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THE WALL STREET JOURNAL.

VOL. XXVII NO. 214 * EUROPE Thursday, December 3, 2009

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EU scales back on regulator

By Adam Cohen

BRUSSELS—European Union finance ministers Wednesday reached a compromise on a supervisory framework for the bloc's financial markets, in an effort to prevent a recurrence of last year's sometimes chaotic response to the financial crisis.

Under the plan agreed on by the ministers, the EU will create a two-tier supervisory structure for financial markets. A "macro-prudential" body will study big-picture risks to stability, while three agencies look at specific issues in the banking, securities, and insurance and pension sectors.

The ministers' agreement will now go to the European Parliament, which could propose changes. Some members of the parliament's economics committee recently said they are worried that the new framework is too weak.

The U.K., home to the EU's largest financial center, was worried about ceding control over the City of London to a powerful EU committee. It sought to safeguard taxpayers from decisions by the supervisors, such as orders to fund bailouts for banks operating across the bloc's borders, that would impinge on national fiscal sovereignty.

EU diplomats say the U.K., after five hours of negotiations about the precise wording of the deal, was satisfied that the new regulatory groups wouldn't be too powerful.

"I believe that a strong U.K. financial-services sector isn't just in the interest of the United Kingdom, it's in the interest of the whole of Europe," U.K. Chancellor of the Exchequer Alistair Darling told a news conference after the ministers' agreement.

The three EU agencies supervising the regulation of specific industries will be responsible for harmonizing the rules and methods applied by national authorities. They will also have the authority to resolve disagreements between countries and to coordinate action in a crisis.

The EU finance ministers agreed the supervisory agencies can't dictate how EU governments spend money. The ministers outlined a complex appeals procedure for states that think a regulatory decision will affect their national purses.

Another tweak to the supervisory plan shifts the power to declare an economic or financial crisis to the EU finance ministers, away from the European Commission, the bloc's executive arm. The U.K. lobbied for this change, according to EU diplomats.

French Finance Minister Christine Lagarde defended the ministers' compromise plan, saying it creates true EU-wide coordination for a system of financial oversight that has always been highly fragmented.

The new framework "can't be emasculated and will be effective and active," Ms. Lagarde said.

Bloomberg News

Elena Salgado, Spain's finance minister, right, speaks with Christine Lagarde, her French counterpart, at a Brussels meeting on Wednesday.

Air France to reveal safety panel

By Daniel Michaels And Andy Pasztor

Air France, taking an unusual and high-profile step to assess operational risks, has assembled a group of internationally respected aviation officials to conduct an independent safety review in the wake of the fatal crash of one of its jetliners in June.

Led by Curt Graeber, a cockpit-fatigue expert and former high-ranking **Boeing** Co. engineer, the study teams will have a broad mandate to analyze both cockpit and maintenance safety programs, from training and procedures to incident analysis to organizational issues, according to the airline and people familiar with the details.

Expected to kick off in two weeks, the initiative also includes Nick Sabatini, until recently the top U.S. air-safety regulator, as well as a handful of academics and airline executives from various countries with expertise in cockpit automation and related fields. The effort is unusual partly because of the group's broad mandate, as well as the commitment of time and resources it is likely to take to complete the roughly year-long project.

An Air France spokesman said the makeup of the Independent safety-review team

Please turn to page 4

Afghans criticize surge

Afghan officials expressed concern over U.S. President Barack Obama's aim to begin removing troops by 2011, saying that such a fixed timetable wasn't realistic for a country

By Anand Gopal in Kabul and Zahid Hussain in Islamabad

grappling with a spreading insurgency.

In an address to his nation Tuesday, Mr. Obama outlined a strategy that included the injection of 30,000 more troops to Afghanistan followed by a withdrawal that would begin by June 2011, turning over increasing security responsibilities to the Afghans.

Some senior Afghan officials said that they didn't support the injection of more troops, since previous troop increases haven't been successful in pushing back the insurgency. At the same time, officials said that the talk of withdrawal could embolden the insurgency.

"We couldn't solve the Afghanistan problem in eight years, but now the U.S. wants to solve it in 18 months? I don't see how it could be done," said Segbatullah Sanjar, chief policy adviser to President Hamid Karzai. Mr. Karzai didn't speak publicly about the plan on Wednesday.

The time line puts added pressure on Mr. Karzai's administration to take greater responsibility for problems with governance and security, and Afghan officials acknowledged the government needs to do more. "But having a specific time line makes this more difficult," said Gulbadshah Majidi, a lawmaker.

He said the U.S. and the Afghans should employ an approach that focuses on developing the Afghan forces and government over a longer period.

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Associated Press

U.S. Secretaries Clinton and Gates testified on the Afghan plan on Capitol Hill Wednesday.

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Canada's vow to dominate Olympics strikes many as 'too American.' Page 33

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One of East Anglia's scientists on the science and politics of climate. Page 15

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City shouldn't rise to Sarkozy rhetoric

[Agenda]

By Patience Wheatcroft

Nicholas Sarkozy must have been chortling to himself yesterday as he watched the City of London put on an Oscar-worthy display of righteous indignation. The French president had chosen to herald the appointment of his countryman, Michel Barnier, as the new European commissioner in charge of financial services with language that could only have been designed to cause maximum fury and a degree of fear on the other side of the Channel.

Blaming the "free-wheeling Anglo-Saxon" model of financial markets for the world's economic crisis, Mr. Sarkozy said: "I want the world to see the victory of the European model, which has nothing to do with the excesses of financial capitalism."

The message couldn't have been clearer if he had said: "Watch out London, my man is in charge now, and he is going to clamp down on the activities of the City of London."

London responded accordingly, with its bankers and politicians grabbing the microphones to warn against the dire consequences of any such attack.

Chancellor of the Exchequer Alistair Darling leapt into print to argue that "London is New York's only rival as a truly global financial center," and thus it is in Europe's interests that it be strengthened, not weakened.

Mr. Sarkozy obviously doesn't share that view. His preference would be for La Defense, that Parisian predecessor of Canary Wharf, to become the financial powerhouse of Europe. The fact that his son was unsuccessful in his efforts to win the top position there hasn't dimmed the presidential vision.

But while the City of London was spluttering its outrage over the mission that Mr. Sarkozy appeared to have been setting for Mr. Barnier, an altogether more sensible mood was prevailing.

Reuters

Nicholas Sarkozy criticizes the 'free-wheeling Anglo-Saxon' model of markets

At the gathering of European finance ministers, what would appear to be a relatively sensible framework for the supervision of the financial markets of the 27 member states was hammered out. It shies away from handing the new EU authorities the sort of powers Mr. Sarkozy might like to see in favor.

The European Systemic Risk Board, which, if it lives up to its name, should be able to spot the next subprime or CDS squared danger, won't be empowered to leap upon the perpetrators and stop their questionable practices. Instead, it will only be able to issue warnings and recommendations.

According to Jaquin Almunia, the EU's new commissioner for economic affairs, it will rely on "moral suasion and peer pressure" to ensure those warnings are heeded and recommendations followed.

Mr. Almunia may be a little optimistic here. The "freewheeling Anglo-Saxons" proved remarkably impervious to warnings of dire consequences if they persisted in their reckless activities, preferring, in the immortal words of former Citigroup CEO Chuck Prince, to continue dancing while the music kept playing.

But while the bankers may be immune to the pressures from this new European body, they won't be immune to the tighter regulation toward which member countries are moving as they slam shut the stable doors after so many billion of dollars have bolted.

There should be no need of an extra regulatory layer atop the national structures, and the finance ministers seem to have opted for a sensible compromise course. Yet it is too soon to be entirely sanguine over the matter for the European Parliament may take a different view.

Even if sense prevails over the financial-supervisory framework, Mr. Sarkozy has other weapons with which to attack the City of London. It isn't merely paranoids in the Square Mile who see the Alternative Investment Directive as an attempt to shackle one sector of the "freewheeling Anglo-Saxon financial markets."

This piece of legislation has trodden a long and painful route through the dual-track process that eventually makes European law. Students of its history are in little doubt that it has been propelled on its journey by an alliance of France and Germany intent on scaling back London's role as a center of the hedge-fund industry.

This may have been because of genuine fears for the safety of investors in these funds, or because of fears for the risks that they pose to financial stability, in which case the arguments have still to be convincingly made. Or it may have been because of a wish to deal a blow to London and, perhaps, shed a little benefit on Paris and Frankfurt. If that were the aim, however, only the first part would be achieved since hedge funds taking a pre-emptive decision to leave London have been heading straight to Switzerland.

Whatever the motives behind the legislation, however, what is indisputable is that what is being proposed is badly cobbled together and ill thought through. For instance, the plans to restrict remuneration, in ways similar to those proposed by the G-20 for bankers aren't easily applied to partnerships, the chosen structure for many hedge funds.

Careful lobbying has calmed some of the worst elements in the package, although it is almost certainly the case that a visit to Brussels by London's mayor, Boris Johnson, did nothing to enamor the European politicians to his cause.

For the tousle-haired mayor to arrive with his entourage and a battalion of cameras and newsmen in order to lecture the European Parliament about the importance of the City of London was never going to be well received.

A calmer approach is what is required. The City would be wise to ignore Mr. Sarkozy's comments and hope Commissioner Barnier does the same.

Although he has in the past been a close ally of the president, Mr. Barnier, known as the Silver Fox, may want to be his own boss in his new role. And before leaping up and down in defence of the "freewheeling Anglo-Saxon" model, the City and its denizens might reflect that it has proved far from perfect.

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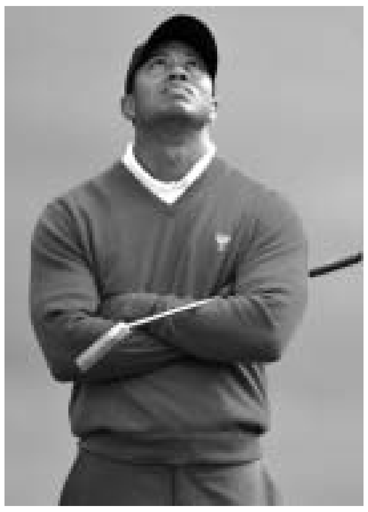

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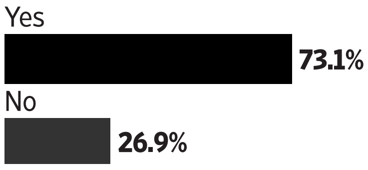

What's News

■ **EU finance ministers** reached a compromise on a supervisory framework for the bloc's financial markets, in an effort to prevent a recurrence of last year's sometimes chaotic response to the financial crisis. The plan would create a two-tiered supervisory structure. **1**

■ **Air France has assembled** a group of respected aviation officials to conduct an independent safety review in the wake of the fatal crash of one of its jetliners in June. **1**

■ **Daimler said it will shift** some production of the Mercedes-Benz C-Class, its top-selling model, from its German factory to the U.S. **21**

■ **NATO allies welcomed** and defended the U.S. decision to send an additional 30,000 troops into Afghanistan. **8**

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The rich make Hong Kong a wine hub

Surge in demand among Chinese and elimination of duties make for a heady market where Chateau Lafite Rothschild is king

By Laura Santini


The Wall Street Journal

Gregory De'Eb in one of the bunkers of Crown Wine Cellars, where they keep wine cases for their clients. The temperature is kept at about 13 degrees Celsius and special lamps that emit orange light to protect the wine.

HONG KONG—One of this city's hottest businesses these days is located inside the cool, climate-controlled confines of a former World War II military bunker on the south side of Hong Kong island.

There, in a 557-square-meter space that offers some of the best cellaring conditions in Hong Kong, Gregory De'Eb shelters expensive wines from the semitropical climate for a rapidly expanding clientele of oenophiles from Hong Kong, mainland China and elsewhere in Asia. At around 27,000 cases, his storage facilities are filled to capacity.

"The past four months have been bigger than we ever expected," says Mr. De'Eb, a former South African diplomat.

Surging demand for quality wine from China's newly rich, combined with the recent elimination of all wine duties in this bastion of free trade, is transforming Hong Kong into a global hub for wine trading and distribution.

Wine imports to Hong Kong jumped more than 34% to 32.5 million liters in the year ended March 31. Wine sellers and collectors say that inflow is coming from several sources—longtime Asian collectors who are moving their wines closer to home, wine sellers who have recently set up shop in the city and buyers who are simply taking advantage of the no-tax policy to ship a broader array of wines home from overseas.

Sales at Hong Kong wine auctions have reached $47.2 million so far this year, a 75% increase from all of 2008, according to government data. Sotheby's, which held an $8 million wine auction here in October, says the city has now surpassed London and New York as its most important market, owing to the city's potential for further growth.

Overall, London remains a larger market than Hong Kong in terms of dollar sales, says Nick Pegna, a Hong Kong-based managing director for the British wine merchant **Berry Bros. & Rudd**. But some sales counted in London are actually for clients in Hong Kong, he says. Hong Kong now accounts for nearly 35% of Berry Bros. sales versus about 25% two years ago, he says. Berry Bros.' customers include Hong Kong residents, mainland Chinese and a smaller group of other Asians who may be storing their wines in Hong Kong to avoid taxes at home.

Driving Hong Kong wine sales is a law enacted early last year wiping out a 40% tax on wine imports, after a reduction from an 80% duty a year earlier. Mainland China, by contrast, levies a 48% tax on wine imports, and all other Asian countries impose duties of some kind.

While the biggest impact of the no-tax policy has been on the fine-wine market, in dollar terms, Hong Kong consumers at the low end of the market are also discovering they have greater access. In supermarkets, for instance, wine consumers are seeing "a larger selection at much better prices than two years ago," says Jeannie Cho Lee, a collector and wine writer.

Yvonne Choi, permanent secretary for commerce and economic development in Hong Kong, says economic benefits reaped from eliminating the tax have far exceeded the lost revenue, which for the 2006 fiscal year, amounted to $57 million.

Last week, Hong Kong reached an agreement with Chinese government officials to speed imports to the mainland.

Mainland Chinese buyers are taking advantage of Hong Kong's tax policy. On a recent visit to France, Beijing-based lawyer Jingzhou Tao shipped a couple of cases of Bordeaux to a friend in Hong Kong. Mr. Tao says that on regular visits to the city-state, he carries a couple of bottles home with him over the border.

He says he is currently digging an underground storage facility in his villa in Beijing, which will hold around 1,000 bottles.

"I find it easier to buy from Hong Kong now because I don't have to ship," says Gary Lock, another Chinese collector in Shanghai. He either drinks his wine in Hong Kong or hand carries bottles across the border.

Customs officials generally allow people to carry a couple of bottles for personal use over the border, and the practice among mainland Chinese is becoming more widespread. Sean Robson, buying manager at upscale market Oliver's, says that he sometimes sees wealthy Chinese customers show up in groups that may include drivers and domestic workers, so that each person can carry a bag containing a couple of bottles of fine wine.

For wine veterans, the exorbitant prices fetched at some recent auctions show that mainland buyers are still beginners in understanding the wine market. "Sometimes they pay a higher price than what you see at local wine stores," says George Tong, a 46-year-old collector from Hong Kong, especially for what he calls "show-off" wines.

The king of show-off wines in China is Chateau Lafite Rothschild, and the 1982 vintage—which typically sells for about $5,000 in Hong Kong—is considered the one to go for when sealing a deal with business associates or government officials, says Mr. Tong.

In a sign of its cachet, thieves stole 228 bottles of 1982 Lafite valued at $877,000 in November, Hong Kong police said. The bottles were being stored in a warehouse in an area of the territory that abuts mainland China. Investigators say they are asking customs officials to look out for smugglers trying to carry the booty across the border.

As with luxury handbags and watches, counterfeit wines in China represent a big challenge. In wine circles here it is often said that there is more 1982 Lafite in China than was ever produced that year in France.

In Hong Kong, longtime collectors are availing themselves of the no-tax policy by moving their wines closer to home, rather than storing them in London or New York. "Everyone is doing that now," says Ms. Lee.

Possible evidence of this is that the U.K., hardly a country known for wine production, is now the second-largest wine exporter to Hong Kong after France, according to the U.S. Agricultural Trade Office. Australia and the U.S. rank third and fourth, respectively.

The locals are also enjoying an uptick in auctions, tastings and other wine-related events. "It goes very well with Hong Kong's free-market, laissez-faire spirit," says one 57-year-old collector sitting with a group of friends at a Zachys auction last month.

—Juliet Ye contributed to this article.

EUROPE NEWS

Merkel takes steps to boost lending

German chancellor names Frankfurt-based 'credit mediator' to foster dialogue between banks and smaller companies

By Nina Koeppen
And Andrea Thomas

FRANKFURT—German Chancellor Angela Merkel said sufficient credit supply is essential for an economic recovery, adding that the government is discussing measures to increase lending, including appointing a "credit mediator" to foster dialogue between banks and small and midsize German companies.

Hans-Joachim Metternich will be based in Frankfurt, and companies can apply for mediation starting March 1. He is currently spokesman for the management of the Investment and Economic Development Bank of Rhineland-Palatinate.

Economics Minister Rainer Brüderle said Mr. Metternich will work with companies that are financially sound but have struggled to get bank credit to finance investment and trade. Mr. Brüderle told German television channel ZDF that there isn't a "broad-based credit crunch" in Germany, but that "there's a big risk that this may happen in the spring."

He urged banks to expand credit lines to companies and households. The minister wouldn't rule out enforcing additional rules on banks if they don't follow the government's calls.

"The state can, of course, take further regulatory steps" if everything else fails, he said.

Typically, a credit crunch arises from constraints to the credit supply because of weakness throughout the banking system, and can cause long-term damage to the economy.

Commerzbank AG has already said it will offer more credit to small and midsize enterprises.

"Starting in January, we'll raise our credit offer to companies with annual sales between €2.5 million ($3.8 million) and €500 million by €5 billion," the bank's chief executive, Martin Blessing, said in an interview with German daily Süddeutsche Zeitung published Wednesday. Commerzbank's credit provision totals €130 billion.

"The economy can only get going if credit supply is sufficient," Ms. Merkel told reporters ahead of a Wednesday evening meeting with bankers and business leaders.

"The crisis isn't over. We will have to deal with it for a long time," she said.

A survey published Monday by the Ifo research institute showed that 42.9% of companies faced tighter loan requirements from their banks in November, up from 41.7% in October.

Ms. Merkel has warned banks against returning to risky activities a year after the government provided a €480 billion financial-stability fund to bail out the banking sector.

Dieter Hundt, president of the BDA employers' group, said it is important for the government to prevent a "threatening widespread credit crunch," and called for public measures.

"We already have many companies with considerable financing difficulties as of today and there are many indications for this to deteriorate in the coming months," Mr. Hundt said.

"That's why far-reaching government measures are needed, and this is not aid to banks but investments and funding for companies," he added.

—Beata Preuschoff contributed to this article.

Agence France-Presse/Getty Images

Angela Merkel, right, with Foreign Minister Guido Westerwelle, left, and Michael Sommer, head of Germany's trade union federation, warned banks not to return to risky practices.

Iran releases U.K. sailors and yacht

By Farnaz Fassihi
And Alistair MacDonald

Iran released five British sailors Wednesday, easing concern over a fresh diplomatic incident amid an increasingly difficult conflict with Western powers over its nuclear ambitions.

Officials found that the sailors entered Iranian waters by mistake and decided to release them, a week after their yacht was intercepted by Iranian naval forces, according to IRNA, the official Iranian news agency.

Also Wednesday, President Mahmoud Ahmadinejad said Iran will increase its level of uranium enrichment to as much as 20%—enough for nonmilitary use in research reactors but below weapons-grade levels of over 80%. Iran says its nuclear program is for nonmilitary use, while the U.S. and others say it is intended to produce weapons.

A Vienna-based diplomat familiar with the International Atomic Energy Agency inspections in Iran said IAEA officials believe Iran is referring to enrichment up to the 19.75% purity required to fuel its medical-research reactor. The diplomat said the IAEA believed Iran was years away from being able to make weapons-grade uranium.

Iran would be able to achieve 19.75% purity—considered low-enriched uranium—using the technology it possesses today, after retooling some equipment in its enrichment plants, a second Vienna-based diplomat said. "Enrichment to higher levels of purity is an engineering problem that many countries have solved by trial and error," the diplomat said.

Mr. Ahmadinejad's announcement, reported by official Iranian news agencies, follows an earlier declaration by Iran that it planned to expand its nuclear program by building ten more facilities across the country.

The release of the British sailors early Wednesday ended a week of detention, after the Islamic Revolutionary Guard Corps stopped the yacht, The Kingdom of Bahrain, and detained the yachtsmen. The British government found out about the release through an announcement by the Iranian news agency, according to a person familiar with the matter.

"Obviously there's been a real ordeal for the young men and for their families and I'm really delighted that it's over for them and that we can call the matter closed," U.K. Foreign Secretary David Miliband said.

The sailors were en route to Dubai to take part in an offshore sailing race when their propeller broke and the vessel drifted into Iranian waters, according to Keith Mutch, the general manager of the Dubai Offshore Sailing Club, which organizes the race.

Iran towed the yacht outside its territorial waters Wednesday, where it was picked up, with its crew, to be towed back to Dubai by a vessel from the Team Pindar squad that these sailors race with, a spokesman for Team Pindar said.

Separately, Tehran's prosecutor's office declared that Ramin Pourandarjani, who had been a whistle-blower on the torture of protestors at the Kahrizak prison, had died of an overdose of a blood-pressure drug, traces of which were found in a salad he had been eating.

Dr. Pourandarjani, 26 years old, died while on duty in a Tehran military clinic on Nov. 10. The government first said he had died of a heart attack and then said his death was a suicide. His family and colleagues have dismissed those claims and say they suspect he was murdered because he was a witness to the torture scandals. The prosecutor's office said investigations will continue into whether Dr. Pourandarjani was murdered or committed suicide.

—David Crawford contributed to this article.

Air France assembles safety panel

Continued from first page

will be finalized by the middle of December.

Mr. Graeber, who pioneered studies on cockpit napping under limited circumstances as a way to enhance pilot performance, called the review "a very healthy and sincere effort to look at everything related to safety at Air France."

The study team, authorized by Jean-Cyril Spinetta, chairman of the airline's parent company, **Air France-KLM** SA, is expected to have access to and support from the airline's safety officials.

Air France-KLM Chief Executive Pierre-Henri Gourgeon said in an interview in September that the plan was to ask outside experts to conduct "a very extensive review of all our safety procedures" and provide ideas for continuous improvement.

The company said later in a statement posted on its Web site that the review "will cover all internal operating methods, decision-making processes and practices which could have an impact on the safety of Air France's flights."

Based on the makeup of the teams and their preliminary marching orders, some of the focus is likely to be on how effectively Air France collects and assesses data on safety lapses that could be warning signs of future incidents or accidents. Other major areas of interest are likely to be cockpit automation, human factors and how pilots react when their sophisticated flight-computer systems suddenly malfunction or shut down.

The team won't investigate the June 1 crash of an Air France Airbus A330 en route from Rio de Janeiro to Paris. All 228 people onboard were killed when the two-engine plane plunged into the Atlantic Ocean in rough weather. Little wreckage has been recovered, so circumstances surrounding the accident remain a mystery.

The crash, which followed a string of other incidents and accidents at the French carrier, has sparked an internal debate over Air France's safety standards and how pilots are trained and managed. The issue has simmered for many years and has been exacerbated by tense relations between the company's management and its numerous unions that represent pilots—and compete with each other for membership.

Following the June crash, Air France quickly replaced some onboard air-speed indicators on certain Airbus planes, and it also emphasized the proper procedures for using weather-radar systems.

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EUROPE NEWS

U.K. climate scientist steps down

East Anglia research unit director leaves post temporarily amid probe sparked by disclosures in hacked emails

The British scientist at the heart of a scandal over climate-change research temporarily stepped down Tuesday as director of a prominent research group amid an internal probe that follows the release of hacked emails involving him and other scientists.

By ***Keith Johnson, Jeffrey Ball*** and ***Gautam Naik***

The University of East Anglia in the U.K. said Phil Jones, head of the university's Climatic Research Unit, had decided to step aside from the director's post, less than a week before world leaders are set to meet for a climate summit in Copenhagen.

The two-week conference, sponsored by the United Nations, is supposed to come up with tougher policies to curb greenhouse-gas emissions and slow global warming. The need for such action has been buttressed in large part by research by Dr. Jones and his colleagues in East Anglia and around the world.

But hackers recently stole emails and documents from the East Anglia center that suggested Dr. Jones and other like-minded scientists tried to squelch the views of dissenting researchers and possibly manipulated or destroyed data.

The fallout from the hacked emails is spreading beyond the U.K. On Wednesday, U.S. President Barack Obama's top science adviser urged lawmakers to act to curb emissions of greenhouse gases, despite the uproar over the emails.

The adviser, John Holdren, told a House of Representatives panel that said scientists generally are capable of defensiveness, bias and "misbehavior." But Dr. Holdren, who wrote one of the hacked emails, said that the meaning of some of the statements in the emails wasn't clear, and that the significance of others has been exaggerated. Dr. Holdren's comments drew a unanimously supportive response from Democrats and unanimous skepticism from Republicans, some of whom called for a congressional inquiry into the dispute over the integrity of climate science.

In addition, Penn State University on Tuesday confirmed that Michael Mann—a climate scientist on its faculty who figures prominently in the emails—is under "inquiry" by the university.

Dr. Mann's work reconstructing historic global temperatures has, over the past decade, become a focal point of debate. Penn State said in a statement that its inquiry, which stems from disclosed emails written by Dr. Mann, is a preliminary step to determine whether a full investigation is needed. He didn't respond to requests for comment.


European Pressphoto Agency


Bloomberg News


Getty Images


Getty Images

Above, people in Copenhagen form the logo of a campaign to cut carbon emissions to 350 parts per million. Sen. Barbara Boxer, top left, and John Holdren, President Barack Obama's top science adviser, top center, support the view that global warming is man-made. Critics of that view include Sen. James Inhofe, top right.

The East Anglia institute that Dr. Jones headed has become a key player in building evidence for the U.N.'s argument that humans are behind global warming. In statements released by the institute in recent days, Dr. Jones has defended the integrity of the institute's scientific work, while saying that he and his colleagues "accept that some of the published emails do not read well."

In one email, Dr. Jones suggested to another prominent climate scientist that they should try to keep out of scientific journals the research of scientists who challenge the idea of man-made global warming.

On Tuesday, Dr. Jones said the East Anglia institute couldn't continue to do its work with him there. "What is most important is that CRU continues its world leading research with as little interruption and diversion as possible," he said in the statement. "After a good deal of consideration," he wrote, he decided to step down from the director's job pending the investigation.

Longtime critics of the premise that humans are responsible for climate change cheered word of the move by Dr. Jones and the inquiry into Dr. Mann. "I think we're making headway," said U.S. senator James Inhofe of Oklahoma, the senior Republican on the Senate Environment and Public Works Committee and an outspoken critic of much of the science underlying climate-related legislation.

Others expressed regret at the turn of events. Gavin Schmidt, a scientist at NASA Goddard Institute for Space Studies and Center for Climate Systems Research at Columbia University in New York, said Dr. Jones was one of the "most conscientious people" in the field and that "it's a tragedy" he has had to step aside.

—Stephen Power contributed to this article.

Australia will vote again on climate plan

By Rachel Pannett

CANBERRA—The Australian government will reintroduce a plan to curtail greenhouse-gas emmissions to Parliament for a third time in February, in the hope of persuading the opposition to support it.

Acting Prime Minister Julia Gillard said the government wouldn't call an early election after lawmakers blocked the plan. By vowing to reintroduce the same amended carbon program that as late as Monday had enough opposition support to pass, the center-left Labor government is putting pressure on new opposition leader Tony Abbott to come up with a viable alternative.

If Parliament votes against the plan again in February, as is likely at this stage, the government could call an early election for March.

Prime Minister Kevin Rudd appeared earlier to have the votes locked up to secure his carbon program's approval, after reaching a deal with then-opposition leader Malcolm Turnbull a week ago that provided billions of dollars of compensation to affected industries in return for conservatives' support.

The deal fell apart Tuesday when the opposition Liberal Party voted 42 to 41 to oust Mr. Turnbull in favor of Mr. Abbott.

Ms. Gillard said reintroducing in February the plan agreed to by Mr. Turnbull would give opposition lawmakers time to reconsider.

Lawmakers in the Senate voted Wednesday to dismiss the Carbon Pollution Reduction Scheme, which had aimed to reduce Australia's emissions at least 5% by 2020 compared with turn-of-the-century levels.

Failure to pass the carbon bills Wednesday is a political setback for Mr. Rudd, who will be without a domestic emissions trading program when he goes to Copenhagen for global climate talks this month.

EUROPE NEWS

Spanish premier promises change in labor market

By Jonathan House

MADRID — Spanish Prime Minister José Luis Rodríguez Zapatero on Wednesday pledged to tackle long-awaited labor-market changes as new data showed one of Europe's worst unemployment crises continues to deepen.

Mr. Zapatero's proposed changes include more flexibility for collective wage bargaining, reducing working hours to preserve employment and improvement of job-placement services.

Banks are adding to pressure on the government to rein in one of Europe's biggest deficits.

They come as Spanish banks are sending signals that their interest in public debt is on the wane, putting further pressure on the government to rein in one of Europe's biggest deficits.

The prime minister said his labor-market proposals would preempt the need for more controversial steps, such as a reduction in Spain's high dismissal costs. Economists say those costs discourage hiring as well as the creation of a new type of contract they say would simplify hiring and firing.

He proposed that unions and employers discuss the new measures starting early next year. "I firmly believe our commitment should be to strengthen our companies without harming workers," Mr. Zapatero said.

Earlier, Spain's labor ministry said November jobless claims were up 29% from a year ago to just under four million. Eurostat said Tuesday that Spain had a 19.3% unemployment rate in October, the second-highest in the EU behind Latvia.

The rising trend in unemployment comes as banks sent a worrying signal of their borrowing intentions to the government. Many investors worry that governments are "overborrowed" as they cope with the lingering effects of the financial crisis and economic downturn.

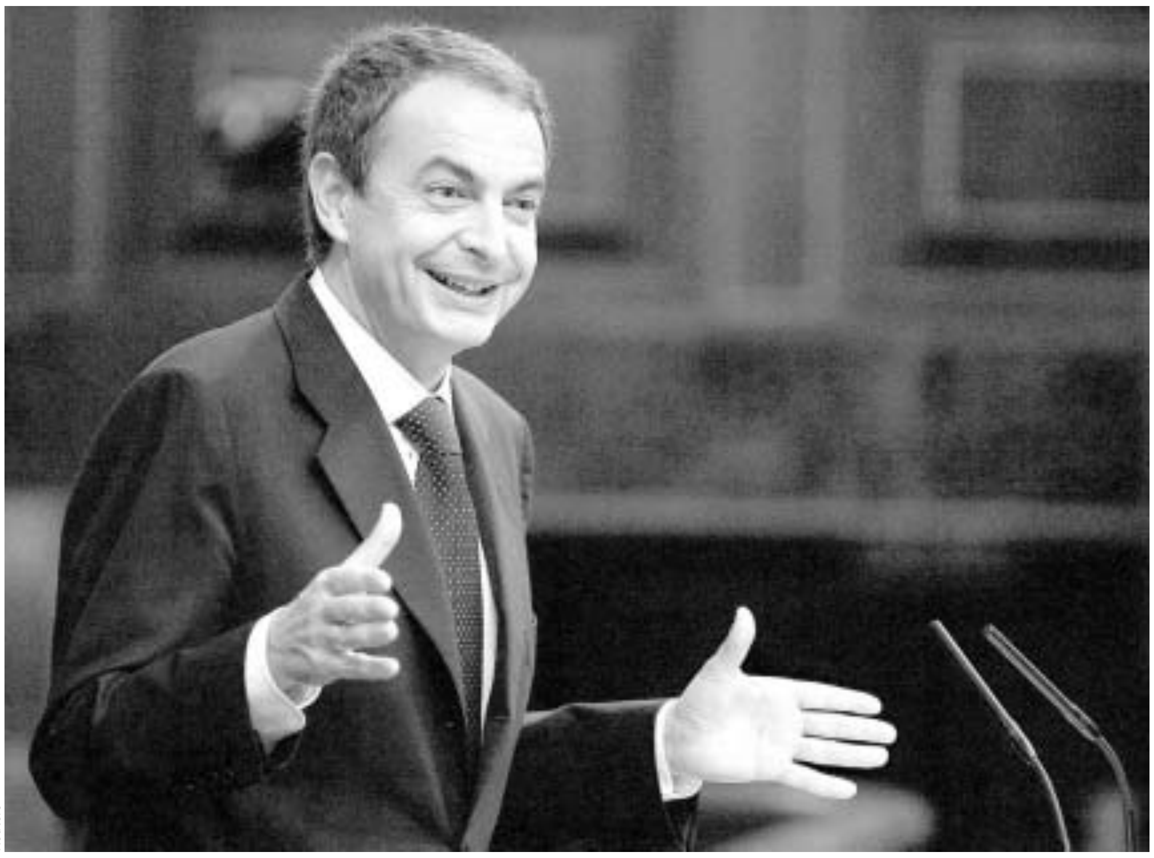
According to ECB data, Spanish banks and money-market funds have increased their government debt holdings by nearly €78 billion ($118 billion) over the last year—the euro zone's biggest jump—as the government's budget deficit has ballooned.

The European Commission, the European Union's executive arm, expects Spain's deficit to reach 10.1% of gross domestic product this year, making it the euro zone's third-largest behind those of Ireland and Greece.

But many Spanish banks say they have now built up their government-debt holdings to levels they have traditionally sought when interest rates are low. They also say these bonds look less attractive as the euro zone emerges from its worst recession in decades and the ECB plans to wind down crisis measures. But governments continue to ramp up debt issuance.

Banco de Sabadell, Spain's fifth-largest bank by market value, has sold all its holdings of 10-year government debt, a long-term instrument seen as particularly vulnerable to changing conditions. "We think yields will start rising," said Sergio Palavecino, Sabadell's deputy chief financial officer.

Rising bond yields mean lower prices for the securities and possible writedowns for bondholders.

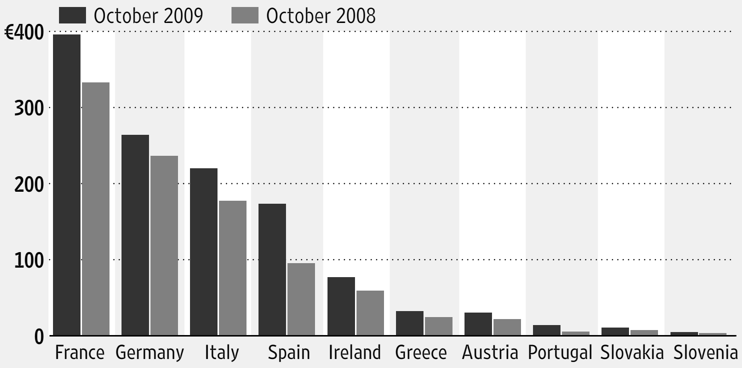


Reuters

Prime Minister José Luis Rodríguez Zapatero outlines proposed labor-market reforms to the Spanish parliament Wednesday.

Government bonding

Euro-zone banks and money-market funds' government debt holdings, in billions



Source: European Central Bank

Russian court justice to retire

By Gregory L. White

MOSCOW—One of Russia's Constitutional Court justices agreed to retire and another gave up an official post after they made harshly critical public comments about the Kremlin's crackdown on democratic institutions, news agencies quoted the court's top judge as saying Wednesday.

The rare open conflict in Russia's highest court appears to contrast with President Dmitry Medvedev's pledges to shore up judicial independence.

The tensions appear to have started with an interview published in August in Spain's El País newspaper with Vladimir Yaroslavtsev, a 15-year veteran of the court. In it, he is quoted as saying that "the strengthening of authoritarianism is leading to greater judicial dependence," referring to the presidencies of Vladimir Putin and his hand-picked successor, Mr. Medvedev.

"The security services can do what they want and all judges can do is ratify their decisions," he was quoted as saying.

In late October, Anatoly Kononov, who has been a justice since the court was formed in 1991, said in an interview with a Russian weekly Sobesednik that he supported "the greater part" of what Mr. Yaroslavtsev had said to El País.

"Our rights have been very much narrowed—electoral rights, freedom of speech," he was quoted as saying, noting that he no longer bothered to vote. He also said other justices had "lashed" Mr. Yaroslavtsev for his El País interview at a closed plenary meeting.

Neither of the two judges could be reached for comment Wednesday. A Kremlin spokesman declined to comment.

Constitutional Court Chairman Valery Zorkin held a news conference Wednesday at which he said the two justices had been encouraged to resign by the other justices so as not to face disciplinary action, and that they had agreed not to comment publicly yet. Under Russia's judicial code, judges aren't allowed to publicly cast doubt on the court's authority or its decisions.

"We didn't turn to any repressive measures," Interfax quoted Mr. Zorkin as saying. "We just expressed our recommendation to them and both justices took it."

The interviews "didn't just go by the [other] justices," Mr. Zorkin added. "The justices of course discussed this and reacted in a certain way."

He said Mr. Kononov, 62 years old, had resigned from his seat on the court effective Jan. 1 "for health reasons."

Mr. Yaroslavtsev, 57, gave up his post as the court's representative at Russia's Council of Judges, an organization with wide powers in judiciary appointments, but will remain a justice, Mr. Zorkin said, according to Interfax.

"It was recommended to Justice Yaroslavtsev that with his views on the judicial system, he couldn't represent the Constitutional Court in the Council of Judges. He, taking this into account, tendered his resignation," Mr. Zorkin said.

Both justices had reputations for frequently dissenting from the majority on the 19-member court. Mr. Kononov was a prodemocracy legislator before his appointment. In their interviews, both criticized Mr. Medvedev's move in July to have the chairman of the Constitutional Court appointed by the president, not elected by the other justices.

"Without Kononov, the Constitutional Court becomes just another appendage of the authorities, like the rest of the judicial system," said Yuri Schmidt, a human-rights lawyer and counsel to jailed oil tycoon Mikhail Khodorkovsky.

—Olga Padorina contributed to this article.

AFGHANISTAN: THE OBAMA PLAN

NATO allies embrace Afghan strategy

Partners in conflict say U.S. contribution of more troops will draw further military commitments from others in alliance

By Stephen Fidler

BRUSSELS—America's European allies welcomed U.S. President Barack Obama's decision to send a further 30,000 troops into Afghanistan, saying the extra U.S. contribution would shake out further military commitments from other members of the North Atlantic Treaty Organization.

Hours after the president's speech, diplomats meeting at NATO's Brussels headquarters drafted a statement saying the allies "strongly welcome" Mr. Obama's decision.

The statement is expected to be released Friday at the end of a two-day meeting of NATO foreign ministers in Brussels to be attended by U.S. Secretary of State Hillary Clinton. It will say the U.S. move "underlines our commitment to help build lasting security and stability in Afghanistan, which remains the alliance's key priority," according to the text agreed to Wednesday.

NATO Secretary-General Anders Fogh Rasmussen said U.S. allies in 2010 will send "at least 5,000 more soldiers to this operation, and probably a few thousand on top of that."

The U.S. currently has more than 68,000 military personnel in the country, while the 27 other members of NATO and 15 non-NATO partner nations have 38,000.

European diplomats said Mr. Obama had managed to show strong U.S. support for the Afghan mission, while his decision to limit the troop surge to 18 months had managed to avoid what one called a "Vietnam-style slippery slope."

Diplomats said the message would be welcomed in Europe, where opinion polls suggest the conflict is increasingly unpopular. U.K. politicians had been irritated by the slow pace of Mr. Obama's deliberations, but on Wednesday Prime Minister Gordon Brown welcomed Mr. Obama's announcement.

Associated Press

Italian members of the NATO forces awaited the arrival of Gen. Stanley McChrystal, the top U.S. commander in Afghanistan, in Herat on Wednesday.

However, opposition Conservative politicians criticized Messrs. Brown and Obama for setting deadlines. Patrick Mercer, a member of Parliament for the opposition Conservative Party and a former British army officer, said deadlines "go against all the maxims of counterinsurgency. You don't talk about deadlines, you talk about goals. When you start to link them to time you give strategic advantage to your enemies," he said.

Mr. Rasmussen, the NATO chief, said the alliance wasn't talking about an "exit strategy" but a "transition strategy" under which responsibility for security would be transferred to Afghan forces, starting in 2010, where and when it was warranted.

Because of troop rotations, calculating national contributions at any one time can be tricky.

Some governments have already announced they would boost troop numbers to back the new U.S. commitment, including Britain, Poland, and Slovakia. Some countries, such as Italy, are expected to further increase numbers beyond extra troops already there for the Afghan elections. Turkey has increased its troops in the country by 1,000 in recent weeks to 1,700, having taken over the NATO regional command in Kabul.

These commitments put added pressure on Germany and France to increase troop numbers, but both governments have indicated that they aren't inclined to do this before an international donors' meeting on Afghanistan scheduled to take place in London on Jan. 28.

Military commanders gather Dec. 7 at NATO's military headquarters in Mons, Belgium, to start talking about the extra troop commitments and how they might be deployed.

Diplomats said they expected the extra troops would be mostly deployed where their existing national contingents are already stationed, with the possible exception of the Southwest. Many insurgents flee to this region, around Farah, when they come under military pressure in the South, and a new U.S. command may be created there as recommended by Gen. Stanley McChrystal.

Some governments are expected to come under renewed pressure to reduce the number of exclusions—known in NATO jargon as "caveats"—that limit the number and type of operations that some national forces are permitted to join.

Afghan officials respond unfavorably to Obama plan

Continued from first page

riod of time, he said.

"The announcement just gives good news to the Taliban and others," said lawmaker Shukria Barakzai. The Taliban said in a statement that the troop increase would strengthen their movement.

Pakistan also expressed concerns. Its foreign ministry said it will discuss the plan with U.S. officials to understand "the full import of the new strategy and to ensure that there would be no adverse fallout on Pakistan." Officials there fear that a large increase in U.S. troops could push insurgents and refugees into Pakistan.

The Obama administration has been talking with officials in Afghanistan and Pakistan in recent days to smooth the reception of the U.S. plan. Mr. Obama called Pakistan President Asif Ali Zardari on Tuesday to discuss it, said Farahatullah Babar, his chief spokesman. James Jones, the U.S. national security adviser, spoke on the phone Tuesday to Prime Minister Yousuf Raza Gilani. Richard Holbrooke, the special U.S. envoy on Afghanistan and Pakistan, spoke to Nawaz Sharif, the main opposition leader, a senior Pakistani official said.

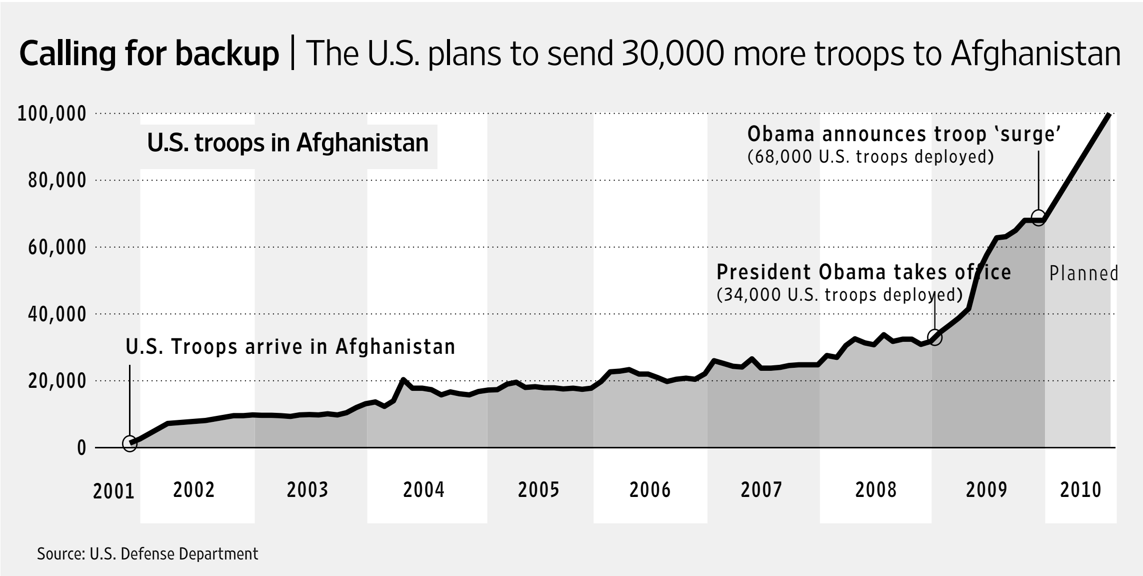
A number of Afghan officials support shifting U.S. troops to the Afghan-Pakistan border to stop insurgent crossings. They said talk of removing troops could signal that the U.S. isn't committed to a long-term presence in the region.

U.S. officials in Kabul said the possible transfer of troops in two years' time doesn't mean the U.S. will abandon the country.

"We'll be here one way or another. We hope that by the summer of 2011 the Afghan security forces and the Afghan government will begin to start taking over some of the main responsibilities," said a U.S. official in Kabul. "But the U.S. and its military will still be here after that date."

U.S. officials said the big question about the withdrawal plan is whether the Afghan forces would be in a position to take a leading role by the summer of 2011. While officials are focused on increasing the size of the Afghan ranks, the forces need improvement. Illiteracy is widespread among the ranks, and basic skills required for effective modern warfare, such as map reading, are largely lacking.

"We're still not at the point where the Afghans can either stand on their own, or at least lead



or plan missions," said First Lt. Richard Allis, a U.S. Marine involved with training Afghan troops. "I'd say we are at least four, five years away from that."

An even bigger challenge is the Afghan police, an uneven force that is widely accused of corruption. "The police development is still four to five years behind the army's," said Maj. Gen. Richard Formica, the outgoing commander overseeing the training efforts here.

To address some of these concerns, Gen. Stanley McChrystal, the top U.S. commander in Afghanistan, said Wednesday that some of the incoming troops will be devoted solely to training the Afghan forces. The units will live together and plan and conduct joint missions. Previously, a small number of mentors were embedded with each Afghan unit.

In the Pashtun countryside, the scene of incessant fighting in recent years, sentiment favoring troop withdrawal is higher. "People here are tired of the fighting and tired of the American presence," said Habib Gul Stanakzai, a teacher from the southern province of Zabul. "I hope the Americans are true to their words and leave."

AFGHANISTAN: THE OBAMA PLAN

Reuters

U.S. President Barack Obama greets cadets Tuesday at the U.S. Military Academy in West Point, N.Y. The most controversial part of Mr. Obama's new Afghan strategy is to set a two-year timetable for pulling out the additional troops he is sending.

Success hinges on Karzai's strength

[Capital Journal]

By Gerald F. Seib

President Barack Obama's new Afghanistan strategy represents a significant gamble, the success of which will turn on two key assumptions about the main characters in the Afghan drama:

The first assumption is that President Hamid Karzai can be made stronger than is often supposed. The second is that the Taliban enemy is weaker than is often imagined.

Both propositions underlie Mr. Obama's calculation that a surge of 30,000 new American troops can be both mounted quickly and ended quickly. The most controversial part of that strategy is Mr. Obama's decision to set a two-year timetable for pulling out those additional American troops he is sending to Afghanistan.

The American military has long resisted hard and public timetables for ending military missions, on the assumption that a deadline merely lets the bad guys know how long they have to wait out American troops before moving in. That precise criticism was immediately heard from Republicans.

Mr. Obama, in a lunch at the White House with a few columnists hours before he delivered his nationally televised speech on Afghanistan policy, countered that in this case the deadline for an American withdrawal is crucial to create leverage on Mr. Karzai to move with real urgency to improve his government and its security forces so they can take over the task of fighting the Taliban.

"That's exactly why we thought a timetable was so important," Mr. Obama said. "Because in the absence of a time frame, if the view in Afghanistan is this is an open-ended commitment or an indefinite commitment, then I think we have very little leverage" over the Afghan leader.

Thus, the relationship between the American and Afghan presidents now becomes one of the world's most important, and most complex. American officials alternate between exasperation at Mr. Karzai for his flaws and failings, and a realization they have no choice but to build him into a stronger foundation for stopping Islamic extremists. It's hardly clear that the U.S. can simultaneously critique and strengthen Mr. Karzai.

The Obama approach, as the president himself describes it, sounds an awful lot like tough love.

"I had direct conversations with President Karzai yesterday, and outlined very specifically to him the steps that we expect the Afghan government to take in improving governance and delivering services to its people," Mr. Obama said. The message to Mr. Karzai, he added, is that "if he has not improved governance, if he doesn't have greater legitimacy in the countryside, if he is not acting as commander in chief of an effective Afghan security force, then it is going to be very difficult for him to maintain his position in his country."

Moreover, Mr. Obama said, he talked with his Afghan counterpart frankly about corruption in Kabul: "It's fair to say we talked very explicitly about the need to reduce corruption. Some of that has to do with individuals, but some of it actually has to do with systems. If it takes four months and 40 forms to open up a business in Kabul, those are 40 opportunities for corruption."

On the other hand, Mr. Obama described the conversation as "cordial" and "one in which I indicated to him that he has enormous talent, and he has the potential to move his country into a new phase that would be historic. I also acknowledged to him that his task is not easy. If George Washington was in Afghanistan right now, it would still be tough."

The boom line is that "what I've said to him is that the patience of the American people and the international community is waning, that we have a window of opportunity in which to solidify progress in Afghanistan, and I will do everything I can to help him seize that opportunity."

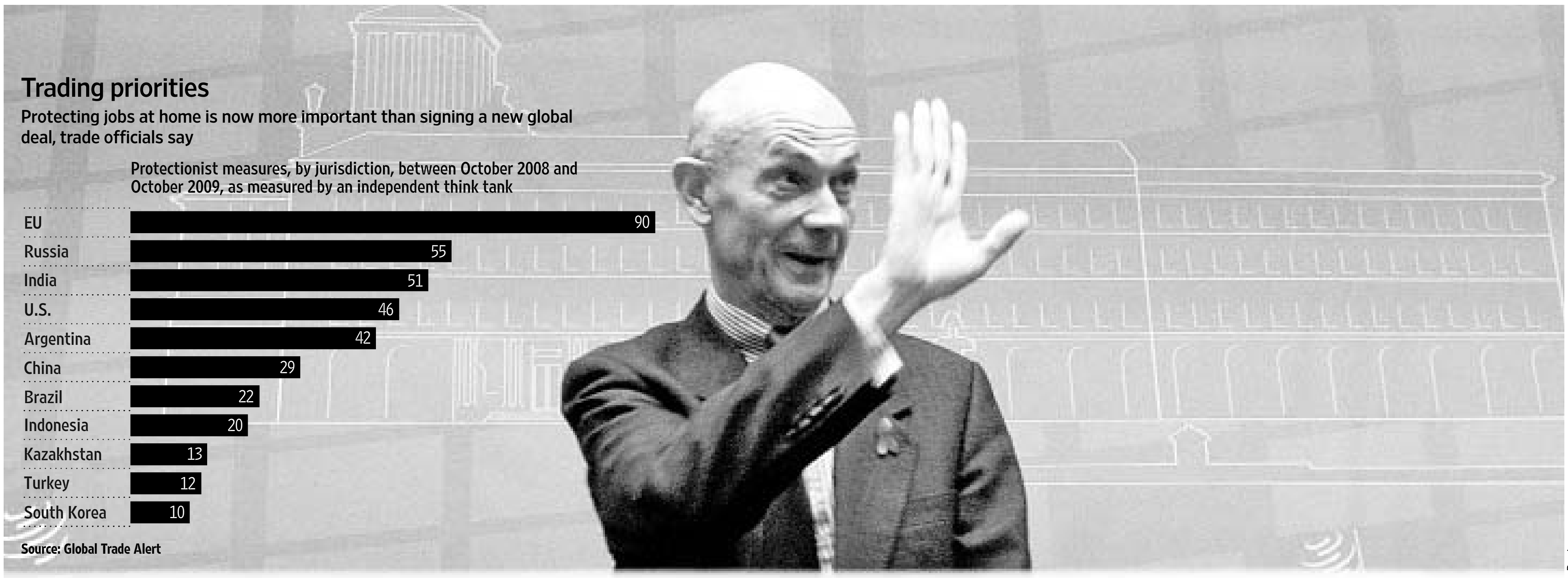
That's hardly a rousing endorsement, or a rosy prediction of a turnaround in the quality of Afghan rule. Which leads to the second key Obama assumption: that merely a little competence in the Afghan government and its army and police forces can go a long way in deflating the fundamentalist Taliban movement.

"Part of the reason I think that is potentially a sound strategy is that every bit of intelligence I see still indicates that the Taliban is unpopular in Afghanistan," Mr. Obama said. "What's happened is that there are a lot of Afghans who are hedging their bets. Because as unpopular as the Taliban may be, [Afghan citizens] are not particularly confident the central government can provide them the security they need." So, Afghans bend to the Taliban out of fear.

If the U.S. can help Mr. Karzai create just a reasonable level of confidence in the government, Mr. Obama argued, "I think that implicit hostility toward Taliban rule becomes more explicit."

In other words, Mr. Obama's gamble is that the U.S. doesn't have to make Mr. Karzai into another Nelson Mandela, or his security forces into a minor version of the American military, to succeed. They merely need to be good enough. Even that won't be easy, though, for Afghan history is full of foreigners who found good enough to be a lofty goal in that troubled land.

U.S. NEWS



Pascal Lamy, director general of the World Trade Organization, arrived Tuesday for a working session at the seventh WTO ministerial meeting in Geneva

Blame goes global in WTO gridlock

First Doha summit in four years makes no progress; officials say fear of lost jobs and political fallout is widespread

By John W. Miller

GENEVA—The European Union, Brazil and other economic powers have blamed the U.S. for gridlock in global trade talks, but officials at a World Trade Organization summit this week said political fears all over the world are also responsible.

The first meeting in four years of ministers from the WTO's 153 nations delivered no progress in the eight-year-old Doha Round, which has repeatedly failed to achieve its stated mission of opening rich country markets to imports of food from the developing world.

The value of global trade is expected to fall 9% this year, mostly because of the sagging global economy and partly because of growing protectionism, according to the WTO.

In all countries, "people are afraid" of another trade deal, says U.S. Trade Representative Ron Kirk. "Trade has provided a way for people to have fresh produce, cheap T-shirts, available electronics, but the pain of trade is very real."

Voters and politicians in every country are worried about protecting jobs, say trade officials and analysts. Almost no nation has the "political clarity" needed to sign Doha, said a Bolivian delegate.

"The U.S. has been made to be the whipping boy but reservations about liberalization are far more widespread," says Simon Evenett, a professor at the University of St. Gallen in Switzerland.

U.S. President Barack Obama still believes the Doha Round can be concluded during his first term, said Mr. Kirk, in an interview with The Wall Street Journal. "But trade is a contract, it's a deal, and you only have a deal if you get something and I get something."

What is currently on the table doesn't deliver "meaningful market access in the part of the world that will be growing and driving GDP growth over the next few years," he says, in a reference to countries like China, India and Brazil.

In exchange for opening up its agricultural markets, the U.S. had demanded that countries such as Brazil and India open their markets for industrial goods like heavy machinery, factory parts and subway cars.

They have agreed to some tariffs cuts, but not enough to satisfy U.S. officials. "We're taking that message to people bilaterally," he says. Mr. Kirk met twice during the summit in Geneva this week with Indian Trade Minister Anand Sharma.

There was no reason to settle an unsatisfactory Doha deal "just because we've been at it a long time," says Mr. Kirk.

Some delegates at the Geneva summit praised Mr. Kirk, a former mayor of Dallas and Washington lobbyist, and mentioned his humor. "We like him. You get a sense of engagement from the U.S. toward the developing world that wasn't there before," says Philip Kalolci, a member of parliament from Kenya attending the talks.

The Doha Round, says Mr. Kirk, "is like a cricket match. You don't know the score and it takes a long time, but it does end, and there is a winner."

Still, some nations remain frustrated at the U.S. "The U.S. is a superpower, but no man is an island," said Michael Kalainkay, a delegate from Sierre Leone. A Doha deal, he said, would help his country attract investors to build plants to produce goods with higher profit margins. "Right now, we're just getting farm-gate prices," he said.

The WTO's first summit in four years lacked the importance of previous gatherings. On the 10th anniversary of violent street protests nicknamed the Battle in Seattle, only a few hundred protesters showed up every day.

"The focus has moved to the climate summit in Copenhagen," said Olivier De Marcellus, an anti-WTO activist. "And then let's face it, the WTO has been doing this for eight years and doesn't have a deal yet."

Ministers had to content themselves with side deals. A group of 22 developing countries signed a separate deal to cut tariffs on industrial goods by at least 20%.

The European Union and Latin American countries made some progress on a deal that would allow **Chiquita Brands** Inc. and **Dole Food Company** Inc. to sell more bananas in the EU.

Congress crafting jobs packages

By Naftali Bendavid

WASHINGTON—U.S. congressional leaders plan to craft major jobs packages by year's end, as they respond to intensifying pressure to show they are doing more to ease unemployment.

House leaders aim to pass at least part of a package this month, giving members concrete action to show their constituents over Congress's winter break. The Senate, enmeshed in debate on a health overhaul, is likely to enact its measure early next year.

Possible elements of the Democratic plans include investing in infrastructure, aiding states and cities to prevent layoffs, and bolstering loan guarantees for small business. Some lawmakers want to provide tax credits for firms that create jobs, but others argue that there is no way to verify that a job wouldn't have been created anyway.

In addition, Congress is likely to extend benefits for those who lose their benefits under the unemployment-insurance and Cobra health-care programs. Democrats are grappling with how to pay for a package, with some seeking to redirect money from the stimulus package and the Troubled Asset Relief Program. President Barack Obama has scheduled a White House "jobs summit" Thursday where these and other ideas will likely get a hearing.

Some Republicans say the Democratic proposals would only increase government spending and overreach. "While they push for driving us deeper into debt, we will stand for the virtues of restraint," said House Minority Whip Eric Cantor (R., Va.). "While they seek to expand government control, we will promote common-sense solutions proven to work."

In a speech Wednesday at the conservative Heritage Foundation, Mr. Cantor outlined ideas such as stopping a "deluge" of regulations and approving free-trade agreements.

Senate Majority Leader Harry Reid (D., Nev.) and House Speaker Nancy Pelosi (D., Calif.) have tapped senior lawmakers to sift through dozens of ideas for spurring job growth and pick the best ones.

"Clearly we would like to do something before the end of the year," said Rep. George Miller (D., Calif.), who is crafting the House package. "Anywhere you go in the community, people tell you stories about themselves, their families or someone else who has been laid off or is concerned about being laid off."

With joblessness at 10.2%, lawmakers are anxious about a possible voter revolt. Once Congress finishes work on a health-care overhaul, members are likely to focus on jobs and the economy for much of next year heading into the 2010 midterm elections.

There has been a flurry of activity on Capitol Hill in recent days as lawmakers seek to show they recognize the urgency of the economic issue. Mr. Reid has asked Sens. Richard Durbin (D., Ill.) and Byron Dorgan (D., N.D.) to craft a package they can present to their colleagues soon.

Mr. Dorgan convened a hearing Wednesday to discuss small businesses' difficulty in getting loans for job-creating projects. A group of senators urged the Obama administration Wednesday to use the 2010 Census to give hiring preferences to the jobless.

Pace of layoffs eases

By Kathleen Madigan

The pace of layoffs eased further in November. Private-sector jobs in the U.S. fell 169,000 last month, according to a national employment report published Wednesday by payroll company Automatic Data Processing Inc. and consultancy Macroeconomic Advisers.

The ADP loss is slightly above the 150,000 drop projected by economists in a Dow Jones Newswires survey. The estimated change of employment for October was revised to a decline of 195,000, from a drop of 203,000 first reported.

Big layoffs at U.S. companies are subsiding, but small businesses have not yet started to do much hiring. Until that happens, high unemployment is likely to persist, according to John Challenger, of Challenger, Gray & Christmas.

The ADP survey tallies only private-sector jobs, while the Bureau of Labor Statistics' nonfarm payroll data, to be released Friday, include government workers.

Economists surveyed by Dow Jones expect the BLS will report November payrolls fell another 125,000, after dropping 190,000 in October. If proven true, the expected November loss would be the lowest lay-off number since July 2008. The November unemployment rate is projected to hold at 10.2%.

The latest ADP report showed large businesses with 500 employees or more shed 44,000 jobs and medium-size businesses lost 57,000 workers in November. Small businesses that employ fewer than 50 workers cut 68,000 jobs.

Service-sector jobs fell 81,000, and factory jobs dropped 44,000.

In another Wednesday job report, TrimTabs Investment Research estimated that job losses fell to 255,000 last month, compared with 284,000 reported for October.

"The unemployment rate could easily hit 11% by early next year," said Charles Biderman, chief executive of TrimTabs.

TrimTabs uses daily income-tax withholdings to the U.S. Treasury to estimate changes in employment. TrimTabs also estimates—based on daily income tax deposits—that wages and salaries fell 4.6% year-over-year in October and 5.3% year-over-year in November.