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Iranian supporters mourn death of a doctor who defied Tehran

THE BIG READ 14-15

Top opposition cleric dies, setting off protests in Iran

NEWS 3

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Eurostar's closure worsens

With 60,000 already stranded, ticket sales are suspended through Christmas Day

By Christina Passariello

PARIS—The popular **Eurostar** rail line between Paris and London will remain shut for a third day on Monday, and ticket sales have been suspended through Friday, Christmas Day, the company said, in the service's worst-ever technical shutdown that has left 60,000 travelers stranded.

Five Eurostar trains stopped on their tracks on Friday evening as they were inside the tunnel under the English Channel, leaving more than 2,000 people trapped in the dark and cold—some for more than 12 hours, according to a Eurostar spokesman.

After conducting tests for much of the day on Sunday, Eurostar officials said the cause of the breakdown was that cold, dry air from the freezing weather in northern France mixed with the warm, humid air of the tunnel caused condensation that prompted the engines to shut down.

"Extreme weather can cause delays, but nothing like this," said the company spokesman, who said the shutdown for weather reasons was unprecedented. The Eurostar service was suspended for two days in 2008 following a fire in the Chunnel.

Eurostar Chief Executive Richard Brown told BBC television that normal service might not return for days. In a statement, Eurostar encouraged travelers to cancel their trips if possible or reschedule for a later date.

Tim Powell, a 30-year-old English teacher in Paris, ended up back at his house on Saturday night after a six-hour journey. Mr. Powell said he was hoping to get onto a Eurostar train on Monday. If not, he plans to make the journey to England by bus on Tuesday; the rail-transport service through the Chunnel has been unaffected.

"I'm annoyed I'm in Paris and not in London, and I'm worried I might not make it back at all for Christmas," he said.

The chaos could damage Eurostar's reputation as the easiest way to travel between London and Paris and Brussels. Tulip Siddiq, a researcher in London, chose to take the train over a plane to visit Belgium.

"I was trying to be good and get the Eurostar [for my carbon footprint]," says Ms. Siddiq. "Flights tend to be delayed and a hassle… And then it turns out it was Eurostar that was canceled."

Agence France-Presse/Getty Images

Passengers wait with their luggage as further disruptions affect Eurostar service at Saint Pancras station in London Sunday

Climate summit points to more talks

By Jeffrey Ball

COPENHAGEN—The United Nations summit on climate change ended Saturday with a fractious all-night debate over an agreement brokered by the U.S. and China that has no legal force, is vague on crucial details and mainly serves to set up more international haggling in the coming year.

The fundamental disagreements over the appropriate response to climate change among the U.S., China, Europe and a divided group of developing nations led to a near total breakdown of talks during the two-week summit attended by representatives of some 200 nations.

The nonbinding final statement, produced in a flurry of last-minute bargaining led by U.S. President Barack Obama and Chinese Premier Wen Jiabao, received a tepid endorsement early Saturday morning after hours of angry exchanges among frustrated, hungry and tired diplomats, many of whom complained that the final agreement was made without their participation.

The statement said countries would "enhance our long-

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Gold is the new Tupperware, and you're invited to the party. Page 29

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A 'nightmare' decade for stocks

By Tom Lauricella

For many stock investors, this decade can't end soon enough.

Even with the rebound this year, the U.S. stock market is on the verge of posting its worst performance for any calendar decade in nearly 200 years of American stock-market history.

Investors would have been better off investing in pretty much anything else, from bonds to gold or even just stuffing money under a mattress. Since the end of 1999, stocks traded on the New York Stock Exchange have lost an average of 0.5% a year thanks to the twin bear markets this decade.

In the process, the market has provided a lesson for ordinary Americans who used stocks as the primary way of saving for retirement.

Many investors were lured to stocks by the big bull market that began in the early 1980s and gained force through the 1990s. But coming out of the 1990s, the best calendar decade in history with a 17.6% average annual gain, stocks simply had gotten too expensive. Companies also pared dividends, cutting into investor returns. And in a time of absolute financial panic like 2008, stocks usually were the worst place to be.

With just two weeks to go in 2009, the declines since the end of 1999 make the last 10 years the worst calendar decade for stocks going all the way back to the 1820s, when reliable stock-market records began, according to data compiled by Yale University finance professor William Goetzmann.

It edges out the 0.2% decline stocks suffered during the Depression years of the 1930s, which up until now held the title of worst decade. And it is worse than other decades with financial panics, such as in 1907 and 1893.

"The last 10 years have been a nightmare, really poor," for U.S. stocks, said Michele Gambera, chief economist at Ibbotson Associates.

While the overall market trend has been a steady march upward, the last decade is a reminder that stocks can decline over long periods, he said. "It's not frequent, but it can happen," Mr. Gambera said.

To some degree these statistics are a quirk of the calendar based on when the 10-year period starts and finishes.

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PAGE TWO

The pace of decline has been slowing, now Ireland needs the will to recover

[Agenda]

By Irwin Stelzer

Ireland, the one-time Celtic Tiger, the first European Union country officially to enter recession during this downturn is licking its wounds after a protracted period of rapid growth, fueled by a house-price and construction boom, and some rather relaxed bank lending. Nothing much there to distinguish it from several euro-zone countries, or indeed from the U.K. or the U.S. Nor is the hangover very different in kind or intensity.

The unemployment rate in the third quarter was 12.4%, up from 11.6% during the second quarter and some say headed to 14.5% next year. It would be higher had not many discouraged workers stopped looking for jobs. Construction trades have been particularly hard hit by the collapse of the housing sector, which has seen one-third knocked off the value of the nation's housing stock.

The government says things are improving because the rate of deterioration in the jobs market is slowing. Opposition Fine Gael's enterprise spokesman disagrees: "No amount of George Bush-style declarations of victory can disguise the fact that Ireland is still mired deep in recession," he told the press. Poor George W. Bush seems to be dragged into every unpleasantness, even Ireland's economic woes.

Both sides are right. The Irish economy is in bad shape, but the decline has been slowing in recent months. The real issue is what to do now. Ireland has models galore. It could follow Greece, whose Prime Minister George Papandreou stunned observers by responding to the downgrading of his nation's sovereign debt with a plan to increase public-sector pay. It could follow the British model: Soak the rich, who already are eyeing more welcoming tax jurisdictions, and continue to increase spending despite an unsustainable fiscal deficit that has produced an unveiled warning from the rating agencies that its triple-A credit rating is under review. It could follow the U.S., where a fiscal deficit of around 12% shows no signs of destroying the administration's appetite for new spending programs.

Press Association

Irish Finance Minister Brian Lenihan, center, addressing the media in Dublin

Ireland's course is designed to retain the nation's attraction to inward investors.

But it has staked out a different course, designed to retain the nation's attraction to inward investors, and to restore Ireland's international competitiveness by cutting labor costs, while at the same time jettisoning those policies that threaten to turn it into another Greece. In short, it has to decide whether to sign on with those who believe fiscal probity must wait until a recovery has taken hold, lest austerity abort that recovery, or whether it can cut its deficit by controlling public spending, while avoiding tax increases that might scare off its very mobile wealth creators and international investors.

It seems to have opted for the latter course. In the budget announced a few weeks ago, finance minister Brian Lenihan takes an axe to public spending, which Angel Gurria, secretary general of the Organization for Economic Cooperation and Development points out was 50% higher in real terms last year than five years ago. Public-sector pay is to be cut 5% for the lower-paid, 15% in the upper reaches, and 20% for the Taoiseach, Brian Cowen. Child benefit is to be reduced. Payments to doctors, lawyers and other professionals working on state contracts are to be reduced.

Most significantly from the point of view of those who argue that an economy can't tax its way out of recession, the 12.5% corporate tax remains in place. It won't be raised, despite complaints from other euro-zone members that this in some way constitutes unfair competition for inward investment.

There is some disagreement over whether these spending cuts will enable Ireland to reach its goal of reducing the deficit to 3% of GDP in three-to-four years. Economists at Goodbody Stockbrokers don't believe the government will reach its targets. If they are right, Moody's, which already has downgraded Irish debt from triple-A to Aa1, might just take the rating down another notch. Moody's says it will "closely monitor" the situation.

Economists at Goldman Sachs are more optimistic. Ireland's plan, they say, benefits from wide political support, and "is based on broadly sound assumptions." But even the pessimists at Goodbody agree "a recovery is under way" and expect the Irish economy to grow at an annual rate of 2.4% in 2011. The official government forecast is for growth at a 3% rate or slightly higher, on the back of a surge in exports.

Difficulties remain, especially in banking, where the sector leaders—Allied Irish Bank PLC and Bank of Ireland PLC—need new capital in addition to the €3.5 billion the government already has injected in return for 25% stakes in each.

Patrick Honohan, governor of the central bank, deems it "quite possible" the government will have to take its stakes to 50% before the crisis is over.

That said, the worst of Ireland's woes are probably behind it—a tribute to the political will lacking in one of its neighbors.

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

What's News

■ **The Eurostar rail line** between Paris and London will remain shut for a third day Monday, and ticket sales have been suspended through Christmas Day, in the service's worst-ever technical shutdown that has left 60,000 travelers stranded. 1

■ **The U.N. summit** on climate change ended with a fractious debate over a deal brokered by the U.S. and China that has no legal force and is vague on details. 1

■ **GM said** it would wind down Saab after key issues arose in negotiations to sell the Swedish car maker to Dutch company Spyker. 19

■ **The LSE is close to a deal** to take a major stake in Turquoise, an alternative trading platform. 17

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Kaveri Niththyananthan on British Airways CEO Willie Walsh and the fight against the legitimacy of the employee strike.

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Previous results

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Yes **4.2%**

No **95.8%**

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NEWS

Top dissident cleric in Iran is dead

Impromptu mourning could turn into a new confrontation as 12 prison officials are charged in deaths of detainees

By Farnaz Fassihi

Opposition supporters in Iran seized upon the death of a top dissident cleric Sunday to call for fresh protests against the regime, a day after military prosecutors alleged at least three detained protesters were tortured to death, delivering Tehran its biggest blow since antigovernment demonstrations erupted here six months ago.

Grand Ayatollah Hossein Ali Montazeri, 87 years old, died in his sleep Saturday night, his family said. The announcement drew mourners and opposition supporters, who had taken up Mr. Montazeri as their movement's spiritual guide, to the holy city of Qom. Iranian authorities tightened security in the city, where Mr. Montazeri's family said they would hold a funeral on Monday.

The impromptu mourning—with reformist supporters reportedly streaming in from Tehran and across the country—sets the stage for further confrontation between opposition protesters and government forces. By midday Sunday, opposition Web sites were calling on supporters to join them for Mr. Montazeri's funeral.

Antiregime demonstrators have used government-sanctioned holidays and Islamic holy days to rally publicly against President Mahmoud Ahmadinejad, who won contested presidential elections in June. The government has responded with a sometimes-violent crackdown on dissent.

Spontaneous protests erupted across several cities in Iran and at university campuses, according to videos circulating on the Internet Sunday afternoon. In one clip from Najafabad, Mr. Montazeri's home town, crowds chanted, "Our green Montazeri, congratulations on your freedom."

Agence France-Presse

Grand Ayatollah Hossein Ali Montazeri talked to journalists in 2003 after his house arrest was lifted in Qom. He died at the age of 87.

At several universities in Tehran, professors canceled classes. Iran's main student activist group issued a statement calling on students across the nation to take to the streets on Monday in a sign of respect for Mr. Montazeri.

Students staged sit-ins and marches at several campuses in Tehran, reciting verses from the Quran and chanting, "It's a day of mourning in Iran; the Green people of Iran are in mourning." (The opposition movement has adopted green as its trademark, the campaign color of the leading opposition presidential candidate, Mir Hossein Mousavi.)

Mr. Montazeri's death comes at a crucial moment in this year's antigovernment protests, the biggest since the Iranian revolution more than 30 years ago. In recent months, demonstrations have turned from protests against the handling of the election to often-angry renunciations of the Islamic regime itself, and Supreme Leader Ayatollah Ali Khamenei.

The death also comes a day after Iranian military prosecutors issued charges against 12 prison officials implicated in the death by torture of at least three people arrested and detained during protests this past summer. The ruling reversed months of denials by the government over abuse allegations.

Both events could galvanize protesters at a time when the government itself appears split over how to end the unrest, opposition supporters and outside analysts said.

"The emotional and political impact of Ayatollah Montazeri's death could morph into a widespread flame that the government cannot contain," said Mohamad Javad Akbarein a religious scholar and former student of Mr. Montazeri.

Iranian military prosecutors alleged at least three individuals died in custody as a result of torture at Kahrizak detention center, directly challenging the account of prison deaths provided so far by the government of Mr. Ahmadinejad.

Prosecutors said the three prison officials, all from Iran's armed forces, had been charged with first-degree murder, and another nine military officials at the detention center face other criminal charges, though it wasn't clear specifically what the other charges were. Authorities didn't name the suspects. Kahrizak had been a main depository for prisoners rounded up by security officials during the unrest that followed June elections in Iran. At the height of that unrest, about 140 protesters had been taken to Kahrizak, located in the outskirts of Southern Tehran. Three young men died while in custody, one of them the son of a conservative politician.

Along the axis

■ A weapons shipment from North Korea was headed to Iran..........................Page 9

A 26-year-old doctor, Ramin Pourandarjani, who had examined the dead Kahrizak detainees and written their medial reports, mysteriously died in early November from poisoning. His family says he was murdered because he refused his superiors' orders to cover up crimes at Kahrizak and falsify medical reports. An investigation into his death is being undertaken by the government.

Mr. Montazeri's unexpected death coincides with the ten-day Muharram religious ceremonies, during which Shiites Muslims hold emotionally charged street processions and mourning ceremonies for the slain Shiite saint Imam Hossein, grandson of the Prophet Mohammed.

The opposition had vowed to mark this year's ceremonies with massive daily protests against the government.

Hariri visit to Syria helps to ease tensions

Lebanon's premier ended a two-day visit to Damascus on Sunday, a landmark trip that appeared to help ease political tensions between Prime Minister Saad Hariri—whose father's assassination many blame on Syria—and Syrian officials.

*By **Nada Raad** in Beirut and **Chip Cummins** in Dubai*

The visit comes more than a month after Mr. Hariri reached a political compromise to form a new government with his country's opposition, led by Hezbollah, the Shiite political and militant group backed by Iran and Syria.

Syrian President Bashar Assad greeted Mr. Hariri warmly at the presidential palace at the start of the visit, announced by Mr. Hariri's office just hours before he left Beirut on Saturday. The two men then met alone for three hours.

Syria's official news agency quoted Mr. Assad's presidential adviser saying the two leaders' exchange was "honest, positive and friendly." They dined together that night and met a final time on Sunday. At a news conference at the Lebanese embassy in Damascus, Mr. Hariri said he expected improved economic and trade ties with Syria after the trip.

Damascus has strongly denied any complicity in the 2005 attack that killed Mr. Hariri's father, former Prime Minister Rafik Hariri. Syria was forced to end its military occupation of Lebanon after a popular outpouring of anti-Syria sentiment following Mr. Hariri's death.

A United Nations-backed tribunal has been set up to investigate the attack and prosecute those accused. So far, the tribunal hasn't charged anyone. Mr. Hariri stressed the visit wasn't personal but made in his capacity as prime minister of Lebanon.

He said the two leaders didn't discuss the tribunal during the trip. But, Mr. Hariri said, "President Assad had agreed the issue now was in the hands of the international community. We all want to learn the truth."

The younger Mr. Hariri took up leadership of his father's political movement, one closely aligned with Saudi Arabia and supported by the U.S. and several Western powers. In June parliamentary elections, he successfully beat back a political challenge from a slate of opposition candidates led by Hezbollah.

Tensions between Damascus and Mr. Hariri, and his Saudi and Western backers, have been easing for more than a year. Mr. Assad backed a peace deal between political factions in Beirut that ended an uprising by Hezbollah in May 2008. Shortly after, he entered into indirect peace talks with Israel, though they ended unsuccessfully earlier this year after Israel's military operation against Gaza.

U.S. President Barack Obama made outreach to Damascus an issue in his presidential campaign. Earlier this year, Washington said it would ease some economic restrictions against Damascus—without lifting any sanctions—and would reinstate an American ambassador to Syria. Western officials hope that by wooing Syria, they might move Mr. Assad further from Iran's orbit.

As for Mr. Hariri, 39 years old, it was always uncertain how far he would be willing to go to try to patch up differences with Mr. Assad, considering the allegation against Syria related to his father's death.

Mr. Hariri's visit could be a way of thanking Damascus for its support of the new government, said Nawaf Kabbara, a political-science professor at Balamand University in north Lebanon. "Syria did its job facilitating the formation of a cabinet in Beirut," he said. "It is the government's turn now to thank Syria."

The weekend trip was made easier by warming ties between Mideast rivals Syria and Saudi Arabia, Mr. Hariri's chief regional sponsor. Mr. Assad hosted Saudi King Abdullah recently during a rare state visit.

Associated Press

Lebanon's Prime Minister Saad Hariri, right, leaves a news conference in Damascus on Sunday after two days of talks with Syrian President Bashar Assad.

ECB member says no bailouts

Greece must fix public finances on its own, says Ewald Nowotny of the bank's governing council

By Nina Koeppen

VIENNA—The European Central Bank won't bail out debt-stricken member states such as Greece, which must repair its public finances on its own, ECB governing council member Ewald Nowotny said.

"One has to be very clear: The ECB has no mandate or intention to take into account the situation of a specific country, especially not with regard to public finances," he said in an interview late Friday.

But Mr. Nowotny, who is head of the Austrian central bank, defended Austria's recent major bank bailout. The emergency nationalization of **Hypo Group Alpe Adria** contributed to jitters in European markets last week. Mr. Nowotny said that bailout didn't mean Austria's banks as a whole were in a similar condition.

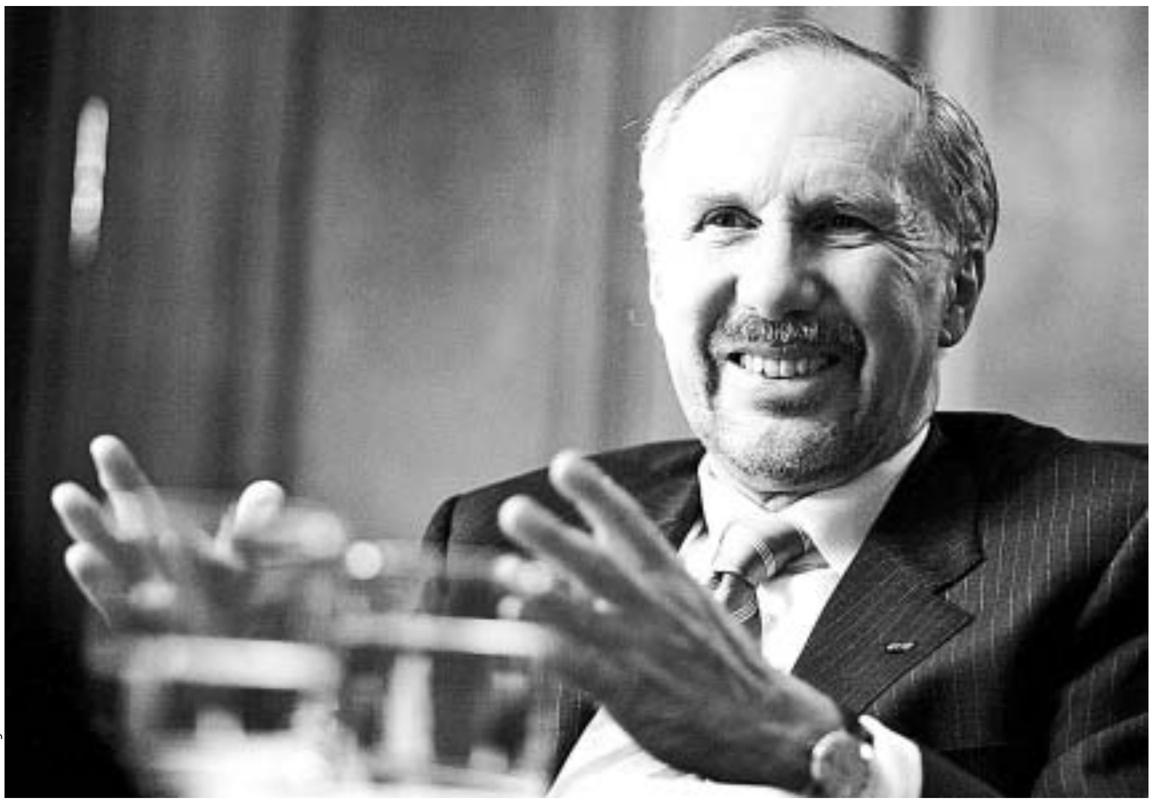
The ECB said Friday that it expected banks in the euro zone to see much higher losses than it had previously thought, mainly from their exposure to Eastern Europe and commercial real estate.

A number of euro-zone banks, including nearly all in Austria and Italy's **UniCredit**, expanded into Eastern Europe in the past decade. Loan and currency losses have sharply eroded the value of those investments.

Mr. Nowotny's declaration that Greece wouldn't get a bailout was matched by a prediction that Greece would be able to avoid insolvency and won't require outside help. "Our baseline scenario is that the Greek government will be able to fulfill its promises," he said.

Greece has promised to reverse a severe slide in its finances. Right now, it is on track to report a fiscal deficit equal to 12.7% of gross domestic product for 2009, well above an European Union-mandated ceiling of 3% of GDP. This weekend the Greek parliament began five days of debate on the government's 2010 austerity budget, which aims to narrow the gap to 9.1% of GDP next year.

Countries that can afford to do so shouldn't commit to winding down special fiscal stimulus packages until 2011 to avoid threatening an economic recovery, which is still surrounded by uncertainties, he said. But "those governments that face excessive debt burdens, must start to cut spending immediately," Mr. Nowotny said.



Bloomberg News

Ewald Nowotny, who is head of the Austrian central bank, defended Austria's recent major bank bailout.

Austria's government decided to intervene because of the bank's dominant role in southern Austria and southeastern Europe, he said. "There was the danger that this would increase nervousness in a very specific region."

Austria's move to rescue HGAA had the full support of ECB President Jean-Claude Trichet, as well as other key ECB governing council members, Mr. Nowotny said.

He said some European banks nonetheless need to shore up their balance sheets, adding governments should refrain from withdrawing special support for banks too early. "Many countries have programs to support their banking system. Those programs will still be needed in 2010, and it would be dangerous to exit them prematurely," he said.

The ECB last week ended one of its own measures of support for banks and it expects to drop other forms of support in the months ahead.

"We'll first stake steps with regard to our liquidity provisions; we do not, at this stage, consider changes in interest rates," Mr. Nowotny said.

The ECB's updated loss estimates for all bank loans and securities—which the ECB put at €553 billion ($796.57 billion) for 2007 to 2010—highlight the fragility of the currency bloc's recovery. Much of the projected losses have already been absorbed, the ECB said in its report Friday on the financial system. Of the total €553 billion estimate, banks could face €187 billion in additional write-downs before 2011.

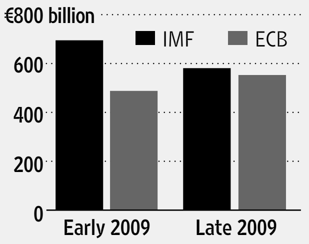
The revised figures put the ECB closer in line with the International Monetary Fund, which early this year projected a worse effect on banks.

But fiscal woes in individual euro-zone member states mustn't influence future enlargement of the region, the governor said. Mr. Nowotny said it's too early to call the recent reversal in the euro-dollar exchange rate a trend. "This is a development of the last week. I think it'd be advisable to observe medium-term developments in the euro's exchange rate," he added.

Don't bank on it

While the International Monetary Fund improved its forecast for euro-zone banks, the European Central Bank's latest report warns of serious risks.

Potential 2007-2010 write-downs for euro-zone banks



Excerpts from the ECB report:

- "Conditions in the euro area commercial property markets have continued to deteriorate over the past six months"
- "Expected default rates remain elevated, reflecting high corporate leverage"
- The euro-zone recovery process "is likely to be uneven"

Note: €1 billion = $1.434 billion

Sources: IMF; ECB

Outlooks diverge in Germany, France

By Geoffrey T. Smith

FRANKFURT—Businesses in the euro zone's two largest economies are ending the year with diverging views of their prospects, according to surveys published Friday.

In Germany, the research institute Ifo reported business confidence rose to its highest level in 15 months, while the French national statistics office Insee reported weakening sentiment.

Much of the difference appeared to be coming from a different outlook for the two export sectors.

In France, exporter confidence about global order books fell more sharply than any other component of the overall index. In Germany, exporters continued to gain confidence, according to Ifo economist Klaus Abberger.

"Germany is benefiting from exports in general and from demand in Asia in particular," said ING Bank economist Carsten Brzeski. "But France for some time has missed the train, as far as positioning itself as an export nation."

He added that in Germany, the increase in orders had already forced manufacturers to rebuild inventories, spurring increased output along the supply chain. By contrast, he noted, "the inventory cycle in France has yet to turn."

In Germany, the Ifo's main index reading of 94.7 was up from an unrevised estimate of 93.9 in November and above analysts' expectations of a reading of 94.5.

The differing outlooks come down to exporter confidence: In France, it is falling; in Germany, it is rising.

The main Ifo index is now at its highest level since the summer of 2008, before the collapse of U.S. investment bank Lehman Brothers Holdings Inc. triggered the most acute phase of the global financial crisis.

Despite the survey evidence, even German producers still struggled to increase their prices in November, according to a separate report Friday from the federal statistics office, Destatis.

Destatis said its index of producer prices rose 0.1% from November, but was still down 5.9% from a year ago.

By contrast in France, Insee's index measuring business morale for December fell to 89 from 90 in November, disappointing forecasts of an increase to 91.

U.K. borrowing reaches record, investment falls

By Laurence Norman And Joe Parkinson

LONDON—The U.K. public sector borrowed a record amount in November, and declines in private-sector business investment showed signs of moderating, official data showed Friday.

The Confederation of British Industry, a leading business group, also said it believes the U.K. economic recovery will be less robust than the government is predicting.

The CBI's 1.2% growth prediction, planned to be released early Monday, for 2010 more or less matched the government's 1% to 1.5% forecast. However in 2011, the CBI sees the economy growing 2.5% vs. the Treasury's 3.5% prediction.

John Cridland, CBI deputy director-general, said, "The economy will be on a fragile path of very slow growth as we continue to feel the lasting effects of the financial crisis."

Economists said that although the debt figures weren't as bad as feared, they would do little to ease concerns about the U.K.'s budget situation. "The only consolation was that it was less than feared and there were signs that the rate of deterioration in the public finances is slowing as the economic downturn eases," said Howard Archer, an economist at IHS Global Insight.

Better labor-market data is helping government finances, and a return to growth will further help moderate the rate of deterioration, James Knightley of ING Bank said in a note. "However, the deficit is still likely to exceed 13% of GDP this fiscal year, which will necessitate further fiscal-policy tightening. In turn, this will constrain the U.K.'s growth prospects," he said.

The public sector borrowed £20.3 billion ($32.8 billion) in November, up from £15.5 billion a year earlier, the Office for National Statistics said. The November borrowing was less than the £23 billion expected by economists surveyed by Dow Jones Newswires; November has traditionally been a deficit month for the public sector.

The governing Labour Party and the opposition Conservatives have both said they will squeeze spending in coming years in a bid to drive down the budget deficit, which is expected to reach some 12.6% of gross domestic product this financial year.

U.K. Chancellor of the Exchequer Alistair Darling has said he wants to halve the deficit within four years, whereas the opposition Conservatives have said they are seeking to drive down the deficit faster.

In the financial year to date, which started in April, net borrowing was £106.4 billion against £49.3 billion in the year-earlier period. The government is targeting full-year public sector net borrowing of £178 billion.

The Office for National Statistics said net debt to gross domestic product was 60.2%, the first time it has topped 60% since records began in 1974-75 and above the European Union ceiling. That is up from 49.6% in November 2008.

The statistics office also reported Friday that business investment in the U.K. fell for a fifth successive quarter in the third quarter, but the pace of decline appears to be moderating. The slowing pace suggests that the worst of the contraction in business investment is over.

Reuters

A delegate catches a nap during a break in the fractious all-night session of the U.N. Climate Change Conference in Copenhagen on Saturday.

Climate pact points to more talks

Continued from first page

term cooperative action to combat climate change," but it didn't obligate any country to meet a specific emission-reduction target.

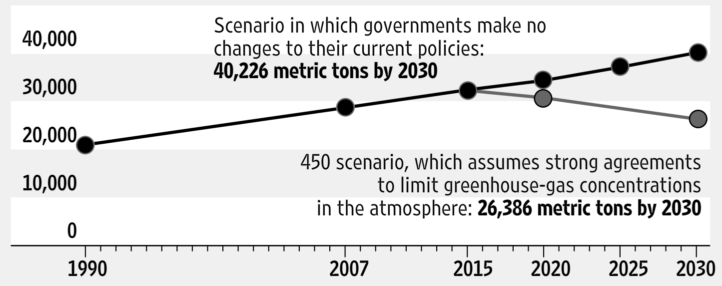
Mr. Obama said late Friday the deal is "a meaningful and unprecedented breakthrough. ... For the first time in history all major economies have come together to accept their responsibility to take action to confront the threat of climate change." He left before the final vote to try to beat a blizzard that pounded the Washington, D.C., area with a foot or more of snow Saturday.

The Copenhagen Accord did produce a pledge by rich countries to send billions of dollars to the developing world to help it cope with the effects of climate change and implement lower-carbon technologies. Industrialized countries said they would provide a pot of money "approaching" $30 billion over the next three years and to "commit to a goal of mobilizing" $100 billion annually by 2020.

Yet amid the global recession, no one offered details on where that money might come from. Some analysts who have followed international climate talks for years said the $30 billion pledged appeared mainly to restate previous offers from rich countries. As for the $100 billion a year by 2020, U.S. officials said the vast majority of it would come from the private sector, in particular through the buying and selling of "carbon credits," and not from government coffers.

Aiming low

Many environmentalists wanted Copenhagen to limit CO_2 from rising above 450 parts per million, but Friday's deal didn't address that directly. Projected greenhouse-gas emissions, in metric tons



Source: International Energy Agency

Sen. Jon Kyl (R., Ariz.), speaking on ABC News's "This Week," raised questions about the pledge by rich countries to send billions of dollars to the developing world.

"Neither the president nor the secretary of state can go to Copenhagen and make [such] commitments ... without Senate confirmation or ratification of such a treaty," he said. "The Senate will have to act on this, and there is not the support right now for that."

Copenhagen's messy outcome raised questions about whether the U.N. process can produce an agreement to seriously slash greenhouse-gas emissions. The U.N.'s guarantee that all nations will have a say led the talks to bog down for more than 10 days of procedural wrangling.

"The United Nations has shown why it can't cope with trying to reach consensus among 193 countries on a way forward, particularly for an issue requiring far greater urgency," said Abyd Karmali, global head of carbon markets for Bank of America Merrill Lynch.

Though the U.N. might be able to deal with technical issues of carbon finance, a narrower multilateral group—such as the Major Economies Forum, established by former President George W. Bush and made operational by Mr. Obama—"has much more potential for being a forum to deliver effective results" on a broad climate deal, he said.

U.N. climate talks will tumble now into a series of future meetings. U.N. Secretary General Ban ki-Moon and many other negotiators said Saturday they hoped to hash out the specifics by the next big annual U.N. climate summit, scheduled for late next year in Mexico.

Mr. Ban noted that the pact gives countries until Jan. 31 to list, in an annex to the accord, voluntary pledges to curb their emissions. Several major economies—including the U.S., China, the European Union and Brazil—made such pledges in the lead-up to the Copenhagen conference.

Those pledges fall short of the severe cuts that many scientists, and some governments, have said would be necessary by midcentury to avoid potentially dangerous consequences from climate change.

So U.N. officials will work to turn the pact "into a legally binding treaty," Mr. Ban said. "We will do our best to do it in 2010."

But because the Copenhagen statement isn't binding, it needn't form the basis of any future negotiations.

"It's not a treaty," one Chinese negotiator reminded his colleagues as the official negotiating session was winding up Saturday, following the agreement on the Copenhagen Accord. "It's not going to be signed or agreed to."

Business studies vague terms

By Guy Chazan

The agreement achieved at the Copenhagen climate summit leaves business leaders around the world close to where they began, facing uncertainty about how environmental policy will affect their costs and decisions about investments.

Companies around the world had hoped the United Nations-sponsored talks would bring clarity on the new rules of the game in a new low-carbon world. They have had to think again. "It's very frustrating at this stage that we haven't got a more-comprehensive agreement," said Richard Gledhill, head of carbon markets at PricewaterhouseCoopers.

Much of the business elite in rich countries has already resigned itself to tighter restrictions on greenhouse gases. Companies in energy-intensive industries are already mapping out plans to drive down their emissions. Utility executives in the U.S. have been pouring money into lower-carbon technologies.

A legally binding treaty on emission cuts would have created a level playing field for clean energy, allowing it to compete on an equal footing with fossil fuels. No such deal emerged from the summit.

"If we'd had bankable emissions-reduction targets for 2020, it would have given a stronger price signal for carbon," said Joan McNaughton, senior vice president, power and environment policies, at **Alstom Power SA**, an engineering company which is a leader in clean coal. "That would have kick-started a lot of the needed investment in clean technology."

Advocates of cap-and-trade—which lies at the heart of climate legislation now stuck in the U.S. Senate—dream of a global network of emissions-trading systems that could one day link up.

In their view that would give industry what it needs to make decisions about long-term investments—a robust and stable price of carbon. But Copenhagen has set back those hopes.

Blogosphere splits evenly on the deal

[Commentariat]

Best of the Blogs

Thomas Legge: GMF Blog

The Copenhagen Accord represents the best that the assembled leaders of the world were able to do. ... It is the first time major emitters, including those in the developing world, have agreed to cooperate to limit global warming to two degrees. But its main short-term virtue seems to be that it keeps the U.N. negotiations on climate change alive. ... The next 12 months leading up to the next meeting in Mexico will show whether the process is able to regain some of the hopes that were invested in it before Copenhagen.

David Roberts: Grist

The accord ended up in an attenuated form that even [U.S. President Barack Obama] conceded is "not enough" to do what needs to be done. Gone was the firm commitment to reduce global emissions 50% by 2050. Gone were any short-term emissions targets for 2020. Missing were the concrete commitments to "measurement, reporting, and verification" Obama wanted from China ... Perhaps most fatefully, gone was any explicit pledge to formalize the agreement as a binding treaty next year. That's worrisome, because Copenhagen is only the first challenge in a political obstacle course Obama will need to navigate to reach success on climate change.

Camille Ricketts: GreenBeat

Obama has drawn a lot of fire for his role in the talks, which is somewhat unexpected. When he first said he would be attending the final negotiations at the conference, people started to get excited ... These suspicions were backed up with the subsequent endangerment ruling from the Environmental Protection Agency, declaring greenhouse gases a threat to human health. ... But once there, the president made it immediately clear that he wouldn't be departing from the country's previous offer to reduce greenhouse gas emissions by 17% below 2005 levels by 2020. Other countries, particularly in the EU and even China and India, were expecting more than this. A lot of the debate in the final days in Denmark centered on getting the U.S. to change its tune, until finally it ran out of gas.

Simon Zadek: Simon Zadek

Studied history will point to Copenhagen as the last serious attempt to use 20th century techniques to arrange our 21st century affairs. Seeking consensus between 193 sovereign states through a zero-sum negotiation process was always going to be a fool's errand. It failed because it handed exclusive rights to national governments, leaving 99% of the energy of business, civil society, cities, and the youth (just to name a few) as frustrated bystanders. It failed because it sought to secure a "one for all, and all for one" consensus, unworkable even in the relatively simple world of trade.

—Compiled by David Marcelis

U.S. NEWS

Wall Street reaches end of 'nightmare' decade

Continued from first page

The 10-year periods ending in 1937 and 1938 were worse than the most recent calendar decade because they capture the full effect of stocks hitting their peak in 1929 and the October crash of that year.

Then again, if stocks this past year hadn't staged a rebound since March, this decade's losses would have eclipsed even the worst of the 1930s, according to Mr. Goetzmann's data.

ABREAST OF THE MARKET

From 2000 through 2009, investors would have been far better off owning bonds, which posted gains ranging from 5.6% to more than 8%, depending on the sector, according to Ibbotson. Gold was the best-performing asset, up 15% a year this decade after losing 3% each year during the 1990s.

This past decade looks even worse when the impact of inflation is considered. Since 1999, the Standard & Poor's 500-stock index has lost an average of 3.3% a year on an inflation-adjusted basis, compared with a 1.8% average annual gain during the 1930s, when deflation afflicted the economy, according to data compiled by Charles Jones, finance professor at North Carolina State University. His data use dividend estimates for 2009 and the consumer price index for the 12 months through November.

Even the 1970s, in which a bear market was coupled with inflation, wasn't as bad as the most recent period. The 1970s saw the S&P 500 lose 1.4% after inflation.

That is especially disappointing news for investors, considering that a key goal of investing in stocks is to increase money faster than inflation. "This decade is the big loser," said Mr. Jones.

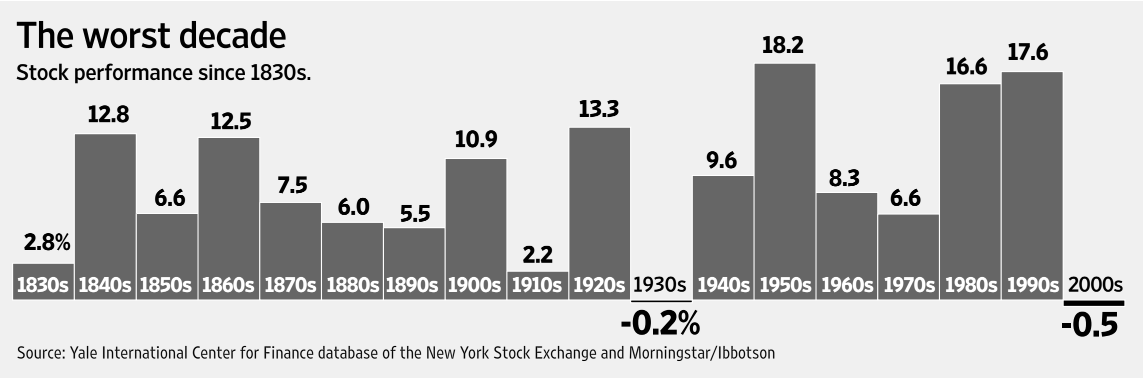
For investors counting on stocks for retirement plans, the most recent decade means many have fallen behind retirement goals. Many financial plans assume a 10% annual return for stocks over the long term, but over the last 20 years, the S&P 500 is up 8.2%.

Should stocks average 10% a year for the next decade, that would lift the 30-year average return to only 8.8%, said North Carolina State's Mr. Jones. It is even worse news for somebody who started investing in 2000; a 10% return a year would get them up to only 4.4% a year.

There were ways to make money in U.S. stocks during the last decade. But the returns paled in comparison with those posted in the 1990s.

Of the 30 stocks that comprise the Dow Jones Industrial Average today, only 13 are up since the end of 1999, and just two, **Caterpillar** Inc. and **United Technologies** Corp., doubled over the 10-year span. In contrast, during the 1990s every single one of the stocks now in the Dow doubled and 22 more than tripled. (Dow component Kraft Foods Inc. started trading only in 2001 and Cisco Systems Inc. in March 1990.)

It was more than just technology phenomena such as Microsoft Corp. and Intel Corp. **Coca-Cola** Co. rose more than 500% in the 1990s. Today, the stock is up 1.4% from where it finished on Dec. 31, 1999.



Many of the winners this decade were energy companies. Within the S&P 500, the sector is up about 145%. Consumer staples are up 67%; utilities have risen 63%.

This decade, many of the winners were energy companies. Within the S&P 500, the sector is up about 145%, with stocks such **Chevron** Corp. up 79% and **Exxon Mobil** Corp. up 72%. Consumer staples are up 67%, and utilities have risen 63%. So what went wrong for the U.S. stock market?

For starters, it turned out that the old rules of valuation matter.

"We came into this decade horribly overpriced," said Jeremy Grantham, co-founder of money managers GMO LLC.

In late 1999, the stocks in the S&P 500 were trading at about an all time-high of 44 times earnings, based on Yale professor Robert Shiller's measure, which tracks prices compared with 10-year earnings and adjusts for inflation. That compares with a long-run average of about 16.

Buying at those kinds of values, "you'd better believe you're going to get dismal returns for a considerable chunk of time," said Mr. Grantham, whose firm predicted 10 years ago that the S&P 500 likely would lose nearly 2% a year in the 10 years through 2009.

Despite the woeful returns this decade, stocks today aren't a steal. The S&P is trading at a price-to-earnings ratio of about 20 on Mr. Shiller's measure.

Mr. Grantham thinks U.S. large-cap stocks are about 30% overpriced, which means returns should be about 30% less than their long-term average for the next seven years. That means returns of just 1.6% a year before adding ininflation.

Another big hurdle for the stock market has been the decline in dividends that began in the late 1980s.

Over the long term, dividends have played an important role in helping stocks achieve a 9.5% average annual return since 1926. But since that year, the average yield on S&P 500 stocks has been roughly 4%. This decade it has averaged about 1.8%, said North Carolina State's Mr. Jones.

That difference "doesn't sound like much," said Mr. Jones, "but you've got to make it up through price appreciation." Unless dividends rise back toward their long-term averages, Mr. Jones thinks investors may need to lower expectations. Rather than the nearly 10% a year that has been the historical average, stocks may be good for only 7%.

Yale's Mr. Goetzmann said the ebb and flow of ordinary investors from stocks may have contributed to this decade's poor performance, as well.

During the 1990s, the growth of 401(k) plans and the Internet boom brought a wave of new money into the stock market that helped drive prices higher, he said. It was a similar story in the 1920s with the boom in closed-end mutual funds.

Then, starting with the collapse of the tech-stock bubble, "people fell out of love with the stock market... and fell in love with investing in their own home," Mr. Goetzmann said.

Drone breach spurs calls to fill U.S. cyber post

U.S. lawmakers called on the White House to quickly fill vacant cybersecurity posts in the wake of revelations that Iraqi insurgents have learned to intercept video feeds from unmanned American military drones.

By **Siobhan Gorman, Yochi Dreazen** and **August Cole**

Lawmakers also expressed frustration that no action was taken until this year, even though the vulnerability of the video feeds had been known since the 1990s. The news was reported Thursday by The Wall Street Journal.

"It outrages me that this vulnerability was known since the 1990s, and they never fixed the problem," said Rep. James Langevin, a Rhode Island Democrat and a member of the intelligence and armed services committees. "It makes them look like a bunch of Keystone Kops. Who else had access to these video feeds?"

Mr. Langevin said he would press for answers when Congress returns in the New Year: "They're going to get both barrels when I return to D.C."

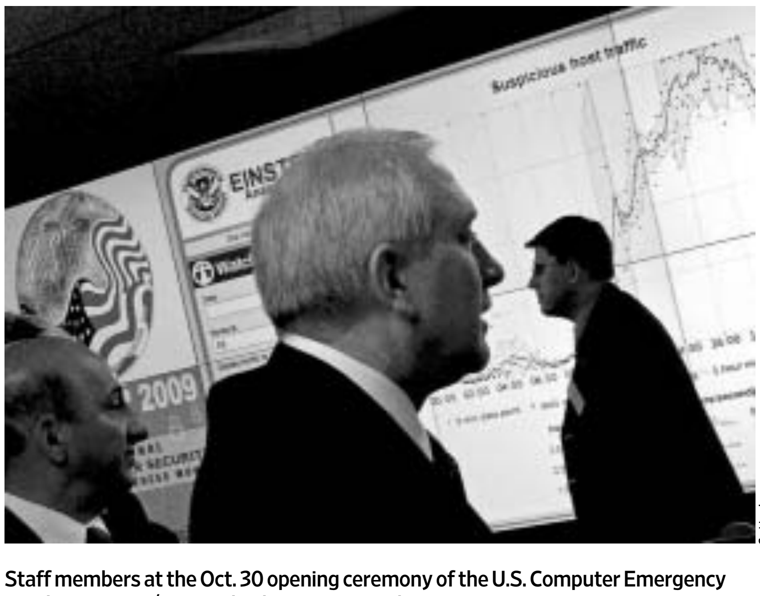
Revelations that militants intercepted key military intelligence using inexpensive software available on the Internet dogged the top U.S. military officer Friday as he traveled to Iraq.

Adm. Mike Mullen, the chairman of the Joint Chiefs of Staff, confirmed that insurgents in Iraq had intercepted Predator drone feeds. He told reporters the breach hadn't caused significant military damage, and the signals have since been secured. He gave no further details.

The news cast a spotlight on the vacancy for a cyberchief at the White House, a position announced by President Barack Obama six months ago.

"That revelation obviously raises great concern about the state of our security," said Rep. Michael McCaul, a Texas Republican who co-chaired a cybersecurity commission with Mr. Langevin. "It's time for action" on the White House cybersecurity post, he said.

The administration has considered dozens of candidates and been "turned down innumerable times," said James Lewis, a cybersecurity specialist who advises the administration.


Getty Images

Staff members at the Oct. 30 opening ceremony of the U.S. Computer Emergency Readiness Team/National Cybersecurity and Communications Integration Center.

"The president is personally committed to finding the right person for the cybersecurity coordinator job; a rigorous selection process is well under way," said White House spokesman Nick Shapiro.

Without a central figure in the White House to set priorities, the administration could miss security gaps like the unprotected drone videos, said J.R. Reagan, who heads the cybersecurity practice at Deloitte Consulting. "It underscores why it's so important that we get this position filled."

A White House chief would be responsible for ensuring cybersecurity competes with priorities like health care and the economy, said Billy O'Brien, a cybersecurity aide in the Bush White House.

The top contenders are Franklin Kramer, a former assistant defense secretary in the administration of President Bill Clinton, and Howard Schmidt, a former top security officer at eBay Inc.

While the White House search continues, the Pentagon's new Cyber Command has gotten off the ground slower than expected because of congressional uncertainty about its scope and mission.

The Pentagon had said the entity—designed to gather all the military's cyber defense and cyber offense programs under a single rubric—would be operational by October.

Nearly three months later, the command doesn't have a chief. Lt. Gen. Keith Alexander, the current head of the National Security Agency, has been tapped to run the command, but his nomination has been held up on Capitol Hill.

It may be months before the general receives his confirmation hearing. A spokesman for Michigan Sen. Carl Levin said Friday that "no date has been set and I don't anticipate it will take place anytime soon."

A recent Pentagon briefing document said Lt. Gen. Alexander was expected to be confirmed in January, but people familiar with the deliberations said it might not happen until March.

Cybersecurity remains a major focus for the defense industry. While some companies are concerned the administration's attention has waned, executives are investing on a bet the market will grow next year with billions of dollars in new government spending.

The biggest companies, such as **Raytheon** Co., **Northrop Grumman** Corp., **Boeing** Co. and **Lockheed Martin** Corp., continue to acquire cybersecurity firms to bolster their expertise. They are also spending millions of dollars to tout their expertise in advertising campaigns.

U.S. NEWS

Health plan wins crucial 60th vote

A change to how abortion would be covered brings in the last Senator needed; passage could come on Christmas Eve

By Greg Hitt
And Janet Adamy

WASHINGTON—The White House predicted that health-care legislation would pass soon as Senate Democrats secured the 60 votes needed to ensure passage, after a weekend deal on abortion coverage locked in the support of Nebraska Sen. Ben Nelson.

"We're right on the one-yard line" with Senate Democrats reaching a deal, said David Alexrod, an adviser to U.S. President Barack Obama, on CNN's "State of the Union" on Sunday. "I believe this is going to happen soon."

The agreement capped weeks of negotiations aimed at building consensus on the White House-backed initiative. It sets the stage for a vote Monday, possibly at 1 a.m., on a pivotal motion to close off debate on the bill. Senate Majority Leader Harry Reid is expected to have the support of all 58 Senate Democrats, as well as the two independents who sit with the majority. A vote on passage of the bill could come Christmas Eve.

The last issue to be resolved was abortion. Mr. Nelson, the final holdout among Democrats, secured tighter restrictions on insurance coverage of abortion designed to ensure no federal money goes to the procedure.

The deal was sealed Friday night about 10:30 with a handshake between Sens. Nelson and Reid, ending 13 hours of negotiations. Mr. Reid later called President Obama, who was flying back from the global climate summit in Copenhagen on Air Force One, to inform him the stalemate was resolved. "Inaction is not an option," Mr. Reid said Saturday.

Associated Press

Sen. Ben Nelson (D., Neb.) at a news conference on Capitol Hill Saturday after his agreement to support the health bill.

Republicans said the legislation would impose big costs on government and taxpayers, and warned Democrats will pay a political price for moving forward with legislation that is unpopular with the public.

"The Democratic majority seems to be determined to pursue a political kamikaze mission toward an historic mistake," said Tennessee Sen. Lamar Alexander, a member of the Republican leadership. Senate Minority Leader Mitch McConnell of Kentucky said the bill is a "legislative train wreck of historic proportions."

Republicans also criticized the new abortion language, saying it would still allow taxpayer money to support abortions.

The nonpartisan Congressional Budget Office on Saturday said the bill would cost $871 billion over a decade and reduce the federal budget deficit by $132 billion over that period. The CBO said the bill would reduce the number of uninsured people by 31 million over a decade, compared with existing law. Republicans say the numbers are unrealistic.

In the final dealing, Mr. Nelson, who enjoyed huge leverage, won a tightening of rules designed to ensure federal funds aren't used to finance insurance coverage of abortion procedures. Among other things, the agreement would give states the option of excluding abortion coverage from policies sold on the new insurance exchanges. Sen. Nelson said he would not vote for the bill "without those provisions."

The compromise did not win over some of the most powerful antiabortion groups. The U.S. Conference of Catholic Bishops, which won tight abortion restrictions in the health bill approved by the House Nov. 7, plans to oppose the bill.

Thomson welcomes Guantanamo detainees

By Joe Barrett

The prospect of housing Guantanamo detainees on U.S. soil gives some Americans pause. But most folks in Thomson, Ill., welcome anyone to fill the $128 million maximum-security prison that has stood near empty there for eight years.

"We're hoping this is an actual Christmas present and not an illusion," said Luanne Bruckner, a former village council member and motel owner.

President Barack Obama announced plans last week to buy the state-built Thomson Correctional Center and fill it with federal prisoners, as well as about 100 detainees.

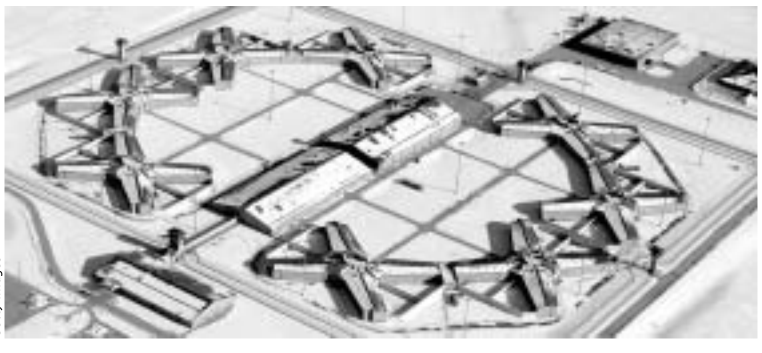
There is some nervousness about the plan, but most people are eager for the 3,000 jobs the facility would bring to an area where unemployment is about 11%. The town has had its hopes crushed before—by a string of dismal state budgets, a powerful union's resistance to closing other state prisons and untimely corruption cases against two governors who championed the prison.

"We've had a long line of governors who promised" the funds needed to open the prison, Ms. Bruckner said, and then quipped: "Frankly, we had a place for them right here in Thomson, at the correctional center."

The prison was conceived in the mid-1990s, when the Illinois inmate population was exploding. The state housed more than 38,000 prisoners in 1996 and it estimated the prison population would grow to 83,000 by 2009. Instead, inmate growth slowed. The state now has about 45,000 prisoners, according to the Illinois Department of Corrections.

Construction of the 1,800-bed, state-of-the-art prison on about 58 hectares provided an economic lift for Thomson in 2000 and 2001. The village of 550 people had long been suffering a population drain as factories, a rail yard and a nearby Army depot closed down. But business dried up in January 2002 when a state budget crunch forced then-Gov. George Ryan to pull the plug on the nearly $50 million-a-year allowance to operate the prison. Ms. Bruckner and her husband, Lawrence, both in their late 50s, had opened a 40-room motel in 2000. After two good years, they had a deal to sell it in 2002. The sale tanked after the governor's announcement.

Associated Press



Getty Images

Rick McGinnis, above right, owner of Kyle's Tavern in Thomson, Ill. Right, the Thomson Correctional Center.

The Bruckners ran the hotel for six years, scraping by with 60% occupancy in the summer and 20% in the winter, "if we were lucky," she said. After selling a portion of the property and leasing another, Ms. Bruckner said the couple ended up losing about $400,000. Hopes that the state would authorize funding to open the prison dimmed after Mr. Ryan became mired in a corruption probe. He was indicted in 2003 and began serving a 6½-year term in federal prison in 2007.

The empty facility still costs the state money for security, maintenance and utilities. Illinois also had to pay hundreds of thousands of dollars a year for a sewage- and water-treatment plant the village built to handle the expected surge from the prison, said Arthur Donart, who was chairman of the village council's water and sewer committee at the time.

In 2004, Mr. Ryan's successor, former Gov. Rod Blagojevich, floated a plan to close two other prisons, Stateville and Plymouth, in a bid to save $7.6 million in operating costs. The maximum-security prisoners would go to Thomson. A compromise later spared the two prisons. In 2006, Mr. Blagojevich spent about $7 million to open a portion of Thomson to house about 200 minimum-security prisoners. Two years later, Mr. Blagojevich again proposed closing Stateville. Local politicians objected to the loss of prison jobs.

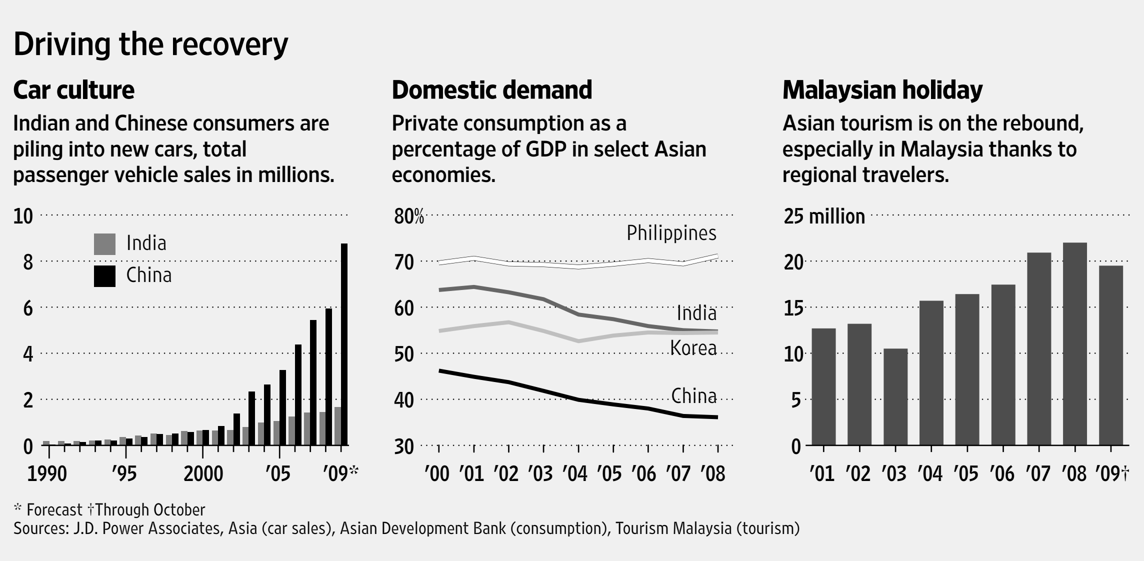
The American Federation of State County and Municipal Employees, which represents about 13,000 Illinois prison workers, argued that Thomson should be used to relieve overcrowding, rather than as a replacement for existing facilities.

Anders Lindall, a spokesman for the federation in Illinois, said the state system is overcrowded—housing 45,000 prisoners in facilities built for 32,000. He said Illinois shouldn't be thinking about offloading Thomson to the federal government without a plan to house its own prisoners.

WORLD NEWS

Consumers spend Asia out of downturn

By Alex Frangos



HONG KONG—Asia has led the world out of the global economic downturn thanks in part to a welcome burst of consumer consumption. It appears the spending spree will continue into 2010.

THE OUTLOOK

Strong government stimulus programs enacted during the depths of the crisis helped spur domestic economic activity across the region. Most of Asia's economies are growing and private consumption has been key. China, India and South Korea are rebounding smartly, a step ahead of the U.S. and Europe.

Now some see consumer spending in Asia picking up support from more than stimulus. Businesses are showing profits. Unemployment rates are falling in most of the region, making households more confident. And unlike the West, consumers have low debt levels and banks are expanding credit rather than shrinking it.

In Hong Kong, queues of mainland Chinese tourists wait to enter luxury retailers such as Louis Vuitton. The number of Asian tourists flocking to Malaysia, Vietnam and Korea has rebounded in recent months. And car sales—albeit helped along by stimulus—have grown sharply.

"Chinese consumers are buying," says Dong Tao, regional Asia economist for Credit Suisse in Hong Kong. "Job prospects are good." Add what he calls "the spice of asset appreciation" in property and stocks, and folks feel richer.

All of that is good news for the world economy, which has relied on Asia to pull the world out of recession. The International Monetary Fund forecasts inflation adjusted growth in developing Asia will be 7.3% in 2010, compared to 3.1% globally. China has accounted for more than half of the world's economic growth the past three years, according to the IMF.

Increased private spending in Asia is a hopeful sign that the export dependent economies here—especially China—are moving down the road to rebalancing toward more domestically driven growth. That shift has been a major theme among the Group of 20 nations aimed at getting U.S. consumers to save more and Asian consumers to spend more.

Domestic consumption takes up just over a third of China's economy, compared to two-thirds in the U.S. and well above 50% in most advanced economies. Even with Chinese retail sales that have exceeded 15% growth on a year-to-year basis this year, it will take years for the economy to reach a level where domestic consumption is above 50%.

In other parts of Asia, the story is slightly different. As in China, consumers from India to the Philippines are spending with increasing zeal. But unlike China, private consumption already makes up more than half of GDP in other Asian economies. That means higher consumer spending will make a bigger contribution to overall growth in those countries.

"Households have now become a driver in the recovery" across the region, says Frederic Neumann, Asia economist for HSBC. He notes that consumption grew faster than overall output in most Asian economies in the third quarter, a change from earlier in the decade.

India has strong increases in automobile purchases thanks to government incentives and burgeoning car culture. Vehicle sales rose to more than 130,000 in November, 61% more than a year ago, according to the Society of Indian Automobile Manufacturers.

Retailers are also sensing a broader return to spending. "India is going through some kind of tipping point. You never see this kind of consumption growth happening," says Kishore Biyani, managing director of Pantaloon Retail India Ltd., which is India's largest retailer by revenues.

Consumer spending in the Philippines rose 4% in the third quarter from the year earlier, the fastest pace since the end of 2008. Remittances from workers abroad have grown this year, surprising economists. It turns out many of those Philippines natives work in nearby Asia, which has weathered the economic storm better than the West.

In the Philippines, car sales are up a modest 4% this year, much of that in the past couple of months. That has surprised auto executives who expected flat sales.

Tourism has also seen a rebound in Asia the past few months. At the start of 2009, travel-industry executives predicted a terrible year as vacationers from battered economies in the U.S. and Europe stayed home. H1N1 flu also damped travel.

All of this doesn't mean Asia can live on consumer spending alone. It still is reliant on demand for its exports. But it does show that even sluggish growth in consumer demand from U.S. and Europe—something many expect—will probably be enough to keep Asia growing at a healthy clip next year.

—Eric Bellman and Josephine Cuneta contributed to this article.

Growing oil output offsets new threats

By Spencer Swartz

LONDON—Oil-supply threats in two of the global oil industry's traditional trouble spots, Iraq and Nigeria, bubbled to the surface again over the weekend.

But they came as the sector's capacity to pump is growing sharply, providing the industry an unusual ability to make up for any lost oil and keep price increases to a minimum.

Earlier this year, Saudi Arabia said it had boosted its production capacity to a record 12.5 million barrels a day, even as it pumps just 8.1 million barrels a day. And in a matter of weeks, Qatar will start ramping up capacity at its offshore Al Shaheen oil field, which started producing crude oil in the early 1990s. Al Shaheen is expected to almost double in capacity, to more than 500,000 barrels a day, in a number of months.

Overall spare capacity of the Organization of Petroleum Exporting Countries, of which Saudi Arabia and Qatar are members, is expected to approach a 10-year high next year of around 7.5 million barrels a day, depending on how much oil the group actually ends up producing. That represents about three times the current pumping capacity for all of Iraq.

"There's more than enough capacity out there to deal with these situations we've seen. It's a very different oil market we're in right now," compared with a few years ago, said Michael Wittner, London-based global head of oil research at **Société Général** SA.

Through much of the past decade, oil-consumption gains outpaced new supply, a function of rapid emerging-market economic growth and underinvestment in the energy sector. That narrowed the cushion of unused production capacity that could be turned on to make up for outages. Even small supply disruptions or the threat of them sent prices higher.

The large amount of unused oil inventory now, a result of generally weak demand, offers another layer of protection against an interruption to supply, Mr. Wittner said.

Crude-oil prices ended about 70 cents higher at $73.36 a barrel in New York on Friday, around where they have traded for months, after the Iraqi government said Iranian forces had occupied an oil well along its contested border.

Iraqi Oil Minister Hussein a-Shahristani told reporters Sunday that Iranian troops still occupied part of a contested oil field along the Iraq-Iran border but that Baghdad was pursuing a resolution through diplomacy.

In Nigeria, after a few months of relative quiet, the country's main militant group said Saturday that it had launched a "warning strike" against an oil pipeline operated by **Royal Dutch Shell** PLC and **Chevron** Corp., the first attack since the group announced a self-imposed cease-fire in late summer. It was unclear if any oil production was disrupted in Nigeria. Shell said Sunday it was trying to confirm if any attack occurred at its facilities. Chevron didn't respond to requests for comment.

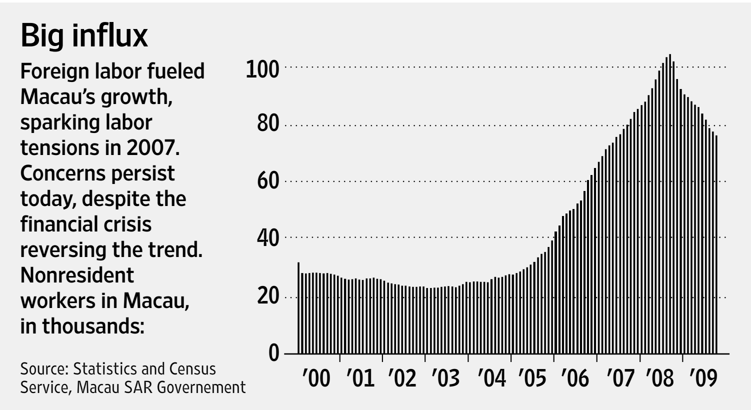
—Hassan Hafidh contributed to this article.

WORLD NEWS

Macau seeks slower pace

After a fierce gambling boom, new head Chui aims for softer growth

By Jonathan Cheng



MACAU—Fernando Chui, the Oklahoma-educated scion of one of Macau's most powerful families, took the reins of Macau's government Sunday with an unusual mandate: to slow growth in China's booming gambling capital.

Underscoring the significance of the changeover and the territory's 10th anniversary under Chinese rule Sunday, about a thousand people urging the government to fight corruption and grant them more political freedom marched through Macau's streets after Chinese President Hu Jintao attended Mr. Chui's swearing-in, Reuters reported. Macau's democracy movement, however, is far smaller and less vocal than Hong Kong's.

Macau has enjoyed a decade-long economic surge unleashed by the deregulation of its casino business and a flood of visitors from mainland China. That has made Macau crucial to the fortunes of the world's biggest casino companies, including **Las Vegas Sands** Corp. and **Wynn Resorts** Ltd.

The transfer of power—the first since China took control of the former Portuguese colony—comes at a critical time. Mr. Chui, the 52-year-old former secretary for social and cultural affairs, is charged with mitigating mounting social issues and pervasive corruption.

Macau's economy has bounced back from recession, and mainland officials appear to have eased visitor limits. For the first 10 months of the year, Macau's gambling revenue rose 2.3% to about $12.09 billion-compared with a year earlier, and in October the industry posted record monthly revenue of $1.59 billion.

Gambling accounts for an estimated three-quarters of government revenue in Macau, which several years ago surpassed the Las Vegas Strip as the world's largest gambling center.

At the same time, Beijing's leaders, concerned about social instability and alarmed at the amount of mainland Chinese money that ends up on Macau's baccarat tables, are urging local leaders to embrace slower and steadier growth. Francis Tam, the territory's top gambling official, said in October the government would look into capping the number of gambling tables in the city, raise the age-entry limit to casinos to 21 years old from 18 and seek avenues for growth other than casinos.

As Macau appears set to rein back, Asian rivals are attempting to replicate its success. Singapore will open two major resort-casinos in 2010, while Taiwan is looking into opening its own casinos.

Despite rising wages, locals have chafed at some of growth's side effects. The city of about 540,000 people has a shortage of affordable housing, and tensions have risen as a number of companies hired construction workers and managers from Hong Kong and mainland China. In 2007, thousands of local workers clashed with police while protesting the influx of foreign labor. Unemployment rose as high as 3.8% this year compared with 2.9% at the height of the boom two years ago.

"We will guarantee the employment of our residents, continuously improve people's lives, enrich their spiritual life, so that the fruits of social and economic development can be shared by all the Macau people, and harmony among different groups and communities can be created," Mr. Chui said in his inauguration speech Sunday, which stressed economic diversification.

The Macau-born Mr. Chui was first elected to Macau's legislature in 1992, and became the territory's first secretary for social and cultural affairs in 1999. While serving in Macau's cabinet, Mr. Chui handled many of the issues that top the list of priorities for Macanese: health, education, social services and tourism. He was chosen chief executive by a 300-member city committee in a process closely monitored by Beijing.

Agence France-Presse/Getty Image

Macau gambling tycoon Stanley Ho, center, attends the Sunday inauguration of Macau's new chief executive, Fernando Chui.

Arms seized by Thais were Iran-bound, report says

By Daniel Michaels And Margaret Coker

A plane loaded with weapons from North Korea that was recently impounded in Bangkok was bound for Iran, according to documents obtained by arms-trafficking experts.

The destination of the Ilyushin-76, which Thai authorities have said carried 35 tons of armaments, has been unknown. Thai officials said the plane flew to Pyongyang via Bangkok to collect its cargo, then returned to Bangkok to refuel on Dec. 11. It was seized during that stop and its five crew members were detained by Thai police.

Thai officials say the plane was due to fly next to Sri Lanka, but Sri Lankan officials say they had no knowledge of the flight.

A flight plan for the IL-76, obtained by researchers in the U.S. and Belgium, shows that after Bangkok the plane was due to make refueling stops in Sri Lanka, the United Arab Emirates and Ukraine before unloading its cargo in Tehran. Iranian officials didn't respond to requests for comment.

The flight plan also indicates that en route to Pyongyang the plane stopped at an air force base in Azerbaijan, though the nature of that stop is unclear. Azerbaijani officials couldn't be reached for comment.

The apparent links among the military cargo, North Korea and Iran raise fresh questions about how maverick nations and their supporters try to evade international sanctions. The United Nations Security Council has banned the sale of all small and heavy weapons from North Korea as well as all weapons sales from Iran.

The new information is presented in a joint draft report by analysts at TransArms, based in Chicago, and the International Peace Information Service, or IPIS, of Antwerp, Belgium. Both organizations conduct research on conflicts around the world, including how they are financed and supplied with weapons. A draft copy of the report was provided to The Wall Street Journal. The report hasn't been independently confirmed.

Darby Holladay, a spokesman for the U.S. State Department, declined to comment on the seizure of the weapons in Thailand, and referred questions to the Thai government.

It remains unclear whether Iran intended to use the weapons itself or to transfer them. Western governments have accused Iran of supporting militants in Lebanon, the Palestinian territories and Iraq. Thai officials have said the weapons found are unusual in Southeast Asia.

Thai officials say they have received little information from the plane's crew, who come from Kazakhstan and Belarus. The crew members say they were told the cargo was oil-drilling equipment. The crew members have denied knowledge that there were weapons on board.

The flight documents obtained by TransArms and IPIS state that the cargo is "oil industry spare parts." The flight's planners appear to have worked hard to maintain appearances. A packing list includes eight categories of equipment, such as "Geothermal rigs spare parts—model MTEC6" and "Bespoke mineral exploration machine—spare parts".

Thai officials have said the actual cargo included shoulder-launched missiles, large rockets, parts for surface-to-air missiles and electronic systems to control weapons.

Arms-trafficking specialists have puzzled over the stop in Bangkok, an airport that is heavily policed because of the drug trade. "This is an unusual flight plan for general cargo, but if it's for an arms flight, it doesn't make any sense," said Peter Danssaert, an arms-trade researcher at IPIS involved in preparing the report. He said the flight plan and detailed cargo list suggest the crew may have been unaware of what they were carrying.

A major question still unanswered is who organized the weapons shipment. It appears the planners went to great lengths to hide their identities. The plane is registered to a company in the Republic of Georgia, Air West Ltd. Air West on Nov. 5 leased it to another company, SP Trading Ltd., according to an Air West manager and a contract seen by The Wall Street Journal. SP Trading is registered in New Zealand; it appears to be a shell company owned by other companies.

In another contract dated Dec. 4, discussed in the report by TransArms and IPIS and seen by the Journal, SP Trading leased the plane to another company, based in Hong Kong. The Hong Kong company is owned by a second Hong Kong company, which is owned in turn by a third company, based in the British Virgin Islands, according to company registration documents. These companies appear to have organized the cargo.

An Air West manager said the company had leased the plane to SP Trading and he knew no more. Officials from SP Trading couldn't be located.

The Georgian-registered IL-76 cargo plane is owned by a company based in the United Arab Emirates, according to information in the draft report confirmed by Georgian aviation officials. The company, Overseas Cargo FZE, is based in Sharjah, one of the U.A.E.'s seven emirates.

A U.A.E. official confirmed that the IL-76 landed in the country on the evening of Dec. 9. The plane refueled and took off just over two hours later with an empty cargo hold, the official said. The plane didn't return to the U.A.E. before Thai authorities seized it, the official said. The stop agrees with the flight plan.

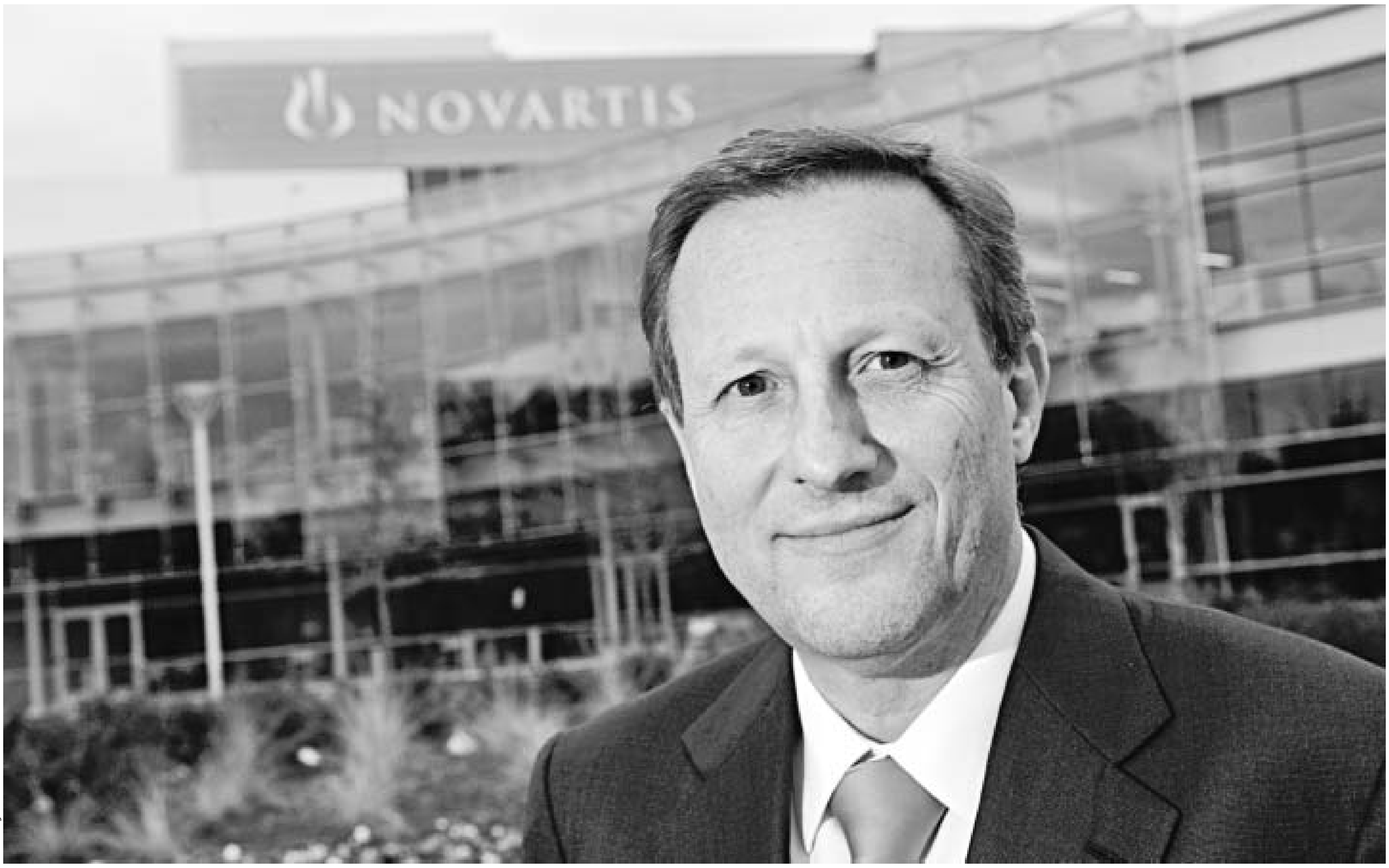
Overseas Cargo's registration documents, reviewed by The Wall Street Journal in Sharjah, describe it as an aircraft-leasing and -handling firm as well as an oil-services consultancy. The documents say it has one shareholder, Svetlana Zykova.

Two women at Overseas Cargo's office in Sharjah referred inquiries to Ms. Zykova. Ms. Zykova was contacted on a U.A.E.-listed mobile phone. The woman who answered identified herself as Svetlana Zykova, confirmed she was the owner of Overseas Cargo, and hung up when she was asked about the company's connection to the plane seized in Thailand.

European Pressphoto Agency

Some of the 35 tons of weapons found in the Ilyushin-76 seized by Thai authorities in Bangkok earlier this month. The flight originated in North Korea.

INTERVIEW



Bloomberg News

Novartis CEO Daniel Vasella's strategy for the drug maker: focus on diseases that truly need treatments, and whose underlying biological causes can be decoded and fixed.

Novartis aims for niche drugs with potential for broader uses

CEO Vasella shifts pharmaceutical's focus away from making incremental advances on older medicines

[Daniel Vasella]

By Jeanne Whalen

Like most pharmaceutical company CEOs, Daniel Vasella, chairman and chief executive of Switzerland's **Novartis** AG, is facing a large cocktail of problems.

Insurers, governments and others who pay for health care—called "payers" in the industry lingo—are increasingly refusing to cover expensive new drugs that aren't substantially better than older, cheaper treatments. Regulators have become more safety conscious and less willing to approve new products for sale. And through a series of large mergers, pharmaceuticals giants have found bureaucracy creeping in and hampering their development of new drugs.

But there are still a number of opportunities, and Dr. Vasella says he is trying to reposition Novartis to capture them. Advances in genetics are making it more possible to decipher and fix the biological flaws that cause disease. And there are still plenty of difficult diseases that badly need treatments, such as Alzheimer's and multiple sclerosis.

"There are lots of areas where there is a very clear need" for innovation, he said in an interview.

Dr. Vasella became the head of Novartis when it was formed through the 1996 merger of Sandoz and Ciba-Geigy. Early in his career he was a physician in his native Switzerland, but he joined Sandoz when his wife's uncle was the company's chairman and rose quickly through the ranks. Dr. Vasella says he made the switch to business because he believed his work could benefit "not one or 100 but thousands" of patients.

Novartis is now one of the world's biggest drug companies, known for multibillion-dollar drugs such as Diovan for blood pressure and Gleevec for cancer.

Dr. Vasella has carried out a wide overhaul of Novartis's drug research in an effort to pump out better drugs. In 2002, he hired a genetics expert from Harvard—Mark Fishman—to run the company's research from a new set of labs in Cambridge, Mass. Their mantra: Focus on diseases that truly need treatments, and whose biological causes can be decoded and fixed.

There have been some initial signs of success, Dr. Vasella says. "We have increased substantially...the number of compounds in the pipeline, and the number of positive proof-of-concept trials in man," he says, referring to the small human studies that first show whether a drug is working.

The first drug to emerge from this new research approach was recently approved for sale in the U.S. Called Ilaris, it treats a rare inflammatory disease affecting only a few thousand people world-wide. Novartis focused on this disease because its genetic causes were clear, making it feasible to develop a drug. The same genetic triggers may underlie other inflammatory diseases, and Novartis is testing the drug in these disorders, as well.

"We've developed [the drug] in a very targeted way and are now expanding into additional areas," a model the company intends to employ with other drugs, too, Dr. Vasella says. But the jury is still out on whether the drug will work in other diseases. It's also still unclear how many other drugs from Dr. Fishman's labs will make it to market, because it can take 10 or more years to develop a new treatment.

Developing drugs for rare diseases—and attempting to expand them to larger ones with similar genetic triggers—marks a departure from the way Novartis used to develop drugs. In years past, Novartis and most drug makers tried to develop treatments for common diseases that offered a vast market of patients: hypertension, depression and cholesterol, for instance. It didn't matter whether the new drug was much better than older treatments, because health-care payers—particularly in the U.S.—would pay for most new drugs the industry launched, and hefty marketing campaigns drove demand. These "me-too drugs" generated "quite good returns" for the industry for years, Dr. Vasella says.

But that approach is faltering. Financially strapped payers increasingly compare a drug's cost to its clinical benefits and agree to pay for it only if the benefits justify the cost. Government health systems in Europe are leading this drive, but U.S. insurers are adopting the approach, too.

"Payer awareness of what they buy and why they buy is not going to diminish. And if they have good alternatives which are less expensive, they will go to the less expensive alternatives," Dr. Vasella says.

This increases the pressure on drug makers to focus on diseases for which there are few treatments. Novartis in coming weeks plans to request regulatory approval for a new drug for multiple sclerosis, a disease that badly needs new treatments. Novartis's drug, called FTY-720, would have an advantage over existing drugs because it is a pill that can be taken orally. Existing drugs are all given by injection or infusion, making them more cumbersome for patients. But it isn't clear whether Novartis's drug will pass regulatory reviews for safety and efficacy.

Novartis hasn't completely stopped developing drugs for common ailments. Last year, it began selling Tekturna for hypertension, a disease for which there are already many effective generic drugs. Tekturna generated sales of $202 million during the first nine months of this year, an amount some analysts describe as disappointing. Some say the drug hasn't found favor with payers or doctors, because they have so many generics to choose from. Dr. Vasella says Novartis is working on clinical studies that it hopes will show Tekturna has benefits beyond what older therapies can offer. "But we will have to demonstrate in the ongoing trials that the outcome is very positive," he says. "People will not just believe it because you say it."