconi's leadership. Last month, two of Mr. Berlusconi's criminal trials—one for alleged tax fraud and a second for corruption—resumed. Allies of Mr. Berlusconi, who denies the charges, have introduced two bills—one proposing immunity for Italian lawmakers, including Mr. Berlusconi, and one calling for shorter trials. Mr. Berlusconi's critics say both bills are tailor-made to suspend or end Mr. Berlusconi's trials.

Heiress lawsuit heads to trial

By CHRISTINA PASSARIELLO

PARIS—A lawsuit over L'Oréal heiress Liliane Bettencourt's gifts of €1 billion (\$1.5 billion) to a photographer friend will go to trial mid-April.

The lawsuit was filed two years ago by Ms. Bettencourt's only daughter, Françoise Bettencourt-Meyers, who accuses the photographer, François-Marie Banier, 62, of exploiting her mother's mental weakness. Over the course of several years, Ms. Bettencourt, 87, lavished Mr. Banier with gifts, including life-insurance policies and paintings by artists such as Picasso and Matisse. Through her lawyer, Ms. Bettencourt, the daughter of the French cosmetics company's founder, denied that Mr. Banier took advantage of her.

Mr. Banier's lawyer, Herve Temime, said his client wasn't

afraid of prosecution. "He's in a hurry to be absolved of this defamation," he said.

In the deliberations leading up to Friday's decision to send the case to trial, the debate centered on Ms. Bettencourt's mental health. The court has ordered her to submit to tests performed by three court-appointed doctors. In the past, Ms. Bettencourt refused to comply with mental-health exams requested by the court. "Enough of this. I'm not a vegetable!" she has said to past requests, according to her lawyer, Georges Kiejman.

Ms. Bettencourt has transferred ownership of her 30% stake in L'Oréal, worth about €13.7 billion, to her daughter. Ms. Bettencourt and Ms. Bettencourt-Meyers, 56, sit on L'Oréal's board but aren't on speaking terms, according to their lawyers.



The daughter of L'Oréal heiress Liliane Bettencourt, pictured at right in 2005, alleges François-Marie Banier, left last month, took advantage of Ms. Bettencourt.

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EUROPE NEWS

Mobsters testify in Italian court case

Two didn't corroborate testimony of hitman who said Berlusconi and associate had given the Mafia political reassurances

BY STACY MEICHTRY
AND MARGHERITA STANCATI

ROME—Two mobsters called to testify in a Palermo trial didn't corroborate the testimony of a Mafia hitman who last week said Italian Prime Minister Silvio Berlusconi and a close associate gave the mob political reassurances in the early 1990s.

The mobsters appeared Friday at the trial of an Italian senator and a former business associate of Mr. Berlusconi. Giuseppe Graviano, a Mafia boss who, along with his brother Filippo, is serving multiple life sentences for bombings and murder, declined to testify.

Filippo Graviano told the court through a video link that he had never had any direct or indirect contact with the Italian senator on trial.

Gianfranco Fini, the speaker of the lower house of Parliament and co-founder of Mr. Berlusconi's People of Freedom Party, said the hearing showed "the ability of the justice system to get to the bottom of the truth." Last month, Mr. Fini had compared the trial to an "atomic bomb" that could bring down Mr. Berlusconi's government.

The case is the appeals trial of Marcello Dell'Utri, a member of the

Italian Senate. Mr. Dell'Utri was an employee of Mr. Berlusconi when the Italian billionaire ran his family's media empire.

Prosecutors on Friday were expected to ask Giuseppe Graviano whether he could corroborate testimony given last week in the trial by hitman Gaspare Spatuzza, who said Mr. Graviano had told him that Messrs. Berlusconi and Dell'Utri had "practically put the country in our hands" before Mr. Berlusconi was elected to his first term as prime minister in the spring of 1994.

But Mr. Graviano—who addressed the court through a video link—invoked his right to remain silent. Mr. Graviano said he had sent a letter to the court explaining why he was unable to testify because of health reasons. He didn't elaborate on the letter or the health issues.

Moments earlier, a judge had asked Filippo Graviano if he had ever had "direct or indirect" contact with Mr. Dell'Utri, and he responded: "No."

Mr. Berlusconi isn't involved in the appeals trial, nor is he under investigation for any crime related to the Mafia. Lawyers for Messrs. Berlusconi and Dell'Utri have repeatedly denied any contact between their clients and members of the Graviano family.



Two mobsters didn't corroborate testimony by convicted hitman Gaspare Spatuzza, center, in a photo from 1997, that was seen as harmful to Italian Premier Silvio Berlusconi and an associate, Marcello Dell'Utri.

Inflexible contract limits Airbus's flying truck

Continued from first page risk. The U.S. changed its approach because military programs take decades to complete. Their requirements and technology evolve during development, which increases costs.

A more common approach now, known as cost-plus, pays a supplier's expenses and guarantees a fixed profit margin. Critics of cost-plus deals say they don't adequately encourage contractors to control outlays.

Opponents of fixed-price contracting, meanwhile, say the rigid approach also fails to control costs and instead produces expensive legal battles. The Pentagon's last big fixed-price contract, for the A-12 Avenger II airplane, is still being fought out in court, 19 years after its cancellation.

Airbus officials were aware of these risks when they signed the A400M contract. At that time, British defense giant BAE Systems PLC owned 20% of Airbus alongside EADS, and BAE was fighting with the British Defense Ministry over fixed-price contracts for a surveillance plane and a submarine. BAE's then-Chief Executive Mike Turner sat on the board of Airbus.

"We would have preferred it was not a fixed-price contract," Mr. Turner said of the A400M deal before he retired from BAE last year. BAE sold its stake in Airbus to EADS in 2006.

Airbus officials in 2003 said they could handle the A400M contract using their experience competing with Boeing Co. in the commercial jetliner market. But four years later, EADS Chief Financial Officer Hans Peter Ring said "the logic was wrong" behind that thinking.

The Airbus A400M military transport plane on Friday



Now the Obama administration wants to use fixed-price deals as a tool permanently to shake up defense contracting and cut its cost of military systems. In August, the Pentagon awarded an Army truck contract worth billions of dollars to Oshkosh Corp. on a fixed-price basis. BAE, whose subsidiary had held the contract for 17 years, and

another bidder, Navistar International Corp., lodged protests with Government Accountability Office to challenge the Army's pick. Oshkosh's lower pricing is an issue with the losing companies.

The biggest test of Washington's new approach is a \$40 billion tender to buy 179 aerial refueling jets, which the Pentagon wants to

Cost control

The Pentagon uses a variety of contracting methods to rein-in expenses.

Contract type	Key criteria
Firm Fixed Price	Government pays a set price, whatever the contractor's cost.
Fixed Price Incentive	Government sets a maximum price, targeting contractor's cost and profit.
Cost-Plus Award Fee	Quality, cost-management and timeliness are benchmarked by government.
Cost-Plus Incentive Fee	Contractor's profit can rise if costs are kept down.

Source: U.S. Department of Defence

handle on a fixed-price basis.

When the Air Force issued a draft request for proposals in September, Deputy Defense Secretary Bill Lynn said the approach would "constrain prices considerably" and indicated a broader change in Pentagon policy.

"It's shifting the department from a cost-plus world more to-

wards a fixed-price world, and we think that that's going to be an important element in avoiding cost overruns," said Mr. Lynn.

Executives at Northrop Grumman Corp. and Boeing—the only potential bidders for the tanker order—are balking at setting prices for a contract that will last almost two decades.

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EUROPE NEWS

Russia builds Abkhazia role

Mostly unrecognized breakaway Georgian region relies on big neighbor for protection and aid

BY SAMANTHA SHIELDS

SUKHUMI, Georgia—Russia is steadily building its military and economic presence in Abkhazia, more than a year after the brief war that cost Georgia the tiny-but-strategic Black Sea coastal region.

Two Russian coast-guard ships arrived to keep Georgian vessels out of the waters off the port of Ocamchire Friday, a day before the first presidential poll in Abkhazia since Russia recognized its declaration of independence in August 2008. The only other countries that recognize Abkhazia are Nicaragua and Venezuela. The rest of the world ignored the election, which Georgia labeled a farce.

Abkhaz officials insist that the region, whose subtropical climate and gorgeous coastline made it a summer playground for the Soviet elite, isn't being annexed by its bigger neighbor, and Russia says it respects Abkhazia's autonomy. But both sides admit Abkhazia couldn't survive without Russian money and protection.

"We're not worried that Russia is using us for its own geopolitical ends. Russia is a friendly country for us and it was our initiative to ask them for help after they recognized our independence," said Sergei Bagapsh, Abkhazia's de facto president, who won a second term in the first round with 59.4% of the vote, preliminary results showed Sunday.

Russian observers declared the election was fair and transparent, but opposition candidate and ex-KGB agent Raul Khadzimba, runner up to Mr. Bagapsh with 15.4% of the vote, said there had been irregularities and threatened to challenge the result.

Russia needs to keep a peaceful Abkhazia, which borders key oil and gas transit routes, under its wing. A vicious ethnic war in the early 1990s, when the region first broke away from Georgia, decimated its tourist industry and has left crumbling hotels along the capital Sukhumi's once-elegant seaside promenade and abandoned Georgian houses throughout the lush countryside. Yet its border is just 19 kilometers from Sochi, the Russian Black Sea resort that will host the 2014 Winter Olympics.

There are 3,000 Russian troops in Abkhazia now, including 1,000 border guards and 2,000 mostly at a tent military base in Gudauta 37 kilometers northwest of Sukhumi. There is a provision in the current defense



Abkhazia's de facto president, Sergei Bagapsh, won re-election Sunday in an election largely ignored world-wide.

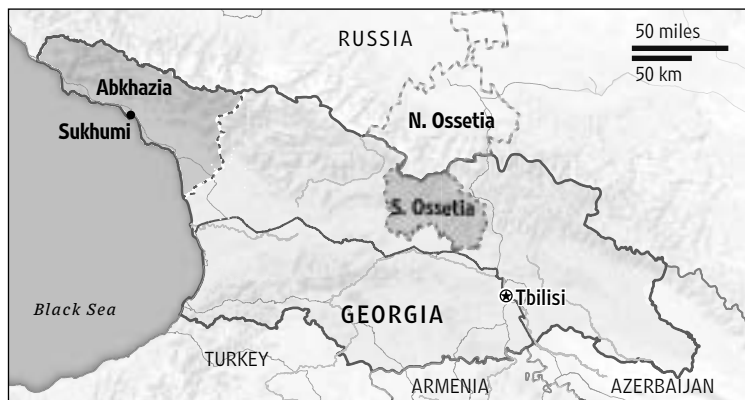
cooperation agreement for around another 1,800 to arrive within the next year, said Garry Kupalba, Abkhazia's deputy defense minister.

Another two coast-guard vessels will arrive in Ocamchire by the end of December and the plan is for Gudauta to be expanded to a full-scale Russian army base with a complete infrastructure and permanent living quarters within two or three years, said Russia's ambassador to Abkhazia, Semyon Grigoriev.

"Of course, there is Russian political and military influence and of course, there is economic influence because of the big financial assistance we're giving. But we take Abkhaz independence very seriously," he said.

The currency in use throughout Abkhazia is the ruble, most people there speak Russian rather than Abkhaz and international telephone codes were recently changed from Georgian to Russian prefixes.

Russia allocated two billion rubles (\$66.5 million) to Abkhazia's budget this year, 57% of the total, and will match that figure in 2010, said Kristina Ozgan, Abkhazia's economy minister. The region needs to develop its tourist and agricul-



ture industries and, although 80% of current investment comes from Russia, it would welcome it from anywhere, she said.

An estimated 200,000 Georgians fled Abkhazia during the 1992-1993 war and the most recent census in 2003 put the population at just 215,000. Of that number, around 90,000 are Abkhaz, Mr. Bagapsh said, with the rest Armenians, Russians and Georgians.

The de facto government says there are more than half a million ethnic Abkhaz in Turkey, many of whom were forced out by Russia in the 19th century. It says it hopes security and the first signs of economic development will lure some of them back, but so far only around

2,000 have returned.

"Demographics are our big problem. We preserved our statehood, our language and our ethnicity, but we suffered great human losses," said Foreign Minister Sergei Shamba.

Russia's biggest oil company, OAO Rosneft, has signed a cooperation agreement with Abkhazia and began oil deliveries this year, said Mr. Grigoriev. He added that Russia's state gas monopoly, OAO Gazprom, might show interest in expanding to Abkhazia.

Ms. Ozgan hopes Abkhazia can capitalize on its coastal location between East and West to become a trade and travel hub.

"We could be a little Silk Road," she said.

U.K. spending is seen slowing as savings rise

BY NATASHA BRERETON

LONDON—British consumer spending could falter in the months ahead, as a quarter of households said they are saving more, or plan to, in large part because of uncertainty about the economic outlook, a Bank of England survey showed.

In addition, in a sign that the central bank's dramatic stimulus measures are helping, the article in its Quarterly Bulletin found the proportion of households having trouble keeping up with bills and loan repayments has fallen slightly over the past year, in spite of the economic downturn.

The financial crisis and the recession that followed appear to have changed Britons' attitude to debt and spending. The savings ratio rose to 5.6% in the second quarter of this year, from 2.2% in the second quarter of 2007, and the government expects it to rise further, to 8% in 2010, before falling back to 6.5% in 2012.

The poll, conducted by NMG Financial Services Consulting on the bank's behalf, surveyed about 2,000 households in late September and early October. Household spending accounts for about two-thirds of aggregate demand, so it is important to the bank in calibrating monetary policy.

The proportion of households having trouble keeping up with bills and loan repayments fell slightly the past year, a sign stimulus measures are helping.

"The prospects for consumer spending depend to a large extent on household attitudes to saving," the BOE paper said. "Around a quarter of respondents reported that they have increased or plan to increase the amount of money they save," it noted.

The poll also found that a further 35% of households said they definitely hadn't or wouldn't increase their levels of savings.

The BOE has taken unprecedented action to cushion the blow to the economy from the credit crisis. It slashed its key interest rate to an all-time low of 0.5% in March, and embarked on a program of quantitative easing that will see it pump a total of £200 billion (\$325.5 billion) in newly created money into the economy by early February.

Still, the U.K. remained in recession for a sixth consecutive quarter in the three months to September, lagging behind all other members of the Group of 20 leading economies.

Despite that, consumer spending has remained relatively resilient. The British Retail Consortium said last week that same-store retail sales vales rose 1.8% in November from the year-earlier month, while total sales rose a stronger 4.1%.

The BOE poll data showed that households increased their saving for reasons largely connected to concern about the economic outlook. Reasons frequently cited were fear of losing employment, a desire to reduce debt, additional personal commitments and extra money from lower mortgage payments or bills, as well as a desire to save for retirement or the future, and having extra cash from a new job or inheritance.

Economists voice stimulus worry

BY BRIAN BLACKSTONE

BERLIN—Top economists from the U.S. and Europe warned of the danger of creating asset-price bubbles if central banks and governments repeat the past mistake of keeping expansive monetary and spending policies in place for too long.

The financial crisis of the past two years is blamed partly on decisions by policy makers, especially the U.S. Federal Reserve, to keep interest very low after the 2001 downturn, despite a recovering economy.

That policy is a "breeding ground" for asset bubbles, said Stephen Roach, chairman of Morgan Stanley Asia, said at a conference in

Berlin organized by Columbia University

The meeting echoed a hot topic for central bankers and finance ministries globally: how to safely withdraw trillions of dollars, euros and yen they have pumped into banking sectors, and when to rein in budget deficits that have ballooned amid to the worst recession in decades.

Although global growth and financial markets are rebounding more quickly than was expected only this summer, the Fed and the European Central Bank don't appear to be taking any chances.

Both central banks have sent strong signals that they will probably keep their key interest rates extremely low until well into 2010, al-

though they are expected to unwind some of their other support measures to the banking sector in coming months.

Many governments, meanwhile, have talked about cutting debt and deficits over time, but not yet.

Some analysts believe certain asset prices, including in emerging markets and corporate bond markets, may already be rising unsustainably, following a speedy recovery in recent months.

Supporting the economic recovery while avoiding new bubbles is a tricky balance for policy makers, participants said. One problem is how to spot a bubble: "When it is happening, you don't know for sure," said Gylfi Zoega, a university

economics professor who joined the board of Iceland's central bank after the country's banking system collapsed amid last year's financial chaos.

The usual warning sign of new bubbles, rising inflation, may not emerge for some time. The severity of the global downturn that began in the U.S. at the end of 2008 opened up a tremendous amount of slack that will hold a lid on wages and prices, many economists say.

Former Fed Chairman Paul Volcker told the Berlin meeting that government stimulus measures shouldn't be withdrawn just yet, and that the challenge is to make policy more restrictive before the need becomes obvious.

U.S. NEWS

Detained Americans moved to Lahore

Pakistan police search for militant operative Qari Saifullah, believed to be the main contact of the five U.S. students

By ZAHID HUSSAIN

ISLAMABAD—The five American men detained last week in eastern Pakistan have been moved to Lahore, the capital city of Punjab province, for further investigation as police stepped up their hunt for a militant operative believed to be their main contact.

A senior official familiar with the investigation said the men were in contact with Qari Saifullah, a member of a Pakistani Jihadi group. He was supposed to take the men to North Waziristan, which is an al Qaeda and Taliban stronghold, according to Pakistani and Western officials.

Investigators suspect Mr. Saifullah was an operative of Jaish-e-Mohammed, an outlawed Pakistani militant group with links to al Qaeda that the five men contacted over the Internet. The men were believed to be in touch with Mr. Saifullah before they arrived in the southern Pakistani port city of Karachi on Nov. 30.

Mr. Saifullah had instructed the men to go to Mianwali city in northern Punjab, and from there they were to be taken to Miranshah, the main town in North Waziristan, according to investigators.

Police had earlier said the men had also tried to contact some other Pakistani militant groups.

Usman Anwar, the chief of police in the Punjab city of Sargodha, where the men were detained, said they were shifted to Lahore on Saturday on instructions from the federal government. He said the local police have completed their initial investigation.

"The government has formed a joint investigation committee that includes civil and military intelligence agencies," Mr. Anwar said. Agents from the U.S. Federal Bureau of Investigation also have been questioning the detained men.

Sargodha police have registered a case of conspiracy and plotting to carry out criminal activities against the detained men, though no charges have been filed. No lawyers have been appointed for the five men.

Rehman Malik, the federal interior minister told reporters Sunday that the arrest of the men from the



Unidentified men arrive Friday at the Islamic Circle of North America Mosque in Alexandria, Va., where the young Americans arrested in Pakistan attended.

suburbs of Washington, D.C., had come from information provided by American officials. He said there was some indication that the men could have been planning some terrorist attacks in Pakistan.

Pakistani government officials appeared divided on whether the men should be deported or tried in Pakistan. Rana Sanaullah, the law minister of Punjab province, said Saturday the men could be deported to the U.S. after the investigation was concluded. He told reporters that they were American nationals and should face trial in their own country. But Yasin Watoo, a federal minister, said they could be tried in Pakistan.

Pay curbed at four firms

By DEBORAH SOLOMON
AND JESSICA HOLZER

The U.S. pay czar mandated restrictions on compensation at four firms receiving large sums of government aid, a move designed to more closely tie employee pay to company performance.

Kenneth Feinberg's determinations, which affect roughly 300 highly compensated employees at four firms receiving Troubled Asset Relief Program funds, don't dictate exactly how much each employee can earn but instead set guidelines governing the mix of cash and stock and incentive compensation.

Under the ruling, at least 50% of an employee's compensation must be held for three years either in the form of long-term stock or some other long-term compensation. Regular salaries for 2009 can't exceed \$500,000 in most cases and total cash compensation, which can include cash bo-

nuses or other cash awards, must be limited to 45% of total pay.

The new rules apply to the 26 to 100 most highly compensated employees at American International Group Inc., Citigroup Inc., General Motors Co. and GMAC. While the policy only affects 2009 compensation that hasn't already been paid, the guidelines are expected to form the basis of similar restrictions for 2010.

Mr. Feinberg also required that the firms limit the total amount of money available for bonuses. The companies will be required to establish a "pool" based on a percentage of certain earnings or "other metrics" that have yet to be determined, the Treasury Department said.

Mr. Feinberg said the guidelines are "designed to send a message not only to these companies, but, we hope, to the greater corporate community."

—David Enrich
and Joann Lublin
contributed to this article.

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COPENHAGEN SUMMIT



Russia can increase emissions from current levels while still polluting less than in Soviet times. Above, a rotary dredge fills railway cars with coal in Siberia.

Reuters

Russia demands its credits

Moscow, in a bid to keep its carbon permits, threatens to block a global climate agreement

BY GUY CHAZAN AND JACOB GRONHOLT-PEDERSEN

A Russian demand that it keep its huge surplus of emissions permits after they expire in 2012 is overshadowing global climate talks now under way in Copenhagen, with some observers saying it could hamper efforts to reach a deal and upset the global carbon market.

Russia has warned it could reject any deal from Copenhagen that doesn't allow it to carry forward the unused carbon permits it holds as a result of the 1997 Kyoto Protocol. Those who argue against letting Russia keep the credits say Moscow could end up selling them abroad, leading to a collapse in the price of carbon.

That in turn could hurt efforts to green the world's economy. One principle behind promoting an international system of carbon credits—the currency for buying and selling the right to pollute—is that the

price of carbon should be high enough to encourage investment in nonfossil-fuel technology such as nuclear, wind and solar.

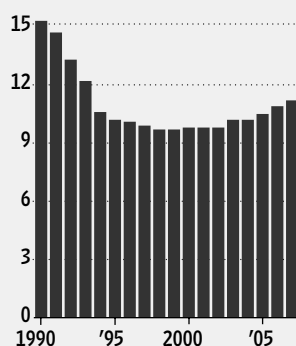
In a bid to reassure leaders meeting at Copenhagen, Alexander Bedritsky, an adviser to Russian President Dmitry Medvedev, said Russia had no plans to sell its unspent permits abroad. But he stressed that Russia would endorse a global deal only if it allowed Moscow to bank its permits.

Observers say Moscow hasn't decided what to do about the surplus. "There is a chance that Russia could relinquish the permits if it will help the talks," says Vladimir Sliviyak, head of Ecodefense, a Russian environmental group. "The authorities would like to be seen as saving Copenhagen if the talks get into trouble." He noted that Mr. Medvedev was due to join world leaders at the summit next week. Previously, Mr. Medvedev had said he would stay away.

The dispute dates to the Kyoto Protocol of 1997, the first interna-

Sliding scale

Russia's carbon-dioxide emissions, in metric tons per capita



Sources: World Bank; United Nations

tional treaty obliging countries to cut their emissions of greenhouse gases. Under Kyoto, a country that has difficulty meeting its emissions goal can buy credits from another

country that has reduced them beyond its target.

Russia was required by Kyoto to maintain its carbon-dioxide output at 1990 levels, rather than cut them. But in the aftermath of the Soviet breakup in 1991 and Russia's subsequent economic collapse, its emissions plummeted, and it easily exceeded its Kyoto targets.

That left it with a surplus of carbon allowances equivalent to six gigatons of carbon dioxide, or roughly the same as China's annual emissions. In theory, Russia could sell the stockpile to other countries—a potential multibillion-dollar bonanza.

The fate of the allowances is unclear once Kyoto expires in 2012. Russia wants them carried forward, in recognition of its achievement in cutting its CO₂ volumes, which it says have fallen by 34% since 1990.

Mr. Bedritsky said Russia wasn't ready to curb its economic growth for the sake of reducing emissions.

Negotiations will precede heads of state

BY ALESSANDRO TORELLO

COPENHAGEN—The final stretch of the Copenhagen begins Monday with national ministers discussing the text drafted following last week's lower-level negotiations.

The United Nations ended the first week of negotiations Friday by presenting a draft text that would push the world to possibly halve greenhouse-gas emissions by 2050. National ministers will negotiate disagreements over that text at the start of the week—exploiting their ability to make more decisions on the ground than the diplomats who represented them last week. Finally, on Thursday and Friday, more than 100 government heads, including U.S. President Barack Obama, plan to join the summit to come up with a final deal.

Still to be ironed out is some wording that has industrialized countries worried they will be putting in too much effort to cut emissions compared with developing nations, including China. The text requires them to make commitments to cut carbon emissions by 2020, while poorer countries "may undertake autonomous mitigation actions," aimed at limiting the increase of their emissions. Leaders will also address funding. The U.N. estimates \$10 billion a year will be needed through 2012 to jump-start the fight against climate change in developing countries.

Climate summit pits U.S., China in a showdown

Continued from page 1

that is becoming more efficient, but not limiting its carbon-fueled growth.

On two consecutive days last month, Washington and Beijing announced specific emission-reduction targets. The U.S. said it would cut emissions 17% below 2005 levels by 2020, a number broadly in line with climate-change legislation pending on Capitol Hill. China said it would reduce its "carbon intensity"—the amount of greenhouse-gas emissions produced per unit of economic output—40% to 45% below 2005 levels by 2020.

Even if China achieves that carbon-intensity cut, the country's total emissions still would surge more than 75% above the 2005 level by 2020, studies project. Michael Levi, a senior fellow specializing in energy and climate change at the Council on Foreign Relations, says that studies by the IEA, the U.S. Department of Energy, and the Chinese government all suggest that China was on track to achieve a reduction in carbon intensity in the range of 40% to 45% even before its recent announcement.

The EU and Mr. Obama have proposed that the EU and the U.S. aim to slash their total emissions on the order of 80% by 2050. Mr. He said it is easy to make such long-term promises. "I doubt the sincerity of developed countries in their commitment," he said.

Mr. He said China's environmental pledge, while perhaps less grandiose, is more real. "I would happily go to debate with any person to see whether what China has committed is less or more than another country," he said. "Facts speak louder than words."

Funding issue heightens tensions

BY ALESSANDRO TORELLO

COPENHAGEN—The United Nations proposed rich countries pay to help poor ones curb pollution, while cutting their own emissions by at least 75% and possibly more than 95% by 2050—a suggestion that heightened tensions between the U.S. and China over climate change.

It isn't clear that the Copenhagen summit will yield a binding agreement on nations' efforts to combat climate changes. The U.N. document is the first official attempt to outline a substantive

agreement from the summit.

On Friday, talks continued for a fifth day of the 12-day conference, with ministers from a number of countries participating in the talks. The draft proposal is vague in key areas to be discussed late next week, when many world leaders arrive.

Meanwhile, the European Union offered to contribute €2.4 billion (\$3.53 billion) a year until 2012 to subsidize efforts by developing countries to reduce greenhouse-gas emissions.

Anders Turesson, a European Union negotiator said the money will be mainly focused on the poorest na-

tions, but couldn't exclude some funds going to richer emerging economies.

The question of whether China should receive subsidies for cutting greenhouse-gas emissions stirred fresh sniping between the U.S. and China. Chinese Vice Foreign Minister He Yafei said Friday he was "shocked" by remarks earlier this week by Todd Stern, the chief U.S. climate negotiator, that China—with \$2 trillion in currency reserves—shouldn't expect climate subsidies from the U.S. Mr. Stern "lacks common sense when he makes such a comment," Mr. He said

during a news conference on Friday.

He said industrialized countries have a responsibility to provide financing and technology to limit the effects of global warming and an increase in greenhouse-gas emissions in developing nations.

Mr. Stern said the \$10 billion a year the U.N. has said is necessary in the next three years wouldn't be enough. The U.N., in its draft proposal, calls for developed countries to provide "adequate, predictable, and sustainable financial resources, technology and capacity-building" to support the developing world.

COPENHAGEN SUMMIT

U.S. climate diplomacy

As Obama reaches out to world leaders, challenges await at home

BY STEPHEN POWER
AND JONATHAN WEISMAN

On the same day that U.S. President Barack Obama decided to commit 30,000 additional troops to Afghanistan, he reached out to global leaders in a series of phone calls and a White House meeting. When he finished talking about his military decision, he pivoted to another issue: the world's climate.

In a meeting with Australian Prime Minister Kevin Rudd, a video-conference with British Prime Minister Gordon Brown, and phone calls to the leaders of France, Russia, China, Germany, India and Poland, Mr. Obama pointed to his administration's efforts to use regulatory power to cut greenhouse-gas emissions, and made a pitch for action at the global summit in Copenhagen. After the calls, the White House declared that the president expected something meaningful could come out of the summit.

When Mr. Obama journeys to the Danish capital Dec. 18, he will be

hard-pressed to satisfy the desire of other nations for the U.S. to commit to deep cuts in the amount of coal and petroleum it consumes, or big new handouts to developing nations that want subsidies to install low-carbon energy technology or preserve forests. Mr. Obama may offer precise numbers and pledges, but he doesn't have the votes for legislation to put them into effect.

The president's immediate challenge is convincing 60 senators to support a proposal to require sharp cuts in U.S. greenhouse-gas emissions by 2050, and institute a system that requires businesses to pay for the right to emit such gases. Most Republicans oppose the cap-and-trade bill, as do some members of Mr. Obama's own party.

Sen. James Webb, a Virginia Democrat whose state depends on coal for 45% of its electricity, says legislation backed by Mr. Obama to require companies to pay for their greenhouse-gas emissions would lead to a "huge bureaucracy."

Climate politics are both national

and global. Mr. Obama faces challenges in both arenas. At the same time, Mr. Obama is juggling rivalries among other major nations in an effort to forge a climate deal that doesn't put the U.S. economy at risk.

China will be the key to any world-wide climate deal. In private meetings with Chinese President Hu Jintao on Nov. 17, Mr. Obama won some promises, especially on a key issue for the U.S.: China's willingness to allow verification of its claims to curbing greenhouse-gas emissions. A joint statement that day by the two presidents included language on the issue that Mr. Obama wanted.

A little-noticed tete-a-tete with Premier Wen Jiabao the next day—overshadowed by Mr. Obama's dash to the Great Wall—may have been more crucial, a senior administration official said. Mr. Wen wanted Mr. Obama to outline his proposed commitments to cutting emissions before China put forward a proposal. The U.S. president assured the Chinese premier that he would



Police in Copenhagen watch over a group of protesters who were restrained after an unauthorized demonstration Sunday against greenhouse gases.

lay his cards on the table soon.

On Nov. 24, Indian Prime Minister Manmohan Singh arrived in Washington for the first official state visit of the Obama presidency. Mr. Obama told Mr. Singh that China and the U.S. would put firm climate targets on the table. But if India stood on the sidelines, no progress would be made.

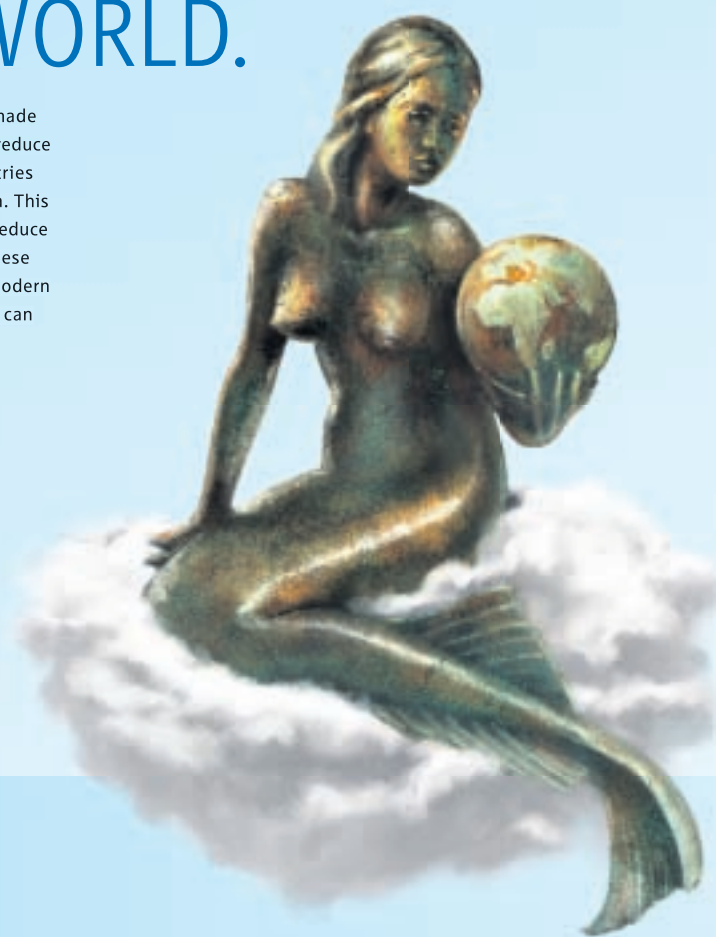
Messrs. Obama and Singh signed a joint statement committing to cooperation on climate change. The next day, Mr. Obama announced spe-

cific emissions targets he would personally take to Copenhagen. The Chinese put their targets on the table the following day, and a week later, India followed suit.

China and India aren't offering to cut emissions, as Mr. Obama has done. They are proposing to make their economies more energy-efficient—which could mean their total emissions grow as their economies grow. That could further complicate the task of winning over skeptics in the U.S. Congress.

CO₂ EMISSIONS AREN'T JUST A TOPIC IN COPENHAGEN. THEY MATTER TO THE WHOLE WORLD.

Climate change doesn't stop at national borders. That is why it is so important that binding commitments be made in Copenhagen to protect the world's climate. We need corporate commitment to increase energy efficiency and reduce greenhouse gas emissions. RWE is currently involved in 120 international climate protection projects in countries such as China, India, Vietnam and Chile. One of RWE's current projects aims to combat deforestation in Zambia. This involves providing 30,000 households with innovative cooking systems by the end of 2010. These systems help reduce CO₂ emissions and stop deforestation caused by the charcoal-burning open hearths commonly in use there. These projects complement the significant reductions in CO₂ emissions RWE has achieved in Europe by constructing modern power plants, expanding power generation from renewables and increasing energy efficiency. In this way, we can secure energy supply and at the same time effectively combat climate change. www.rwe.com/copenhagen



WORLD NEWS



Associated Press (left), European Pressphoto Agency (right)

Thai soldiers, left, surround a plane from North Korea that landed Saturday in Bangkok. Its cargo of explosives and weapons was seized. One of the plane's five crew members, Capt. Ilyas Issakov, above, is escorted by policemen.

North Korea arms flight spurs probe

Thai authorities will look through massive cache of explosives, missiles and other weapons seized from plane in Bangkok

BY PATRICK BARTA
AND EVAN RAMSTAD

BANGKOK—Thai authorities will spend the next several days sifting through a massive cache of explosives, missiles and other weapons seized from a plane from North Korea in a case that could offer new details about the secretive country's involvement in the international illicit-weapons trade.

Thai officials detained the plane and its five crew members late Friday after they landed at Bangkok's Don Muang airport for refueling. Although the final destination of the plane remained unclear, a Thai government spokesman said it was scheduled to land next in Sri Lanka for fur-

ther refueling and was possibly headed to another location after that.

The detention of the plane and cargo is among the first executions of new rules created by the United Nations Security Council in June to try to halt Pyongyang's ability to sell and transport arms. The rules were developed after North Korea tested a nuclear explosive in late May in defiance of previous U.N. sanctions.

Since then, international authorities have tracked at least two vessels, including a ship detained in the United Arab Emirates carrying North Korean arms and explosive powder that was headed to nearby Iran. But the size of the latest haul—more than 30 tons—could provide a broader range of information about the vari-

ety and quality of weapons North Korea is capable of producing.

Thai government spokesman Panithan Wattanakorn said Thai authorities had been tracking the plane for several days in conjunction with investigative agencies from "several countries," though he didn't name them. Local media reported that U.S. officials were involved in the mission, but a spokesman for the U.S. Embassy in Bangkok declined to comment.

The Ilyushin 76 transport plane was registered in Georgia but flew to Bangkok from Pyongyang, Thai officials said. Its cargo—which was later transferred to a Thai military base—included rocket-propelled grenades, components for surface-to-air mis-

siles, and explosives, according to the Associated Press, which cited Thai officials. There were no immediate indications that it included materials or equipment related to nuclear weapons, but Thai authorities said it could take several more days to fully examine the plane's contents.

The crew, including four citizens of Kazakhstan and one from Belarus, were charged with illegal possession of arms in Thailand. A police spokesman said the men didn't yet have lawyers and that they had denied any knowledge there were weapons on board. They were expected to appear before a Thai judge on Monday.

North Korea is one of the world's most impoverished countries and relies on arms shipments for a sizable

portion of its foreign income. Some analysts estimate it reaps several hundred million dollars annually from arms trading.

The country, run by an authoritarian regime that grants its citizens few freedoms, has been trying to build nuclear weapons since the 1970s. Other nations, led by the U.S., have tried since the early 1990s to persuade it to give up its pursuit of nuclear weapons by offering food and money.

North Korea has continued the nuclear program, however, and has prolonged diplomatic interactions over it in a strategy that has allowed the regime to remain in power and wield influence in the world's weapons scene that is outsize in comparison with its economic strength.

Japan coalition sees strains

BY ALISON TUDOR

TOKYO—Japan's new coalition government is showing strains, as boisterous junior partners sway key policies, from deficit spending to U.S.-Japan relations.

The struggles by Prime Minister Yukio Hatoyama to control his cabinet have started to chip away at his still-high approval ratings.

Mr. Hatoyama's Democratic Party of Japan won an overwhelming majority in August parliamen-

tary elections, but that gave him control only of the parliament's lower house. The DPJ, in trying to win smooth passage of legislation through the upper house, has been held ransom by two smaller parties, led by a socialist and a feminist.

It's an awkward dynamic. The DPJ is simultaneously focused on winning sole control of the upper house in elections scheduled for this summer and having to govern in partnership with the parties it is seeking to oust from power.

The major domestic-policy initiatives, such as blocking privatization of the postal service, a bank-loan moratorium and an \$80 billion stimulus package, have been driven by the rambunctious Shizuka Kamei, head of the People's New Party.

The biggest foreign-policy problem has been driven by the other coalition partner, the Social Democratic Party. Mizuho Fukushima, consumer-affairs minister and head of the SDP, threatened Thursday to leave the coalition if the DPJ continues a plan negotiated by the previous government on the location of U.S. bases in Japan. Mr. Hatoyama's refusal to accept the U.S. plan has sparked harsh rhetoric between the close allies.

Mr. Hatoyama called for an emer-

gency meeting Friday with Mr. Kamei and Ms. Fukushima to iron out their differences. A spokesman said the three agreed to work together on resolving the military-base issue.

A newspaper poll last week showed the cabinet's approval rating slipped somewhat to 59% from 63% last month. The biggest complaint from respondents was that Mr. Hatoyama hadn't shown leadership.

U.S. officials have expressed frustration with Mr. Hatoyama's handling of the base issue. The U.S. is keen to finalize a deal over relocation of U.S. troops on the Japanese island of Okinawa. But Mr. Kamei warned at a news conference Friday that the need for a consensus in the government would delay a decision until at least the new year.

He said U.S. leaders should understand Mr. Hatoyama's grip on power is "precarious," adding, "So long as the CIA does not assassinate me, things will not go back to the way things were before, when Japan simply followed America's lead."

Mr. Kamei has spearheaded the two most controversial bills of the new government: one calling for banks to reschedule loans to small companies and one halting the privatization of Japan's postal services.



Agence France-Presse/Getty Images

Shizuka Kamei, head of the People's New Party, speaks at a news conference in Tokyo Friday of the need for a government consensus on military-base issues.

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