



## Bruce Willis gets a stake in a French liquor company

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## Commercial property faces plenty of risks next year

MARKETS 22

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### U.S. markets lifted higher by the Force?



Lucasfilms executive Howard Roffman and 'Star Wars' characters rang the opening bell at the New York Stock Exchange on Tuesday. U.S. stocks rose on the strong home-sales data. Page 23

## U.S. home sales hit 3-year high

BY KELLY EVANS

U.S. home sales surged to nearly a three-year high in November and prices steadied, but the sector's broader prospects for recovery appear uncertain, with tax incentives for buyers winding down and historically low interest rates unlikely to last.

Meanwhile, the U.S. Commerce Department revised down the economy's third-quarter growth rate to a lackluster 2.2% annualized rate, compared with the prior estimate of 2.8%, although economists said that could mean more robust growth in the current quarter.

"Although softer, the new estimate remained consistent with the view that the economy turned a corner in the summer months," said Michael Moran, chief economist at Daiwa Securities America.

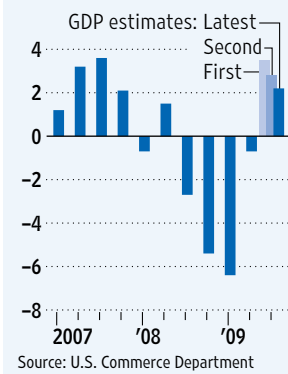
Sales of existing U.S. homes rose 7.4% in November from the prior month to a seasonally adjusted annual rate of 6.54 million units—the highest rate since February 2007, the National Association of Realtors said Tuesday.

The group's chief economist, Lawrence Yun, attributed the gain to "a rush of first-time buyers" not wanting to

### Less to celebrate

U.S. third-quarter GDP growth was revised down again.

Quarterly change, seasonally adjusted annual rate



miss out on the government's tax credit of up to \$8,000 that was initially set to expire at the end of the month. The credit for first-time buyers has since been extended through April 2010.

The sales boost is helping the housing market work through its glut of inventory, which fell 1.3% in November to 3.52 million homes available for sale, or a 6.5 months' supply at the current sales pace, compared with a seven months' supply in October.

It is also providing some support for home prices. The median sales price for an exist-

ing home last month was \$172,600, down 4.3% from a year ago, a stark improvement from October's 7.6% decline.

Meanwhile, government stimulus accounted for a good part of the broader economy's growth during the third quarter, which was revised on Tuesday for a third time. Revisions tend to be volatile around turning points in the economy.

The "cash for clunkers" program for car buyers helped boost spending on big-ticket durable goods by 20%, accounting for almost half the total gain in consumer spending, the biggest component of gross domestic product. Government spending, meanwhile, rose at a 2.6% annualized rate, helping offset larger declines in business investment.

A downward revision to inventory levels, however, suggested some fuel for growth in the current quarter, as firms slow their destocking and even start to order new merchandise.

"Nothing in the big picture has changed, and we still expect better than 4% economic growth in the fourth quarter," said RDQ Economics in a client note.

■ Britain's economy contracted for the sixth-straight period ....4

### The Quirk



Teenager's fate hangs on survival prospects of town's Christmas tree. Page 29

### World Watch

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

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Lady Ashton fuels Europe's foreign-policy obsession: bashing Israel. Page 9

## Mexican gunmen kill sailor's family

BY DAVID LUHNOW AND JOSÉ DE CÓRDOBA

MEXICO CITY—More than a dozen hit men burst into a house in eastern Mexico early Tuesday and murdered several family members of a navy sailor who was feted as a national hero for having died in last week's battle that killed drug lord Arturo Beltrán Leyva, Mexican police officials said.

In an unprecedented and grisly escalation of Mexico's drug war, gunmen killed the mother, aunt and two brothers of 3rd Petty Officer Melquisedet Angulo Córdoba in a small town in the Gulf coast state of Tabasco, just hours after the sailor was buried with a military honor guard.

The hero sailor's sister was badly wounded and remains in



Members of Mexico's navy special forces guard the the cemetery during the funeral of Melquisedet Angulo Córdoba on Monday.

critical condition, Rafael González, the attorney general of Tabasco state, said at a news

The killings represent an unprecedented and grisly escalation of Mexico's fight against powerful drug gangs. Until now, family members of drug gangs or the soldiers and cops who fight them were largely considered off limits. Mexican gangs have started to target the families of rival drug lords, but never on a scale like this.

"This is the first time that anything like this has happened," said Raúl Benítez, a professor at Mexico's UNAM university and an expert on Mexico's armed forces.

The killings are also a huge embarrassment for President Felipe Calderón and the Mexican military. Last week's navy operation that killed Mr. Beltrán Leyva had temporarily quelled growing criticism from analysts and opposition politi-

cians that the president's strategy of sending 45,000 army troops to take on drug gangs in parts of the country had had little impact on either the drug gangs' leadership or their business operations.

Mr. Calderón's office had no immediate response to questions about how the killers obtained the information about the man's family or whether procedure about keeping officials' names confidential would be changed.

The death of the sailor's family members, however, will raise new doubts about the government's ability to wage a war on drug cartels.

—John Lyons contributed to this article.

■ Calderón's war on drug gangs has defined his term .....12-13

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## PAGE TWO

# David Cameron's missing ingredient: The prospect of future prosperity

## [Agenda]

BY IAIN MARTIN



For the team around the British Conservative leader David Cameron, Christmas is not quite cancelled. But it might as well have been. Any hopes they had of taking a long break, their last chance before the U.K. election which must take place by June next year, have been scuppered by recent fluctuations in the polls and a spreading unease in the Tory tribe.

The Tory leader plans a quick start to the new year with a blizzard of policy announcements and speeches from Monday Jan. 4. Over the holidays his team - directed by Shadow Chancellor George Osborne wearing his Tory general election coordinator hat - are preparing the slogans, drafting the press releases and mapping out what they view as the start of the general election campaign. They seem nervous and are not where they intended to be at this point.

This is all very Cameron. He has a long history of waiting until it looks too late before fully engaging. It was in his approach to school and exams, and there again when the rest of his party almost lost its head in the autumn of 2007 over fears it would be crushed in an early election by Gordon Brown. He remained calm and Mr. Brown blinked.

But if he wants to convince Britain that he deserves to be its Prime Minister with a proper parliamentary majority, Mr. Cameron will need to produce his biggest rabbit out of a hat yet.

In the pre-Christmas air has been the sense that all is not going quite right for a young leader who hopes to end his party's long losing streak. By the



Conservative Party leader David Cameron

time voters go to the polls it will be 18 years since the Conservatives won a general election. While some surveys in recent days have been better for the Tories, with one restoring a lead of 17 points over Labour, others have been closer and put the Conservatives below 40 points

## Prime Minister Gordon Brown has revived, after making it through the year

again. Britain could easily be headed for a hung parliament.

Of course, polling numbers only tell one so much. Mood matters. And since the autumn it has felt as though Mr. Cameron is somehow not quite connecting. Britain is suffering a deep and enduring recession - 6.03% from peak to trough - and the government is deeply unpopular, yet Mr. Cameron does not embody imminent change.

"What's he about? What's the story he's trying to tell?" asks a natural Cameron supporter, a Peer with much experience of government. Indeed, I have heard numerous echoes of that question

in conversations with Labour people and Tory MPs in recent months. Why is Mr. Cameron not doing better?

There are several reasons, and the first is Gordon Brown. The Prime Minister is in much better shape than he has been at any time since his terrible autumn of 2007. Last week he enjoyed the summitry of Copenhagen and earned a few plaudits (although not many in Britain) for his mediator role in trying to avoid it ending in utter collapse.

His greatest achievement was that he has survived the year. In the process he has enjoyed an enormous psychological fillip. He lived in fear of the knock on the door, knowing that each day could bring a cabinet delegation telling him his time was up. Yet with that extraordinary capacity for endurance, he has survived and made it into an election year. Barring an as yet unforeseen personal disaster for Mr. Brown, his legacy will not be that he was removed in a parliamentary coup by his own party before he could go to the country. This is obviously an enormous relief to him and as Christmas approached he has visibly brightened. Just surviving has normalized his premiership.

Then there is Mr. Cameron.

The leader of the opposition has had an extremely difficult year personally. He and his wife lost their son, Ivan. A young family preparing for a tough change of circumstances and a move into Number 10 and the spotlight has had to deal with unimaginable added pressure.

Mr. Brown's improving mood has also unnerved his opponent, who has been unsure quite how to deal with him.

Still, the Tory leader's biggest problem seems to be that nagging question I cited earlier: "What's the story he's trying to tell?" The Conservatives make a great many announcements on various subjects, but they lack a coherent and binding theme beyond the nebulous "change."

Missing most of all is what might be termed a narrative of prosperity.

The U.K.'s revised third quarter GDP figures Tuesday were grim - changing only from -0.3% to -0.2%. Quantitative easing, the experimental printing of money, cannot last indefinitely. Soon, whoever is in charge will arrive for work the day after the election to be presented with a dossier advising enormous emergency spending cuts. The public sector will shrink and debt-laden Britain must find ways to encourage its private sector to lead a desperately-needed recovery.

Amid this turmoil, hard-working voters want to know whether a leader has prosperity at the forefront of his mind.

Does David Cameron comprehend what was understood by Tony Blair, Margaret Thatcher or Harold Macmillan? Namely, that most voters are looking for a potential leader who can explain clearly how they and their family can be better off, even if it involves initial sacrifice.

So far, how could the voters know? The Tories barely mention prosperity. It is an extremely odd omission.

## What's News

■ **Greece's sovereign debt** was downgraded, the third blow by a major ratings company in a month. But Moody's decision was less severe than expected, prompting a 4.5% rally on the Athens Stock Exchange. 4

■ **Lloyds became** the latest bank to reach a settlement with American authorities over the handling of funds for countries under U.S. sanctions such as Iran. 15

■ **The British economy** contracted a greater-than-expected 0.2% in the third quarter, ensuring the current recession is the deepest since records began in the 1950s. 4

■ **A U.S. appeals court** affirmed a \$290 million patent-infringement judgment that will bar Microsoft from selling current versions of its flagship Word software. 15

■ **The U.K.'s competition** regulator made a U-turn and cleared the merger of Ticketmaster and Live Nation. 19

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Demand for organs is growing, as are the risks from donors. 27



Landon Donovan joins Everton, amid little fanfare. 28

## ONLINE TODAY

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### Capital Journal

[blogs.wsj.com/capitaljournal](http://blogs.wsj.com/capitaljournal)

'A shortcoming of Iran's opposition has been the absence of a catalytic personality as its heart and soul.'

Gerald F. Seib on the death of Iran's Grand Ayatollah Hossein Ali Montazeri



### Continuing coverage



Follow developments in the tech industry and get insights in our technology blog at [wsj.com/digits](http://wsj.com/digits)

### Question of the day

**Vote and discuss:** What grade would you give Eurostar for its handling of service disruptions caused by cold weather?

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

### Yesterday's results

**Q:** Have your holiday travel plans been affected by the weather?



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NEWS



Italian soldiers, top left, hold shovels near a cathedral in Milan. At bottom left, children play in front of a church in Belgrade, Serbia. At right, two passengers negotiate a parking lot at Luton Airport near London.

# Weather takes further toll on Europe

A WSJ NEWS ROUNDUP

Snowstorms and freezing temperatures continued across Europe, disrupting Christmas-holiday travel for thousands of people and claiming at least 80 lives.

Poland, where 29 people have frozen to death since the start of the weekend, and Ukraine, with 27 fatalities, have fared worst. But the effects are being felt from Scandinavia to Italy. A homeless organization in France said 12 people have died in the severe cold this month.

Snowfall has wrought havoc on traffic in Milan, Italy's financial capital, and elsewhere in the north of the country. Authorities in Venice warned residents of the lagoon city that they expect rising winds from the south to cause an exceptionally high tide. The tide is forecast to

reach almost a meter and a half, meaning large parts of the historic city could be flooded.

Eurostar trains resumed running on a reduced service between London and Continental Europe, starting to move thousands of passengers left stranded by weekend train breakdowns in the Channel Tunnel.

Eurostar Chief Executive Richard Brown said service wouldn't be back to normal until after Christmas. He said passengers with tickets for Wednesday and Thursday could come to stations, though there was no guarantee they would be able to board trains.

Budget airline Easyjet said it had chartered a larger plane to boost capacity on flights between the airport at Luton, north of London, and Paris.

However, severe weather caused

chaos at airports across Europe, with flights delayed or canceled in Italy and Germany. Britain's airports were recovering from a backlog, but travelers were warned there could be cancellations. More than 200 flights were canceled at Frankfurt airport, and about 400 stranded passengers spent a night at Amsterdam's Schiphol airport on improvised beds.

Forecasters predicted more snow and ice over the next day would affect road, rail and air travel.

Eurostar, its reputation tarnished by the chaos, said its trains suffered electrical failure caused by condensation when moving from cold air in northern France into the warmer tunnel. An independent review of the breakdown is scheduled to report by the end of next month, its British co-director said Tuesday. Chris-

topher Garnett, who has served as chief executive of a British railway company and commercial director of Channel Tunnel operator Eurotunnel, will lead the review with Claude Gressier of France.

With temperatures dropping to minus 20 degrees centigrade, Polish police appealed for people to alert them if they see homeless or drunk people lying outdoors.

In Austria, authorities said two people froze to death as they tried to make their way home after evenings out. A homeless Polish man was found dead in the French Mediterranean port of Marseille. Four people died in road accidents as blizzards enveloped large areas of Finland, and in Germany a man froze to death next to railway tracks in Mannheim after a night of drinking.

Italy sent hundreds of soldiers into the streets of Milan to help ease traffic after heavy snowstorms and freezing temperatures forced airports to close and halted trains. The Defense Ministry said some 600 soldiers had begun to shovel snow and 200 more were being deployed.

Private forecaster WSI said most of Europe is likely to experience colder-than-normal temperatures over the next three months. Todd Crawford of WSI said a combination of El Niño, a cold north Pacific and cold midlatitude North Atlantic sea-surface temperatures pointed to a continuation of frigid weather.

"There may be a relaxation of the current cold pattern during January, followed by a return to more consistent colder weather in February and March," he said.

# Iceland prepares for a cold, lean Christmas

ASSOCIATED PRESS

White Christmases are standard in Iceland, but this year the streets of Reykjavik are bare and, in contrast to the havoc from snow in many capitals in Europe and cities in the U.S., no flakes are in the immediate forecast.

For Icelanders coping with 16 months of economic and political turmoil, the so-called red Christmas—as Christmases without snow are called locally—fits the pervasive gloom around this year's festivities.

Many people on this North Atlantic island say the economic collapse and job losses mean they will be giv-

ing fewer expensive gifts and slicing some people off their lists, sending cards instead of gifts. Fewer people plan to splurge at the traditional Christmas concerts and galas that are a staple of social life here.

Arni Georgsson, one of many people who have lost jobs in the financial sector, said Iceland's gift-giving culture has changed as hard times have gripped the population. "People are no longer trying to one-up each other in fanciness like the nouveaux riches," he said. "People knit, for example, and make presents by hand for one another....People accept that they will have to do with

less now than before because so many are in the same position."

Such spiritual rewards are the only evident silver lining of what has been a spectacular fall for Iceland. A sustained boom fueled rapid growth until an abrupt series of setbacks began in the autumn of 2008. The banking system and the value of the currency collapsed, ushering in an era of uncertainty marked by noisy protests that occasionally turned confrontational.

Purchasing power has dropped, as has job security—so the face of Christmas has changed, at least in terms of giving pricey gifts. The

crowds at weekly protests held in front of Parliament each Saturday dwindled during the summer and fall but seem to have gained size in the last few weeks, showing increasing impatience with the slow pace of reforms and recovery.

The days are short, with about six hours of weak sunlight before darkness falls around 4 p.m. Christmas lights are wrapped around lamp-posts in the capital and holly is displayed along Laugavegur, Reykjavik's main shopping street, where bargains can be found.

Though northern and eastern Iceland have seen some snow, the capi-

tal hasn't, and the prediction of a red Christmas stands.

Haukur Claessen, who works at a day-care center, said he and his wife and child will have the traditional delicacies despite the crisis, which he said hasn't had a tremendous impact on his family because it was frugal, even during the go-go years.

"We still eat veal with sugar-coated potatoes on Christmas Eve," he said. "We still decorate the apartment and buy each other presents. The thing is we never got used to spending too much money during the holidays, or any other time of the year."

Associated Press (top); European Pressphoto Agency (bottom); Agence France-Presse/Getty Images (right)

## EUROPE NEWS

# Greece cheers slight ratings cut

BY ALKMAN GRANITSAS

ATHENS—Greece was slapped with the third ratings downgrade on its sovereign debt in a month, but the move was less severe than expected, prompting a rally in the country's stock and bond markets.

The decision by ratings agency Moody's Investors Service to downgrade Greece's debt by only one notch—to A2 from A1—could give Athens room to enact its promised financial overhaul, analysts said.

"This gives the government some time," said Nikos Magginas, an economist at National Bank of Greece.

Athens was quick to announce that it would step up its efforts to curb its fast-growing deficit. The Finance Ministry said in a statement it "will intensify its efforts to restore the viability of fiscal and economic trends in Greece." Parliament is set to vote Wednesday on a new 2010 budget that includes many of the government's deficit-cutting measures.

Over the past two months, Greece has come under intense scrutiny by credit-rating agencies, other European Union countries and financial markets after Athens revealed that its budget deficit would hit 12.7% of gross domestic product this year, more than four times the EU-stipulated limit.

Since then, the Socialist government, voted into office Oct. 4, has outlined a number of measures to rein in the deficit and tackle a debt burden expected to be more than 120% of GDP next year. As part of its 2010 budget, the government pledges to slash

the deficit to 9.1% of GDP next year. It plans to set even more aggressive deficit-reduction targets in a three-year growth plan to be presented to the EU in January.

In recent weeks, both Standard & Poor's Corp. and Fitch Ratings downgraded Greece's sovereign debt to BBB+. Until this week, the Moody's rating remained the equivalent of three notches higher, and markets anticipated a two-notch cut.

The one-notch downgrade cheered investors. Share prices on the Athens Stock Exchange closed 4.5% higher Tuesday at 2213.47 points while the spread between 10-year Greek government bonds and their benchmark German counterparts—a measure of credit risk—narrowed to 252 basis points, or hundredths of a percentage point, from 283 basis points in late Monday trade.

In its announcement, Moody's warned it may move to further downgrade Greece's debt and said future ratings decisions will hinge on whether the government follows through with deficit-reduction plans.

"Moody's was rather lenient with their downgrading and the market is responding well," said Nicholas Douzinas, head of foreign markets at Intersec Securities.

Also Tuesday, the government began public consultations for an overhaul of Greece's tax code. The new tax law, which is expected to be voted on in March, is intended to boost revenue, close loopholes and stamp out tax evasion. The government estimated this week that unpaid value-added tax, for example, represents



Graffiti on the wall of a bank office in central Athens reads 'eat the rich,' reflecting tensions over Greece's ability to address its soaring debt.

about 30% of current VAT revenue.

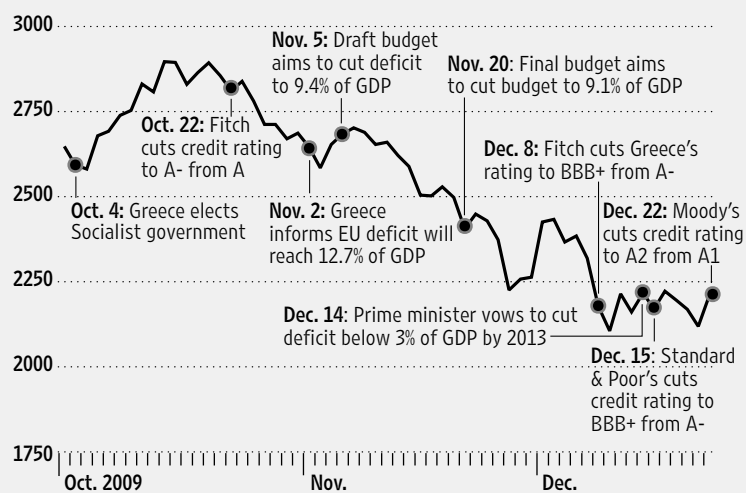
The Greek government also says it will raise as much as €2.5 billion (\$3.6 billion) from privatizations next year.

The prospect of privatizations and other fiscal tightening has angered Greece's powerful labor unions. Just hours after the Moody's downgrade, public-sector umbrella union ADEDY, said it would stage a 24-hour strike early next year over what it sees as an attack on workers' rights as the government moves to implement austerity measures.

"The workers, the pensioners, the unemployed are sending a central message: They will not pay for the crisis," ADEDY said in a statement announcing the strike action.

## Deflating rating

Athens general index and a look at Greece's government-bond ratings



Source: Dow Jones data

# U.K. recession deepens

BY LAURENCE NORMAN

LONDON—The British economy contracted a greater-than-expected 0.2% in the third quarter, ensuring that the current recession is the deepest since records began in the 1950s, the Office for National Statistics said.

The outcome thwarted expectations of a more favorable revision to the third-quarter output number, and came as a disappointment for Prime Minister Gordon Brown's government. He is looking for a solid economic bounce to help it win an election, due to be called by June.

It also means that the British economy has contracted for six straight quarters, even after most other industrialized economies have returned to growth.

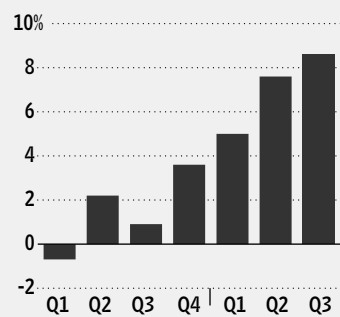
In its final estimate of third-quarter gross domestic product, the ONS also said the savings ratio rose to 8.6%, its highest level since the first quarter of 1998 and a clear indication of caution among consumers, who tend to save during a recession. The ONS revised its previous estimate from a decline of 0.3%. U.K. output contracted an unrevised 5.1% from a year earlier.

With the third-quarter economy still showing weakness, economists now say British consumer spending could be the deciding factor in the fourth quarter.

Liam Byrne, chief secretary to the Treasury, said recent economic news had been fairly positive and shops and factories were busier.

## Fleeing to savings

The rising proportion of households' disposable income that they are setting aside as savings shows continued consumer caution amid the recession.



Source: U.K. Office for National Statistics

Last month's unemployment figures showed the number of people with jobs had risen, and the number receiving benefits had fallen. "We think the signs do point to the U.K. being set now to come out of recession at the turn of the year," he told the BBC.

But he warned that the economy won't be out of danger come January and February and that the government needs to continue supporting businesses and the unemployed while keeping the pressure on banks to lend.

"There is still a lot of risk around and that means that we can't simply slam on the brakes with the recovery plan," Mr. Byrne said.

The total drop in U.K. output since the recession began is 6.03%. That outstrips the 6% decline in output the U.K. suffered between the second quarter of 1979 and the first quarter of 1981.

The ONS also revised down previous quarters' data to show a slightly larger output decline in the second quarter of 2009 and the third quarter of 2008.

"There's even more spare capacity in the economy than was previously anticipated," said economists at Credit Suisse. They said this would "make a little less clear cut" the decision facing Bank of England policy makers over whether to expand the central bank's bond-buying program beyond the current £200 billion (\$322.27 billion) in February or extend it further.

Sterling fell briefly after the data to a two-month low of \$1.6026 but quickly recovered to around \$1.5975. Likewise, gilt prices were pushed higher initially but quickly ceded those gains.

The slight upward revision in the GDP data was largely due to sharply improved third-quarter construction data, which boosted gross fixed-capital formation to a rise of 2.2%, compared with a fall of 5.9% in the previous quarter.

However, the ONS said that was offset by a bigger-than-previously-reported drop in financial services, energy extraction and manufacturing.

# Russian job losses threaten recovery

BY IRA IOSEBASHVILI

MOSCOW—December may be the second-worst month in more than a decade for job cuts in Russia, jeopardizing what officials have called the beginning of the country's economic recovery.

More than three-fifths of Russian companies will cut workers this month, according to a study prepared by the Institute for the Economy in Transition that hasn't yet been officially published.

Twice as many jobs will have been cut in December than in November, with metals producers and construction companies leading the way, the study found.

"Companies may be preparing for a period of lower demand by planning a decrease in their industrial output," said Sergei Tsukhlo, an analyst at the institute.

Although Russian industrial production grew 1.5% in November from a year earlier, the rise was "statically insignificant and mostly due to a low base number," Mr. Tsukhlo said.

Overall, more than 60% of companies planned to pare their work forces in December, the highest figure on record with the exception of January, when unemployment soared as Russia's first recession in a decade gained momentum.

Although the government has officially declared the recession to be over, with small gains made in gross domestic product in the second and third quarters, official unemployment grew to a higher-than-expected 8.1%, or 6.1 million people, in November.

The study, which asks companies whether they plan to hire or fire employees during the month, doesn't show how many jobs companies plan to cut.

Earlier this month, however, Deputy Economy Minister Andrei Klepach said he expected a "serious rise" in unemployment over the winter months. President Dmitry Medvedev said last month that an additional one million people could lose their jobs in 2009, raising the unemployment rate to around 9%.

Growth in joblessness could actually be the result of an improving economy, said Vladimir Tikhomirov, chief economist at Moscow-based investment bank Ural-sib.

"At the start of the crisis, government loans were made on the condition that companies not fire people," Mr. Tikhomirov said. "Now that balance sheets are in better shape, these same companies are less tied to government loans, and will be looking to cut costs by firing people."

## EUROPE NEWS

# Local policies may drive 'clean tech'

Companies that bet big on an emissions deal might still be able to rely on nations' pre-Copenhagen energy positions

Companies that bet on a global deal to curb greenhouse gas emissions are now hoping that national and local policies will drive investments in energy technology even without a binding United Nations deal.

By Spencer Swartz,  
Jim Carlton and Rebecca Smith

The United Nations climate summit's failure to produce an enforceable global agreement to cut greenhouse gas emissions leaves the U.S., Europe, China, India and other countries to pursue the energy strategies they had before Copenhagen—policies that in many cases are aimed at strategic goals such as economic development or reducing dependence on Middle Eastern oil.

"Most nations are developing nuclear plants for issues of national security," says Tom Sanders, president of the American Nuclear Society. Eastern European nations are interested in small reactors so they can reduce dependence on gas imports, which can be disrupted, from Russia.

Meanwhile, China, Korea, the United Arab Emirates and some European nations are building big reactors so they will have more energy security and, in some cases, so they will have an export product—electricity—to sell outside their borders.

In the U.S., investors in Silicon Valley's "cleantech" sector had a lot to gain if Copenhagen had produced a strong agreement to drive low-carbon or no-carbon energy technology, such as wind turbines or the software systems required to allow the electric grid to manage intermittent bursts of power from solar cells. Since 2002, venture capital investments in cleantech worldwide have soared from about \$1 billion to an estimated \$5 billion to \$6 billion this year, according to estimates by the Cleantech Group, a market research firm in San Francisco.

The weak Copenhagen deal will be a setback for some of these investments, which have also been jolted by falling oil prices that make oil alternatives harder to justify. But the Obama Administration is still pursuing its effort to use the regulatory powers of the Environmental Protection Agency to clamp down on green-



Emissions-producing diesel trucks and cars pass nonpolluting windmills along a freeway near Banning, California, this month.

house gas emissions, and the Energy Department is still committed to spending billions in public funds to jump start alternative energy technology.

California will continue to pursue a program to garner one third of its electricity from renewable resources by 2020, more than double current levels. Most Northeastern states also are expected to stay the course and cut carbon dioxide emissions according to regional targets.

Officials at Iberdrola, the Spanish power company and the world's biggest renewable-energy company say they are evaluating investments based on local policies, such as renewable-energy standards in states like Texas.

Some businesses, worried about a patchwork of federal and state reg-

ulation, are still pushing for Congress to enact a nationwide system for cutting carbon dioxide emissions. But the prospects for Congressional action in the 2010 election year look dim.

China, meanwhile, remains committed to a sweeping energy efficiency program that calls for cutting carbon intensity—a measure of emissions relative to the size of the economy—by 40% to 45% below 2005 levels by 2020. The carbon intensity target is an extension of goals China has had in place for years, in part because of concerns about dependence on foreign oil.

Gao Jifan, chief executive of Trina Solar Ltd., a major Chinese maker of solar panels, says the continuous cost reductions being achieved by solar-panel producers

are making the technology more affordable. "So the outlook for its development is unstoppable," he says in a statement.

In the European Union, companies still have to comply with laws that require member countries to reduce emissions collectively by 20% below their 1990 levels by 2020. One of the biggest complaints European energy investors have about the Copenhagen outcome is that national leaders failed to provide enough "visibility" as to what future policy might be.

"We just didn't get a good sense from the (Copenhagen) conference about the regulatory structures that might be in place and the general direction of where public policy is headed," said Andrew Turpin, spokesman for Centrica PLC, the

U.K.'s biggest energy provider.

The European steel industry—a major emitter of carbon dioxide—called the outcome a disappointment. "We had hoped that an agreement in Copenhagen would have resulted in a global level playing field between industrial competitors," said Gordon Moffat, the director general of the steel industry's European lobby, in a statement.

EU leaders, while registering their disappointment with Copenhagen's outcome, said there was no wavering in the bloc's intent to cut emissions. "We will do our 20%, no question about that," said Carl Bildt, the foreign minister of Sweden, which holds the EU's rotating presidency.

—Sue Feng and Keith Johnson  
contributed to this article.

## Italy's tax amnesty brings in \$114 billion

By Sabrina Cohen  
and Jennifer Clark

MILAN—Requests by individuals to repatriate funds under a tax-amnesty plan launched in October totaled about €80 billion (about \$114 billion) as of Dec. 15, a top government official said Tuesday.

Last week Economy Minister Giulio Tremonti said the government extended the tax amnesty plan to April 2010, in a move to collect more assets currently deposited out of the country, but increased the fee to be paid to 7% of the total value of the assets. Investors that repatriate assets by Feb. 28 will pay a 6% fee, the ministry said.

The Italian government in October launched the tax-amnesty plan, the third in the past eight years,

which allowed Italians to repatriate funds deposited in tax havens out of Italy through Dec. 15. As part of the plan, people would have to pay a 5% fine on the total amount of assets repatriated and wouldn't have to declare how they earned the money. In November, Mr. Tremonti estimated windfall tax revenue for the government at up to €4 billion.

Small domestic asset managers as well as private-banking boutiques have benefited most from the flood of new funds, as Italy's two largest domestic retail banks—Intesa Sanpaolo SpA and UniCredit SpA—weren't able to attract large sums of assets deposited offshore, according to several people involved in the tax-amnesty plan.

Intesa Sanpaolo Chief Executive Corrado Passera said the bank had

collected €10 billion. UniCredit's private-banking unit collected €4.5 billion, according to a person familiar with the situation.

Observers said the majority of the requests were of smaller amounts of money, and noted there was a rush in requests to repatriate real-estate properties in the past four weeks after the government authorized trusts to take control of that type of asset.

"Most requests came from people who started to deposit money out of Italy decades ago and wanted to safeguard their family wealth—some inherited the money," Banca Esperia Chief Executive Officer Andrea Cingoli said Tuesday.

Banca Esperia is the private bank unit of Mediobanca SpA and expects to manage about €1.5 billion of

those returned assets. "We have completed over €1 billion on repatriation requests," Mr. Cingoli said Tuesday. Banca Esperia, like other asset-management boutiques, targets clients with assets worth at least €3 million.

Florence-based Banca Ifigest Chairman Gianni Bizzarri echoed Mr. Cingoli's comments, adding that the repatriations had surpassed the bank's targets. "We collected about €200 million," Mr. Bizzarri said, noting that it brought the bank dozens of new clients and that his bankers have repatriated homes and works of art.

Fabrizio Vedana, head of legal affairs of Unione Fiduciaria, an Italian union of trustees that has among its shareholders several Italian mutual banks, also noted a last-minute in-

crease of real-estate regularization requests.

"We have clients that decided to declare real-estate properties in Switzerland, Monaco as well as Poland, Morocco and Israel," he said. He also added that his office received tax amnesty requests worth over €6 billion as of mid-December.

Paolo Basilico, chief executive of Milan-based asset management Kairos, said the "current tax-amnesty plan is a result of the changes that took place around the world, in so-called off-shore countries, in the last months."

Mr. Basilico, along with Banca Generali Chief Executive Giorgio Girelli and most other Italian bankers, said there are no longer safe havens for tax evaders. "Things have changed," Mr. Cingoli said.

## U.S. NEWS

# Agendas clash in the desert

BY REBECCA SMITH

BARSTOW, Calif.—A California senator's move Monday to put more than one million acres of the Mojave Desert off limits to development is spotlighting a clash between two prime goals of environmentalists.

Before Democratic Sen. Dianne Feinstein introduced legislation to create the Mojave Trails National Monument and other protected wilderness areas, solar-power developers had submitted nearly two dozen proposals since 2006 for projects that would make the Southern California desert the biggest solar farm on Earth.

California has set an ambitious target of garnering one-third of its electricity from renewable sources by 2020. That has sparked a renewable-development boom as utilities sign contracts for everything from solar farms to geothermal plants. It also has made it easier for developers to secure financing.

But some of the land solar developers consider prime real estate also is prized by conservationists who want to preserve unspoiled stretches of unique desert, such as the Sleeping Beauty Valley and Marble Mountains in the Mojave.

The conflicting visions for the Mojave are part of a broader struggle playing out as the nation embarks on a renewable-energy push. In Kansas, some of the last tall-grass prairie habitat could be threatened by wind farms in the Flint Hills area. More than 96% of tall-grass prairie has been destroyed. Critics say wind turbines not only have a visual impact on the landscape, but also require extensive road construction.

Mrs. Feinstein's Mojave bill would protect 1.7 million acres of desert, while still allowing current recreational uses. The biggest piece would form the Mojave Trails National Monument, at 941,000 acres, east of Los Angeles along a 105-mile stretch of historic Route 66. It also would create the Sand to Snow National Monument on 134,000 acres of federal land near Palm Springs, and would put additional acreage under wilderness protection, including important animal-migration corridors.

Mrs. Feinstein is a longtime supporter of desert preservation who sponsored the 1994 California Desert Protection Act that turned the nearby Death Valley and Joshua Tree wilderness areas into national parks. Once word spread that she was trying to protect another stretch of desert in the Mojave, some developers began to rethink their plans.

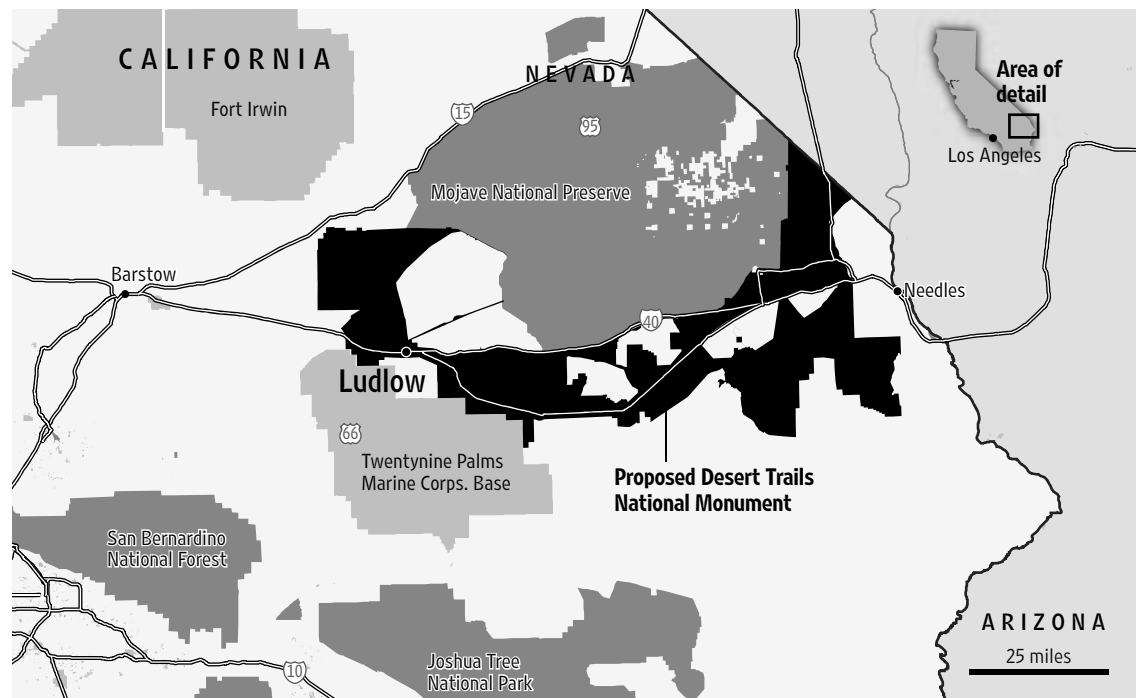
Tessera Solar, a Houston developer, dropped plans for a 5,000-acre site in the Mojave, "knowing Sen. Feinstein was moving forward with her bill," a company spokeswoman said.

BrightSource Energy signed power-purchase agreements with Southern California Edison, a unit of Edison International, and Pacific Gas & Electric Co., a unit of PG&E Corp., for 2,600 megawatts of power it intends to furnish from numerous desert sites beginning in 2012.

John Woolard, chief executive of BrightSource, said Mrs. Feinstein "got quite upset" when she learned development was proposed on some pristine tracts under federal control. His company



David Myers, executive director of Wildlands Conservancy, walks in the Mojave Desert in September. His organization donated 600,000 acres to the U.S. government with the understanding that it would be protected.



decided to forgo plans to build a solar project in the Broadwell Dry Lake area that would be within the proposed monument boundaries. However, he warned that putting parts of the Mojave off limits "would push solar farms out of state."

Others have also complained that California's aggressive renewable-energy target, combined with tough land-protection laws, could end up sparking a renewable-energy boom in neighboring Nevada or Arizona.

Mrs. Feinstein's bill attempts to find common ground between developers and those who support renewable energy. Although it prohibits energy development within the monument area, the bill includes provisions that would allow faster and cheaper development of private lands. Instead of taking seven to nine years to do endangered-species act reviews on private land, renewable-energy developers would qualify for reviews taking 18 months to three years.

California's own analysis shows it needs 128,000 acres of desert ter-

rain to fulfill the state mandate for a big boost in utility-scale solar projects. But there currently are projects proposed that would use nearly a million acres.

David Myers, the executive director of Wildlands Conservancy, the chief critic of Mojave development, said the legislation is "fantastic" because it redirects activity from sensitive areas to land that already has been degraded by prior use, such as cattle grazing or alfalfa cultivation. His organization donated 600,000 acres in the Mojave to the federal government in stages from 1999 to 2003, with the understanding that it would be permanently protected. Mr. Myers was furious when applications began pouring into the Bureau of Land Management seeking permission to develop it into renewable-energy parks—as though there were no prior understanding.

The Mojave is particularly attractive because it not only offers nearly uninterrupted days of bright sunshine in a sparsely populated area, but lies near a major electric-transmission corridor

from California to Nevada.

"We don't have to sacrifice our national treasures for renewable energy," Mr. Myers said. "We need both." Patrick Jackson, a San Dimas, Calif., owns a small parcel of land near a proposed development area. Even before construction was approved or began, the company put up gates that blocked access to the site—and access to parcels of land by their owners.

Mr. Jackson petitioned the BLM to order the developer to take down the gate, citing the 1885 "Unlawful Enclosures of Public Lands Act" that once barred cattle ranchers from fencing in large areas of public land and keeping others out, often at the point of a rifle.

"You can look 360 degrees around you and not see a thing that's man-made," he said. "It is quiet and — at night — the stars!"

Mr. Myers said he's satisfied with the legislation even though not all the donated lands would be within the confines of the national monument or wilderness areas. "It ratifies the protection we were pledged," he said.

## Giuliani says he won't run in 2010 races

ASSOCIATED PRESS

Former New York City Mayor Rudy Giuliani, viewed by many New York Republicans as a savior for the struggling party, said Tuesday that he wouldn't run for political office next year and instead would concentrate on his law and consulting businesses.

"We have some pretty significant commitments next year that will really make it impossible for me to run full-time for office," Mr. Giuliani said at a news conference to endorse ex-congressman Rick Lazio for governor.

Mr. Giuliani said he thought about running for governor against Democratic incumbent David Paterson and in the U.S. Senate race next year against Democratic freshman Kirsten Gillibrand. "At different times, I thought I might do it," he said, but "it just isn't the right time."

Mr. Giuliani's consulting business, Giuliani Partners, is flourishing. This month it landed a contract with Rio de Janeiro to help make the city safer before it is the site of the 2016 Olympics.

Mr. Giuliani, whose most recent foray into politics ended with a loss to John McCain in the race for the 2008 Republican presidential nomination, said there were strong candidates in the party for both races, "and I want to start out by endorsing one, Rick Lazio for governor."

He said former Gov. George Pataki and U.S. Rep. Pete King could be strong GOP candidates for the Senate.

Mr. Lazio replaced Mr. Giuliani on the ticket in the 2000 Senate race and was subsequently trounced by Hillary Clinton. Mr. Giuliani withdrew from that race after getting prostate cancer and suffering a public breakup of his marriage.

Mr. Paterson appointed Ms. Gillibrand earlier this year to take over for Ms. Clinton after the former first lady became secretary of state. The 2010 election will decide who would serve out the balance of the term, through 2012.

Besides Mr. Lazio, Erie County Executive Chris Collins, a Republican former businessman and proven fund-raiser, also is exploring a bid for governor.

Potential Republican candidates for Senate had been looking for word on Mr. Giuliani's plans before proceeding with theirs. Lee Miringoff of the Marist College poll said time was growing short to raise money and a candidate's statewide stature.

"This is the time to make your intentions known, regardless of the nuance of what Rudy may or may not say about it," Mr. Miringoff said Tuesday.

Mr. Miringoff said Republicans hoping to win any office in a state dominated by Democratic voters needed to establish name recognition and raise millions of dollars during what could potentially be a big year for Republicans.

The off-year elections in November toppled many Democrats, and polls showed flagging support for President Barack Obama and many other Democrats. Mr. Paterson is seeking election and his polls are rising, but from low levels. Also, Democrats control state government, but hard fiscal times such as these often hurt incumbents.

"It might look like a good Republican year, despite this being a very blue state," Mr. Miringoff said. "But they have to field a strong team, and they aren't there yet."

## U.S. NEWS

# Small bankers get the same message

Obama uses meeting to push again for more lending; two groups at odds as battle over U.S. regulation heats up

BY DAMIAN PALETTA

WASHINGTON—Community bankers got their first exclusive meeting Tuesday with President Barack Obama amid an intensifying fight within the industry over legislation that would tighten federal financial regulation.

Mr. Obama used the White House parley with executives from smaller banks to reiterate his push for bankers to do more lending to small businesses. “The pendulum may have swung too far in the direction of not lending,” Mr. Obama said, adding that the White House is working on ways to cut “red tape” that banks complain is making it harder to lend. He suggested the White House wouldn’t intervene with federal regulators though, which many bankers complain are being too strict.

“We don’t have direct influence over our independent regulators,” Mr. Obama said. A top focus for the White House in the coming months will be to push for more lending, he said, and that can only be done with the cooperation of financial institutions.

But getting bankers to sing from the same hymnal won’t be easy. Two bankers’ groups, the American Bankers Association and the Independent Community Bankers of America, are challenging each other, and delivering competing messages on Capitol Hill as Congress weighs a wide-ranging overhaul of financial-industry regulation. The ABA and ICBA both claim to speak for “community banks,” but they took starkly different positions on a recent House bill. The ICBA supported it, while the ABA opposed it.

The spat among bankers promises to become nastier as the Senate takes up the bill.

“The name-calling is really partly a strategy to build their brands against each other, and I think it’s foolish,” said Ed Mierzwinski, consumer program director at U.S. PIRG, a coalition of consumer groups that frequently fights



President Obama speaks to reporters at the end of a meeting with the heads of several community banks in the Roosevelt Room at the White House.

against the banking industry. “To the extent that it hurts them, it’s great that they are fighting with each other and using up their bandwidth.”

ABA officials say ICBA officials have been too willing to throw their support behind controversial legislation in exchange for modest changes in the bill. ICBA officials counter that the ABA is conflicted because it represents both small community banks and large Wall Street firms that are often at odds with each other.

Conflicting messages from the industry “will invite the enactment of

a bill that will truly hurt us badly for years to come,” ABA Chairman Art Johnson wrote in a letter to chief executives earlier this month.

ICBA officials bristled at the letter, and Chief Executive Cam Fine said he felt it attacked his group’s “leadership personally.” He had his own criticism of his group’s rival.

“ABA represents both the very largest financial firms and some smaller institutions whose best interests are not always the same,” he said.

The ICBA backed a provision in the House bill that would allow the government to go in and break up

big banks if regulators believe the company could pose a risk to the broader economy. The ABA opposed this measure. ICBA has also argued for stricter limits on the amount of deposits banks should be able to control, an idea the ABA has fought.

Community banks are traditionally held in higher esteem in Washington than are large banks, in part because community bankers are in each lawmaker’s district and the group collectively wields considerable influence. After the House passed its bill earlier this month that would raise fees and impose new limits against large financial

companies, House Financial Services Committee Chairman Barney Frank (D., Mass.) said large banks didn’t wield as much influence.

“It’s not the big banks that have the clout,” he said. “It’s the community banks and the credit unions.”

The financial crisis has exposed cracks in part of the financial system, with several large companies getting bailed out by the federal government.

In addition, 165 banks have failed since January 2008. There are more than 8,000 banks in the country, and most are small, with less than \$10 billion in assets.

## Earmarks in U.S. defense bill top \$4 billion

BY JOHN D. MCKINNON AND BRODY MULLINS

WASHINGTON—Lawmakers set aside more than \$4 billion in earmarks in the just-approved 2010 defense appropriations bill, and watered down efforts to curb the practice of targeting spending for programs in members’ districts.

The earmarking total for 2010 represented a 14% drop from last year’s defense bill, according to an analysis by Taxpayers for Common Sense, a watchdog group that is critical of the process. The House included language in its defense bill that could subject earmarks for for-profit companies to full and open competition. But the Senate resisted, meaning that senators apparently will continue to set aside spending for favored companies, the group said.

The \$626 billion bill passed the Senate on Saturday, and President Barack Obama signed it into law Monday. The bill also includes brief extensions of jobless benefits and transportation spending.

The White House on Monday

touted the federal government’s efforts to become more efficient, highlighting a new report that shows federal agencies have identified more than \$19 billion in contract savings for fiscal 2010. The administration says the government is now on track to meet its goal of saving \$40 billion annually by fiscal year 2011.

The administration has said the savings would come from terminating unnecessary contracts, ending an over-reliance on contractors, and reducing the use of high-risk contracts. Federal spending on contracts has doubled since 2002, reaching \$540 billion last year.

But the earmarks in the defense-spending bill could point to a longer-term clash between lawmakers and Mr. Obama, who campaigned on a pledge of changing the way Congress allocates earmarks. Mr. Obama has said that earmarks can be a waste of government funds and wants more public information about how they are awarded by Congress.

Members of Congress in both parties defend the use of earmarks and

say they are often for worthy projects.

Among the earmarks in the Defense bill: \$18.9 million for the Edward M. Kennedy Institute for the Senate, sponsored by Sen. John Kerry (D., Mass.); a \$23 million item for the Hawaii Healthcare Network, sponsored by Senate appropriations Chairman Daniel Inouye (D., Hawaii);

**Members of Congress in both parties defend the use of earmarks and say they are often for worthy projects.**

a \$20 million appropriation for the National World War II museum in New Orleans, by Democratic Sen. Mary Landrieu and Republican Sen. David Vitter of Louisiana; and \$5 million for a Heritage Center at San Francisco’s historic Presidio, an item included by House Speaker Nancy Pelosi in her “community funding requests.”

Ms. Landrieu said in a statement

that she was “proud” to secure the museum funding, which will be used to pay for the construction of a new wing that will include aircraft, tanks and landing vehicles used during the war. A spokesman for Ms. Pelosi said the Presidio item was requested by the Presidio Trust, adding that it was for rehabilitation of the Officers Club, a local landmark.

One of the larger spending items is a \$300 million appropriation touted by Reps. Jim Moran (D., Va.) and Chris Van Hollen (D., Md.), among others, to improve their region’s overstressed transportation system. The road widenings are justified by expanding operations at area military facilities, including new hospital facilities.

“Congress is committed to building world-class facilities for our wounded warriors in the national capital region, and these funds are an integral part of that effort,” Mr. Van Hollen said.

As usual, many of the top recipients of earmarks in the defense bill were high-ranking appropriators: Mr. Inouye got 37 earmarks totaling

\$198.2 million, while ranking Republican Thad Cochran (R., Miss.) got 45 totaling \$167 million. Mr. Inouye also is chairman of the defense subcommittee, and Mr. Cochran is the ranking member.

On the House side, defense subcommittee chairman John Murtha (D., Pa.) sponsored 23 earmarks totaling \$76.5 million, while ranking Republican C.W. “Bill” Young got 36 totaling \$83.7 million, according to Taxpayers for Common Sense.

Mr. Young “is doing his job,” said a spokesman. Other lawmakers’ offices didn’t immediately respond.

Mr. Obama persuaded lawmakers not to add funding earmarks to the \$787 billion stimulus package that Congress approved earlier this year. Not long after that, Congress approved a \$410 billion spending bill that was full of earmarks.

Mr. Obama avoided a fight at the time by saying that the legislation was a holdover from the previous session of Congress, when Republicans were in control. At the time, he said the legislation should “mark an end to the old way of doing business.”

## WORLD NEWS

# Hanoi tightens grip amid downturn

BY JAMES HOOKWAY

HANOI—Vietnam is considering putting price controls on a broad array of products and is cracking down on certain personal and political activity, in a sharp reversal of what has been a move toward more-open markets and a more-open society.

Foreign businesses worry about the threat of price controls—something many analysts consider a hallmark of Vietnam's Marxist past. That comes after authorities last month blocked access to Web sites such as Facebook and Twitter, following cases in which several bloggers were detained, then released, on charges of criticizing the government. In October, nine people were given stiff sentences for calling for pro-democracy protests.

Carlyle Thayer, a veteran Vietnam watcher and professor at the Australian Defense Academy in Canberra, says conservative factions in the ruling Politburo are tightening their grip on the country as Vietnam's economic worries—especially inflation and fallout from currency devaluations—grow. He says he expects more crackdowns in the run-up to the country's 2011 Party Congress, a major political event that will aim to map out Vietnam's political and economic direction for the following five years.

In turn, the crackdowns threaten to curtail investment and economic growth in the country.

For years, foreign donors and investors hoped that rapid growth would lead to more political debate and economic freedom, cementing the country's emergence as one of Asia's most dynamic new economies.

That's what happened in some other fast-growing countries in the region. In the 1980s and 1990s, the strengthening economies of South Korea and Taiwan helped pro-de-



This television image shows priest Nguyen Van Ly being silenced for yelling "Communist court!" at his 2007 trial in Vietnam.

mocracy movements overcome military-backed regimes.

But in Vietnam, leaders seek a path to a quick expansion of the country's \$100 billion economy without spurring any grassroots clamor for more freedom.

Now, the price-control unit of Vietnam's Finance Ministry is drafting proposals that, if implemented by the government, would compel private and foreign-owned companies to report pricing structures, according to documents viewed by The Wall Street Journal and corroborated by Vietnamese officials.

In some cases, the proposed rules would allow the government to set prices on a wide range of privately made or imported goods, including petroleum products, fertilizers and milk to help contain inflation as Vietnam continues pumping money into its volatile economy. Typically, the government applies this kind of aggressive measure only to state-owned businesses, and it is unclear whether Vietnam will write the wider rules into law.

Myron Brilliant, senior vice president for international affairs at the U.S. Chamber of Commerce in Wash-

ington, wrote to Vietnamese officials, in a Dec. 15 letter viewed by The Wall Street Journal, saying the plan will "serve as a disincentive to new direct investment in Vietnam."

Vietnamese citizens, meanwhile, are having to give up some political and social freedoms they previously enjoyed, as their Communist leaders struggle with a series of currency devaluations and a worsening inflation problem.

Diplomats are raising their voices over Internet curbs. "This isn't about teenagers chatting online," U.S. Ambassador Michael

Michalak told a donor conference on Dec. 3. "It's a question of people's rights to communicate with one another and to do business."

Swedish Ambassador Rolf Bergman, speaking on behalf of the European Union at the same conference, urged Vietnam "to lift all restrictions on the Internet."

Vietnamese government officials didn't respond to requests for comment, except to confirm the existence of the draft price-control plans.

The country's recent economic ups and downs have, says one longtime Vietnam-based analyst, "shaken the authorities' confidence in the notion that economic reform and opening is automatically good."

The World Bank expects Vietnam's economy to expand 5.5% in 2009. But that forecast is weaker than the 8%-plus rates that Vietnam has come to depend on. Widening trade and budget deficits have forced the government to devalue its currency three times since June 2008, most recently in November, when it shaved 5% off the value of the Vietnamese dong. That move spurred fears of rising inflation.

The biggest losers in Vietnam's step back are the country's dissidents, journalists and bloggers. Several bloggers and activists were detained for writing comments critical of Vietnam's encouragement of Chinese companies to mine for aluminum ore in the country's central highlands region. Some detainees were released after promising not to raise political issues again, but lawyer Le Cong Dinh was arrested in June for defending antigovernment activists.

Six people were sentenced on Oct. 9 for allegedly "conducting propaganda against the state" for demanding multiparty elections. On Oct. 7, three other people were jailed for the same offense—something the U.S. embassy in a statement said it found "deeply disturbing."

## WTO ruling will change little in China

BY IAN JOHNSON  
AND LORETTA CHAO

BEIJING—A decision by the World Trade Organization reaffirming its stance that China's restrictions on imported films, music and books are illegal could help some media companies sell more products in China but isn't expected to radically shake up the field, analysts said Tuesday. China said it regretted the ruling, which came on an appeal to an initial finding.

Separately Tuesday, China's Ministry of Commerce expressed "strong dissatisfaction" against the

European Council's decision to extend an antidumping duty on imported leather shoes. Representative of the EU's 27 nations approved a proposal to extend supplemental import tariffs of between 9.7% and 16.5% on Chinese and Vietnamese shoes until mid-2011.

China has no further appeals of the WTO decision and, unless the restrictions are lifted, the U.S. could begin in a year imposing duties on Chinese goods equal to the damage caused by the restrictions. But analysts said that, even if implemented, the ruling wouldn't radically change the way business is done in China for the movie, book and music industries. The ruling mainly addresses how products are distributed in China and doesn't force Beijing to let in products it deems harmful.

That means the country can still keep in place a rule restricting the number of foreign films imported each year to 20. It does mean that foreign film companies potentially could distribute directly to cinemas and bypass the China Film Group Corp., a government-run company that has a quasi-monopoly on film distribution. Under current rules, U.S. studios get about 17% of the box-office revenue, far lower than in other countries.

Eric Priest, an assistant professor at the University of Oregon



Chinese editions of U.S. publications are displayed at a magazine stand in Beijing. The WTO has ruled that China's restrictions on imported films and books are illegal.

School of Law who researches copyrights and the Chinese entertainment industry, said that decreasing the influence of China Film Group would help Chinese film studios as well.

"Many in the Chinese film industry are eager to break up the China Film Group monopoly, and view competition in the film-distribution business as a positive that will propel the industry forward," he said.

Still, the China Film Group has said restrictions on foreign content thus far have helped the local industry grow to occupy more than half of box-office market share.

U.S. entertainment conglomerate Viacom Inc., which includes Paramount Pictures, has been seeking to make inroads in China for some time. CEO Philippe Dauman last month noted the current constrictions on foreign films and said, "We

think we can do well in China once China opens up its markets, as it should, going forward."

The ruling might have some effect in the book industry. Imports currently have to go through the China Publishing Group, another government monopoly that runs bookstores in China. If that monopoly were broken, foreign publishers such as Pearson PLC's Penguin or Bertelsmann AG's Random House could export directly to booksellers.

Because these publications are mostly in foreign languages, the market is limited but it could result in more competition and variety. Currently Beijing, a city of 17 million, has just a handful of small, mostly poorly stocked foreign-language bookstores.

The EU's renewed duties on shoes from China and Vietnam were originally imposed in October 2006 after a coalition of shoemakers, mostly from Italy, complained they were going out of business because of Asian imports.

European retailers, who benefit from the high margins afforded by inexpensive Asian footwear, say the duties cost European consumers hundreds of million of euros a year.

—John W. Miller in Brussels, Sam Schechner in New York and Victoria Ruan in Beijing contributed to this article.

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## OPINION: REVIEW &amp; OUTLOOK

## Europe's Israel Obsession

Baroness Catherine Ashton of Upholland (the European Union's new chief diplomat in the likely case you don't know her) isn't exactly what one would call "experienced." Perhaps to shed her much-deserved reputation as a foreign-policy novice, she used her maiden speech in the European Parliament to fuel the Continent's No. 1 international-affairs obsession: trashing the Jewish state.

"We're deeply concerned about daily living conditions of people in Gaza," she told law makers last week. "Israel should reopen the crossings without delay."

It's rather odd, to say the least, that no sooner had Israel left Gaza in 2005, than the same people who so anxiously had called for Israel to "end the occupation" wanted it back in the picture. Even though Hamas returned Israel's peace gesture with relentless rocket attacks, Israel is nevertheless expected to establish some sort of free-trade zone with the Islamists and open its borders again to Palestinian suicide bombers.

Egypt, the Palestinians' Arab brother nation, meanwhile, can quietly build a steel wall—yes, steel—at its Gaza border without having to fear negative Western press coverage, let alone the Baroness's wrath. She has only Israel in her crosshairs, even though Jerusalem is actually still providing a lifeline to the Palestinians.

Despite all the misreporting about a "humanitarian catastrophe" in Gaza as a result of Israel's blockade, the flow of aid support from Israel to the narrow strip is uninterrupted. In the week of Dec. 13-Dec. 19 alone, 553 truckloads with 13,587 tons of merchandise reached Gaza from Israel, according to the Israeli foreign ministry.

The result is obvious. For an authentic look at life in Gaza, check out the photos of crowded markets filled with food, clothing and candy, published last month on the Web site of "Palestine Today," a

Gaza newspaper, as first reported on these pages by Mideast analyst Tom Gross (<http://www.paltoday.com/arabic/News-64161.html>).

It is not surprising, perhaps, that the Baroness cannot summon insights into the Gaza situation. She cannot get the EU's own policy straight, either.

"The EU is opposed..." Ms. Ashton claimed, "to the construction of the separation barrier." Just a week earlier, though, her bosses, the 27 foreign ministers of the EU member states, declared that "the separation barrier where built on occupied land... (is) illegal under international law." That's not quite the same as the total opposition the Baroness implied, particularly given the fact that the barrier largely follows the 1949 armistice line.

The EU's new foreign-policy grandee apparently will not look beyond the le-

galistic objections to the barrier's trajectory to see the immense benefits it has brought to both parties. The barrier helped prevent Palestinian terrorism, thus bringing security to Israelis and Palestinians, which in turn was instrumental in paving the road for the Palestinian territories' recent economic revival. And without this return of calm and security, Israel could never be expected to make further concessions for peace.

Almost as revealing as Lady Ashton's criticism of Israel was her silence about continued Palestinian incitement to violence or Hamas's brutal rule in Gaza. While lambasting Israel's "occupation," she failed to acknowledge that it is the Palestinians' refusal to restart negotiations rather than Israeli intransigence that stands in the way of a Palestinian state.

Lady Ashton plans her first official visit to the region early next year. It's a shame that the good Baroness didn't go on such a fact-finding trip before bashing the Mideast's only true democracy.

Too bad Ms. Ashton didn't visit the Jewish state before bashing it.

## Big-Government Backlash

President Obama's approval rating has sunk below 50% for the first time, but for our money the bigger polling news is the way his agenda is turning the public against activist government.

Last week's NBC/Wall Street Journal survey asked whether voters thought that "government should do more to solve problems and help meet the needs of people" or if "government is doing too many things better left to businesses and individuals." This is a familiar polling question to

gauge the credibility of government, albeit a bit loaded toward liberal social rhetoric.

Some 47% of Americans nonetheless replied that they thought government is doing too much, while only 44% believed that it should do more. That's a striking change since February, when the views were reversed, with 51% saying the government should do more, and only 40% saying do less.

Even more startling, in the latest survey only 18% of Americans said they

trusted government to do the right thing "most of the time," down from a high of 36% in July 2004 and 27% in August 2005. Some 32% said they trusted government to do the right thing "almost never," up from single digits in earlier surveys when it was a volunteered response.

One of Mr. Obama's not so subtle political goals has been to rehabilitate the American public's confidence in government as a way to further his policies of expanding the entitlement and welfare

state. As he said during the campaign, the President sees himself as the anti-Reagan, seeking to build a new Democratic majority as the party of government. And in his September health-care speech to Congress, he devoted several paragraphs to defending government as an agent of social change.

So far, however, his Administration's enormous and helter-skelter expansions of the U.S. federal government seem to be having the opposite political effect.

## The Peoples' Revolt in Iran

The foundation stones of Iran's Islamic Republic were shaken again Monday, showing that the largest antigovernment movement in its 30 years may be one of the biggest stories of next year as well. Now imagine the possibilities if Western governments began to support Iran's democrats.

The perseverance of the "Green Movement" is something to behold. Millions of Iranians mobilized against June's fraudulent presidential election, and their protests were violently repressed. But the cause has only grown in scope, with the aim of many becoming nothing less than the death of a hated system.

Monday offered a glimpse into the regime's crisis of legitimacy. The funeral of a leading Shiite cleric who'd inspired and guided the opposition brought out tens of hundreds of thousands to Iran's religious capital of Qom. Grand Ayatollah Hossein Ali Montazeri, who died Sunday, stood alongside the leader of the Islamic Revolution, his mentor Ayatollah Khomeini, and was handpicked to replace him. But Montazeri broke with the ruling mullahs in the late 1980s, criticizing their violence and repression. In recent months, he became a spiritual leader to the opposition.

He knew the regime intimately: "A political system based on force, oppression, changing people's votes, killing, closure, arresting and using Stalinist and medi-

eval torture, creating repression, censorship of newspapers, interruption of the means of mass communications, jailing the enlightened and the elite of society for false reasons, and forcing them to make false confessions in jail, is condemned and illegitimate," he wrote.

Ailing at his death, Montazeri leaves behind a legacy Iranian modernizers can build on. Like the Grand Ayatollah Ali Sistani in Iraq, he believed that the Shiite clergy should stay out of democratic politics. He also helped shape views on Iran's nuclear program. In October, Montazeri issued a fatwa against developing an Iranian bomb. His statement confirmed the view among Green Movement figures who believe an atomic weapon will only consolidate the regime's hold on power and isolate Iran.

Absent religious legitimacy for the so-called Islamic Republic, the current rulers must rely on blunt means of preservation, such as the elite Revolutionary Guards and the Basiji militias. Thus Iran seems to be morphing into a military dictatorship, not unlike the Poland of Wojciech Jaruzelski after the "workers"—the supposed communist vanguard—turned against that regime.

Relying on thugs carries risks. During the summer protests, many protesters were killed, tortured and raped in the regime's jails. Among the dead is the son

of a prominent conservative parliamentarian. Supreme leader Ali Khamenei sought to damp public outrage by closing the most notorious prison at Kahrizak, but pressure has continued to build. Reversing months of denials, the government on Saturday acknowledged the abuses, bringing charges against 12 military officials for the murder of three young protesters this summer.

Supreme Leader Khamenei undermined himself by siding so openly with President Mahmoud Ahmadinejad after June's elections. The decision to prosecute, which he would have had to sign off on, may be another miscalculation. A trial could help expose the corruption at the heart of this system.

Which brings us to President Obama. Throughout this turbulent year in Iran, the White House has been behind the democratic curve. When the demonstrations started, Mr. Obama abdicated his moral authority by refusing to take sides, while pushing ahead with plans to negotiate a grand diplomatic bargain with Mr. Ahmadinejad that trades recognition for suspending the nuclear program.

Mr. Obama has since moved at least to embrace "universal values," and in his Nobel address he mentioned the protesters by name. The White House Monday sent condolences to Montazeri's friends and family, which is what passes for

democratic daring in this Administration.

But the White House is also still pleading for talks even as its December deadline passes without any concession from Tehran. Meantime, the Iranian opposition virtually begs Washington not to confer any legitimacy on the regime, and the democracy demonstrators crave Western support. Iran's civil society clock may now be ticking faster than its nuclear clock. However hard it may be to achieve, a new regime in Tehran offers the best peaceful way to halt Iran's atomic program. Shouldn't American and European policy be directed toward realizing that goal?

## Pepper . . . and Salt

THE WALL STREET JOURNAL



"I know things look bad now, Louise, but you can either curse the darkness, or pig out on chocolate."

## OPINION

## Letters To The Editor

\* \* \*

## Do We Really Want Global Financial Regulation?

Regarding U.K. Prime Minister Gordon Brown and French President Nicolas Sarkozy's "For Global Finance, Global Regulation" (op-ed, Dec. 11): Messrs. Brown and Sarkozy neglect to consider a number of adverse consequences that may arise from their suggestions. How is such a global compact to be implemented, and who will have the authority to make the regulations? Will nations have to forfeit sovereignty to some democratically unaccountable super-body, much in the way many economic regulations have been created in the EU by the EU Commission and the European Court of Justice, both outside the reach of the popular will and armed with wide discretionary powers?

Will such global regulations have to be adopted piecemeal and riddled with compromises in order

to be accepted by the legislatures of various nations? That alternative would render the regulatory environment woefully unprepared to keep pace with fast-moving changes in global finance. Increased global financial regulation would vastly increase systematic risk. This is "too big to fail" at the extreme. This crisis was created in part by large institutions all doing the same thing. One uniform policy of regulation, if chosen poorly, would heighten the dangers of collapse, and makes the mistake of assuming that one single policy will be optimal for all nations of this highly diverse world. A more federalized and pluralistic regulation attuned to ambient needs will allow democracy to flourish and reduce the risk of systemic failure.

DONALD F. GRUNEWALD  
Wilton, Conn.

\* \* \*

## Don't Cook the Newspapers' Goose

The Italian Federation of Newspaper Publishers (FIEG) lodged, last July, a complaint against Google's abuse of dominant position. That complaint and the decision by the Italian Antitrust Authority to pursue the matter have raised a lot of interest and some concern (see Valentin Petkantchin's "Antitrust *al dente* for Google in Europe," Nov. 5).

Italians don't mind being associated with pasta, but there is much more at issue here. We are talking about the staple of modern democratic societies: news and informed analysis. These cost a lot and are at risk of being thinned out in the digital world, where premium content publishers compete not only with other content producers, but with totally different businesses and products—including some that thrive on distributing and aggregating the publishers' own content and on exploiting the relationship between publishers and their customers.

Mr. Petkantchin argues that "forcing the hand of a business partner has nothing to do with free competition." Of course it doesn't. But that it is not what the Italian publishers are doing. They are instead trying to address an unbalanced situation in which value created by publishers is reaped by subjects who neither invent nor produce it.

Publishers know perfectly well that it is up to them to exploit ad-

vertising spurred by content that they produce, but this is exactly what they are prevented from doing by those who regulate the search engine while selling advertising.

Mr. Petkantchin also argues that real competition exists in the search engine market. Unfortunately that is not the case. It is not just an extravagance of the "European" way of thinking about competition to state that a market share of over 80% (and close to 90%) is a dominant position, while the other players (10 at least, by the author's own count) have very fragmented shares. We agree that these figures are not carved in stone, but for change to happen the market should be contestable. It is not enough to note that the other players would be willing to erode Google's share. It must be examined whether there are the conditions for such an erosion. It is furthermore important to note that at issue in this case is not the dominant position, but its abuse, which is summed up by the attitude, "Go by our rules, or jump overboard."

Newspaper publishers are not alone in complaining about Google. Fedoweb, the Italian Federation of Online Publishers, lodged a complaint with the Antitrust Authority about Google's AdPlanner. This is an ad platform intended to compete with the advertising activities of the publishers by combining data about users' behavior on the publishers' own sites, collected through Search, AdWords and AdSense services with data coming from Analytics, YouTube and Toolbar. Internet content providers cannot prevent Google from assembling and analyzing data about the interaction of their content with their users—unless they are ready to shut themselves out of Google's Search.

We believe that our questions deserve an objective answer. We like our pasta to be *al dente*. But please, let us not overcook these issues!

CARLO MALINCONICO CASTRIOTA  
SCANDERBEG  
President  
Italian Federation of Newspaper  
Publishers (FIEG)  
Rome

## A God of the Copybook Headings

## [ Global View ]

BY BRET STEPHENS



*In the Carboniferous Epoch were promised abundance for all;*

*By robbing selected Peter to pay for collective Paul;*

*But, though we had plenty of money, there was nothing our money could buy;*

*And the Gods of the Copybook Headings said: "If you don't work, you die."*

—Rudyard Kipling

In a couple of days, the Senate will give its 60 ayes to the largest expansion of government since the Great Society. The Obama administration is proposing a third round of fiscal stimulus, because the first two worked so well. And Ben Bernanke is, without irony, Time's Person of the Year.

All of which is a reminder that, unlike vampires, there's no driving a stake through the heart of a bad idea. Karl Marx will always be with us, at least at the New Yorker. So will Jean-Jacques Rousseau, the patron saint of environmentalists even if they don't know it. And so will John Maynard Keynes, godfather of Obamanomics. History is only repeated as farce to those who either have forgotten it or enjoy the sick humor of a disaster foretold.

Then again, as George Melloan reminds us in "The Great Money Binge: Spending Our Way to Socialism," just as bad ideas never quite go out of fashion, neither do good ones. Readers looking for an antidote to this season's political gloom will find more than the full dose in this splendid book.

Mr. Melloan was, of course, the writer of this column for many years, one of the labors in a career at the Journal that spanned 54 years as a reporter, editor and commentator. Among the benefits of a

long career is a long memory and an imperviousness to intellectual fads. In Kipling's terms, he is one of the Gods of the Copybook Headings—the unfashionable keepers of hard truths about which we must occasionally be reminded.

In today's economy, the hard truth is that we can't spend, consume, manipulate and inflate our way to general prosperity—as opposed merely to the enrichment of Democratic Party interest groups. This was the dominant economic model of the 1970s, with results that were once well known. "The Great Money Binge" makes short work of the theory:

The uncommon wisdom of George Melloan, the author of 'The Great Money Binge.'

"Demand-side economics holds that the economy derives its momentum from consumption, and it is of little moment if that consumption is financed by credit," he writes. "But if that were true, everyone could merrily use his credit card to supply his wants and never have to work. Maybe there's a logical flaw there somewhere."

The great strength of Mr. Melloan's book is to show, in exacting detail, not only how we came to our current crisis—thank you, Barney Frank, Chris Dodd, Alan Greenspan and Tom DeLay—but where that logical flaw is destined to take us again.

The alternative is supply-side economics, which, for all the invective heaped upon it, boils down to the inescapable fact that "consumption must be paid for with production"—that if you don't work (i.e., produce) you die (i.e., can't consume). The obviousness of this is so manifest that the real wonder is how it has escaped the grasp of otherwise intellectually competent people.

Perhaps more interesting is how

it *didn't* escape the grasp of Mr. Melloan, one of whose principal achievements was his role—along with Bob Bartley—in turning the Journal's editorial pages into the great disseminator of supply-side thinking. Mr. Melloan chalks it up to his background as the son of an Indiana yeoman farmer for whom there was nothing abstract about the words property, production and market. "We Journal editors were a rather proletarian lot to be promoting capitalism," he writes. "We were not the voice of big business, as our critics glibly called us at the time, but exponents of free-market capitalism, an economic system that allows any individual to build a business and compete with the big boys. The two things are definitely not the same."

But what Mr. Melloan doesn't say is that he is also an heir to the anti-sophistic tradition of the Western philosophy—stretching from Socrates to Paul to William of Ockham to Jean-Baptiste Say to Karl Popper—that insisted that truth was more likely to be found in simplicity than complexity. No surprise, sophists of every age have attacked this tradition (sophistically) as "simplistic," and people like Mr. Melloan have had to endure it.

On Monday, President Obama made the remarkable observation that "we can't continue to spend as if deficits don't have consequences, as if waste doesn't matter, as if the hard earned tax dollars of the American people can be treated like Monopoly money." Maybe he's finally learned, as Kipling taught,

*That after this is accomplished, and the brave new world begins*

*When all men are paid for existing, and no man must pay for his sins,*

*As surely as Water will wet us, as surely as Fire will burn,*

*The Gods of the Copybook Headings with terror and slaughter return!*

Then again, maybe the president finally got around to reading George Melloan.

Write to [bstephens@wsj.com](mailto:bstephens@wsj.com)

## A Dark-Matter Breakthrough?

BY LAWRENCE KRAUSS

In early December, the Cold Dark Matter Search (CDMS) experiment located in the deep Soudan Mine in northern Minnesota leaked a tantalizing hint that they may have discovered something remarkable. The experiment is designed to directly detect new elementary particles that might make up the dark matter known to dominate our own Milky Way galaxy, all galaxies, and indeed all mass in the universe—so news of a possible breakthrough was thrilling.

The actual result? Two pulses were detected over the course of almost a year that might have been due to dark matter, CDMS announced on Dec. 17. However, there is a 25% chance that the pulses were actually caused by background radioactivity in and around the detector.

If these events are real, they will represent the culmination of one of the most incredible detective stories in the history of science. Beginning in the 1970s, evidence began to accumulate that there was much more mass out

there than meets the eye. Scientists, mostly by observing the speed of rotation of our galaxy, estimated that there was perhaps 10 times as much dark matter as visible material. At around the same time, independent computer

New evidence of the invisible matter that could make up 90% of the universe.

calculations following the possible gravitational formation of galaxies supported this idea. The calculations suggested that only some new type of material that didn't interact as normal matter does could account for the structures we see.

Meanwhile, in the field of elementary particle physics, my colleagues and I had concluded that in order to understand what we see, it is quite likely that a host of new elementary particles may exist at a scale beyond what acceler-

ators at the time could detect.

Emboldened by all of these arguments, a brave set of experimentalists began to devise techniques by which they might observe such particles. This required building detectors deep underground, far from the reach of most cosmic rays that would overwhelm any sensitive detector, and in clean rooms with no radioactivity that could produce a false signal.

Alas, to celebrate now would be premature: The reported results are intriguing, but less than convincing. Yet if the two pulses observed last week are followed by more signals as bigger detectors turn on in the coming year or two, it will provide serious vindication of the power of human imagination. If, on the other hand, the events turn out to have been mere background radioactivity, physicists will not give up. It will only force us to be more clever and more energetic as we try to unravel nature's mysteries.

Mr. Krauss is director of the Origins Institute at Arizona State University.

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