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BUSINESS & FINANCE 21

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Rare court win for Yukos chief

BY GREGORY L. WHITE

MOSCOW—Russia's highest court struck down the 2003 arrest of the business partner of oil tycoon Mikhail Khodorkovsky, but lawyers said the ruling is a largely symbolic victory that isn't likely to lead to the release of Platon Lebedev.

The ruling was a rare win in Russian court for former shareholders of OAO Yukos. The Russian oil giant was driven into bankruptcy by back-tax claims and sold off earlier this decade in what was widely viewed as a politically motivated attack by the Kremlin.

Messrs. Khodorkovsky and Lebedev were convicted of fraud and tax evasion in 2005 and sentenced to eight years in prison. They are now on trial in Moscow for new Yukos-related charges that could lead to sentences of 15 years or more apiece. The case is being watched as a test of President Dmitry Medvedev's pledges to strengthen the rule of law and judicial independence.

The Presidium of Russia's Supreme Court said Wednesday that the initial decision to keep Mr. Lebedev in jail before his trial was illegal. Lawyers said the top court's decision was essentially dictated by a



Mikhail Khodorkovsky, left, and business partner Platon Lebedev

2007 ruling of the European Court of Human Rights in Strasbourg, which said Russia violated Mr. Lebedev's rights in its handling of his pre-trial detention. Russia is bound by treaty to honor the Strasbourg court's rulings, which in recent years have frequently come against Russia's government.

The prosecutor at Wednesday's hearing had asked the top Russian court not to strike down lower Russian court rulings that upheld the arrest, requesting instead a nonbinding finding against the officials who had been involved in the cases. Prosecutors declined to

comment on the ruling, beyond saying that it won't lead to Mr. Lebedev's release. Mr. Lebedev's defense lawyers said they will consider using the ruling to challenge other elements of the case. They said they don't see signs of a major shift in the way Russian courts approach the Yukos case.

"They're fulfilling their obligations as written in the law, and with an 18-month delay," said Elena Liptser, Mr. Lebedev's defense lawyer. Several other Yukos-related cases are still pending there, including a parallel complaint against the Oct. 2003 jailing of Mr. Khodorkovsky, as well as challenges of the 2005 convictions. Rulings in some are expected in the next few months.

The current criminal case against Messrs. Khodorkovsky and Lebedev is being handled with closer attention to court procedure than the first case, according to lawyers in Russia, possibly to reduce the risk of future appeals to the Strasbourg court. Lawyers said rulings like Wednesday's could also strengthen the Russian government's arguments in Western courts that Mr. Khodorkovsky and his colleagues can get justice in Russia.

Big-spending London shoppers paint the town red



With less than two shopping days to Christmas, bargain hunters and London buses weave their way along Oxford Street on Wednesday. Shopkeepers were hoping for the biggest spending day of the year.

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The Quirk



A dogfight ensues over catfish and which species qualify for the label. Page 29

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Away in a Manger: Christmas in Bethlehem in 2009. Page 12

NOTICE

The Wall Street Journal Europe won't publish Friday due to Christmas. The next issue is on Monday.

U.S. open to Kerry Iran trip

BY JAY SOLOMON

WASHINGTON—Senate Foreign Relations Committee Chairman John Kerry has signaled to the Obama administration that he wants to visit Iran, in a move White House officials say they wouldn't oppose.

"This sounds like the kind of travel a chairman of the Foreign Relations Committee would—and should—undertake," said a White House official. This trip "may well be on his own initiative, not at the behest of the White House."

It is unclear if the trip will happen or if Iran or the Obama administration will grant official clearance for the Massachusetts Democrat to go. If he did, it would be the highest-level mission by a U.S. official to Tehran since the 1979 Islamic revolution, according to people

briefed on the exchange.

Many Iranian democracy supporters oppose such a visit, fearing it would lend legitimacy to President Mahmoud Ahmadinejad at a time when his government is under continuing pressure from protests and opposition figures.

Hundreds of thousands of demonstrators took to the streets again this week to voice their opposition to the government following the death of reform-



John Kerry

ghanistan's postelection political crisis this October through his negotiations with President Hamid Karzai. The former U.S. presidential candidate has also been serving as an intermedi-

could provide the Obama administration with perhaps its last opportunity to directly convey its views to Iranian leaders before the U.S. moves to significantly increase financial pressure on Tehran in an effort to derail Iran's nuclear programs.

Sen. Kerry has undertaken a string of diplomatic initiatives over the past year in coordination with President Barack Obama. He played a high-profile role in brokering an end to Afghanistan's postelection political crisis this October through his negotiations with President Hamid Karzai. The former U.S. presidential candidate has also been serving as an intermedi-

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PAGE TWO

A jobs revival will have to start small

[Agenda]

By PATIENCE WHEATCROFT



"Recession? What recession?" Despite all the gloom that has spread around the world in the last

year, many people living in the ailing economies have enjoyed very healthy personal economies. Low interest rates may equal misery for those who have to live on their savings but for people earning a steady income, the shrinking cost of servicing a mortgage has meant a healthy increase in disposable income.

Yet there will be many currently in that second category who will be approaching 2010 in trepidation, for the spectre of rising unemployment hangs over much of the west. It may well have joined with the bad weather to quell enthusiasm for the bumper Christmas shopping spree which was the cherished hope of struggling retailers.

The most recent figures of unemployment for the European Union show an average rate of 9.8% in October, against 7.3% last year. Only the most extreme optimists would be betting against the number continuing to rise, as it has been doing since March 2008 marked the end of three years of steady decline.

Those extreme optimists found some succour last week when the U.K. announced that the number of Britons claiming unemployment benefits fell in November. The country's chancellor, Alistair Darling, was not among them. "It would be a mistake to believe the corner has now been turned," he told parliament's Treasury committee.

"We still think that unemployment is going to increase into next year." The apparently promising number really showed only the flaw in the statistic itself, which is different from the measure used by the EU, since the number of people in full-



A line of people waiting outside a jobs center in Madrid

time work had continued falling. The claimant count looked better because some more women had taken part-time jobs.

It will be some while before companies are in the mood to hire more full time staff. First, there will be more job losses to come. Companies that have been trying to weather the economic difficulties by instituting short-time working or unpaid extra holidays are likely to acknowledge that the upturn they were waiting for is not about to come, and that they cannot suspend the job cuts any longer. Governments, forced to cut spending, will have to slash the scale of their workforces and cut the amount they spend, and the staff they support, with outside contractors.

That sounds like a recipe for a 'double dip' recession, and it certainly has the necessary ingredients. Against that background, it is remarkable to note that labor costs continue to rise. In the 27 countries of the EU, hourly labour costs rose 3.1% in the third quarter of the year. Only in Lithuania, Estonia, Latvia and the Netherlands did the figure shrink. In Spain, which at 19.3% has the second highest unemployment rate, beaten only by Latvia, the increase in labour costs was the greatest in Europe

at 4.7%. The unemployed youth of that country - an astonishing 42.9% of under 25s - could be forgiven for thinking that market logic is not applying.

The imperative for powering countries out of this dismal scenario must be the creation of new jobs. Yet big business is not going to be the provider. The drive for increased productivity if western businesses are to stand any chance of surviving against the ferocious competition from China and India means that slimline will be the only sustainable look. So it is new businesses which must fill the gap.

Governments must provide an environment which will nurture entrepreneurs. However much they are forced to cut back in other areas, they cannot afford not to invest in this life force of successful economies. This week President Barack Obama has been badgering America's smaller banks to increase their lending to small businesses. Well he might, since, according to the US Small Business Administration, more than 99% of all employers in the country come into that category.

This autumn he announced a package of support measures, including a national network of 'incubators' to try and aid start-ups with subsidized office space

and advice from successful businesses. There are fears, however, that despite his talk of helping business, for all but the smallest, Mr. Obama's health-care plans could be a heavy burden.

In France, President Nicolas Sarkozy has pledged Euros 2 billion for small firms and hopes to encourage them to bump up their exports. Only a tiny minority of French businesses, an estimated 4%, are active in expert markets against 11% in Germany.

In the U.K., Chancellor Darling has deferred for small firms the increase in corporation tax which will come into effect next April. But, hunting for cash, he has scheduled a rise in National Insurance for the following year, a move which is tantamount to a tax on jobs.

The man who hopes to succeed him after the election next year, the Conservative's shadow chancellor George Osborne, has said he would scrap National Insurance contributions for the first ten jobs created by new businesses in their first year.

But governments need to go further if they are to get anywhere near the job creation that is required. They should build a bonfire of the regulations that can so stymie the entrepreneurial impulse. Perhaps, if the squeeze on their own spending forces a cut in the armies of bureaucrats and various inspectors most employ, that will be the much to be desired effect.

They might also look to stimulate a new generation of private equity investors, people prepared to put relatively small amounts of cash into helping local businesses. Call them 'community private-equity funds,' they could help even the smallest of artisan enterprises to prosper, bringing custom as well as cash in their direction. Generous tax breaks to foster such an initiative would surely be well rewarded if these businesses were able to hire from the pool of local unemployed.

To wait for big business to fill the void would be futile. Brave entrepreneurs are the only hope.

What's News

■ **Ford said it reached an agreement to sell Volvo to China's Geely, but the \$2 billion deal still requires financing and government approvals. Ford expects the sale to be finished by mid-2010.** 17

■ **Daimler's Mercedes unit signed on Formula 1 racer Schumacher, convinced the sport's popularity and the driver's star power will make the decision pay off.** 20

■ **Glencore opened up its equity capital to a group of investors by issuing up to \$2.2 billion in convertible bonds, which could be a precursor to an IPO.** 17, 32

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■ **The BOE voted unanimously at its Dec. 10 meeting to leave rates at a record low and to proceed with its \$320.5 billion bond-buying program, minutes showed.** 4

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Reader comment

europe.wsj.com/indepth

"I HATE tinsel because when I was a kid my mom made us pick it off the tree, strand by strand."

Ann Fulmer on "Tinsel: Can't Live With It, Can't Get Past Christmas Without It"



Continuing coverage



See how retailers fared during the holiday season with updates at wsj.com/holidayshopping

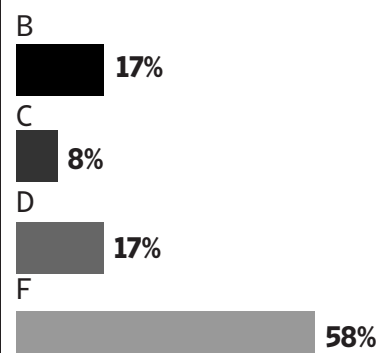
Question of the day

Vote: Which movie are you most likely to see this holiday weekend?

Vote online at wsj.com/dailyquestion

Previous results

Q: What grade would you give Eurostar?



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NEWS

The blockbuster decade's final outing

BY JOE MORGENSTERN

"You and I," the villain of "Sherlock Holmes" tells the detective, "are bound on a journey that will twist the very fabric of nature." His understatement is of a piece with the rest of Guy Ritchie's film, which twists, stretches, knots, tangles, distorts,

FILM REVIEW

bleaches, smudges and sometimes tears the very fabric of Arthur Conan Donan's Victorian

canvas. The Holmes of this action adventure, played by Robert Downey Jr., is a master of the martial arts, as well as a scintillating intellect, and perfectly capable of brutal behavior when it's required of him by the brutishness of a black-and-brown London that recalls "The Elephant Man" and "Sweeney Todd."

The movie as a whole is insistently clever, conspicuously overwrought and eventually disappointing. But Mr. Downey's performance is elegantly wrought; he's as quick-witted as his legendary character, and blithely funny in the lovers' spats—all right, the mystery-lovers' spats—that Holmes keeps having with Jude Law's witty Doctor Watson.

The director made his name with contemporary comedies about whimsical, casually violent thugs, so it's no surprise that he pays more attention to the underworld of Holmes's time than to the milieu of the haughty hero. He and his writers have closed the gap between hunter and prey.

This Holmes has been de-haughtified, to say the least. He's unkempt, even scruffy, and something of a pack rat; his lodgings look like the laboratory of a scientist who's bipolar if not wholly crazed. Still, his intelligence is intact. It's on display most vividly in a restaurant scene, when Holmes makes a series of ruthlessly accurate deductions about Watson's lovely fi-



Robert Downey Jr., left, plays a kung-fu proficient Holmes to Jude Law's witty Watson in director Guy Ritchie's 'Sherlock Holmes.'

ancé— she's played by Kelly Reilly—and in several quick-cut sequences that deconstruct the detective's mental processes, just before or immediately after he embarks on a course of action or physical combat.

The villain, Blackwood, is played by Mark Strong, the excellent actor who upstaged Leonardo Di Caprio and Russell Crowe as a Jordanian security chief in "Body Of Lies." While he's impressive here, the fruits of his evil genius are less so. The film's four writers concocted a plot that promises to be diabolical (a satanic rite,

for openers, with a begowned beauty about to be tortured), but grows silly in inverse proportion to its grandiosity (a doomsday machine designed to do in the House of Lords), then finally performs a peculiar act of self-deflation by revealing that Blackwood's seeming magic was only a succession of conjuring tricks. And it's hard to follow, let alone care about, the comings and goings of Irene Adler (Rachel McAdams), a criminal who has bested Sherlock Holmes in the past, but is worsted by the script's convolutions.

Arthur Conan Doyle had ambivalent feelings about his Sherlock Holmes stories and books; they were spectacularly successful, but not the kind of art he aspired to. Ambivalence is appropriate here too, not because Mr. Ritchie has violated a venerable literary icon by turning him into an action hero—kids will probably buy into the notion, and what's the harm?—but because the movie's kung-fu connipations are far more mundane than the settings in which they play out.

The truly distinctive physicality

comes not from the picturesque yet somehow familiar fight sequences but from Sarah Greenwood's set design and Philippe Rousselot's cinematography, complemented by computer-generated visions of a Victorian London simultaneously moldering and exploding with new construction. And even though Mr. Downey has emerged from "Iron Man" as a full-fledged action hero, it's still great fun to watch him do the detective work he always does, finding laughs and bright surprises in every scene.

Studios played safe, audiences played along

BY JAVIER ESPINOZA

Both cinema goers and big Hollywood studios played it safe over the last decade. The film industry has concentrated in developing franchises that can generate vast sums of money—like Harry Potter or Lord of the Rings—and audiences kept spending their cash on recognizable and dependable names.

Across the globe, the 10 highest-grossing films of the decade all stemmed from the decades franchises, according to box-office takings tracker Box Office Mojo. "Lord of the Rings: The Return of the King" (released in 2003) tops the list followed by "Pirates of the Caribbean: Dead Man's Chest" and "The Dark Knight," the second iteration of a reworked Batman franchise.

Even in an era marked by abundant choice—movie reviews and industry-tracking Web site Hollywood.com tracked the release of 475 films in 2008 alone—only a few names made it to the top 10. In fact, just five franchises dominated the entire decade: Harry Potter, Batman, Pirates of the Caribbean, Shrek, the Lord of the Rings and Mission Impossible, according to Box Office Mojo's list of highest-grossing films.

"Hollywood realized this decade that the way to bring large audiences to the cinema was to give

them a brand they felt comfortable with," said Paul Dergarabedian, president of Hollywood.com's box-office division. "The built-in brand recognition that these brands carry has had a strong influence on movie-goers."

The reasons sequels have become such a big hit in the film industry is due in part to their quality, according to Mr. Dergarabedian. Sequels are no longer a quick-and-easy reread of the original films along the lines of dog comedy "Beethoven's 2nd."

"You can't put a name on a film and expect people to buy it. If you want to maintain the quality of the script and of the movie itself, you have to understand which elements made it popular and capitalize on those," he said. "Sequel is no longer a dirty word."

"Studios didn't want to take any risks. If they saw a film was highly successful they just turned it into a franchise," Mr. Dergarabedian added.

Apart from being huge franchises, these films share another element: they are all designed to help audiences disconnect from reality. "There seems to be no real reference or reflected theme for these movies. The common denominator is big budget sequels. This is pure popcorn, escapist entertainment," Mr. Dergarabedian said.



The Lord of the Rings: The Return of the King

Big bucks box office

Top ten films of the decade, figures in millions of dollars

Year	No.1 Movie	Worldwide Gross
2003	The Lord of the Rings: The Return of the King	1,119.1
2006	Pirates of the Caribbean: Dead Man's Chest	1,066.2
2008	The Dark Knight	1,001.9
2001	Harry Potter and the Sorcerer's Stone	974.7
2007	Pirates of the Caribbean: At World's End	961.0
2009	Harry Potter and the Half-Blood Prince	929.4
2002	The Lord of the Rings: The Two Towers	923.3
2004	Shrek 2	919.8
2005	Harry Potter and the Goblet of Fire	895.9
2000	Mission Impossible II	546.4

Source: Box office mojo

EUROPE NEWS

BOE will leave rates at record low

Bank will also proceed with \$320.5 billion bond-buying program as consumer demand shows signs of recovery

BY LAURENCE NORMAN
AND NICHOLAS WINNING

LONDON—The Bank of England's Monetary Policy Committee voted unanimously at its Dec. 10 meeting to leave interest rates at a record low and to proceed with its £200 billion (\$320.5 billion) bond-buying program, the minutes showed Wednesday.

The results, which were in line with economists' expectations, suggest there is unlikely to be any change in the bank's stance until February, when it presents its next quarterly inflation report.

But there is growing evidence that consumer demand, the growth engine behind the U.K.'s boom years, is starting to pick up after the harshest recession in decades.

A firm recovery in consumer demand would be critical in turning a fragile recovery into a solid one, helping the government achieve the kind of growth rates it will need to meet its deficit-reduction goals.

Consumer demand accounted for some 62% of U.K. gross domestic product last year. Household spending has fallen almost 4% since the start of the recession as debt-laden consumers re-trenched.

There was some good news for consumers this year. Record-low interest rates have driven down mortgage costs. Equity prices and the housing market have picked up. Loose fiscal policy has put more money in people's pockets. And perhaps most importantly, the jobless level has risen much more slowly than most economists had expected.

Early reports also suggest a robust Christmas sales period for retailers. Weekly reports from the John Lewis Partnerships department stores show record sales, well ahead of even 2007's bullish spending, and the British Retail Consortium Tuesday reported November same-store sales were up 1.8% from a year earlier.



Shoppers walk under holiday decorations on Carnaby Street in London. Signs are growing that consumer demand is picking up.

For the Bank of England, the improved consumer data over the past few months represented a "promising" sign, with the decline in consumer spending stabilizing "earlier than anticipated," according to the minutes of their December meeting.

"The durability of the recovery in output growth would depend crucially on the prospects for private final demand," the minutes said.

Nonetheless, the MPC said two factors could have boosted spending in recent months—the government's car-scrappage program

and the prospect of the sales-tax rate rising to 17.5% in the new year, from the current 15%. Perhaps the most promising sign for consumer spending came in Tuesday's GDP data, some time after the monetary policy meeting occurred.

The Office for National Statistics reported that the household savings rate in the third quarter rose to 8.6%, its highest level since the first quarter of 1998. That is up from 7.6% in the second quarter and a negative savings rate of minus-0.7% in the first quarter of last year.

Amit Kara, U.K. economist at

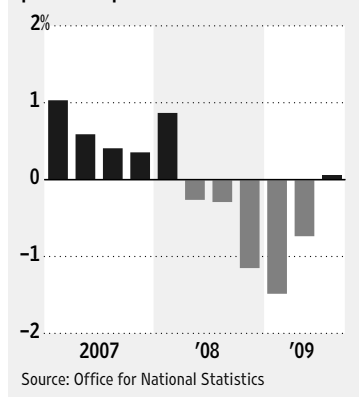
UBS, said the rise in the savings rate since early 2008 "is in line with the adjustment U.K. households made during the early 1990s recession and, as such, that suggests that households may be getting very close to the peak."

The Treasury forecasts consumer spending will expand 0% to 0.5% in 2010 and 2.75% to 3.25% in 2011, helping the economy expand some 1.25% next year and 3.5% in 2011.

Those forecasts look "pretty plausible," said Neville Hill, U.K. economist at Credit Suisse. "The risks to growth may even prove to be on the upside."

Positive turn

U.K. household consumption expenditure, change from previous quarter



Opposition politicians criticized the Iraq Inquiry's decision to delay British Prime Minister Gordon Brown's testimony until after the next general election.

Brown's Iraq testimony put off

ASSOCIATED PRESS

LONDON—British Prime Minister Gordon Brown and other senior ministers won't testify at his country's investigation of the Iraq war until after the next general election, the committee behind the inquiry said Wednesday.

The Iraq Inquiry, which is investigating the 2003 U.S.-led invasion, said, "The committee believes that only after the general election can these ministers give their evidence fully without the hearings being used as a platform for political advantage." A general election must be held some time before the middle of 2010.

Britain's two leading opposition parties criticized the decision. The Liberal Democrats said it appeared that John Chilcot, who was appointed by Mr. Brown to lead the inquiry earlier this year, was sparing the premier potential embarrassment ahead of a tough election.

"This looks like a deal cooked up ... to save Gordon Brown and his ministers from facing the music," Liberal Democrat lawmaker Edward Davey said. "Brown signed the checks for the Iraq war, and he should explain that decision before polling day," he added, referring to Mr. Brown's tenure as Treasury chief at the time of the invasion.

The Conservatives, who unlike the Liberal Democrats supported the invasion, also criticized the decision.

Critics of the invasion had long demanded an investigation into whether the war, which has been extremely unpopular in Britain, was illegal. Many were disappointed when it was announced that the inquiry had no power to apportion blame or establish criminal or civil liability.

The inquiry's mandate is limited to offering recommendations on

how to prevent a repeat of the mistakes that dogged the invasion and its bloody aftermath. Still, it remains the most sweeping investigation of its kind by any nation involved in the war, and it is the first time that many senior officials—including British ambassadors to Washington and top foreign-policy advisers—have had to answer publicly for their role in the conflict.

In the first few weeks of testimony, some senior British officials have been extremely critical of the way U.S. officials handled the situation in Iraq after the fall of Saddam Hussein.

Testimony from Mr. Brown's predecessor, Tony Blair, is eagerly anticipated and expected sometime in January or early February. Mr. Blair's reputation in the U.K. was badly tarnished by his close alliance with former U.S. President George W. Bush.

EUROPE NEWS



Ukrainian Premier Yulia Tymoshenko, center, on the campaign trail last week. She met with miners and steelworkers, and appeared at concerts staged by her campaign.

London's Poles look homeward

[New Europe]

DISPATCHES FROM CENTRAL AND EASTERN EUROPE

A recent Economist article about higher tax rates threatening to lower London's appeal as a financial center asked: "If there were an exodus from London, where might the financiers go?" For the "young wolf" Poles working in the U.K.'s financial sector, the answer to the Economist's question is probably: home.

While Polish doctors and academics find it hard to return home to sectors dominated by the state—which tend to pay low wages, and where those who stayed behind are very good at angling out better-skilled, returning rivals—Poland's finance sector stands to gain from the changes in the regulatory climate in London.

The tax rate for high earners in the U.K. or Austria can run as high as 50%. In Poland, financial professionals can pay as little as 19% plus a minimal social-benefit contribution every month, depending on their contract.

Returning finance types also are able to speak their native language and be closer to their families. Cost of living is decidedly lower, and there's a shot at faster promotions, especially since the communist legacy makes those over the age of 40 a minority in the banking world.

Many bankers say they feel they can make a bigger impact in Poland, with some even saying they feel a patriotic duty to return to Poland and contribute to the country's development.

Private equity shops such as Montagu Private Equity LLP or British merchant bank Close Brothers have both opened Warsaw offices in 2009 and hired Polish talent. "There's a lot going on in Poland right now, especially with privatizations," says Tomasz Pietrusinski, a manager at Close Brothers in Warsaw. "There will definitely be more transactions."

—Marynia Kruk

Real Madrid football star Cristiano Ronaldo received this week FIFA's first Puskás Award, which recognizes the player who scored the best goal of the year.

The award was created in honor of Ferenc Puskás, the captain and lynchpin of the Hungarian national soccer team during the 1950s. Puskás scored 84 goals in 85 international matches for Hungary, and 514 goals in 529 matches in the Hungarian and Spanish leagues. He was voted one of the greatest players of the 20th century by World Soccer magazine.

The Hungarian media made a big deal of the ceremony and Mr. Ronaldo's remarks on the role that Puskás's legacy played in his life—giving older Hungarians a chance to dwell on their football golden age. Who knows, maybe the under-20 team, ranking third at the U20 World Championship, could one day be just as great?

—Veronika Gulyas

Tymoshenko looks to Europe

Ukraine's premier, trailing in presidential poll, vows to clean up corruption, integrate with EU

BY JAMES MARSON

LUHANSK, Ukraine—Prime Minister Yulia Tymoshenko pledged to pull Ukraine further toward Europe by cleaning up corruption and bringing order to the country if she wins the presidential election early next year.

Campaigning in the country's industrial east, which traditionally favors front-runner Viktor Yanukovich, Ms. Tymoshenko said in an interview that voters have a stark choice between a European future and a corrupt past, embodied by her chief rival.

She said he is a political relic who represents "very powerful criminal groups" and accused him of working with President Viktor Yushchenko to derail her presidential bid by undermining the economy.

Mr. Yanukovich, in an earlier interview, accused Ms. Tymoshenko and Mr. Yushchenko of their own corruption and fueling "chaos" through ineffective leadership.

Ms. Tymoshenko is using fiery rhetoric in an attempt to attract voters disappointed by the country's lack of progress in eradicating corruption and prosperity after gaining independence in 1991 when the Soviet Union split.

Eighteen candidates are vying for the presidency in the Jan. 17 election, and none will likely get more than 50% of the vote, setting the stage for a runoff between the two leading candidates in February.

The France-sized country of 45 million was set on a democratic path in 2004 when street protests, known as the Orange Revolution, overturned a presidential election fraught with allegations that it was rigged and brought Mr. Yush-

Poll positions

In the January 2010 presidential election, Ukrainians say they will vote for

Viktor Yanukovich	31.0%
Yulia Tymoshenko	19.0
Serhiy Tygypko	4.8
Arseniy Yatsenyuk	4.7
Petro Symonenko	3.8
Viktor Yushchenko	3.5
Volodymyr Lytvyn	2.8

Note: If no candidate gets 50% on Jan. 17, top two will proceed to second round. Poll's margin of error is +/-2.5 percentage points. Source: International Foundation for Electoral Systems

chenko to power. But domestic political and economic changes festered amid bitter infighting between Mr. Yushchenko and Ms. Tymoshenko, his ally during the revolution.

In the most recent polls carried out by the International Foundation for Electoral Systems this month, Mr. Yanukovich led with 31%, followed by Ms. Tymoshenko's 19%. No other candidate had more than 5% support. However, she is expected to pick up more votes from other candidates than Mr. Yanukovich in the runoff, which political observers expect to be tight.

Now in her second stint as prime minister after being fired by Mr. Yushchenko less than a year after the Orange Revolution, Ms. Tymoshenko blamed the president for the failure to push through economic changes and combat corruption, calling him a "very weak president, who is unable and unwilling to fight the lawlessness he de-

clared war against."

Ukraine was hit hard in the fall of 2008, when demand for its major steel and chemical exports plunged. The International Monetary Fund stepped in quickly with a \$16.4 billion loan, which has helped prop up an economy that has contracted 15% this year. The IMF cut off funding last month, though, after a rise in social spending that was supported by Mr. Yanukovich's political party and signed off on by the president.

Ukraine Finance Minister Ihor Umanskiy said Wednesday that he doesn't expect the scheduled \$3.8 billion installment to be disbursed until next year.

In combative campaign speeches, Ms. Tymoshenko has slammed political opponents and corrupt officials for exacerbating the country's economic woes for their own benefit. She vowed in the interview to bring order to the country by establishing "dictatorship of the law" where "no crime would go unpunished."

"Tymoshenko is campaigning in Bolshevik style by finding enemies to fight against," said Yevhen Bystrytskyi, executive director of the Kiev-based International Renaissance Foundation, a democracy-promoting think tank. "Instead of talking about other candidates, she should present a platform of systemic reforms."

Ms. Tymoshenko's campaign has portrayed attacks on her as also being directed against the country.

"She plays on the idea that she is a fragile woman on the one hand, and she is the only real man in the country on the other," said Oleh Rybachuk, who worked for Mr. Yushchenko as chief of staff and served in Ms. Tymoshenko's government

as deputy prime minister.

Ms. Tymoshenko said she would "build Europe in Ukraine" to pursue integration into the EU. She called for "pragmatic" relations with Russia, while urging Moscow to "respect" its neighbor.

Mr. Yushchenko accuses Ms. Tymoshenko of betraying Ukrainian interests in dealings with Russia, particularly in agreements to buy Russian natural gas. Ms. Tymoshenko has developed a strong relationship with Russian Prime Minister Vladimir Putin, who has described working with Ms. Tymoshenko as "comfortable."

Ms. Tymoshenko is cooler on the North Atlantic Treaty Organization than the current president, who has irritated Russia with calls for membership in a bloc the Kremlin views as hostile. She calls for continued cooperation, but stresses the lack of support among Ukrainians for membership, talking instead of a pan-European security pact.

Mr. Yanukovich has also softened the pro-Russian message that failed to bring him victory in 2004, promising to foster closer ties with the European Union while strengthening relations with Russia that have become strained under Mr. Yushchenko.

But observers say both front-runners will struggle to make significant progress toward Europe, which would necessitate more transparency in politics and business.

"They both see Ukraine as part of Europe, so it's not so much about the direction, but the speed," said Mr. Rybachuk. "We have a train going toward Europe, but the speed at which we are going is clearly not fast-track with either."

U.S. NEWS

New goal for green homes: 'net zero'

In new frontier for energy efficiency, some buildings are using only as much power from the public grid as they produce

BY JIM CARLTON

The green building movement is targeting a goal once thought virtually unattainable: zero net energy use.

While the trend is nascent, dozens of "net zero" and "near net zero" developments—projects designed to use only about as much power from the public grid as they can save or produce on their own—have sprung up across the U.S. over the past five years.

In Greenfield, Mass., nonprofit Rural Development Inc. has completed eight of 20 planned duplex homes that use almost no net energy. In Green Valley, Ariz., builder Pepper Viner Homes says it plans to incorporate green techniques into a senior housing community so that it reduces energy use more than 50%. U.S. officials are working to wean federal buildings off fossil fuel by 2020.

Behind the push is the fact that buildings are a major consumer of power, accounting for an estimated 40% of energy usage in the U.S. But a bigger shift toward net-zero construction faces hurdles, largely because such buildings often are more expensive to build. To reach zero energy use, for instance, a building needs to produce its own power such as through solar or wind. Roof-top solar panels can cost upward of \$10,000 on a three-bedroom home alone.

Some industry analysts say the costs of erecting net-zero homes have declined somewhat as green building has become more mainstream. With energy costs more than doubling across the U.S. in the past decade, energy-savings measures have become more attractive to builders.

"Part of the challenge in Copenhagen will be to change the misperception that you can't reduce cli-

Zero sum game | Net-zero homes make and save as much energy as they use

- 1. Energy Star Appliances**
- 2. Heat-recovery ventilator**
- 3. Wastewater heat recovery**
Uses hot wastewater to heat incoming water.
- 4. Thermal storage basement**
In summer, cooler night air is trapped in basement and circulated through the house during the day; in winter, warm daytime air is held for circulation at night.
- 5. Solar panels**
- 6. Triple-pane windows**
- 7. Natural daytime lighting**
- 8. Heavily insulated walls, floors and roof**
- 9. Computerized temperature control**

Source: ZETA Communities (content, illustration)

mate change and cut energy use without damaging the economy," Greg Kats, director of climate-change policy at Good Energies, a New York-based investor in renewable energies, says his research on 170 green buildings found that such buildings were only about 2% more expensive to build on average than conventional buildings.

In Greenfield, Mass., where Rural Development is putting up duplexes, the premium for a net-zero

home is as much as 15%. For example, it has one three-bedroom home on the market for \$240,000, compared with about \$203,000 for a comparable home without net-zero features, says Anne Perkins, a Rural Development director.

Eight of Rural Development's net-zero homes built so far have been purchased. One selling point: energy bills that can run more than \$2,700 a year are cut to about \$700, and total energy savings allow buy-

ers to recoup the purchase premium in roughly 12 years after tax incentives and rebates are included.

Some consumers have found a way to add green features to their homes without piling on extra costs. In Hermosa Beach, Calif., Robert and Monica Fortunato are planning to expand their 50-year-old home, adding 611 square feet to their existing 1,329 square feet. They expect the work to cost \$400,000, about the same as a conventional remodel-

ing that lacked energy savings.

Mr. Fortunato, a management consultant, says he and his wife, an occupational therapist, plan to use special insulation panels that help modulate room temperatures by melting and resolidifying paraffin wax inside, which reduces energy costs. They would offset the cost of the panels by not having to buy a big furnace.

"We want to save the planet," says Ms. Fortunato.

Measuring happiness yields mixed results

How happy are Mississippians?

If you believe one recent study, not very. A report last month ranked them 48th in well-

THE NUMBERS GUY being among residents of the 50 U.S. states. But a more recent study, published online last week, ranked Mississippi the seventh-merriest state in the nation. Bring us a plate of whatever they're serving.

Other states also apparently ex-

perienced big mood swings last month. Maryland, which ranked sixth in the earlier study, came in 40th in the latest one. Tennessee was either 42nd, or fourth. New Yorkers, some perhaps content to be unhappy, could be dour, or downright glum, ranking 35th in the first study and last in the second one.

But the recent studies highlight challenges in constructing reliable mirth meters. Among the methodological bums: Because most people tell researchers that they are pretty happy, it is difficult to tease out why some people are happier than others.

These efforts have been prompted by policy makers who are seeking numerical measures beyond economic growth and unemployment to assess how their citizens are faring. Maximizing happiness has been a goal in countries from Bhutan, where the measurement is known as Gross National Happiness, to France. Yet no country has settled on a way to monitor nationwide uplifts and funks.

One approach is simply to ask, "Hey, how happy are you?" Spo-

States of mind

Satisfaction rankings, based on U.S. residents' answers to the survey question, 'In general, how satisfied are you with your life?'

Highest and lowest ranking states:

1. Louisiana	☺	46. New Jersey	☹
2. Hawaii	☺	47. Indiana	☹
3. Florida	☺	48. Michigan	☹
4. Tennessee	☺	49. Connecticut	☹
5. Arizona	☺	50. New York	☹

Note: Study controlled for characteristics of survey respondents such as their age, income and employment status.
Source: Science

radic surveys of Americans have taken this approach, but it was only recently that enough people were polled to tease out differences between states.

The recent happiness studies use two different sets of data.

Last year, the Gallup Organization teamed up with Healthways, a disease-management company, for

a planned 25-year effort to poll 1,000 Americans nearly every day about their health and happiness. Last month's paper in the Journal of Research in Personality used the Gallup-Healthways survey.

And starting in 2005, the Centers for Disease Control and Prevention's massive Behavioral Risk Factor Surveillance System—an an-

nual survey of more than 350,000 adults—began asking, "In general, how satisfied are you with your life?" This was the basis of the study that appeared in Science.

Overall, people in Mississippi reported similar levels of well-being to Gallup and to the CDC. But one crucial distinction between the studies helps explain the diverging levels of bliss: The Science study controlled for differences between respondents, such as age, income and marital status. People who are employed, married and high-income-earning tend to be happier.

Respondents in Mississippi told the CDC they were, on average, less satisfied than those in Maryland. But after the adjustment for things like income, Mississippi came out on top. Once those adjustments are made, what is left is atmosphere—state-specific characteristics from hassles to heavenly views, these studies suggest.

The biggest hurdle exemplified by these studies is the squirrely nature of happiness: One man's joy is another's ennui.

Learn more about this topic at WSJ.com/NumbersGuy. Email numbersguy@wsj.com.

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U.S. NEWS



Sen. Jeff Sessions (R, Ala.), left, points to a chart discussing the health-care bill alongside Sen. Judd Gregg (R, N.H.) Wednesday.

Economic reality may put gas, carbon taxes on table

[Capital]

BY DAVID WESSEL



Politics is the art of making the impossible inevitable.

Higher taxes on gasoline or another tax on carbon or energy use seem politically impossible today, as well as undesirable in an economy struggling to gain momentum.

But two unrelenting forces are likely to push gasoline or carbon taxes onto the public stage in the next year or two, provided the economy regains its health: the swelling U.S. government budget deficit and global resolve to reduce the risk of catastrophic climate change.

Take the deficit first. Over the past year, U.S. government debt has risen from 41% of the nation's output of goods and services, the gross domestic product, to 53%. Without big changes in taxes or spending, it'll rise to 85% of GDP by 2018, 100% by 2022 and 200% by 2038, the Peterson-Pew Commission on Budget Reform estimated recently in a report the band of deficit fighters dubbed, "Red Ink Rising." That trend is unsustainable. Among other things, it would mean an ever larger share of the federal budget going to pay interest, much of it to foreigners. (The panel recommends stabilizing debt at 60% by 2018. That would take spending cuts or tax increases that sum to about \$300 billion in that year.)

History suggests that elected politicians eventually will do something politically painful to prevent the U.S. government from becoming the world's largest subprime borrower, either because they decide to care about the next generation or because a financial crisis—a dollar plunge, perhaps—forces action.

"The federal government has promised benefits to the elderly far in excess of what it can pay," Greg Mankiw, a Harvard University economist who advised President George W. Bush, wrote even before the government borrowed so heavily to fight the financial crisis. "At some point the nation will have to reckon with the looming fiscal gap. The most likely political compromise will involve higher tax revenue. We should, therefore, be ready to increase revenue in a way that does the least damage—or, better yet, the most good."

His solution: Raise gas taxes 10 cents a year for 10 years. That would discourage the undesirable (carbon-producing, congestion-causing driving) without discouraging the desirable (work, saving and investment).

Those who want Congress to cut Medicare, Medicaid and Social Security spending sufficiently to shrink the deficit without tax increases shout their opposition. But there is no reason to believe that politicians or those who elect

them will cut spending that much. Eventually, the question will be what tax increases are less unappealing than higher energy taxes? And I don't mean tax increases limited to what President Barack Obama calls "the fat cats."

The Copenhagen climate-change talks made the U.S. Congress look orderly and decisive. But the climax may prove more significant than it appeared initially because Mr. Obama and his foreign counterparts put so much personal credibility on the line. "We may look back upon Copenhagen as an important moment—both because global leaders took the reins...and because the foundation was laid for a broad-based 'coalition of the willing' to address effectively the threat of global climate change," says Robert Stavins, a Harvard environmental economist.

Mr. Obama, emboldened by what he sees as historic success on health care, seems eager to tackle energy and environment next even if an exhausted Congress and public are not. "I think there's opportunity to move beyond ideological debates," he told the Washington Post in an interview published Wednesday, "because what I've said is: 'yes' to domestic increases in oil production, 'yes' to save nuclear power. We should be able to [put a] package together that deals with our energy needs and puts our economy on a strong footing long term."

The temptation to do nothing about climate change is strong. Some doubt it is happening; others fear the economic side-effects of preventing it. But there appears an inexorable, if at times halting, march toward a global consensus to do something to minimize the risk of catastrophe. So, again, the question becomes what to do.

In the Copenhagen compact, world leaders vowed "to use markets to achieve cost-effective mitigation actions." That means raising the price of using carbon-producing energy to get people to consume less and to spur industry to find cleaner alternatives. Setting a cap on carbon emissions and creating tradable emission permits seem more politically palatable now. It's basically a way for the government raise the price of carbon-producing activities while dodging the unpopular "tax" label. But it's also very complicated and frightfully easy to game.

The bulk of economists embrace higher energy taxes. Many politicians privately see their advantages, but see so much public hostility that they won't praise them audibly. "In a democracy," Mr. Mankiw once mused, "economic policy is set not by economists but by the general public." And that's as it should be. But economic reality has a way of forcing the public and elected politicians to do things they once thought they would never do.

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

Business fears health bill

U.S. firms scramble to soften provisions in overhaul they can't stop

BY NEIL KING JR.

Companies are alarmed at potentially costly provisions in the Senate health-care bill, many of which they hope will be scrapped during a final round of negotiations with the House early next year.

A scramble to massage the hefty measure, instead of pushing to kill it, reflects the view of many in the business community that a sweeping remake of the U.S. health-care system now appears inevitable.

Business is worried that President Barack Obama's push to extend coverage to millions more Americans will raise the burden on employers. Business groups have widely criticized the 2,074-page Senate bill, which looks set for passage Thursday morning after a scheduled procedural vote Wednesday. They also have offered a variety of fixes.

The legislation's scale and complexity, plus uncertainty over how the Senate bill will be meshed with the version that passed the House in November, make it difficult for most companies to gauge the effect it will have on the bottom line.

"We're still committed to the notion that health reform can be done right, but I know of no company that is warmly embracing what is in either

the House or Senate bills," said Paul Dennett, top health-care adviser to the American Benefits Council, an advocacy group for large employers.

With all eyes now turning to House-Senate negotiations over a final bill, corporate lobbyists are jockeying for modifications that will buffer the impact. Retailers want a longer delay before new employees qualify for company-subsidized benefits. Small construction companies want an exemption from employee coverage that the Senate bill already applies to other businesses with fewer than 50 employees.

Across the spectrum, businesses worry a series of new taxes and fees to pay for expanding health-care coverage will push up premiums.

The Senate bill calls for a nearly \$70 billion tax over 10 years on insurance companies, plus a \$2 billion-a-year tax on medical devices. Billions of dollars would be raised from added taxes on wealthier seniors, higher-end insurance plans and tanning salons.

Companies have been increasingly burdened by health-care costs, which topped \$400 billion in 2007, according to the Employee Benefit Research Institute. Unrestrained, that figure is expected to double by 2017. About 70% of workers receive insurance through employers.

Groups representing smaller businesses say the threat of increased taxes and premiums could outweigh provisions intended to limit the impact on small employers. The Senate bill "will not only fail to reduce and control the constantly climbing health-care costs small-business owners face, but it will result in new and greater costs on their business," said Dan Danner, head of the National Federation of Independent Business.

Not all companies agree. David Ickert, vice president of finance for Air Tractor Inc., which produces airplanes used in agriculture and firefighting, said that from his analysis, the bill would have "no negative impact" on his operations.

Under the Senate bill, most businesses with fewer than 50 workers would be exempt from penalties if they don't offer employee coverage. Larger companies would face fines as high as \$750 per worker if even one employee seeks federal help to buy a policy.

Democrats say a package of tax credits within the Senate bill will reduce costs for small businesses. Small businesses that qualify would get a 25% tax credit to help pay for employee coverage.

—Gary Fields and Ann Zimmerman contributed to this article.

U.S. new-home sales drop 11.3%

BY KELLY EVANS

The U.S. economy is showing more signs of recovery, but new data on housing and household income underscored concerns that the economy could lose momentum next year as the impact of government stimulus fades.

Sales of newly built homes fell 11.3% in November to a seven-month low, the Commerce Department reported Wednesday.

In a separate report, the department said inflation-adjusted consumer spending rose in November for the fifth time in the past six months, the exception being September after the cash-for-clunkers program ex-

pired. Personal income rose 0.4%, before inflation adjustment, in November, fueled by government unemployment and other benefit programs.

The Reuters/University of Michigan consumer sentiment index jumped 5.1 points in December to 72.5, as sentiment about both current conditions and the future rose.

The decline in new-home sales to a seasonally adjusted annual rate of 355,000 units followed a 7.4% increase the month before in the volatile measure, the Commerce Department said. Sales of newly built homes make up less than 15% of total home sales. Sales of previously occupied homes rose 7.4% in November to an annual rate of

6.54 million, the highest level in nearly three years, the National Association of Realtors said earlier this week.

The discrepancy between sales of new and existing homes last month partly reflects the impact of the government's tax credit, which was originally set to expire Nov. 30. Sales of existing homes last month were based on the closing of deals made mostly in September and October, when demand was strengthened by buyers' anticipation that the credit for home buyers would expire in November. The new-home sales data for November, in contrast, reflect agreements to purchase, not completed deals, and so reflect later decisions by home buyers.

WORLD NEWS

Mourning and protests blend

BY CHIP CUMMINS

DUBAI—Iranian security forces clashed with mourners in the city of Isfahan on Wednesday, according to opposition Web sites, signaling a possible hardening by Tehran in its response to protests following the death of a dissident cleric.

Security forces beat back crowds with batons in Isfahan, about 320 kilometers southeast of Tehran, after mourners gathered at a central mosque for a memorial service for Grand Ayatollah Hossein Ali Montazeri, opposition sites and news agencies reported. Mr. Montazeri, an architect of the Islamic Republic, fell out with the conservative clerical establishment in the late 1980s and had been a critic of the government ever since.

During the six months of protests that followed contested presidential



Iranian opposition supporters have been gathering since Monday's funeral of the Grand Ayatollah Hossein Ali Montazeri in Qom, often clashing with police.

elections in June, he became a spiritual guide for the opposition movement. News of his death over the

weekend sent mourners to the holy city of Qom, where he had lived. Protesters also were expected to

try to use this week's Ashura commemorations of one of Shiite Islam's most revered figures, as an excuse to demonstrate. The commemoration culminates on Sunday.

Since Mr. Montazeri's death, there have been isolated reports of skirmishes, but not the sort of bloody clashes between police and demonstrators that marked earlier protests. Early Wednesday, however, Iranian police chief Esmail Ahmadi-Moqadam warned opposition supporters of confrontation if they continued "illegal" activities, the semiofficial Fars news agency reported.

According to the Web site of one opposition leader, prominent religious scholar Hojat Al-Islam Masoud Adib was arrested while giving a speech near the mosque. Other opposition sites reported that around 50 other people were arrested in Isfahan.

Kerry proposes an official visit by him to Iran

Continued from first page
ary between the White House and Syrian President Bashar Assad, and traveled to Damascus last February for direct talks.

Sen. Kerry and his staff, according to people briefed on the deliberations, have considered in recent weeks the merits of writing to Iran's Supreme Leader Ayatollah Ali Khamenei to assess his office's interest in the senator visiting Tehran and meeting senior Iranian leaders.

The Senate Foreign Relations Committee staff has also considered proposing a parliamentary exchange with the Majlis, Iran's principal legislative body. The speaker of the Majlis, Ali Larijani, was formerly Iran's chief nuclear negotiator and remains an important player in the country's political structure.

Mr. Obama has given Iran until year-end to respond to international calls for direct negotiations over Tehran's nuclear program before facing significant new economic sanctions. Many U.S. and European officials believe the window for diplomacy with Iran is rapidly closing, as Tehran has largely balked at responding to the White House's calls for high-level diplomacy.

Frederick Jones, a spokesman for Sen. Kerry, said he couldn't discuss any deliberations between the senator and the White House. Mr. Jones stressed, however, that no trip has been scheduled. "Is he planning now on going to Iran? The answer is no," said Mr. Jones.

Such a trip could entail significant risks for the Obama administration's foreign-policy agenda, said Iran analysts and foreign-policy experts.

Messrs. Khamenei and Ahmadinejad are locked in a political standoff with opposition forces who accuse Mr. Ahmadinejad of stealing the June presidential vote, which the government denies. A visit by Sen. Kerry or another high-level U.S. official at this stage risks undercutting Iran's democratic movement by conveying legitimacy on Mr. Ahmadinejad and Tehran's theocratic leaders, said Iran experts.

"We've eschewed high-level visits to Iran for the last 30 years. I think now—when the Iranian regime's fate is less certain than ever—is not the best time to begin," said Karim Sadjadpour, an Iran analyst at Washington's Carnegie Endowment for International Peace.

"The wrong message would be sent to the Iranian people by such a high-level visit: The U.S. loves dictatorial regimes," said Hossein Askari, a professor at George Washington University and a former adviser to Iranian governments on economic and diplomatic matters. "Why take the risk of alienating the Iranian people?"

Current and former U.S. officials said it remains unclear whether Iran would agree to welcome Sen. Kerry.

The White House has already sent two letters to Mr. Khamenei seeking a more direct dialogue on the nuclear issue, and has received little of substance in return, according to U.S. officials. Iran last month shot down an offer from the U.S., Russia and France that would have had Tehran ship out most of its low-enriched uranium for reprocessing overseas in return for nuclear fuel usable in an Iranian research reactor focused on medical applications. The White House viewed the fuel swap as an important confidence-building measure that could lead to other dialogue.

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WORLD NEWS

Trial in Beijing prompts rights fears

Court is set to deliver verdict on Christmas Day for top China dissident Liu Xiaobo, charged with 'inciting subversion'

By LORETTA CHAO

BEIJING—China's government held a brief trial of its most prominent dissident, setting the stage for an expected Christmas Day verdict that will likely be seen as a show of defiance against outside critics of the country's human-rights practices.

Authorities have accused Liu Xiaobo, a 53-year-old literature scholar who has been clashing with the government since the 1980s, of "inciting subversion of state power." His trial started Wednesday morning in the Beijing No. 1 Intermediate People's Court and ended the same day, according to his lawyer, Shang Baojun, who said the verdict will be delivered Friday.

Observers of such political trials in China say it is almost certain that Mr. Liu, who has been in custody for more than a year, will be found guilty.

Mr. Liu faces a possible sentence of as many as 15 years. Mr. Shang said the maximum sentence is rarely given, but "there is a large chance that Liu Xiaobo will be sentenced to imprisonment."

U.S. officials and international rights groups have repeatedly called for the release of Mr. Liu, who helped write "Charter 08." That manifesto, published on the Internet shortly before his detention, called for sweeping legal and political changes and represented one of the boldest challenges to Communist Party rule in the recent past.

Few observers think the holiday timing of the trial is an accident.

"This is an extremely symbolic trial, and it will be an extremely symbolic sentencing," said Phelim Kine, a researcher for New York-based Human Rights Watch. The verdict "will

Christmas verdict

Timeline of Chinese dissident Liu Xiaobo:

2008

December: Liu Xiaobo and hundreds of others sign Charter 08, an open letter to President Hu.

Dec. 8: Chinese authorities detain Liu Xiaobo.

2009

June 24: Chinese state-media reports Liu is charged with inciting subversion of state power.

Dec. 25: Court expected to announce verdict in Liu's case.



Liu, file photo from 2002

Sources: WSJ reporting; Agence France-Presse/Getty Images, Associated Press (photos)



Supporters of Chinese dissident Liu Xiaobo wear yellow ribbons to show their solidarity outside the No. 1 Intermediate People's Court Wednesday where Liu's trial is taking place in Beijing.

be designed by the Chinese government to send a strong message to lawyers, to human-rights activists and to civil-society organizers that the heat is not off," he said.

Court officials declined to respond to requests for comment, as did China's ministries of justice, public security and foreign affairs.

Mr. Liu's trial comes amid other moves to tighten already-tough limits on dissent. Authorities have been closing hundreds of Web sites as part of a campaign against what it calls Internet pornography, and last week they formally arrested Zhao Lianhai, who had been organizing families of babies affected by last year's tainted-milk scandal. Mr. Zhao's wife

was notified Monday of his arrest, which followed weeks of detention.

Mr. Liu's trial also comes just over a month after U.S. President Barack Obama's visit to China, during which he repeatedly emphasized the importance of "universal" human rights, such as freedom of expression.

The court had said Mr. Liu's trial would be open, but it denied a request by The Wall Street Journal to attend, saying that observation passes already had been distributed. Other international media, as well as foreign diplomats, also were barred from the courtroom.

"We are disappointed not to be able to observe the trial, but we are more concerned by the fact the trial

has moved forward," said Susan Stevenson, spokeswoman for the U.S. Embassy in Beijing.

Outside the court building Wednesday, Greg May, first secretary of the U.S. Embassy, called on the Chinese government to release Mr. Liu immediately and "to respect the rights of all Chinese citizens to peacefully express their political views..."

He said the U.S. has raised concerns about Mr. Liu's detention repeatedly and at high levels since he was taken into custody.

Mr. Liu's case has been an international cause célèbre since he was detained last December. An international group of activists and scholars wrote an open letter to Chinese

President Hu Jintao protesting his detention. Authorities held him without charge until his formal arrest in June, and denied visits except for a few meetings with his wife.

Meanwhile, the list of online signatories to Charter 08, which initially was signed by 300 intellectuals, has grown to include thousands of Chinese.

Mo Shaoping, a human-rights lawyer who has been acting on Mr. Liu's behalf, was not permitted to represent him at trial because he signed Charter 08.

Mr. Shang, part of the team representing Mr. Liu in Mr. Mo's place, declined to comment on details of the proceedings until after the verdict is announced.

Chinese banks expand their lending in Africa

By J.R. Wu

JOHANNESBURG—Chinese state-owned banks are expanding their lending in Africa, the latest broadening of China's investment push on the continent.

Backed by nearly \$9 trillion in deposits, Chinese banks are beginning to finance projects from small businesses to a giant power station. These deals, arranged directly with African banks and companies, mark a departure from the government-to-government contracts struck in the past decade between African nations and China's state investment funds and policy banks.

State-owned Industrial & Commercial Bank of China Ltd., the country's largest bank, is among those increasing China's footprint in Africa. In 2008, it took a 20% stake in Johannesburg-based Standard Bank Group Ltd., South Africa's largest bank by assets. The deal, valued at about \$5.5 billion, was at the time the biggest foreign investment by a Chinese entity. In May, the two banks won a bid to finance a \$1.6 billion power-station project in Botswana.

"There is such a huge demand for financing on the African continent that the more the better, and the cheaper the better," said Jacko Maree, chief executive of Standard Bank.

The Botswana power station, set to

be completed by 2013, is expected to cut the country's reliance on power from neighboring South Africa. Nearly \$1 billion of the deal will pay a Chinese contractor that is building the station.

Also this year, China's second-largest bank, state-owned China Construction Bank Corp., extended a \$100 million credit line to Industrial Development Corp., the South African government's development-finance arm. The deal, the Chinese bank's first with IDC, aims to provide loans to small borrowers.

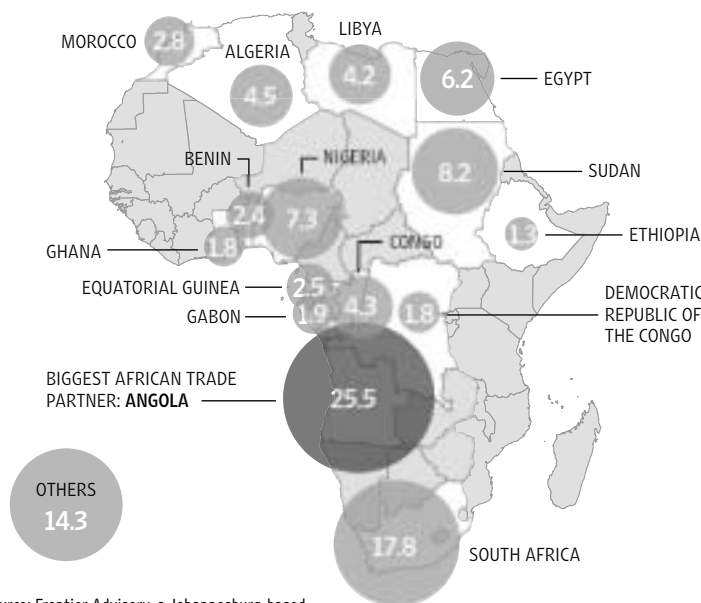
Last month, China Development Bank Corp., a former state-run policy bank that recently transformed itself into a shareholding lender, opened its first branch on the continent in Cairo. The arrangements should further bolster trade between China and the continent, which rose to \$107 billion in 2008, from about \$4 billion in 1995.

The latest wave of loans mark a departure from China's dominant investment model in Africa—primarily, agreements between the likes of the Export-Import Bank of China, a state-run policy bank, and African governments. The China-Africa Development Fund, a Chinese state investment arm, says it has also deployed most of its \$1 billion in seed money and plans to grow to about \$5 billion in investments.

Such bilateral deals have at times

Out of Africa

China-Africa trade in 2008 reached about US\$106.8 billion. Breakdown of key bilateral trade, in billions of U.S. dollars



Source: Frontier Advisory, a Johannesburg-based research and consultancy

drawn criticism for their lack of transparency by observers including the Rockefeller Foundation and the World Bank. Little information has been released on projects that have included, for example, awards of big contracts to Chinese firms, they say.

Earlier this year, Namibian authorities began investigating an alleged graft case involving Chinese security

equipment provider Nuctech Co., which was once run by Chinese President Hu Jintao's son Hu Haifeng, and which had won a deal to supply scanners for Namibia's ports and airports.

Namibian authorities haven't made specific charges regarding Mr. Hu. China has said it is cooperating with Namibian authorities.

China's lenders say they are doing their best to navigate unfamiliar terrain with projects that hold up to public scrutiny.

"We still have a very good reputation in most of the countries on the African continent, and we are still building...higher, positive reputation" in Africa, said Lv Zhengyi, a project manager in Johannesburg for the China-Africa Development Fund.

Some African analysts are worried that a flood of new financing will hobble African companies just beginning to wade into the global marketplace.

A recent policy brief published by the African Center for Economic Transformation, a Ghana-headquartered think tank, recommended that Chinese investments improve the competitiveness of African companies, but that Africa take the initiative. "If China is to become an important partner, African policy makers must drive the agenda," it said.

INTERVIEW



Associated Press; Bloomberg News; Reuters (top from left to right); Lego; Bloomberg News; Reuters (bottom from left to right)

CEO Jørgen Vig Knudstorp is surrounded by, clockwise from top left, Lego's Ramses Pyramid game, a young girl at a Tokyo event, a Lego Santa in Copenhagen and a Star Wars Lego.

Lego, refocusing on bricks, builds on its brainiac image

Maker of classic construction toy uses movie tie-ins, cost cuts to help drive sales and profit even as market shrinks

[Jørgen Vig Knudstorp]

BY KIM HJELMGAARD

BILLUND, Denmark—During a recession, virtue can be a major asset, especially for toys.

Lego Group says virtue is part of the formula that has allowed the small, Danish company to buck the downtrend in toy sales. In addition to cutting costs and outsourcing some production, the company has worked to combine the demand for movie-related products with the creative-play foundation that has made its plastic building bricks popular with parents for decades.

"We take the virtues of Lego and the virtues of Star Wars and create something more optimal out of it," says Lego Chief Executive Jørgen Vig Knudstorp, in an interview at the company's headquarters here.

He cites the popular Lego Star Wars videogame, which allows users to explore a Lego world and take part in quests and minimeissions.

"Here you have a category [videogames] where many parents perceive it as not really creative and not very good for their children, but when it becomes Lego the parent says 'OK, now I feel comfortable, since it's Lego plus Star Wars.' It has the benefits of both worlds," he says. "Two plus two suddenly becomes five."

Lego, which makes dozens of complex

Star Wars play sets and spaceships, controls the construction-toy rights to licensed properties such as Star Wars, Indiana Jones and Toy Story. **Hasbro Inc.** and **Mattel Inc.**, the giants in the industry, turn out the dolls, action figures and vehicles from those movie brands.

Mr. Knudstorp is presiding over a sharp revival in Lego's fortunes. In the first half, when cash-strapped, jittery consumers sent global toy sales down 5%, Lego increased its sales 23% to 4.37 billion Danish kroner (\$836.9 million), citing particular strength in North America and Eastern and Central Europe. Profit before tax jumped 64% to 927 million kroner. Those increases followed increases in sales and profit for 2008.

The 80-year-old company's second-half results, due in March, also are expected to show strong growth.

"The fact that Lego is relatively expensive is secondary to the fact that it provides many hours of repeatable joy," says Sean McGowan, an analyst at Needham & Co.

"Parents remember that, which makes a \$40 purchase a better value than a \$20 that may lose its appeal by the time Christmas leftover sandwiches are served."

Until recently, the iconic, closely held Danish toy maker seemed to have lost its way. For 1998 the company posted its first-ever annual loss. Profitable licensing agreements with Hollywood buoyed the business

for a few years, but when another loss in 2004 signaled a more sustained slump, it was time to start rearranging the bricks.

Mr. Knudstorp, a former kindergarten teacher and McKinsey consultant, was named CEO in 2004 and was charged with

The CEO, a former kindergarten teacher and consultant, was charged with halting a sales decline.

halting a sales decline, reducing debt and focusing on cash flow. He cut jobs and outsourced manufacturing to far-flung places like the Czech Republic and, more recently, Mexico.

He also simplified the management structure and cut back on so-called lifestyle items such as watches, clothing and dolls. The company set about refamiliarizing itself with its core products and became fussier about with whom the company inks licensing pacts.

The company also sold off Lego theme parks, which had been an effort to become another Disney. They fetched some \$500 million.

To be sure, Lego remains a distant third

in a shrinking toy market. No. 1 Mattel and No. 2 Hasbro are marketing powerhouses, allowing the two U.S. companies to maintain their grip on retail shelf space.

Mattel is expected to have sales of \$5.5 billion this year, and Hasbro will have about \$4 billion. Lego's 2008 revenue, while up 19% from the prior year, was 9.53 billion kroner (\$1.83 billion).

At the moment, Europe remains Lego's largest market, with Germany making up about 20% of European sales. Lego says it gets about one-third of its total sales from the U.S., where it wants to gain on Hasbro and Mattel and boost its current 3.5% share of the toy market.

But with only two million households responsible for 50% of U.S. sales, Lego isn't everyone's idea of fun.

The reality is that Lego's appeal is generally with a niche group of brainiacs, a group that includes many adults. Another major Lego challenge is the girls market, which the company has failed to crack.

Mr. Knudstorp readily acknowledges that Legos eschew instant gratification, unlike many other toys. The deep form of engagement Lego requires—almost like reading a book, Mr. Knudstorp says—teaches children to be systematic, creative problem solvers.

"Many kids can easily get frustrated with the Lego experience," he says. "We call it 'Fun, but hard fun.'"

—Joseph Pereira
contributed to this article.