DJIA 10441.12 ▼ 0.10% | Nasdaq 2206.91 ▲ 0.27% | DJ Stoxx 250.33 ▲ 1.28% | FTSE 100 5320.26 ▲ 0.65% | DAX 5903.43 ▲ 1.58% | CAC 40 3875.82 ▲ 1.09% | Euro 1.4580 ▲ 0.16% | Pound 1.6400 ▲ 0.84%

U.S. Congress travels more, driving up costs to taxpayers

THE BIG READ 14-15

Abu Dhabi's Citi chagrin: tied to a loss-making deal

HEARD ON THE STREET 18

THE WALL STREET JOURNAL.

VOL. XXVII NO. 224 | EUROPE | Thursday, December 17, 2009

DOWJONES A News Corporation Company | europe.WSJ.com

THE WALL STREET JOURNAL.

£1.50

Bahrain BD 1.50 - Egypt $1.75 (C/V)
Jordan JD 2 - Kuwait KD 1 - Oman OR 2
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Clock ticks on climate impasse

By Alessandro Torello And Selina Williams

COPENHAGEN—Major nations at the United Nations climate summit here remained far apart Wednesday on key issues, amid signs that the bargaining process to come up with a new agreement on how to limit global warming was grinding to an impasse.

"I still believe it's possible to reach real success, but I must say that in that context the next 24 hours are absolutely crucial," the top U.N. climate negotiator, Yvo de Boer, said late Wednesday, the ninth day of negotiations.

Mr. de Boer said the chairman of the conference, Denmark's Prime Minister Lars Loekke Rasmussen, was holding consultations with regional representatives to see how best to move forward in the talks.

Connie Hedegaard, president of the conference, resigned Wednesday to hand the job to Mr. Rasmussen as more than 100 other world leaders head to Copenhagen for the final stretch of the talks.

Officials expressed concern that the conference will have little to show when leaders are supposed to convene to ratify a final outcome on Friday.

"We have no more time to lose," said European Commission President José Manuel Barroso.

China appeared to give some ground on the issue of whether it is entitled to aid from rich nations to subsidize its efforts to curb greenhouse-gas emissions. China's assistant minister of finance, Zhu Guangyao, said Beijing is willing to allow poorer developing nations take priority in receiving rich nations' funding to combat climate change.

But China is sticking to its demand that rich nations provide 0.5% to 1% of their annual gross domestic product as funding to help developing nations for the period to 2020 and beyond, Mr. Zhu said in an interview. He didn't provide information on whether Beijing would insist on some of the funding going to China.

Mr. Zhu reiterated China's opposition to efforts by some

Please turn to page 6

Reuters

Police officers face off with protesters outside the U.N. climate summit in Copenhagen Wednesday. World leaders began to arrive, raising pressure for a pact to curb global warming.

The Quirk

If they want to make it hip, they shouldn't call it square-dancing. Page 29

World Watch

A comprehensive rundown of news from around the world. Pages 30-31

Editorial & Opinion

The Third World understands what Copenhagen is really about. Page 11

Kraft puts RBS in tough spot

By Dana Cimilluca And Sara Schaefer Muñoz

LONDON—**Royal Bank of Scotland Group** PLC's role as a ward of the British state cast the bank into another uncomfortable situation, with some lawmakers protesting its backing of **Kraft Foods** Inc.'s hostile bid for British candy icon **Cadbury** PLC.

On Wednesday, members of Parliament and trade union leaders met with Britain's business secretary and sought to block RBS's plan to make a loan to Kraft as part of its proposed bid. They claim the deal is contrary to Britain's national interest. Meanwhile, RBS also is seeking credit for advising Kraft, which would deepen its involvement in the deal.

Business Secretary Peter Mandelson said in a statement after the meeting that he was aware of the "strength of feelings generated by the takeover bid."

Echoing earlier warnings, he said it is important that any acquirer of Cadbury's respect the company's heritage and work force, according to a spokesman. But he also said he has no statutory power to intervene.

Lord Mandelson's comments, as well as similar ones recently from Prime Minister Gordon Brown, come as many in Britain bemoan lax takeover rules in the country, which are among the most lenient in the world when it comes to foreign suitors for its companies.

While countries like France and the U.S. are known to block takeovers that aren't in the national interest, the U.K. is much less likely to do so.

These people are concerned that a takeover by Kraft will jeopardize jobs at Cadbury and its tradition as an upstanding U.K. corporate citizen.

Please turn to page 3

Major players

Kraft advisers	Cadbury advisers
Lazard	Goldman Sachs
Centerview Partners	UBS
Citigroup	Morgan Stanley
Deutsche Bank	

Banks financing Kraft

The Royal Bank of Scotland Group, Citigroup, Deutsche Bank, HSBC Holdings, BNP Paribas, Barclays, Credit Suisse, Société Générale, Banco Bilbao Vizcaya Argentaria

Source: the companies

PAGE TWO

Common sense and private equity

[Agenda]

By Patience Wheatcroft

Private equity has long lost its mantle as the enemy at large in the capital markets. Banks now have become the focus for public opprobrium, to such an extent that there is little ire left to be expended on other corners of the financial world. The European Union, belatedly, seems to be acknowledging this as it moves in the direction of common sense in shaping the regulation of private equity.

Yesterday's news that the European Council had put forward a compromise text that was in line with the European Parliament's prevailing position was encouraging. That private equity should be lumped into the Alternative Investment Fund Management Directive seems anyhow to be unnecessary, but, since its inclusion appears to be inescapable, the drive has to be to achieve a regime that is at least workable. The European Venture Capital Association has greeted the latest development enthusiastically, saying it shows the Swedish presidency to be "clearly cognizant of the unique contribution venture capital can make to European innovation and long-term economic growth."

The EVCA is hardly an unbiased judge here. While private equity and venture capital undoubtedly can make such a valuable contribution—and should be encouraged to do so—the industry should be wary of being overzealous in its own defence. The record isn't unblemished. It took too much money from rash lenders and didn't always spend it wisely.

Banks now faced with defaults on their loans to private-equity-owned businesses are having to confront the unenticing prospect of taking ownership of overstretched pub operators or

Press Association

Private-equity boss Jon Moulton of Better Capital

retailers. The owners borrowed too heavily against the slender equity they had put into the company and when the downturn hit, making revenue harder to find, were ill-placed to meet their interest commitments.

But while the borrowers were guilty of over-leveraging, those

Burdening a business with overwhelming debt isn't the most obvious way to strengthen an economy

who lent were equally at fault for their cavalier policies. When private equity was in its infancy, banks demanded "belt and braces" security for their backing. As the boom years rolled, however, competition to dole out cash overruled caution, and the concept of "covenant-lite" loans took hold.

Private equity funds couldn't believe their luck and took full advantage of the new friendly environment.

Hence, there is a strong argument for saying that if regulators want to curb excessive leverage in private equity, it is the lenders rather than the borrowers on whom they should focus.

The private-equity funds, however, cannot be absolved from blame. Although their industry has been on a charm offensive since 2007, when the very mention of a private-equity takeover sent shareholders of and trade unions at U.K. supermarket group J Sainsbury into paroxysms of anger and fear, its argument still isn't unequivocal.

The numbers do show that private equity increases productivity. Although averages disguise some horrors, the latest survey for the British Venture Capital Association found that the 47 private-equity-owned companies it examined had increased productivity by an annual average of 7.7% against a national average of only 1%. Income growth had been close to the norm but the more active management of the private-equity owners ensured better efficiencies. And the trend from the most recent returns provided further evidence of that: Private-equity-owned companies were faster to shed jobs.

But on profitability, it is harder to judge the relative performance of the sector, since the survey resorts to a single measure of profit: Ebitda. Businesses bought for an enterprise value of £82 billion, £26 billion of it in equity and £56 billion in third-party debt, produced an Ebitda of £8.6 billion. Investors in private-equity funds, many of whom have been deeply disappointed with their returns of late, will see the disingenuousness here.

To look at profits before nasties such as tax, amortisation and, most critical in this context, interest charges doesn't give the most relevant view of private-equity ownership. Burdening a business with overwhelming debt isn't the most obvious way to strengthen an economy.

The industry may have escaped the worst strictures with which the EU might have bound it, but it will continue to be crippled by a chronic shortage of funds unless it assumes a different attitude toward leverage. During the first nine months of this year, just €6 billion was raised for European private-equity funds against €69 billion in 2008. Banks have gone from lavishing cash upon the sector to being parsimonious in the extreme. Hence, potentially attractive deals remain undone. The volume of U.K. buyouts during the third quarter was the lowest in 25 years.

Against that background, Jon Moulton should be relieved to have raised more than £140 million for his new vehicle, Better Capital, which lists on the U.K.'s AIM stock market this week. The former Alchemy boss had hoped for more but the environment wasn't in his favor, his fund-raising being conducted as Dubai was putting the frighteners on the market. He believes there are plenty of turnaround situations just crying out for his attention, and a handful of investors have been prepared to back his judgment.

Mr. Moulton was one of the few within the industry who dared to criticize the perilous leveraging and myriad levels of debt involved before the deals went sour. Now many in the industry will be watching to see whether he is able to make his optimistically named Better Capital work in the new, and much more restrained, environment.

What's News

■ **Major nations remained** far apart on key issues at the U.N. climate summit in Copenhagen, as pressure rose with the arrival of world leaders and the approach of the gathering's finale. 1

■ **Greece was dealt** a fresh blow as S&P became the second ratings agency in a week to downgrade the country's sovereign debt. 4

■ **France plans** to tax bonuses awarded to bank employees next year at 50%, in a bid to soothe public outcry over excessive remuneration in the financial industry. 4

■ **The U.S. government** joined the legal attacks on Intel, accusing the chip giant of using illegal tactics to stifle competition in a complaint that adds new allegations against the company. 17

■ **The Fed said** the U.S. economy is recovering, but reaffirmed its plan to keep interest rates near zero for at least several more months. 8

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Renault will stay in Formula One with a new partner, **28**

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Iain Martin on Boris Johnson vs. Alan Johnson.

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THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Stapleton House, 29 - 33 Scrutton Street, London, EC2A 4HU

SUBSCRIPTIONS, inquiries and address changes to: Telephone: +44 (0) 207 309 7799. Calling time from 8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com. Website: www.services.wsje.com

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 N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basinevi.

Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003.

Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

NEWS

Americans souring on Democrats

Public's malaise and insecurity translate into significant shift in political landscape since start of the Obama era

By Peter Wallsten

WASHINGTON—The Democratic Party is slumping amid a growing sense of malaise and insecurity among Americans at the end of President Barack Obama's first year in office, according to a new Wall Street Journal/NBC News poll.

The findings underscore how significantly the political landscape has changed since the start of the Obama era in January, when voters were optimistic about the future, the new president enjoyed soaring approval ratings and congressional leaders were set to pass his ambitious agenda and hoping to expand their majorities in future elections.

Now, the public is souring on Mr. Obama and his party, and Americans are unusually grim about their country's future prospects. A plurality now believes the U.S. is in decline and in 20 years time will be surpassed by China as the world's top power.

The survey, conducted Dec. 11-14, found for the first time that fewer than half of Americans approve of the job that Mr. Obama is doing, marking a steeper first-year fall for this president than his recent predecessors.

In addition, for the first time a plurality preferred Congress did nothing on health care rather than pass the overhaul plan that would be Mr. Obama's signature achievement so far.

Also for the first time this year, the electorate was split when asked which party they wanted in charge after 2010. For months, a clear plurality has favored Democratic control.

"For Democrats, the red flags are flying at full mast," said Democratic pollster Peter Hart, who conducted the survey with Republican pollster Bill McInturff. "What we don't know for certain is: have we reached a bottoming out point."

The survey, with a margin of error of 3.1 percentage points, suggested possible big gains by Republican candidates in next year's elections. Voters intending to back Republicans, for example, expressed far more interest in the 2010 races than those planning to vote for Democrats.

But public displeasure with Democrats wasn't translating into warmth for Republicans. Twenty-eight percent of voters expressed positive feelings about the GOP—a number that has remained constant through the Democrats' decline over the summer and fall. Only 5% said their feelings toward the Republicans were "very positive."

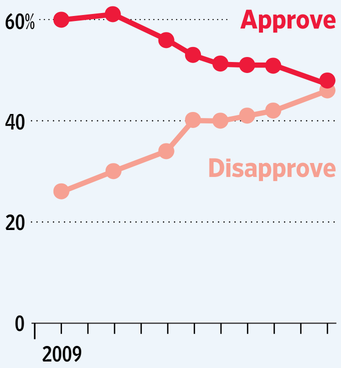
Still, the survey paints a decidedly gloomy picture for Democrats, who appear to be bearing the brunt of public unease over rising joblessness and uncertainty over Washington's economic policies. Just more than one in three voters said they felt positive about the Democratic Party, a 14-point slide since February.

"Overall, it's just like a depressing time right now," said Mike Ashmore, 23, of Lansdale, Pa., an independent who supported Mr. Obama last year but now complains about the president's lack of activity on jobs. "A lot of my friends are either employed and hate it, or are unemployed," Mr. Ashmore said.

—Nomaan Merchant contributed to this article.

Shrinking popularity

How Americans feel about the job Barack Obama is doing as president?



Source: WSJ/NBC News telephone poll of 1,008 adults conducted Dec. 11-14; margin of error: +/- 3.1 percentage points

Agence France-Presse/Getty Images

U.S. President Barack Obama met with senators Tuesday to discuss health care. Public opinion on the overhaul plan is souring.

RBS is in a tough spot

Continued from first page

But even as politicians give voice to such concerns, RBS, soon to be 84%-owned by the U.K. government, has thrown its support behind Kraft. RBS is one of nine banks, including **Citigroup** Inc., **Deutsche Bank** AG, **HSBC Holdings** PLC, **Barclays** PLC and **Credit Suisse Group**, pledging £5.5 billion ($8.95 billion) to fund Kraft's cash-and-stock bid.

Last month, RBS appealed to **Thomson Reuters**, the keeper of league tables tallying banks' involvement in advising on merger deals, asking to be added to a list of four other advisers to Kraft. Its status as a possible adviser is in limbo after an unknown rival challenged the legitimacy of that role Monday, according to a Thomson spokeswoman.

Credit Suisse also claimed credit and was similarly challenged; Thomson is reviewing both cases. An RBS spokesman declined to comment, and a Credit Suisse spokeswoman couldn't be reached.

A person close to RBS said the firm considered the possible political ramifications of advising Kraft, but decided it made business sense to move ahead. Others close to the bank said the government hasn't meddled in its decision on Kraft.

Political criticism of the move is the latest example of the bank being used as a pawn by policy makers, the person said, increasing concerns that such attention could drive off future clients or harm its ability to retain top talent. A spokesman for the U.K. Treasury said only "it is important that RBS operate commercially so they can generate a good return for the taxpayer."

The controversy over RBS's role with Kraft provides a reminder of how perilous it is to operate as a state-owned bank in a mostly free-market environment. It also has put the U.K. government in an awkward position, especially as it seeks to justify its £45.5 billion bailout of the Edinburgh bank ahead of a national election next year. Loans to foreign companies are especially sensitive at a time when many businesses in the U.K. are complaining of a lack of access to credit and as the country's economy continues to struggle.

Tensions over RBS's role come just weeks after the bank clashed with the government over its bonus pot and a day after RBS Chief Executive Stephen Hester criticized the "politicization" of RBS by European Union and U.K. authorities.

Kraft, of Northfield, Ill., has offered Cadbury shareholders about $16.3 billion, a substantial premium to Cadbury's market value shortly before the offer was made, but Cadbury has rejected Kraft's advance.

Kraft has said it will keep open a factory that Cadbury had planned to close and increase investment at another. Cadbury declined to comment.

French bonuses taxed

Bank employees will pay 50% next year on payments above $40,000

By David Gauthier-Villars

PARIS—The French government plans to tax bonuses awarded to bank employees next year at 50%, taking its cue from Britain in a move aimed at soothing public outcry over excessive remuneration in the financial industry.

If approved by Parliament, the levy will apply to bonuses above €27,500 ($40,000), French Finance Minister Christine Lagarde said Wednesday. The proceeds will help fund the extension of state guarantees on bank deposits. The government said last week that it planned a one-time tax on bonuses, but hadn't announced the details.

An aide to Ms. Lagarde said the levy would affect between 2,000 and 3,000 bankers working in France, but that it was too early to say how much the government might raise via the tax.

The French banking federation condemned the tax, saying it would weaken Paris as a financial center and that such a tax should be applied across all financial hubs in order to be effective.

"French banks regret the unilateral imposition of an exceptional tax on bonuses," the federation said in a statement.

Last week, U.K. Prime Minister Gordon Brown and French President Nicolas Sarkozy urged other nations to imitate their bonus taxes, saying they aimed to "show the way." Reaction has been muted thus far: Only Germany has said it will consider tightening bonus rules next year.

The U.S. banking presence in France is small, and the new measure will mainly affect French retail banks. **Morgan Stanley**, which has had an office in Paris since 1967, declined to comment.

In the U.K., the government's latest budget plan calls for a one-time 50% tax on some City bonuses exceeding £25,000 ($40,600).

The British tax will be levied only on one-time payments—the bonuses that aren't part of employees' contracts. France also has discretionary and contractual bonuses, and—in line with new regulation—the bonus payments are spread over three years. The French government hasn't yet given details about whether the new tax will apply to contractual or discretionary bonuses or both, or about whether the tax will be spread over three years or paid in one go.

In London and Paris, the logic behind the tax is that governments ought to get a cut from bank bonuses, because a large part of the payouts stem from activity that wouldn't have occurred if the governments hadn't bailed out the banking industry.

The pay guidelines issued by the Financial Stability Board, which was created by the Group of 20 nations to coordinate regulatory reform, focus primarily on responsibly rewarding risk and paying careful attention to how compensation affects capital levels. Little attention has been directed at the size or timing of bonus payments, where the U.K. and French taxes are aimed.

Ms. Lagarde said the tax was primarily aimed at persuading bank executives to refrain from paying high bonuses on 2009 earnings and, instead, to beef up their capital reserves. The tax will be an "incentive to apply discipline and moderation in the payment of 2010 bonuses," she said.

French politicians said the tax would also convey a message to people angered at what they perceive as bankers' disproportionate pay.

"I doubt we will collect much money through this bonus tax," said Chantal Brunel, a lawmaker affiliated with France's conservative ruling party, the UMP. "But it's an important political symbol of fairness."

France was among the first countries to call for tougher regulation on banking-industry remuneration. Mr. Sarkozy has repeatedly voiced concerns that pay scandals would fuel voter resentment. But he has been reluctant to adopt any measure that could put Paris—Europe's second-largest financial center after London by number of bankers—at a competitive disadvantage.

Bloomberg News

Finance Minister Christine Lagarde said that one aim of France's bonus tax is to persuade banks to beef up their reserves instead of paying high bonuses.

S&P lowers Greek sovereign-debt rating

By Brian Blackstone And John Kell

A second ratings agency downgraded Greece's sovereign debt, dealing the country a fresh blow as its new Socialist government tries to calm fears over its large deficits by pledging to bring them within European budget rules by 2013.

Standard & Poor's Corp., which put Greece on a negative watch last week, lowered its rating one notch to triple-B-plus and warned of future downgrades. Last week, Fitch Ratings cut Greece to a below-A rating. Greece is the only member of the 16-country euro zone to have such a low rating. Moody's still has Greece at A1, but it has the country on a negative watch.

"We believe that the government's efforts to reform the public finances face domestic obstacles that would likely require sustained efforts over a number of years to overcome," said S&P analyst Marko Mrsnik.

Greece's Prime Minister George Papandreou on Monday said Greece will bring its deficit down to 3% of gross domestic product in 2013, the maximum allowed under European Union rules, from nearly 13% this year. But analysts say Greece has put few concrete proposals on the table.

The S&P move "is hardly a ringing endorsement of the additional measures to reduce the budget deficit," said Jonathan Loynes, chief European economist at the consultancy Capital Economics in London, in a note to clients.

S&P said due to higher revisions to its projections of Greece's debt and deficit levels, and the anticipated cost to the government of servicing those obligations, it saw Greece's fiscal flexibility "diminishing more than we had previously expected." S&P expects double-digit general government deficits as a percentage of GDP this year and next to raise the debt burden sharply.

The news comes as the Markit economic-research firm, which compiles a survey of purchasing managers from the euro zone, said business activity rose again in December, but policy makers and economists continued to cite concerns that the recovery could slow in coming months.

Still, the European Central Bank and EU remain cautious about unwinding stimulus packages. Although it is beginning to dismantle its monetary stimulus this week, the ECB has warned of a slow and bumpy comeback for economic activity.

The U.K.'s Office for National Statistics, meanwhile, said the number of jobless claims fell for the first time since February 2008.

Also, Chancellor of the Exchequer Alistair Darling said Britain could cut its deficits faster than planned if economic growth tops expectations. Last week, he set out a plan to reduce the U.K.'s budget deficit to 5.5% of gross domestic product in the 2013 financial year from 12.6% in the current year.

Mr. Darling said the jobs data are "very encouraging." but added that "we still think unemployment is going to increase into next year."

Like other small euro-zone countries in Southern Europe, along with Ireland, Greece thrived after adopting the euro in 2001. The low interest rates that came with joining the common-currency zone fueled booming domestic demand. But those countries didn't make needed improvements to their economies that would have helped them withstand financial crisis and recession, economists say.

The S&P move highlights a dilemma for the ECB. Under its old collateral rules, government debt needed to be single-A-minus-rated by at least one agency to be eligible as collateral for ECB loans. During the crisis, officials relaxed those rules through 2010, meaning Greek debt is safe as collateral even if it gets downgraded further. But if its problems continue much into next year, investors may start to question whether Greek bonds will be welcome at the ECB in 2011.

"We doubt that the ECB will simply pull the plug" on Greece, said Mr. Loynes, but the latest downgrade "further underlines Greece's precarious position."

The ECB on Wednesday wrapped up its program of long-term lending to euro-zone banks, injecting €96.94 billion ($141.43 billion) at a 12-month lending operation.

—Geoffrey T. Smith, Laurence Norman and Ilona Billington contributed to this article.

Germany pledges funding for Auschwitz endowment

By Patrick McGroarty

BERLIN—Germany will contribute €60 million ($87.2 million) to a new endowment for the Auschwitz memorial in Poland, half the money preservationists say they need for upkeep and repairs at the site of the Nazi's most notorious concentration camp.

The agreement, which comes after 10 months of talks between representatives for the Auschwitz foundation and German officials, significantly eases concerns about the memorial's future funding.

Germany is the first country to commit to the project. Its commitment was crucial because the more than 40 countries asked to contribute—including the other European Union nations, the U.S., Israel and Russia—were waiting on Germany before finalizing their own commitments.

"It is an expression of our historic responsibility," Foreign Minister Guido Westerwelle of Germany's endowment contribution.

Since the end of the war, the Polish government has paid for much of the upkeep at the nearly 500-acre compound west of Krakow. Auschwitz was the largest camp the Nazis built to intern and murder Jews and other prisoners during World War II.

Jacek Kastelaniec, managing director of the foundation established in January to build the endowment, said it will provide an additional €3.5 million to €5.5 million in interest annually to protect Auschwitz-Birkenau's complex of buildings, ruins, and expansive archive of documents and prisoners' belongings.

"If we achieve this goal, it will mean the safety, the authenticity of this place is secure," Mr. Kastelaniec said.

German Chancellor Angela Merkel and governors from the country's 16 states agreed to the pledge in a meeting Wednesday in Berlin. The federal government and states will each provide half of the money, which the foundation has asked to be paid in installments over five years.

Mr. Westerwelle, whose office led the negotiations, has taken strides to improve relations with Poland since he assumed office with the new German government in October.

German and Polish leaders still spar occasionally over proper compensation and remembrance of the war that ended more than 60 years ago. Mr. Westerwelle has struck a notably conciliatory tone in Polish relations.

More than one million people, mostly Jews, were killed in gas chambers or worked to death at Auschwitz, which the Nazis built after invading Poland in 1939.

EUROPE NEWS

Russian reformer dies

By Gregory L. White

Yegor Gaidar, the architect of Russia's wrenching shift to capitalism in the early 1990s, was reviled by millions of Russians for the hyperinflation and hardship the economic transformation brought.

Mr. Gaidar, who aides said died suddenly of a blood clot Wednesday at the age of 53, helped to lift state controls and create a market in the early 1990s, laying the foundations of the prosperity Russia has enjoyed in the past decade.

"Just as Mikhail Gorbachev did in politics, he played the same role in economic matters," said Andrei Bugrov, managing director of Interros, a large Russian business group.

Mr. Gaidar's efforts to build a liberal, promarket political movement weren't as successful as his economic transformations, however, and he faded from the political stage in recent years as the Kremlin tightened control. But he remained a prominent economist and adviser to top government officials, many of whom had been his allies since his days in government.

"In the early 1990s, he saved the country from hunger, civil war and collapse," longtime ally and former privatization chief Anatoly Chubais wrote in his blog Wednesday. "In recent years he was the intellectual and moral leader for us all."

Ordinary Russians, however, blamed the bookish Mr. Gaidar for the explosion of inflation that followed his decision to lift price controls in January 1992.

"He was a symbol of the colossal problems that the people of our country faced in the early 1990s," said Ivan Melnikov, a top Communist Party official. "I think it's hard not just for Communists, but for the majority of citizens to find the necessary tactful words to say about his death."

Although the Kremlin in recent years has sought to paint the 1990s as a period of chaos and deprivation—in contrast to the relative stability and prosperity of the past decade—state media Wednesday provided heavy and positive coverage of his legacy.

First Channel, the country's main newscast, called him "the author of the unpopular but unavoidable reforms that saved Russia."

Both President Dmitry Medvedev and Prime Minister Vladimir Putin issued statements praising Mr. Gaidar for his bravery and honor.

Mr. Gaidar was born in 1956 in Moscow into a privileged family; his two grandfathers were prominent children's authors. A graduate of Moscow State University, he became economics editor at the Communist Party journal Kommunist in the late 1980s, as Mr. Gorbachev, the Soviet leader, sought advice from leading economists on how to gradually reform the creaking Soviet planned economy.

Concerning the current global crisis, in an article published in a Russian newspaper in June, he warned that the global financial problems would undermine the prosperity that has been key to public support for the Kremlin.

Associated Press

Yegor Gaidar, seen in a 2002 photo, 'saved [Russia] from hunger, civil war and collapse,' longtime ally and former privatization chief Anatoly Chubais wrote.

With president set, Romania hopes for loan

By Christopher Emsden And Joe Parkinson

Romanian President Traian Basescu was inaugurated for a second term Wednesday and began working with political parties to form a government that can enforce the tough budget changes required by the International Monetary Fund.

The inauguration put to rest a bitter dispute over electoral fraud, making it likely the conservative Democratic Liberal Party, which is closely affiliated with Mr. Basescu, can form a government backed by a parliamentary majority and able to tap another installment of an IMF-led €20 billion ($29.2 billion) loan, which stalled amid a political crisis.

"Romania is passing through a difficult period," Mr. Basescu said in his speech. "We need solidarity more than ever."

The IMF said it is likely to disburse the next tranche of its loan in February, given that an agreement has been reached on policy changes.

COPENHAGEN SUMMIT

EU's touted CO_2 target rankles rivals

Some nations and environmentalists argue Europe's pledged greenhouse-gas cuts are less ambitious than backers say

By Charles Forelle

BRUSSELS—The European Union, which has led the charge among rich countries to reduce greenhouse-gas emissions, frequently casts its goal of a 20% cut by 2020 as a guiding light for the rest of the developed world. If others go far enough, the bloc says, it will even stretch to 30%.

But some argue the EU's pledges are far less ambitious than they seem, and that has become a source of friction at the Copenhagen climate summit. Tuesday, the top American climate envoy pointed out that the EU counts its 20% cut from 1990, when its emissions were higher than they are today. The U.S. pledge, figured from 2005, is actually steeper going forward, he said.

To get to the 20% cut, the EU takes out its wallet and buys credits on a global carbon market. That means it doesn't have to cut emissions as sharply within the EU. By some reckonings, half of the EU's future cuts could come from credits bought from outside the EU.

On top of that, slower economic growth will make the target easier to reach. Recession means less industrial output and fewer emissions.

European leaders retort that the bloc has put in substantial effort in past years to reduce its emissions—including establishing the world's leading cap-and-trade regime—while the U.S. has sat back and let its emissions rise. Barbara Helfferich, the environment spokeswoman for the EU's executive arm, says the U.S.'s pledge to cut emissions 17% from 2005 amounts to just a 4% reduction since 1990. "Compare that to our 20%," she says.

Still, the soft spots in the EU's pledge have drawn sharp criticism from environmentalists. While exasperated with the U.S. for not doing more, they also make the case that Europe isn't doing as much as it claims.

Getting to 20% by 2020 requires "minimal effort," says Jason Anderson of the World Wildlife Fund. He says the EU should push as far as 40%. "Clearly, the EU needs to improve its pledge," says Rebecca Harms, a German member of the European Parliament who is president of its Green Party.

In 1990, the 27 countries that now make up the EU emitted greenhouse gases equivalent to 5.56 billion metric tons of carbon dioxide. By 2007, that number had fallen 9.3%, or 519 million tons, to 5.05 billion tons. (All the figures exclude emissions from deforestation or changing use of land.) Provisional estimates for 2008 are for an additional 1.5% drop, largely stemming from the recession. In other words, the EU is already more than halfway to its 2020 target.

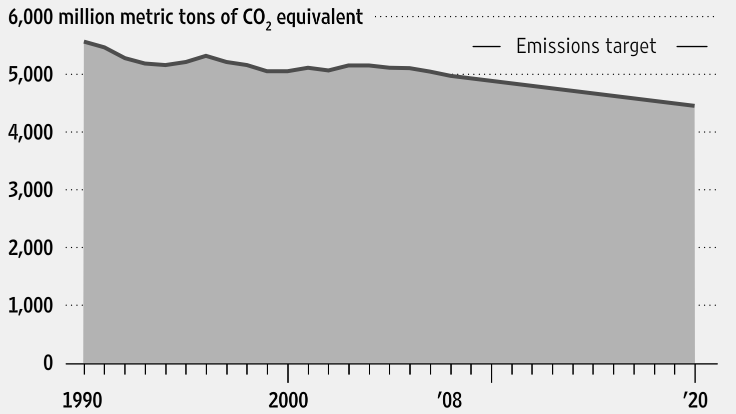
EU leaders credit environmental initiatives and the cap-and-trade system for curbing big polluters. But another factor is at work: In 2004 and 2007, the EU admitted a total of 12 new countries, 10 of them ex-communist states. By counting emissions from 1990—generally before communism's collapse ravaged industrial output—all but one of those countries (tiny Slovenia) register substantial declines that the EU counts toward the 2020 pledge.

The 10 Eastern bloc countries account for two-thirds of the decline in the EU since 1990. Among the 15 Western EU countries, emissions have fallen just 4.3% since 1990.

However, some argue that, conversely, a 2005 baseline favors the Obama administration in international talks, partly because it leaves out the entire first term of George W. Bush. Mr. Bush, as president, resisted imposing economywide emissions caps on the grounds that it would damage the U.S. economy.

Carbon cuts

The EU pledged to cut greenhouse gases 20% from 1990 levels by 2020, but some of this goal could be met by buying emissions credits.



Source: European Environment Agency

The EU gets a fillip from counting "offset" credits toward the pledge. They come largely from a United Nations program called the Clean Development Mechanism. Poor countries don't have to reduce their emissions under the Kyoto Protocol. But if individual businesses in those countries do anyway, they can get one CDM credit for each ton of carbon dioxide avoided.

EU companies are the major buyer of these credits, which can be used ton-for-ton in the European cap-and-trade scheme in place of actual cuts.

Last year, EU companies bought CDM credits for about 82 million tons, according to EU statistics. That is more than has been cut from smokestacks in a typical year. From 2006 to 2007, the most recent years for which final data are available, the actual cuts in the EU amounted to 59 million tons.

In addition to European companies, EU governments—like those in other rich nations—can buy CDM credits to meet national Kyoto targets. The European Environment Agency estimates they will buy 77 million credits annually from CDM and a related program.

Still another source of credits, fiercely debated at Copenhagen, is so-called hot air. Under the Kyoto Protocol, developed nations have targets they need to meet by 2012. For many, that means cuts. But some—particularly Poland, Russia and the Ukraine—have targets measured from the communist period, when emissions were generally higher.

They will have little problem meeting their Kyoto targets and in fact will be left with a surplus of credits to sell. The numbers are vast. Poland, the EU's sixth-biggest emitter, can pump out 2.65 billion metric tons of carbon dioxide from 2008 to 2012, or 530 million tons a year. But that is based mostly on Poland's emissions in 1988. In 2007, Poland emitted 399 million tons.

Poland wants to take advantage of the gap. It plans to sell as much as €600 million ($872 million) in credits over the next three years, a government spokesman says.

Several Western European countries are trying to scale back hot air after 2012, when the Kyoto Protocol ends. But Poland and Russia, with others in similar circumstances, are pushing hard to continue current arrangements so that they can keep selling credits.

All told, estimates Claude Turmes, a Green Party European Parliament member from Luxembourg active in climate issues, as much as 12 percentage points of the EU's 20% cut could be satisfied by various purchased credits.

"De facto, what the EU has decided on is only an 8% in-house reduction," he says.

Ms. Helfferich, the EU environment spokeswoman, says credits play an important role. "Climate change is global," she says. "It does not really matter where you emit and for that matter where you make the reductions."

Mr. Anderson of the WWF says the offset cuts skirt the real problem: In the end, "countries need to decarbonize," he says. "Anything you do overseas reduces the changes you do to your domestic industry."

Clock ticks on impasse over key climate issues

Continued from first page

nations to impose carbon tariffs to protect their industries. Such tariffs are a form of trade protectionism that would ultimately hurt the nations that impose them, he said.

The U.S. has rejected the proposal that rich nations contribute as much as 1% of GDP as unrealistic.

The conference was again surrounded by raucous demonstrations. Police used pepper spray and batons to subdue protesters who tried to disrupt proceedings.

Developing countries and industrialized nations diverged once more in a plenary session Wednesday. Developing nations reiterated that they want to stick to an update of the Kyoto Protocol, which imposes obligations to reduce CO_2 emissions only on rich countries—but not the U.S.—for after 2012.

The European Union is pushing for one single and more comprehensive document, while the U.S. wants some large emerging economies, such as China, to also be bound to some greenhouse-gas reduction target.

British Prime Minister Gordon Brown said he was upbeat about reaching a deal in Copenhagen. Mr. Brown, who came a day early to Copenhagen to try to help break the deadlock, said there had been movement behind the scenes, a Downing Street spokesman said. Mr. Brown also said he saw a way through, although he didn't elaborate what that was.

Getty Images

Venezuelan President Hugo Chávez told Copenhagen delegates that 'If the climate was a bank, a capitalist bank, [rich countries] would have saved it.'

Mr. Brown met in Copenhagen with U.S. Senator John Kerry, co-author of a climate bill in the Senate. Mr. Brown also met with leaders of island states, who are already being hit by the effects of climate change, and forestry states.

Meanwhile, Venezuelan President Hugo Chávez held court in Copenhagen on Wednesday, criticizing the polluting ways of wealthy nations, such as the U.S.

"The rich are destroying the world," he told delegates. Venezuela's economy depends heavily on comparatively dirty heavy oil, much of which it sells to the U.S.

—Jing Yang and Spencer Swartz contributed to this article.

COPENHAGEN SUMMIT

U.K.'s energy test case

Nation sets ambitious emissions cuts, but cleaner power proves elusive

By Guy Chazan

How to balance cheap power and low emissions is a crucial question in talks at the United Nations climate summit. The U.K. is a test case for industrialized nations, because it has adopted one of the most ambitious plans in the world for reducing greenhouse-gas emissions—targeting a 34% reduction from 1990 levels by 2020 and 80% by 2050.

It's still cheaper for U.K. power providers to entice consumers with inexpensive energy generated by dirtier technologies such as gas-fired power plants than through cleaner means such as nuclear or wind power. Critics of the government say Britain hasn't yet come up with a financial framework that adequately encourages construction of cleaner plants.

For years, many Western governments have championed energy deregulation—even as they face doubts about whether de-carbonizing an economy can be left to the market. A recent report by the U.K.'s Committee on Climate Change, or CCC, an independent body advising the government, said it was unsure the market in its current form "will deliver required investments in low-carbon [power] generation through the 2020s."

"You can't be confident that arrangements designed to deliver the efficient dispatch of a fossil-fuel fired plant can deliver a totally different objective" of big investment in nuclear and renewables, says David Kennedy, the CCC's chief executive.

The U.K.'s record in reducing emissions leaves room for improvement. The CCC says they fell at less than 1% annually from 2003 to 2007, and will need to fall at 2% a year for the U.K. to meet its targets. The government says Britain's greenhouse gases have come down by more than 20% against 1990 levels and that it is on track to meet its goal of a 34% reduction by 2020.

The U.K. broke up and privatized its electricity monopoly in the 1980s and '90s, and removed controls on prices. Consumers can choose from competing suppliers, many of them units of big European utilities.

A big chunk of the U.K. power sectors's electricity generation capacity will disappear over the next decade as high-emitting coal-fired power stations and older nuclear reactors are shut. What they are replaced with will have huge implications for the U.K.'s ability to keep to its carbon targets.

In theory, the price of carbon should dictate decisions on such investments. The European Union's emissions-trading plan sets an overall cap on the output of greenhouse gases. The price of permits to emit CO2 then creates incentives to cut emissions and invest in low-carbon technology.

But the recession triggered a steep fall in the price of carbon in the EU trading system, and it has languished at about €13 ($18.90) a ton for months, down from around €30 in the summer of 2008. The result: the economics of capital-intensive projects like offshore wind farms still don't add up.

"It's not because businesses are withholding their investments deliberately," says John Browne, former CEO of **BP** PLC and now president of the Royal Academy of Engineering. "It's because there's not enough incentive to encourage the investment."

Instead, companies are tending to opt for gas-fired power stations, which are cheap, quick and easy to build. But burning more of the fossil fuel means the U.K. may miss its emissions target. It could also hurt its energy security as Britain's gas reserves are declining.

Lord Browne has suggested big banks taken into public ownership amid the financial crisis be directed to invest in renewable energy projects.

Sam Laidlaw, head of utility **Centrica** PLC, has called for a support mechanism that would be activated if the price of carbon in the emission-trading system fell below a certain "price floor." This would provide the certainty companies need to make investment decisions, he says.

Mr. Kennedy of the CCC proposes a new body that would be a "single buyer" of power, which it would then sell to consumers: It would decide what investments were required in low-carbon energy and hold tenders where successful bidders were offered long-term contracts free of commodity price risks.

The government says it is already streamlining procedures for projects such as nuclear power stations and wind farms with a new Infrastructure Planning Commission that should speed up planning approvals.

But others advocate tougher state intervention. Even the opposition Conservatives say they are looking at ways of supporting the carbon price. That, from the party that drove through the privatization of the U.K.'s energy sector, is a big—and somewhat surprising—change.

Press Association

Protesters and police squared off in October near Ratcliffe-on-Soar in the U.K.—one of Britain's largest coal-fired power stations.

U. S. NEWS

Fed keeps rates near zero

Central bank cites high unemployment, low inflation for continuing policy

By Henry J. Pulizzi

The Federal Reserve said the U.S. economy is recovering from its worst recession in decades, but reaffirmed its plan to keep short-term interest rates near zero for at least several more months.

Following a two-day policy-setting meeting, the central bank reiterated its stance that interest rates should stay in their current range as long as unemployment and other forms of economic slack are very high and inflation is low.

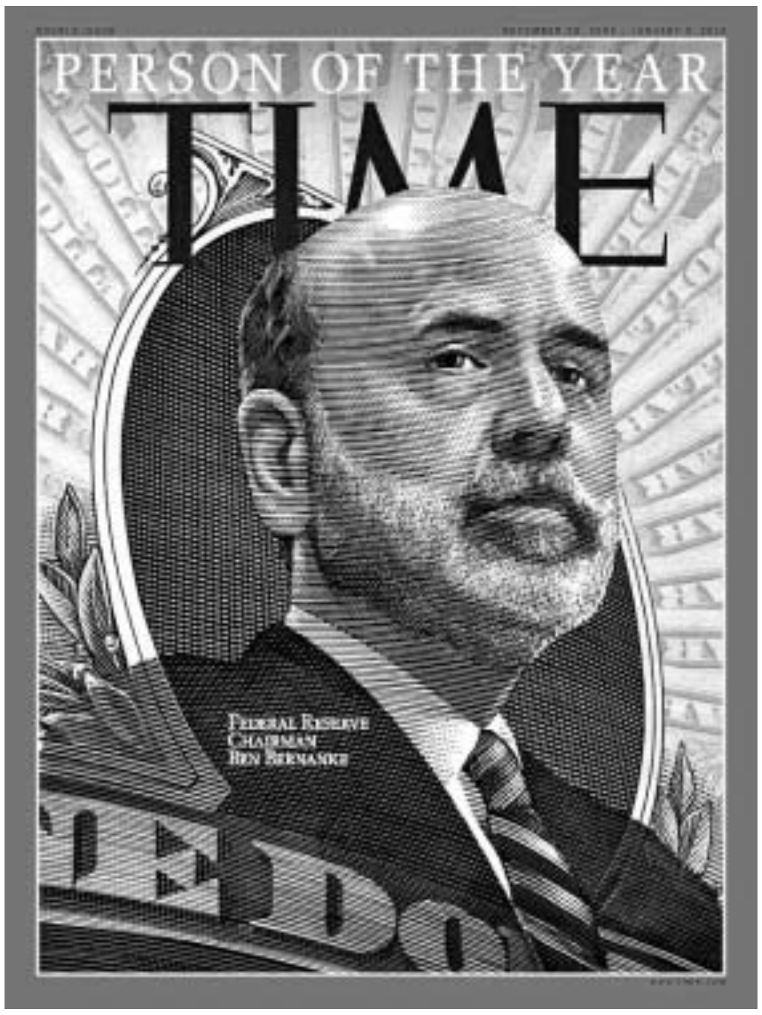
The Fed's assessment of the economic landscape was more upbeat than a month ago, suggesting it is edging closer to withdrawing some of its support for the economy after a stronger-than-expected November jobs report and other positive data. Fed officials also emphasized that many of the emergency lending programs devised in the heat of the financial crisis—such as special lending in commercial-paper markets and to investment banks—are in the process of being scaled back.

"Information received since the Federal Open Market Committee met in November suggests that economic activity has continued to pick up and that the deterioration in the labor market is abating," the central bank said in a statement, altering slightly the words that it had used in early November.

The FOMC voted 10-0 to maintain the target federal-funds rate for interbank lending at between zero and 0.25%.

The panel's decision isn't a surprise to financial markets, which don't expect the Fed to begin raising interest rates until the recovery is entrenched next year. Fed Chairman Ben Bernanke cemented those expectations last week, when he said slack in the economy and subdued inflation would keep the central bank from lifting interest rates soon. "Though we have begun to see some improvement in economic activity, we still have some way to go before we can be assured that the recovery will be self-sustaining," Mr. Bernanke said.

While Mr. Bernanke has come under fire from some on Capitol Hill for his precrisis management of the economy, Time magazine named him its person of the year earlier Wednesday, largely for the role he played in keeping the U.S. from sliding into a depression this year.



Time

Time magazine named Fed Chairman Ben Bernanke its person of the year.

Recent data hint that the recovery is taking hold. The U.S. unemployment rate declined to 10% in November, an unexpected drop that bolstered hopes the labor market has turned the corner. Robust retail sales and rising consumer confidence, meanwhile, have raised expectations for strong economic growth in the fourth quarter.

At the same time, inflation has been tame, giving policy makers room to wait before beginning to push up interest rates. Core consumer prices were unchanged last month.

The FOMC statement provided little fresh insight into the path of monetary policy in the months ahead. The federal-funds rate has been near zero for a year, part of the Fed's response to the financial crisis, a strategy that also includes emergency measures to buoy credit markets and lending.

The FOMC said it will "maintain the target range for the federal funds rate at zero to 0.25% and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

New angle on Bernanke hearing

By Sudeep Reddy

WASHINGTON—Ben Bernanke is widely expected to win Senate approval for a second term as U.S. Federal Reserve chairman, but opponents are hoping to use the debate on his nomination to curtail his autonomy at the central bank.

The Senate Banking Committee is poised to clear Mr. Bernanke's nomination on Thursday, sending it to the full Senate for a vote. Several lawmakers plan to use the proceedings to gain momentum for a bill that aims to subject the Fed's monetary-policy making to congressional audits.

The measure, crafted by Sen. Bernie Sanders (I., Vt.), mirrors one written by Rep. Ron Paul (R., Texas) that was included in the House's overhaul of financial-industry regulations passed last week.

Republican Sens. Jim DeMint of South Carolina and David Vitter of Louisiana have vowed to block Mr. Bernanke's confirmation until the full Senate considers the audit legislation, which has been co-sponsored by about a third of the Senate.

Mr. DeMint said Tuesday that he thought the measure, which has steadily gained support among lawmakers, would pass if it came to a full Senate vote.

The top Republican on the Banking Committee, Sen. Richard Shelby of Alabama, declined to disclose whether he will back Mr. Bernanke for another term. But he said he would "absolutely" support the audit provision. "I'm for an independent Fed on monetary policy," Mr. Shelby said, "but they should have nothing to hide."

Mr. Bernanke has fought the audit bill for months, contending that it would constitute a congressional takeover of monetary policy. Most of the Fed's other operations, such as bank supervision and consumer protection, are already subject to audits by the Government Accountability Office, an arm of Congress.

A calmer prosperity vs. a less prosperous calm

[Capital]

By David Wessel

A tantalizing question arises in profound debates about the nature of the human mind: If Van Gogh or Mozart had been on Prozac, would they have been spared the agony of depression or would the world have been denied their great art?

The financial crisis and ensuing deep recession raise an analogous question. Do we face a choice: A dynamic, volatile economy with painful episodes like the recent one to get faster long-run growth in living standards versus a more stable economy with fewer crises but also slower growth over time?

If we could find the economic equivalent of Prozac—a cocktail of "financial stability" overseers, tighter restraints on banks, wise government rule to prevent market excesses—would it bring a calmer prosperity or a less prosperous calm?

In a sense, this is a new chapter in a long-running debate between Europe and the U.S. "In the past 20 years, a very extensive political system was built on preserving stability in Europe," Andrzej Rapaczynski, a Columbia University law professor said at a conference last weekend in Berlin convened by Columbia's Center on Capitalism and Society. "It fell under attack by the American risk-loving system. There is now a certain feeling that the world has been victimized by the U.S.," he observed. As a result, he suggested, "a correction of a fundamental ideological kind is under way." It seems to prize stability over risk even at the cost of less innovation.

All this provokes (at least) three responses.

One says: It's a false choice. Peter Kramer, a psychiatrist and author, decries those who see treating depression as somehow different than treating syphilis or epilepsy, both of which once were associated with bursts of creativity. Depression is an illness to be conquered, he insists. Some economists look at the economy the same way. We shouldn't tolerate the panics and depressions that plagued earlier generations, they say. "We want high prosperity but we want it without crisis because crises hurt prosperity," Edmund Phelps, the Nobel laureate, said in Berlin.

Stephen Roach, the Morgan Stanley economist, argued that the boom was a mirage, false prosperity driven by excessive leverage. Surrendering such euphoria denies us nothing in terms of long-run economic growth, only the pain of deep depression. The ups of the 2000s were smaller than the downs; it was a lost decade.

A second says: This is a bad choice. Overemphasizing stability in the wake of the crisis will mean less wealth for the next generation. Standing not far from where the Berlin Wall once towered, German entrepreneur Peter Jungen said, "Without the dynamic growth since the fall of the Wall, we probably wouldn't be where we are today. Would we be happier?" His answer: No! Capitalism, he said, means lurching from crisis to crisis and getting stronger over time. "We need more capitalism than we have," he insisted.

A third says: This tension must be managed, not denied. "We can acknowledge capitalism is not stable, and deal with it," said New York University economist Roman Frydman. "We no longer have to defend capitalism against communism." He argues not for aiming at "stability," but instead at what's been dubbed in other contexts "bounded instability" or the "edge of chaos." Accept the ups and down, but strive to avoid the very highest peaks and very deepest troughs, he said. "Markets ultimately self-correct. They just do it too late."

Until a few years ago, the U.S. implicitly accepted the view that stability was overrated. The Asian financial crisis was their problem, not ours. The tech-stock bubble of the late 1990s burst, but did no lasting harm. Bankruptcies, layoffs and worthless stock options were the price of entrepreneurial risk-taking that also produced the likes of Google. And all that Wall Street financial innovation, well, it seemed to make people rich without making anyone else poor.

That view is now being challenged. The painful recession has provoked discussion inside the U.S. Federal Reserve, which once shrugged off bubbles in stocks and house prices, about when and how to pre-empt bubbles before they burst. A similar reconsideration lurks behind the debates in Washington and other capitals about what financial innovation should be banned, how much bankers should be restrained, when government should interfere with markets.

Fundamentally, this is not a technical question, but a bigger one. "The regulation we are going to get will be much more a matter of politics than economics," said Mr. Rapaczynski. "Economists are prone to forget this. They believe in markets and believe in philosopher-kings with economists as the philosophers."

If we could be sure that economic and financial stability can coincide or even produce faster growth over time, the choice would be easy. We can't be sure. So ultimately, this is going to be a political—in the best sense of the word—decision. If we're lucky, the political system and central banks will devise ways to get more stability without stifling innovation and dynamism. We might not be lucky.

Clumsy, ill-conceived and hot-headed efforts advertised as avoiding a repeat of the current crisis could yield neither more stability nor more growth. That would be unwelcome.

Write to me at capital@wsj.com. Discuss at wsj.com/capital.

WORLD NEWS

Fostering new responsibility

India's Salman Khurshid aims to bridge a gap between 'corporate India and the rest of India'

India's Corporate Affairs Minister Salman Khurshid is New Delhi's man in charge of regulating the country's vibrant companies.

He took the position in May in the wake of the Satyam Computer Services Ltd.'s book-cooking scandal with the aim of promoting better corporate governance and ethics. Soon he hopes to see the Companies Bill become law. The bill replaces a 1956 law on how companies are run and revamps regulations on everything from mergers and acquisitions to insider trading to class-action suits.

Encouraging corporate social responsibility is another important job of the minister. Mr. Khurshid has been in the news lately for suggesting India could have an exchange for corporate social responsibility credits along the lines of carbon credits. The 56-year old Mr. Khurshid said in an interview with The Wall Street Journal's Krishna Pokharel that he aims to bridge the gap between "corporate India and the rest of India."

Edited excerpts:

Bloomberg News

'We need growth with equity,' says Salman Khurshid, India's minister for corporate affairs.

WSJ: You have been encouraging inclusive growth and social responsibility in the corporate sector. What is the ministry doing to help companies work toward these goals?

Mr. Khurshid: Corporate social responsibility has to come both from within and from without. From within because it has to become part of corporate culture, especially in our country where we need growth with equity, growth which is inclusive and growth that lifts everyone together.

From the outside, we can create special incentives: fiscal advantage, special opportunities, benefits, state support and market support. I think a new generation of incentives could be provided for the right kind of growth, growth which is inclusive, growth which is responsible.

WSJ: What role do you envision for the corporate sector in India which is largely poor and rural?

Mr. Khurshid: Today, we have a huge number of people involved in agriculture but there is very little corporate involvement in the sector. Some 18% of our GDP comes from the agriculture sector whereas it involves 80% of our population. Obviously, that needs to be corrected. Our GDP from agriculture has to grow. Value addition in agriculture has to grow. If that is to happen—with better remuneration for agriculturalists without backbreaking costs to consumers—then we need to involve the corporate sector.

How that can be done is again a very big challenge. We have the cooperative sector, which is in sugar, for instance, doing a massively important job in states like Maharashtra and so on. But can we extend that to other areas as well, other states and other sectors, other than sugar cane? Then we should think of what kind of interface we can provide between the small Indian farmer and the corporate sector.

WSJ: How would you define the ideal Indian corporation?

Mr. Khurshid: Well, there are lots of models available. I think it would be unfair for me to say which is the right one. Periodically, among themselves, companies recognize leaders. Certainly, through business organizations there is a periodic interface between us and them. We asked Mr. J.J. Irani [director of Tata Sons Ltd.] to head the committee on reform of the Companies Law that wrote the report that became the basis of the legislation that is now before Parliament so you can see where our recognition lies.

Gradually, systems will develop by which we can start selecting role models. I can tell you that we are impressed when someone like ITC Ltd. sets up triple bottom line institutions. When somebody commits to Millennium Development Goals, when somebody commits to the best practices in CSR, when somebody goes out and does something which is directly leading to a better profile as far as climate change is concerned, these would be very significant things.

WSJ: Do you think India needs legislation on business ethics?

Mr. Khurshid: Whether we need to have legislation or not, it's too early to say. We are now talking about greater disclosure, greater participation of shareholders, better structures, higher responsibility, awareness about your responsibility, etc. This is what the Companies Bill will do but the bill is not the last step. There will be other steps to be taken, but let's take the first step.

WSJ: How do you think the Satyam fiasco changed the corporate culture in India?

Mr. Khurshid: It was a wake-up call on certain issues but I don't think that we were in such a deep sleep that we didn't know what could go wrong. The Companies Bill already provides for many things that we have discovered from Satyam crisis. But chronologically, the bill was drafted but not enacted. If it had been enacted at that time, then we might have prevented Satyam.

WSJ: By when will the new Companies Bill be enacted?

Mr. Khurshid: Hopefully in the coming year.

New Zealand probes arms link

New Zealand officials are investigating whether an Auckland-based company has links to a weapons-filled plane from North Korea that was detained in Bangkok last week.

By **Patrick Barta, Daniel Michaels** and **Simon Louisson**

Investigators are still unsure where the plane—carrying 35 tons of missiles, explosives and other armaments—was heading or who coordinated the flight plan. Its five-member crew, from Kazakhstan and Belarus, remains in detention in Bangkok and all five have denied knowledge there were weapons onboard.

Officials in Kazakhstan and the Republic of Georgia have said the aircraft, which is managed by Georgia-registered carrier Air West Ltd., was leased to carry the cargo by SP Trading Ltd., a New Zealand-registered company with offices in Auckland.

Air West director Nodar Kakabadze said he had no information about SP Trading.

"We signed a contract with SP Trading Nov. 4 this year to carry out some flights. That's it," Mr. Kakabadze said by phone from the freight company's base in the Black Sea port city of Batumi, Georgia. "I know nothing more about the company, and we'd never worked with them before," he said.

A copy of the lease agreement between Air West and SP Trading, obtained by Georgian aviation officials and viewed by The Wall Street Journal, lists a person named Lu Zhang as SP Trading's director. New Zealand government records indicate SP Trading was incorporated there in July of this year and also list Lu Zhang as its director.

"We are indeed aware of this issue and the alleged link to New Zealand," said a spokesman for New Zealand's Foreign Ministry. "We are urgently seeking more information," the spokesman said.

Attempts to locate Lu Zhang and contact SP Trading were unsuccessful Wednesday. A reporter who visited SP Trading's registered offices was unable to obtain access to the floor listed on the records.

The weapons shipment is among the first detained under new United Nations Security Council rules created in June to curb North Korea's ability to sell and transport weapons. Security experts believe the country reaps hundreds of millions of dollars a year from arms trading.

Thai government spokesman Panitan Wattanayagorn said late Wednesday that Thai officials had finished opening the 140 or more crates from the plane's cargo bay and would release a report within a few days on what they found. Some boxes included surface-to-air missiles and 50 or so tube launchers with computerized weapon-controls, but there was no immediate evidence of weapons of mass destruction, he said.

According to New Zealand records, SP Trading has a single New Zealand shareholder, which in turn has one shareholder, a company with offices in the South Pacific island nation of Vanuatu. According to its Web site, the Vanuatu company provides offshore company incorporation and nominee services. Attempts to reach that company by phone over two days were unsuccessful.

—Samantha Shields contributed to this article.

Iran test-fires missile, defying sanctions push

BY CHIP CUMMINS

Iranian state media reported Wednesday that Tehran successfully test-fired an enhanced version of a solid-fuel medium-range missile, as U.S. and Western powers prepare to push for new economic sanctions against Iran over its nuclear program.

Iran said it fired an "optimized" version of its Sajjil-2, a medium-range missile capable of hitting Israel, according to Iranian media. Tehran first tested the weapon in May, claiming it marked a significant milestone in its missile-technology efforts.

At the time, Iran said the Sajjil-2 had a range of 2,000 kilometers. That would make it capable of reaching Israel and the Black Sea coast of European Union members Romania and Bulgaria, though that isn't different than range capabilities claimed in previous missile launches.

Iran said, however, the missile was more sophisticated than earlier models, and propelled by a solid-fuel system, which would make it easier to deploy than liquid-fuel missiles.

Iran's state media reported Wednesday the updated version is faster, harder to shoot down and quicker to launch.

Brig. Gen. Ahmad Vahidi, Iran's defense minister, said in comments to state media the new weapon was defensive in nature.

"Iran's missile capabilities are strictly defensive and at the service of regional peace and stability," Gen. Vahidi said. "They will never be [used] against any country."

Iran has a history of conducting war games and unveiling what is says are military innovations during times of international pressure. U.S. President Barack Obama has given an end-of-year deadline for progress in talks with Iran over its alleged nuclear ambitions. Washington and other capitals have ratcheted up threats of fresh sanctions as that deadline approaches.

In October, the U.S., France, Russia and the International Atomic Energy Agency hammered out a tentative deal to exchange uranium with Iran. The pact envisioned Iran shipping out the bulk of its low-enriched uranium. Russia would further enrich it before sending it back to Iran for use in a medical research reactor.

But Iran never agreed to the deal. Over the weekend, Iran's foreign minister offered Tehran's clearest counterproposal: to swap a limited amount of its own low-enriched fuel for higher-enriched uranium on the Iranian island of Kish. Western officials dismissed the offer.

The U.S. has threatened to unveil fresh, unilateral sanctions if it can't get broader support for United Nations-backed measures.

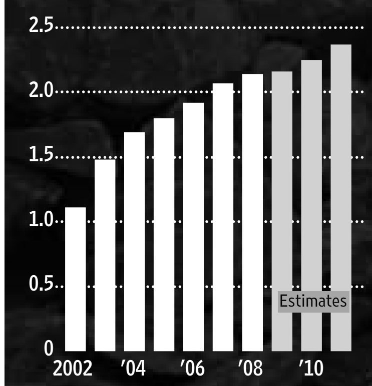
In response to the missile test Wednesday, Israeli Deputy Prime Minister Silvan Shalom said there was no need for the U.S. and Europe to wait for a decision in the U.N. Security Council to impose sanctions on Iran, according to Israeli radio. Mr. Shalom called for sanctions to be imposed immediately.

—Charles Levinson contributed to this article.

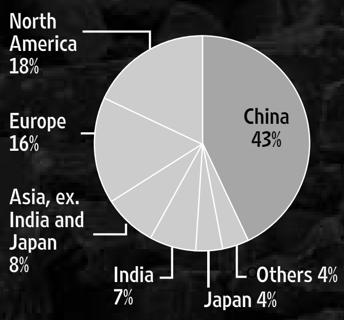
WORLD NEWS

Critical coal

China's total coal production, in billions of tons



Global coal consumption, 2008



Sources: Citigroup (production); UBS (consumption); Reuters (photo)

A worker takes a break as he searches for usable coal at a cinder dump site in Changzhi, Shanxi province.

Beijing tries to ease coal shipments

Winter heightens the fault lines in China's energy infrastructure: distrust of suppliers, poor delivery and bottlenecks

By David Winning

BEIJING—China sought to address a problem of transporting coal around the vast country, in a sign of growing concern over low coal stocks as winter weather sets in.

The government also sought to end a standoff between miners and generators over the prices of annual coal supplies that had the potential to worsen existing bottlenecks in the system. The National Development and Reform Commission said generators should now negotiate prices of coal deliveries directly with miners rather than at an annual coal conference supervised by the government. Generators and miners have a month to conclude talks on deliveries in 2010, the NDRC said.

Power generators and other coal consumers have been reluctant to sign contracts with miners for deliveries several years ahead, as suppliers haven't been able to guarantee enough spare capacity on China's rail network. Easing buyers' concerns that they would receive contracted coal in full and on time, the government separately said Wednesday that all registered term contracts would in the future be guaranteed space on the crowded rail network.

The NDRC also said that thermal coal for use in electricity generation should have priority access to the rail network. It said rail cars should carry thermal coal before other grades, such as coking coal, a key ingredient in steelmaking.

Cold weather in November cut into supplies of coal, and the latest move signals top-level concerns over the possibility of blackouts. A drop in hydropower output also contributed to falling stocks, as did China's continuing economic recovery.

State media have reported some power plants in central China have only enough coal in reserve to cover little more than a week's demand.

Coal accounts for around half of all goods transported by rail in China, and rail bottlenecks have been a factor in preventing coal from being moved between regions easily, highlighting how massive amounts of stimulus funds to improve infrastructure still haven't solved the issue of how to move energy efficiently around the country's rural center.

The NDRC said it would now prohibit railway operators from allocating transportation quotas before coal contracts have been signed. Middlemen such as brokers, who have bought these quotas in the past to secure spot coal sales, are now banned from trading.

—Wan Xu contributed to this article.

An antiporn campaign that hits free speech

By Loretta Chao

BEIJING—China's government is stepping up a campaign against pornography on the Internet that already has closed thousands of Web sites, raising concerns among some free-speech advocates that the effort also is being used to further limit expression.

Among the latest measures in the crackdown, the China Internet Network Information Center, known as CNNIC, a semiofficial office that administers China's domain names, said it will tighten oversight of Chinese domain-name registrations. Beginning this week, all new registrants of domain-names with China's ".cn" suffix are required to show proof they are a government-registered business or organization—effectively making it harder for individuals to set up domestic Web sites.

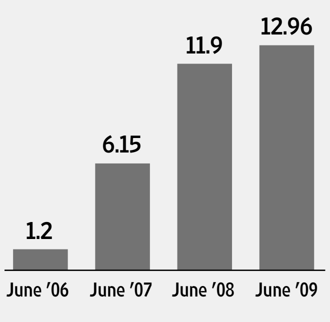
China's antiporn campaign, initiated in August, has involved multiple government bodies and state-owned companies including **China Mobile** Ltd., the country's biggest telecommunications carrier. The crackdown has shuttered thousands of Chinese Internet sites and hundreds more mobile Web sites viewed by cellphone. Authorities also have begun offering rewards for tips leading to more closures.

Big sites, including **Google** Inc.'s Chinese site and **Alibaba Group**'s Yahoo China site have been publicly accused by authorities of facilitating the spread of vulgar content. Both companies made adjustments to their sites after the allegations, without admitting any wrongdoing.

On Wednesday, China's state-run Xinhua news agency reported that the clampdown on pornography will last until May for mobile sites, and will include an effort to "crack the interest chain behind pornographic [mobile sites], which might implicate telecom firms, access providers, advertisement agencies and third-party payment providers."

What's in a name?

Number of dot-cn domains in China, in millions



Source: China Internet Network Information Center

Chinese officials, in their move against sexual content, often end up including a wide range of material deemed harmful to its desired form of society, including political critique. Regulators also frequently block access to overseas Web sites, such as Facebook, Twitter and YouTube, which have been inaccessible for most Chinese users since earlier this year.

Xiao Qiang, a Chinese-Internet scholar at the University of California at Berkeley, said the latest moves are an example of political censorship "disguised as an antiporn campaign." Mr. Xiao says part of the impetus for such measures, beyond simple government desire for control, is that different government agencies are vying for bureaucratic turf to oversee the increasingly lucrative online media business in China, which has more Internet users than any other nation.

The ".cn" suffix was originally meant for company Web sites, but that was loosely enforced, leading independent blogs and other noncommercial sites to use the suffix. According to CNNIC, this led to the registration of sites that purvey obscenity and "false information."

It is still possible to register other suffixes from within China, such as ".com" and ".net." Many individuals, including prominent bloggers, have done that to avoid having their sites deleted by Chinese government censors. Those domains can be blocked in China, but are not administered by Beijing.

Jieshibaobao for example, a site for parents of children affected last year by China's tainted-milk scandal, was set up by one parent with a .com suffix after his blog about the scandal, and his other Web sites, were deleted or blocked in China. That site is still online, but as of Wednesday night appeared to be blocked.