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THE WALL STREET JOURNAL.

VOL. XXVII NO. 216 EUROPE Monday, December 7, 2009

DOW JONES A News Corporation Company europe.WSJ.com

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Bahrain BD 1.50 - Egypt $1.75 (C/V)
Jordan JD 2 - Kuwait KD 1 - Oman OR 2
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Brown to say U.K. has found billions in added savings

By Alistair MacDonald And Laurence Norman

U.K. Prime Minister Gordon Brown will say Monday that his government has identified billions of pounds in additional efficiency savings in the public sector to help pare the country's record deficit.

Mr. Brown is expected to say the government can deliver £12 billion ($19.7 billion) in efficiency savings over the next four years, lifting the target from the £9 billion the Treasury had identified in April, according to a transcript of his speech.

His announcement comes ahead of Wednesday's Pre-Budget Report, a mini spending review that will map out some measures to cut the budget deficit.

Among the measures being considered is a tax on bankers' bonuses and even on banks themselves, according to people familiar with the matter, a highly controversial issue in a country where the public still seethes over what they see as the role of bankers in the credit crisis.

But the issue of a windfall tax on banks or bonuses underscores the tough choices the government faces, as it seeks to raise cash without damaging the economy's return to growth. That means such a tax is less likely than other ways to raise cash, these people say.

Taxing banks' profits would take money away from institutions just as the government is trying to get them to put more regulatory capital behind them to cover potential losses and to lend to Britain's credit-starved companies. Taxing bonuses may sate public demands and raise some money, but such a tax could prove relatively easy to avoid, and might put international bankers off working in Britain's large financial sector.

The government has said only a quarter of its fund-raising will come from tax increases, with the rest coming through public-spending cuts. It faces tough decisions there too: Big cuts would be a hard sell in the run-up to next year's election. Mr. Brown said Saturday that the Pre-Budget Report will "set out the Government's plans to maintain the highest standards in front line public services." The government will even announce new money for some services, such as helping the young unemployed, on Wednesday.

George Osborne, the opposition Conservative Party's finance spokesman, reiterated previous comments that his party wouldn't rule out some kind of extra tax on bonuses.

The issue of banks—and public anger at the profits some banks are now making after the state bailed them out—has become a key battleground in the approach to a vote that must be called by next June. On Sunday the Conservatives also said they would make banks pay taxes on future profits that they would be exempt from under current rules because of the large losses recorded in the past couple of years.

Please turn to page 4

Confrontation in Greece

Associated Press

A protester kneels in front of a riot-police officer during a demonstration in Athens. Violence erupted during a march to mark the first anniversary of the police shooting of a teenager.

The Quirk

In Thailand, zoos are painting their animals to look like pandas. Page 29

World Watch

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

Editorial & Opinion

The military costs of the European welfare state. Page 11

AIG executives threaten to quit

By Deborah Solomon And Serena Ng

Five high-ranking executives of **American International Group** Inc. threatened to quit last week if their compensation was cut significantly by the insurer's government overseers, according to people familiar with the matter.

The executives include the company's general counsel Anastasia Kelly and the heads of some of its largest insurance businesses. Over the weekend, two of the executives pulled back their threats to resign.

The executives are worried that their 2009 pay would be clipped and they would be subject to even tougher restrictions in 2010, including a prohibition against "golden parachute" severance payments that they are eligible for.

The dispute is the latest in the running fracas between AIG and the government's compensation czar, Kenneth Feinberg. It comes after AIG's recently hired chief executive, Robert Benmosche, threatened to quit last month amid frustrations over limitations on pay for top executives at the insurer. He subsequently agreed to stay.

There appears to be no evidence that the five executives are following his lead, and Mr. Benmosche isn't supporting their effort, people familiar with the matter say. Mr. Benmosche has argued that if the government wants AIG to prosper, it needs to keep its top talent.

AIG is 80% owned by the U.S. government, which has committed $182 billion in financial support for the firm. As one of the biggest recipients of government aid, AIG falls under the pay rules being devised by Mr. Feinberg.

In October, Mr. Feinberg reduced 2009 compensation for AIG's top 13 employees by 57%, including limiting most base salaries to no more than $500,000. Those 13 executives were what remained of the 25 top earners at AIG whose pay Mr. Feinberg was ordered to review. The others had left before the pay review began. Mr. Feinberg is working on pay structures for the next 75 highest-paid employees at AIG, and the five senior staffers who said they may leave fall into this category.

Mr. Feinberg is considering less restrictive compensation for the remaining 75 employees whose 2009 pay packages he is reviewing, as well as for the top 100 employees

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PAGE TWO

Sarkozy has plenty of big problems, but also some reasons to be hopeful

[Agenda]

By Irwin Stelzer

By saying the appointment of France's Michel Barnier to the European Union's internal-market portfolio, which includes financial-services regulation, will curb "the free-wheeling Anglo-Saxon model," French President Nicolas Sarkozy accomplished three things last week.

He undermined the theory that EU appointees serve all member states; he indicated Gordon Brown was wrong to forfeit a chance to claim that post for a British appointee and instead secure the new post of foreign minister; and he triggered a brawl—round one of which went to Chancellor of the Exchequer Alistair Darling, who responded that a prosperous U.K. financial sector contributes to the prosperity of the entire European Union—to which Mr. Sarkozy responded by cancelling a planned visit to No. 10.

Further rounds to follow when Messrs. Brown and Sarkozy meet when the European Council next convenes.

Mr. Sarkozy has good reason to engage Britain in an economic debate. He wants to contrast what he feels is France's economic performance in the current, or perhaps recently ended recession, with that of the European practitioner of the free-market model—and to do so in time to have an effect on the national regional governmental elections that are scheduled for early next year. Better to campaign on a performance that is superior to Britain's than to focus on his own economic stewardship. The French economy—which will have recorded a decline of close to 3% when final figures for this year are tallied and, according to the

Agence France-Presse/Getty

President Nicholas Sarkozy delivering a speech on economic recovery last week

Organization for Economic Cooperation and Development—will grow at puny annual rates of only 1.4% and 1.7%, respectively, in 2010 and 2011. Those growth figures can make only a small dent in France's double-digit unemployment rate.

The strong euro is only one factor that might make things difficult for French exporters.

That might explain why only 27% of the French people polled by the Pew Research Center are satisfied with the country's direction. That compares with 43% in Germany, but only 21% in Spain and Britain, about in line with what one would expect, given the relative conditions of those nation's economies.

Answers to the right-direction, wrong-direction question, says poll analyst Karlyn Bowman of the American Enterprise Institute, a Washington think tank, are among the most significant from a political point of view.

Worse still for Mr. Sarkozy, OECD forecasts of a continuation of the recession-ending growth that is likely to be recorded in the this year's final quarter is in part predicated on an expectation that exports, which account for a bit more than one-fourth of GDP, will reverse this year's 11% drop, and grow by 4.7% and 6.4% in 2010 and 2011, respectively. The strong euro is one factor that just might make it difficult for French exporters to achieve that sort of growth, at least outside of the euro zone. Another is the failure of the government to enact reforms that would lower labor costs and bring social charges down from one of the highest levels in the EU.

Mr. Sarkozy has "left his economic reforms by the wayside after being spooked by riots."

That's how my colleague, Hudson Institute CEO Ken Weinstein, put it to me. Dr. Weinstein, an expert on French affairs—or at least the political and economic sort—joined me on a private visit to Mr. Sarkozy when he was mounting his 2007 presidential campaign and eager for ideas on how he might reform the French economy to make it more flexible and globally competitive. We thought our arguments favoring a host of market-based reforms were compelling. They weren't. With a possible exception: Disincentives to recruiting workers over age 50 have been reduced. In all, Dr. Weinstein says, citing tabulation of the Thomas Moore Institute, which he describes as "a small but impressive right-of-center think tank," Mr. Sarkozy has realized 90 of his 490 campaign promises and is working on another 142. Of others that can be classified, 232 have either been abandoned (30), altered (60), or put on the back burner (142).

It is, of course, unfair to declare Mr. Sarkozy has failed to obtain his election-campaign objective of moving France's sustainable annual growth rate up from 2% to 3%. After all, the recession that has hit most of the world's economies made that impossible.

Moreover, he might have reason to be somewhat more optimistic than the OECD. For one thing, The investment-tax cut scheduled for next year should boost investment. And the government's effort to mediate between risk-averse banks and small businesses seems to be increasing the flow of credit, while its insistence that large companies pay their small suppliers' bills promptly is giving small firms a further boost.

If by the end of 2011 France is doing better than the OECD predicts, Mr. Sarkozy might go into the 2012 elections with an increased percentage of voters believing the country is on the right track.

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

What's News

■ **The U.K.'s top defense** official said Britain is unlikely to further boost its troops in Afghanistan, after it committed an additional 1,200. He also thinks it unlikely troops can withdraw on the time table proposed by Obama. **4**

■ **Brown will say** Monday that the U.K. government has identified billions of pounds in additional efficiency savings in the public sector to help pare the deficit. **1**

■ **Kuwait's sovereign wealth** fund said it sold a $4.1 billion stake in Citigroup, making a profit on the deal. **22**

■ **Intel's plans to move** into a new semiconductor market suffered a setback, as the company said it is canceling the first chip based on a design dubbed Larrabee. **18**

■ **A fire ripped through** a nightclub in the Russian city of Perm, killing more than 100 people, in what authorities said was a pyrotechnics show gone wrong. **3**

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ONLINE TODAY

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New Europe

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"It appears that the future of these dark, seemingly ancient corridors has never been brighter."

Sean Carney on his tour of mining operations in the Czech Republic

Continuing coverage

Follow developments as leaders meet for climate talks in Copenhagen at **wsj.com/climate**

Question of the day

Vote and discuss: How much do you expect to spend on gifts this year?

Vote online at **europe.wsj.com**. Plus, see our columnists' suggestions for the best bargains and splurges of the season in our 2009 holiday gift guide and follow retail updates at **wsj.com/holidayshopping**.

Previous results

Q: Should Federal Reserve Chairman Ben Bernanke get a second term?

Yes	48.5%
No	51.5%

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

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

ADVERTISING SALES worldwide through Dow Jones International. Frankfurt: 49 69 9714280; London: 44 207 842 9600; Paris: 331 40 17 17 01.

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

Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

NEWS

Nightclub fire kills 112 in Perm, Russia

BY GREGORY L. WHITE

Reuters

Friends grieve at the burial of Timur Parfiriev, 26, who is reported to have helped rescue others in Friday's nightclub fire in Perm, Russian, before being trapped himself.

MOSCOW—A fire ripped through a packed nightclub in the Ural Mountains city of Perm early Saturday, killing more than 100, in what authorities said was a pyrotechnics show gone wrong.

Local officials said there was no sign of terrorism or a bomb in the disaster at the Lame Horse nightclub in the center of Perm, one of Russia's largest industrial cities. Interfax quoted one investigator as saying the fire appeared to have been caused by "cold fireworks," which spray sparks at lower temperatures than traditional pyrotechnics. In this case, the display set the club's ceiling on fire.

The fire triggered panic among the roughly 250 people in the club. Russian emergency officials said Sunday the number of people killed had risen to 112, according to the Associated Press.

Local investigators told Russian news agencies Saturday morning that the club's owner had been detained after questioning by police. Other suspects have been identified by police, a spokeswoman for investigators told Russian news agencies.

Russia has been on edge since last week's derailment of the Nevsky Express train on its way from Moscow to St. Petersburg. That crash, which investigators blame on terrorists, killed 26 people and raised fears of a new wave of terror attacks in Russia's heartland. Chechen terrorists have claimed responsibility for the train attack, although investigators haven't publicly named any suspects.

Early Saturday, President Dmitry Medvedev and Prime Minister Vladimir Putin ordered urgent responses to the Perm fire, which news reports said was the worst of its kind in Russia. Mr. Putin is setting up a special commission to handle the investigation and aid to the victims. News agencies reported that the health minister and the country's chief investigator headed to the scene, along with a specially equipped hospital jet.

Enforcement of fire-safety rules in Russia is notoriously lax, contributing to a death rate from fires much higher than in many Western countries. News reports said firefighters responded swiftly in Perm.

Germany boosts stimulus funds

BERLIN—Germany's lower house of parliament approved a bill that seeks to pump an additional €8.5 billion ($12.65 billion) of fiscal stimulus into the economy next year. The Rapid Economic Stimulus Law passed as the central bank, the Bundesbank, increased its forecasts for economic activity and inflation in 2009 and 2010, but remains less optimistic than private-sector economists about 2011 growth.

The new stimulus law foresees tax relief for companies, heirs and families, and hotels. It brings the total level of stimulus for 2010 to €22 billion. The aim is to overcome Germany's economic crisis by stimulating growth, Hans Michelbach, lawmaker with the ruling Christian Social Union, told the lower house ahead of the vote. The Bundesbank said in its latest forecasts that German economic activity should pick up significantly next year.

U.K. likely won't add Afghan troops

Top defense official says Obama's surge, counterinsurgency plan are a major turning point, but doubts pullout timing

By Alistair MacDonald

The U.K.'s top defense official said in an interview that Britain, having committed 1,200 more troops to the war in Afghanistan, probably won't further increase its troop commitment.

Bob Ainsworth, Britain's secretary of state for defense, said he believes U.S. President Barack Obama's announcement of a 30,000-troop surge and his backing for a counterinsurgency strategy favored by Britain represent a major turning point in the war. "There is a huge opportunity there that we have got to seize," he said. "I think that we are going to be able to show some real progress in Afghanistan."

But, he said, he thinks it is unlikely that troops can withdraw from Afghanistan on the two-year timetable proposed by Mr. Obama. "I don't think you can pull out in any way over that time frame," he said.

On Friday, more than 20 governments pledged a total of more than 5,000 additional troops to Afghanistan. That number included 1,200 troops from Britain—of which only 500 have yet to deploy. The U.S. considers the U.K. forces particularly valuable, given that they fight mainly in the restive Helmand region.

But with Britain having contributed 10,000 troops, more than any other foreign nation outside the U.S., Mr. Ainsworth says that, "aside from bits on the margin," Britain is unlikely to provide more. "I don't think that we can give people expectations that we can go higher than this," he said.

Some U.S. officials had hoped that as U.K. armed forces return from Iraq, personnel could be sent to Afghanistan. Mr. Ainsworth said that a force can always do more by stretching itself, but "it was difficult" two years ago when the U.K. had 12,000 troops deployed in Afghanistan and Iraq.

Military personnel have in the past criticized the government for stretching its armed forces thin and not providing enough of the right equipment for the service.

Mr. Ainsworth dismissed talk of pulling out of Afghanistan in the next couple of years.

In recent weeks, comments by U.K. Prime Minister Gordon Brown about beginning to hand over provinces to Afghan forces by next year have been interpreted as a plan for withdrawal. On Tuesday, President Obama said he aimed to begin removing troops by 2011.

> 'I don't think that we can give people expectations that we can go higher than this,' Ainsworth said.

Mr. Ainsworth said he isn't criticizing either the prime minister or the U.S. president. "In my interpretation," he said, both leaders are doing "the same thing of trying to put a whip in the hand of the mission." Both are "trying to make sure that nobody is operating at anything other than full speed" in handing over responsibilities to Afghan forces, he said.

Both leaders also face declining public support for the war. Recently, the U.K. government has gone on the offensive in efforts to convince Britons that winning the war is in the U.K.'s best interests, given the domestic terrorist threat that comes out of the region.

Mr. Brown and senior ministers have made frequent speeches, and both Mr. Ainsworth and the head of the army, Gen. Sir David Richards, have talked of their efforts becoming more narrowly focused on Afghanistan.

"Afghanistan has been my top priority from day one in this job," he said.

Mr. Ainsworth says the counterinsurgency strategy is already showing signs of working in Helmand province, where U.S. Gen. Stanley McChrystal has already put it to work.

"The American Marine Corps that have come in have done a fantastic job in Garmser and Nawa, our own people in Operation [Panther's Claw] secured that huge chunk of land between Gereshk and Lashkar Gah, with operations over the summer," he said.

Mr. Ainsworth said that the "majority" of the land taken in Panther's Claw, a major British-led offensive in the summer to secure land ahead of the country's election, has been retained since.

Mr. Ainsworth became defense secretary after a June cabinet reshuffle.

Mr. Brown was criticized for having had four defense ministers in as many years, and Mr. Ainsworth's promotion surprised many commentators given the former auto worker's previous ministerial roles had been junior.

Still, having already been a junior minister in the Ministry of Defence, Mr. Ainsworth offered continuity, and even some opposition politicians described him as a decent man who works hard.

U.K. to deliver more efficiency savings

Continued from first page

The public-sector savings are part of a long-running program of seeking efficiencies that has been criticized for claiming cost-cutting without strong evidence.

If achieved, the newly identified savings—which include savings from the smarter use of technology and are also expected to include efforts to relocate civil servants out of London to less expensive locations—would add to savings claimed by the government of some £35 billion a year by 2011, Mr. Brown will say.

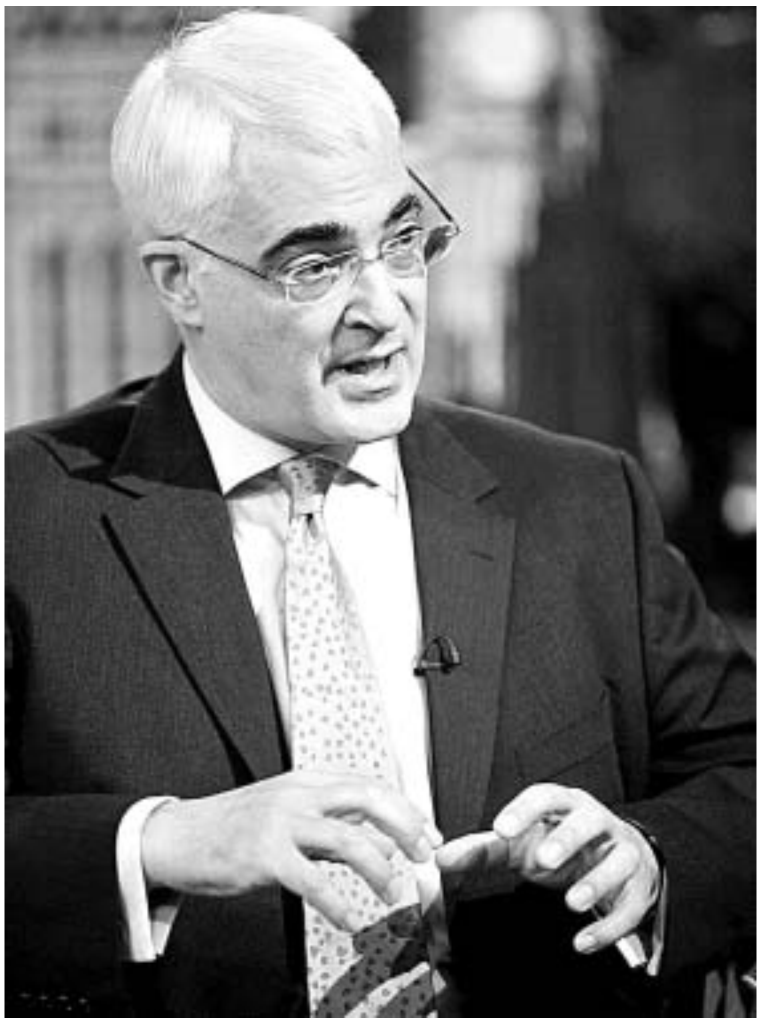
On Sunday, Treasury Chief Alistair Darling said the next round of public-spending cuts will be much deeper in an effort to lay a foundation for more sustainable economic growth.

Speaking on BBC television, Mr. Darling said he expects the U.K. economy to post moderate growth in 2010 and that the Pre-Budget Report will set the foundations for this and longer-term growth. "I'm in no doubt that we've got to halve the deficit over four years, that means once the recovery is established it is right that we do reduce the deficit," he said. "That means public spending will be tighter for some time."

The Pre-Budget Report will be closely watched for any slight changes in previous forecasts and any indication of where the biggest spending cuts will be. The government is unlikely to move from its previous estimate that the U.K. economy will grow between 1% and 1.5% in 2010, a person familiar with the matter said. The government has also said that it will then grow at around 3.25% a year from 2011 for several years.

Mr. Darling failed to give any real pointers to which departments would face the toughest cuts, but made it clear the National Health Service and education wouldn't suffer as a result of planned spending reductions.

He said that while some cuts were necessary after the increased



BBC via Getty Images

U.K. Chancellor of the Exchequer Alistair Darling is interviewed on the 'Andrew Marr Show' on the BBC Sunday in London.

package of public spending that has helped the U.K. economy during the past year, some sectors still required funding in order to safeguard the future growth of the economy.

"On Wednesday I will set out what I think we need to do. That will mean some very tough choices, but we want to protect the front-line services in relation to the NHS and education," Mr. Darling said. "We've got to reduce public spending but at the same time make sure we don't limit growth potential," he added.

The opposition Conservatives have called for quicker, deeper cuts in public spending, and in a TV interview broadcast on the BBC Sunday, party leader David Cameron said Labour had been "incredibly irresponsible" not to have set out clearer deficit-reduction plans.

Mr. Cameron said what the country needs most of all is "a credible plan to get the deficit under control," which he said means halving the deficit in fewer than four years. "I don't think it is fast enough," he said.

However, Mr. Cameron wouldn't say how quickly his party would look to reduce the deficit if it wins power in the election due by mid-2010.

Speaking about the continuing row over bank bonuses, Mr. Darling told the BBC the government has the power to say no to any pay proposals, but that **Royal Bank of Scotland Group** PLC, in which the state owns a stake of more than 80%, has yet to bring one to the government.

"I can say, on behalf of the government, that we will or will not approve a particular package," he said.

In the past, the government has made it clear to RBS and **Lloyds Banking Group** that bonuses, for the most part, should be paid in shares rather than cash, Mr. Darling said. "Bonuses have to be reasonable and everyone has to accept that," he said.

He also said more needs to be done to encourage increased bank lending to businesses. "On pricing and availability of credit there is more work to be done," he said.

He said that although lending has been weak this year, it has still been growing. However, more lending to businesses is needed to help support economic growth, he added.

Mr. Darling's Pre-Budget Report comes as recent opinion polls have shown the Labour Party closing the gap somewhat on the Conservatives ahead of an election that must be held by June 3.

However, a YouGov poll of 2,000 people in the Sunday Times showed the Conservatives enjoyed a 13-percentage-point lead over Labour, with support at 40%, with 27% for Labour. In a national election, that lead would be expected to give the Conservatives a clear majority in Parliament.

—Ilona Billington contributed to this article.

Both sides claim victory in Romania

By Joe Parkinson

BUCHAREST, Romania—Both candidates claimed victory in Romania's presidential elections Sunday after exit polls showed opposition Socialist party leader Mircea Geoana narrowly defeated center-right President Traian Basescu.

According to a poll broadcast late Sunday here, Mr. Geoana, a former ambassador to Washington, won more than 51% of the vote, with official results expected Monday.

"We have won together. Our victory is a victory for all Romanians who want a better life," Mr. Geoana said in a speech to supporters moments after polls closed to the country's 18 million eligible voters.

Mr. Basescu, however, insisted he was the winner, telling his supporters; "I assure you that the correct polls show that I have beaten Mircea Geoana."

The rivals' claims fueled fears that the next president will be too weak to push through tough changes necessary for the EU's newest member state to unblock emergency aid from the International Monetary Fund and emerge from its worst recession since the collapse of communism.

The new president's most pressing task will be to nominate a new prime minister to replace the caretaker administration in place since opposition parties toppled the Basescu-allied cabinet in October.

Mr. Geoana has promised a new government by Christmas, ready for approval by Parliament, and will nominate as premier Klaus Johannis, the independent mayor of the central city of Sibiu, with the help of other opposition parties.

That government will be charged with negotiating budget conditions with the IMF and the EU.

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EUROPE NEWS

France takes a new shot at swine flu

After taking the lead in developing and buying vaccines, nation scrambles to catch up after its citizens finally respond

By David Gauthier-Villars

Agence France-Presse/Getty Images

French Health Minister Roselyne Bachelot, right, holds the hand of a woman receiving an H1N1 vaccine on Saturday at a vaccination center in Marcq-en-Baroeul.

PARIS—With the modern-art Pompidou Center closed Sunday because employees were on strike, Parisians had a healthy alternative: swine-flu vaccinations.

After being ahead of the game in developing and buying vaccines for the H1N1 virus earlier this year, France is playing catch-up in rushing to vaccinate a large part of its 65-million-strong population.

LETTER FROM PARIS

Last month, vaccination vouchers were mailed to children, pregnant women and elderly people—categories that get precedence in receiving the shot. So far, two million people have been vaccinated and health authorities are aiming to reach the 30-million mark by February.

On Sunday, the Pompidou Center and several other major museums were closed as staff protested planned job cuts. But it was the first day vaccination centers were open.

At Paris's Jean Dame municipal sports center, near the former mercantile exchange, doctors and nurses hosted patients in a labyrinth of cubicles with cardboard dividers.

"We've treated 200 patients so far," said the director of the makeshift vaccination center.

The rush for shots is quite a turn of events. France was one of the fastest countries to develop a country-wide vaccination campaign for the H1N1 "grippe," or flu. Since the summer of 2003, when an estimated 15,000 people died nationwide because of a heat wave, the French government has taken great care in preparing itself against any health risk.

Health authorities—who say they have avoided calling H1N1 swine flu out of fear it would dent pork consumption—ordered 94 million shots from drug makers, including **Sanofi-Aventis** SA of France and **GlaxoSmithKline** PLC of the U.K.

That is far more than the French population, but authorities originally thought people might need two shots for the vaccine to be effective.

France's national health-insurance agency CPAM, which is facing a deficit of about €10 billion ($14.9 billion) this year, was asked to foot the bill for most of the overall €1 billion vaccine bill.

The government organized a major advertising campaign on why everyone should get vaccinated. France's Health and Sports Minister Roselyne Bachelot—a grandmotherly figure who recently sported pink Croc shoes at a cabinet meeting—regularly appeared on television to remind people to wash their hands and get vaccinated.

Radio and television ads were blasted over the airwaves, saying "the vaccination offers the best protection."

The problem was, nobody listened.

Doctors didn't push the vaccine and even pooh-poohed it with patients. Bernard Debré, a French urologist and lawmaker affiliated with the ruling UMP Party of President Nicolas Sarkozy, publicly played down the dangers of swine flu, saying it was no more than a "grippette" (or "little flu").

When the vaccines became available on Nov. 12, virtually nobody showed up. French television broadcast footage of nearly empty vaccination centers.

The phenomenon is similar to what is happening in other European countries. In Italy and Spain, the vaccine is readily available but people are staying away. While the health ministries of both countries are encouraging vaccination, doctors are far more blasés with their patients.

So what changed in France? Over the past few weeks, French papers have publicized deaths from H1N1. Late last month, Ms. Bachelot said 22 more patients with H1N1 had died.

The population panicked. Now a popular refrain at French cafés and dinner parties is that the French government isn't moving fast enough—and that health centers are giving out the vaccine in dribs and drabs, like wartime rations.

It is a classically French about-face: People here cry foul when the state, "l'Etat," is too present in their lives—while at same time complaining that "l'Etat" isn't fulfilling their needs.

The latest wave of public demands has prompted Mr. Sarkozy to call in the army to help keep new makeshift vaccination centers open until late at night and on the weekends. Medical students have also been drafted to help nurses across the country administer shots.

Still, bureaucratic hassles are also holding things up.

"The vaccination vouchers I received are for my kids," said Nathalie Heckel, a Parisian mother of two. "That means I'll have to queue up again for my own shot."

People who are allergic to eggs need a special shot, which can be administered at only one childrens' hospital in Paris. Authorities are scrambling to open a second center.

Health authorities have another problem on their hands: Because it overestimated its need, France has millions of extra vaccine doses that can't be stored until next year. The government has said France may donate part of its stockpile to poor nations and sell the rest on the international market.

Hitman alleges Berlusconi link

By Stacy Meichtry
And Giada Zampano

Reuters

A judge listens to the testimony of Mafia informant Gaspare Spatuzza as he speaks behind a screen during a trial in Turin

TURIN—A convicted Mafia hitman testified in court on Friday that in the early 1990s he was told Silvio Berlusconi and an associate gave political reassurances to a crime family that had carried out a bloody campaign of bombings.

Lawyers for Mr. Berlusconi, now Italy's prime minister, immediately contested the testimony, saying he never had contacts with any Mafia member.

Mobster Gaspare Spatuzza, who is serving a life prison sentence for multiple murders, delivered his testimony during the appeals trial of a senator in Mr. Berlusconi's center-right People of Freedom Party. The senator, Marcello Dell'Utri, is appealing a nine-year prison sentence for collusion with the Mafia.

Piero Longo, a lawyer for Mr. Berlusconi, said the testimony wouldn't have any legal repercussions on Mr. Berlusconi, because Mr. Spatuzza's statements were based on hearsay. "This testimony has no juridical significance. It's one person recounting what he heard from another person," Mr. Longo said.

Mr. Dell'Utri has denied having any contacts with Mafia members. Mr. Berlusconi is neither involved in the trial nor under investigation for any charges related to the trial.

During the hearing, Mr. Spatuzza said his boss—top mobster Giuseppe Graviano, who is serving a life sentence for ordering several bombings—summoned him in January 1994 to a Rome café, where they discussed a planned bombing. During that meeting, Mr. Graviano told Mr. Spatuzza he had backing from several aspiring Italian politicians, including Messrs. Berlusconi and Dell'Ultri, Mr. Spatuzza testified. Mr. Spatuzza didn't provide further details on the alleged reassurances Mr. Graviano said he received from Messrs. Berlusconi and Dell'Utri.

On Dec. 11, Mr. Graviano will be called to testify in court about the alleged meeting with Mr. Spatuzza, which would have taken place months before Mr. Berlusconi was elected to his first term as prime minister in 1994. "Giuseppe Graviano told me [at the meeting] that we had obtained everything, thanks to the reliability of these people," Mr. Spatuzza told magistrates during the hearing. "They put the country in our hands," added Mr. Spatuzza, speaking from behind a white curtain in the courtroom.

"He named two people: Berlusconi...and a fellow countryman," Mr. Spatuzza said, adding that the second name was Mr. Dell'Utri.

Speaking to reporters at the trial, Mr. Dell'Utri denied having any contact with any members of the Mafia, including Mr. Graviano.

—Margherita Stancati contributed to this article.

Crisis ebbs, risks don't

Scant progress has been made in fixing deep flaws in financial system

By Mark Whitehouse

Markets have bounced back. Economies are recovering. U.S. unemployment is showing signs of easing. But as the worst crisis since the Great Depression appears to be passing, we could be setting the stage for the next one.

While policy makers breathe a collective sigh of relief, they're making little progress in addressing deeper flaws that the crisis laid bare: an unwieldy banking system, unreliable financial plumbing and a global economy that encourages and depends on heavy borrowing by the U.S.

THE OUTLOOK

But as the darkest days of the crisis fade from memory and the world's biggest banks get back on their feet, political impetus for reform may be waning. "We're wasting the crisis," said economist Richard Portes of the London Business School.

Here's a status report on three big issues:

Banks

Banks have recovered so well that they're even bigger and more complex. The world's 10 largest banks account for about 70% of global banking assets, compared with 59% three years ago, according to Capital IQ and the Bank for International Settlements.

The bigger and more complicated banks become, the less able governments will be to let them die if they get into trouble. If banks—and their creditors—know taxpayers will rescue them, they're prone to take greater risks.

Economists worry that if the costs of bailouts keep growing, governments could find themselves unable to borrow enough to cover them. Andrew Haldane, executive director for financial stability at the Bank of England, estimated the support given to U.S. and U.K. banks in the current crisis at nearly three-quarters of annual economic output. "Today, perhaps the biggest risk to the sovereign comes from the banks," he wrote in a recent paper. "It's a doom loop."

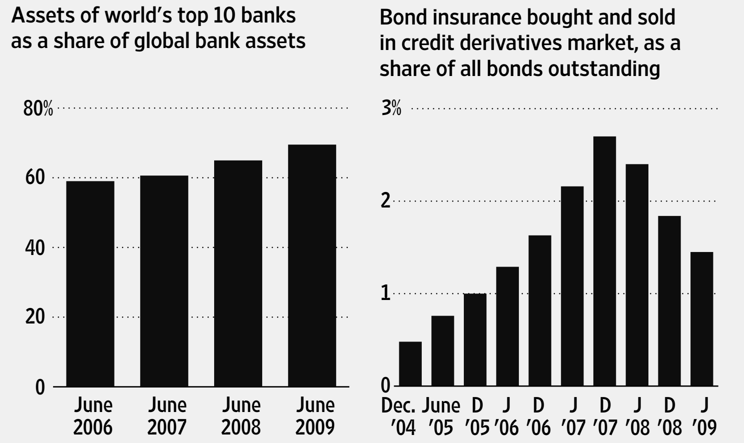
One way to break the vicious cycle of bigger banks and bigger bailouts is to change the rules so governments find it easier to let them fail. Banks could be required to prepare "living wills," describing how their assets would be dealt with if they went bankrupt. If bank managers couldn't write a will that made sense, they would have to simplify their operations, and possibly sell some of them off.

To make it less likely that taxpayers would have to invest money in bank shares, as they did recently, banks could be required to issue bonds that would turn into stock in times of trouble. This "contingent capital" would force bondholders to share the pain—something that didn't happen in the most recent round of bailouts.

The Financial Stability Board, the international body responsible for figuring all this out, won't come up with specific proposals until October 2010. For now, the focus is on making banks less likely to fail—requiring them to set aside more capital and keep more cash on hand for emergencies. Even though most governments agree that's prudent, negotiating details for common rules is proving difficult.

Danger signs

Banks are getting bigger and credit derivatives are still a threat.



Sources: Capital IQ; Bank for International Settlements

Markets

The crisis exposed the hazards of the plumbing in the market for credit derivatives, where investors buy and sell insurance against bond defaults.

Big banks stand at the center of the market, acting as the main counterparties for anyone who wants to buy or sell. But it can descend into chaos if one fails. Because the deals are private and a firm can do business with many different banks, regulators don't know whether any one firm is taking too much risk.

Most economists, and the Obama administration in the U.S., agree on a solution: Push most players in the market to do business through a central clearinghouse that would stand between the parties in trades and guarantee obligations.

Some progress has been made. In the U.S., 15 Wall Street banks have pledged to do more than 90% of their eligible credit and interest-rate derivative trades through central clearinghouses by year end. Lawmakers are mulling a proposal to mandate central clearing of all standardized derivative contracts.

But about 10 different clearinghouses are vying for the business. That, said Darrell Duffie, a Stanford University expert on derivatives, makes the market no less risky, because the failure of any one of those clearinghouses could wreak havoc. "I'm in favor of this," he said. "I'm just very worried that it's going wrong."

Global Balance

As the US recovers from recession, one widespread worry: The vast and persistent disparity between what the U.S. earns and what it spends requires the U.S. to borrow heavily from abroad—especially from China and other Asian nations where people tend to save most of the money they make selling goods to—you guessed it—U.S. consumers.

The danger is that the vast "savings glut" will fuel another bubble, as many analysts believe it did with the U.S. housing market. Most international efforts have focused on getting China to allow its currency to strengthen against the dollar. That would make Chinese exports less competitive in the U.S., but would do little good in the long run as Vietnam, Cambodia and other exporters take China's place. "To think that this is the magic answer is overstating the case tremendously," said Raghuram Rajan of the University of Chicago's Booth Graduate School of Business.

The long-term fix is to get U.S. consumers (and their government) to save more and Asian consumers to spend more. That could be done by boosting taxes on consumption, say gasoline, or by taking away incentives to borrow, such as the tax deduction on mortgage interest. In China, a better social safety net could make people feel more comfortable about saving less and spending more. On these fronts, though, there has been a lot of talk and little action.

AIG executives threaten to resign over pay changes

Continued from first page

in 2010, according to people familiar with the matter. Mr. Feinberg and AIG are discussing a plan under which the company could pay individuals more than $500,000 as long as it can show "good cause" for going higher.

Some Treasury Department and Federal Reserve officials have also urged Mr. Feinberg to ease up on the cuts.

The five senior AIG executives who recently indicated they are prepared to resign before year end are largely trying to preserve their ability to collect severance payments, said people familiar with the matter. They work at AIG's corporate level and its insurance and financial-services businesses, and are participants in the company's executive-severance plan.

Ms. Kelly, AIG's general counsel, has been at the insurer since 2006 and was appointed vice chairman in February this year by former CEO Edward Liddy. Several people familiar with the matter said Ms. Kelly solicited other employees to join her in indicating they were prepared to resign. Four executives agreed and Ms. Kelly retained outside counsel to advise the group on their legal options, a person familiar with the matter said.

The other four executives are: Rodney Martin, who heads one of AIG's overseas life-insurance businesses that is slated for sale; William Dooley, who has been overseeing the financial-services division that includes AIG's financial-products unit; Nicholas Walsh, vice chairman and head of AIG's international property and casualty insurance operations businesses, and John Doyle, who heads the U.S. property/casualty business.

Over the weekend, Messrs. Walsh and Doyle rescinded their Dec. 1 notices, a person familiar with the matter said.

According to terms of the severance plan—which was put in place before the government first bailed out AIG—certain executives are entitled to severance benefits if they resign for "good reason," which includes significant cuts in their annual base salary or target bonus.

This provision applies to roughly two dozen individuals at the company, a person familiar with the matter said.

The five who said they might quit "gave notice that they believe they have 'good reason' to resign" under AIG's severance plan and they are "taking administrative action to protect their rights because of all the uncertainty" around pay matters, this person said.

With the resignations of nearly half of AIG's top 25 earners, some of the executives who are now among the 26 to 100 highest-compensated employees at AIG in 2009 will be bumped into the top 25 next year. That would subject them to tougher restrictions and make them ineligible for severance benefits.

U.S. reticent on climate aid

Top negotiator says administration won't follow Europe's lead on rich nations' contributions

By Stephen Power
And Ian Talley

WASHINGTON—The top U.S. climate negotiator said in an interview Friday that developing countries will have to make their emissions pledges "transparent" to outsiders and that the Obama administration isn't ready to follow Europe's lead in specifying how much money rich nations should contribute over the next decade to help poor countries respond to climate change.

The comments by Todd Stern, U.S. climate envoy, point to potential areas of friction at a two-week United Nations conference on climate change that begins Monday in Copenhagen and is expected to involve representatives of more than 190 countries. Major developing nations, such as China and India, have resisted making their emissions-related pledges subject to international verification, unless those reductions are financed or supported by developed countries.

European officials, meanwhile, are laying out specific estimates of how much the developed world will have to contribute over the next decade to help poor nations tackle climate change. The European Commission, the executive arm of the European Union, has said anywhere from €22 billion ($33 billion) to €50 billion will have to come directly from the public budgets of rich nations.

In an interview with The Wall Street Journal on Friday, Mr. Stern said the Obama administration is "not focusing on a 2020 number," but rather is trying to determine what "an aggregate number should be from developed countries" over the next two or three years. U.N. officials have said they expect that international negotiators might agree to a $10 billion-a-year short-term financing package in Copenhagen, a level that some small-island countries say is an order of magnitude less than what they need to cope with the impact of hotter temperatures.

Mr. Stern declined to comment on recent proposals by China and India to reduce their emissions intensity, or the amount of carbon-dioxide emissions per unit of gross domestic product. But he suggested the U.S. will insist on independent verification of any pledges made by developed and developing to control emissions.

"There needs to be transparency with what all the major players are doing, whether you're developed or developing," Mr. Stern said. "It's very important."

Mr. Stern's reluctance to offer specifics on the U.S. negotiating position at Copenhagen highlights the political bind the Obama administration finds itself in as it tries to bring about a global agreement to reduce emissions of heat-trapping gases. The U.S. Senate, preoccupied with health-care legislation and debate over U.S policy in Afghanistan, has put off a vote on legislation to cap U.S. emissions until next spring. That move has constrained Mr. Obama's ability to predict how much money the U.S. could contribute to a long-term financing package for the developing world. Legislation passed by the House of Representatives earlier this year would raise money for such assistance by requiring U.S. companies to pay for the right to emit greenhouse gases.

The Obama administration has offered to reduce U.S. emissions in the range of 17% beneath 2005 levels by 2020, a level consistent with legislation passed by the House of Representatives. But that offer, which administration officials say is contingent on final action by Congress on a climate bill, is raising some hackles in Congress, particularly among Republicans. In a letter to Mr. Obama on Friday, Republican House leaders, led by Rep. John Boehner of Ohio, urged the president for a "clarification that U.S. negotiators will not commit our government to an emissions reduction protocol," saying such a move "would cost jobs in the United States."

A White House spokesman didn't immediately respond to a request for comment on the Republicans' letter. Speaking to reporters last week, however, the chairman of the Senate Foreign Relations Committee, Sen. John Kerry, (D., Mass.), said it is "entirely normal for a president of the U.S. to negotiate agreements with other countries based on what the president's policy is."

"We do that with nuclear arms control, we've done that with the global environment agreements, trade agreements, and then they bring it back to the Congress," Mr. Kerry said.

Obama administration officials and European diplomats have said this month's summit won't produce a legal agreement imposing hard caps on countries' greenhouse-gas emissions, but rather a "politically binding" agreement, with specific commitments by countries to reduce emissions and to help poor countries fight climate change. The leaders would seek to reach a formal, legal agreement at a second conference, but the timing of that remains uncertain.


Associated Press

Climate Change Envoy Todd Stern suggested the U.S. will insist on independent verification of pledges to control emissions.

Much rides on U.S. emissions move

By Jeffrey Ball

As world leaders gather in Copenhagen for a climate-change summit, business leaders are focusing even more on Washington, where the Environmental Protection Agency is expected Monday to declare carbon dioxide a public danger.

That decision could pave the way for greenhouse-gas emission constraints in the U.S., even if Congress doesn't pass pending climate-change legislation, which is hugely controversial within some industries and in some parts of the country. EPA action to regulate emissions could affect the economy more directly—and more quickly—than any global deal signed in the Danish capital.

Yet the two are closely linked. President Barack Obama is scheduled to visit the Copenhagen conference Dec. 18, and the action by his EPA may be the biggest stick he waves in trying to persuade the rest of the world that the U.S. is getting aggressive in combating greenhouse gases. What the rest of the world thinks about U.S. aggressiveness on this issue, in turn, is likely to be the biggest factor in what kind of deal emerges from Copenhagen.

The vast majority of increased greenhouse-gas emissions is expected to come from developing countries such as China and India, not from rich countries like the U.S. But developing countries have made it clear that their willingness to curb their growth in emissions will depend on what rich countries do first. That puts a geopolitical spotlight on how hard the U.S. might move to curb its emissions—and how fast.

If, as is expected, the EPA announces Monday that it has decided carbon dioxide endangers public health, it could use the federal Clean Air Act to regulate carbon-dioxide emissions, which are produced whenever fossil fuel is burned. Under that law, the EPA could require large emitters, such as factories, to install new technology to curb their carbon-dioxide emissions starting as soon as 2012.

Many U.S. business leaders fear an emissions constraint by the EPA far more than one by Congress, because they believe they will be better able to soften anything legislators approve.

Legislators are aware that polls show the public appetite for action that would raise energy prices to protect the environment has fallen precipitously amid the recession.

U.S. power companies, particularly ones that rely largely on coal, are the country's single-biggest carbon-dioxide emitters. They have lobbied hard to shape pending Congressional legislation so that much of the pain falls on other industries.

"Our strong preference is for federal legislation," said Dan Riedinger, spokesman for the Edison Electric Institute, a power-industry trade group.

Yet there is plenty of U.S. industry opposition to Congressional legislation, too. The federal government would set a cap on the amount of greenhouse gas the economy could emit every year. The government would distribute a set number of emission permits to various industries. Companies that wanted to emit more than their quota could buy extra permits from companies that had figured out how to emit less.

The notion is that this market in emission permits would encourage the least-expensive ways to curb greenhouse-gas output. But the idea has sparked a fierce battle among U.S. industries, each of which is trying to shape federal action so it gets the biggest number of permits to pollute.

High hopes, dim outlook for summit

Comentariat

Best of the Blogs

The Commentariat is a roundup of blog excerpts that gives a regular glimpse into the hot topics that are generating comment in the blogosphere.

THE STORY: The White House said Friday that President Barack Obama expects a "meaningful" climate deal at a United Nations summit in Copenhagen. Mr. Obama has changed his plans and will now attend the summit at the same time as other world leaders.

David Roberts: Grist

Rather than stop by the Copenhagen climate talks on Dec. 9, Obama will be going on the 18th, the final day of the meeting—a notable increase in commitment....If he's willing to stick his neck out like this, Obama must be pretty confident that he can get a deal....Movement from the developing world has undercut one of U.S. conservatives' principal arguments for inaction. Over 65 world leaders have pledged to attend....After being declared dead a dozen separate times by the media, it would seem Copenhagen is still very much alive and kicking.

Mridul Chadha: CleanTechnica

The targets announced by almost all countries are not in sync with the [Intergovernmental Panel on Climate Change] recommendations. The IPCC report recommended that the global carbon emissions need to come down by 25-40% by 2020 from 1990 levels. Most of the developed countries are proposing emission cuts of less than 25%, and some have changed the base year from 1990 to a value which suits their national interests. The U.S. has changed the base year to 2005 for its 17% emission reduction by 2020, which means an overall reduction of merely 4-6% from 1990, while the European Union [core members] will overshoot their emission-reduction targets.

Sean Maguire: HomepageDAILY

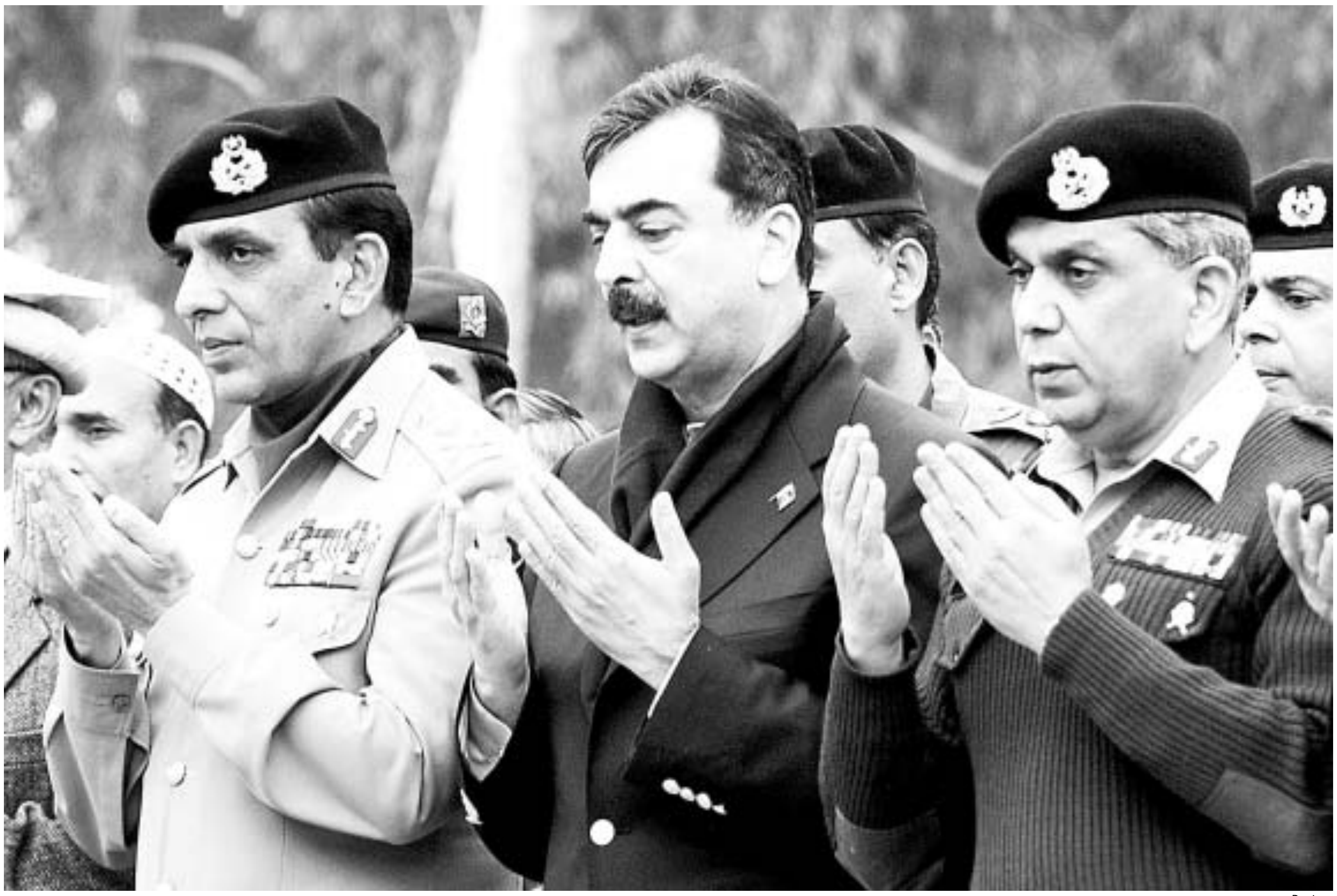
If the world's initial faith in the Kyoto Protocol can be seen as an anecdote for collective naivety, then the Copenhagen conference will soon exist as a short-hand for cynicism. Without a single day of talks, the vast majority of pundits have already set the bar of expectations so low that it seems we should be popping the champagne if the most anodyne of political agreements is reached.

Andrew Pendleton, openDemocracy

There are three reasons why Copenhagen isn't working. First, wholesale emissions-cuts are at least as difficult to deliver as cuts in agricultural subsidies....Second, the developing countries' primary need is for cheap rather than clean energy....Third, at the core of the U.N. negotiations lie fundamental structural faults that render an agreement almost impossible.

—Compiled by David Marcelis

WORLD NEWS



Reuters

Pakistani Prime Minister Yousuf Raza Gilani, center, and other top officials attend a funeral Saturday for victims of a terror attack on a mosque in Rawalpindi on Friday.

U.S. anticipates Zardari woes

Amid power struggle in Pakistan, Obama administration aims to remake ties with Islamabad

By Jay Solomon

WASHINGTON—The Obama administration is preparing for a significant weakening of Pakistan President Asif Ali Zardari's political position in the coming months, as pressure intensifies for him to shift executive powers to his country's prime minister and military.

Pakistan's power struggle comes as the Obama administration is seeking to significantly remake its relationship with Islamabad, tied to the U.S. decision to send 30,000 additional troops to help rout insurgents in neighboring Afghanistan.

Mr. Zardari announced last week that he was transferring formal control over Pakistan's nuclear arsenal to Prime Minister Yousuf Raza Gilani, and Pakistan's president is being pressured to shed additional powers—such as the right to dismiss the parliament and make key military appointments.

U.S. officials say that significant opposition to his rule has limited Mr. Zardari's effectiveness. He also been dogged byold corruption charges. A 2007 amnesty agreement on them recently expired, potentially exposing him to a court challenge to his rule.

The Obama administration, said senior U.S. and European officials, has worked to develop ties to other leaders including Mr. Gilani, the likely beneficiary of any changes. The Obama administration's point man on Pakistan and Afghanistan, Ambassador Richard Holbrooke, has also been conducting regular discussions with opposition leader Nawaz Sharif and with Islamabad's generals, to ensure constitutional process is observed as powers are shifted away from Mr. Zardari, said U.S. officials.

The State Department worried in March that Islamabad could be gripped by political paralysis when Mr. Sharif indicated he would challenge Mr. Zardari's rule. But senior U.S. and European officials said there now is little alarm in Washington that a diminished role for Mr. Zardari—who generally supports U.S. policy—could substantially undercut efforts to stabilize the region.

American diplomats note that Mr. Zardari campaigned on amending Pakistan's constitution to limit the president's powers to rectify moves made by former military strongman, Pervez Musharraf, who stepped down in 2007.

"We don't depend on Zardari as the government, a la Musharraf," said a senior U.S. official working on Pakistan. "One of the achievements we've made over the past year is that our relationship is broader, and government-to-government."

Mr. Holbrooke has sought to improve relations with Mr. Sharif, a former prime minister largely shunned by the Bush administration due to his ties to Islamist political parties. Mr. Holbrooke has also kept open discussions with Mr. Gilani.

Many Pakistan analysts credit the engagement with helping build consensus in Pakistan for pursuing military operations against the Taliban. After years of largely refraining from fighting, Pakistan's army has launched offensives in the Swat Valley and the South Waziristan region in recent months.

"The Obama administration played the political card about as well as they could," said Christine Fair, a Pakistan expert at Georgetown University.

President Barack Obama has asked Mr. Zardari for more effort to combat five militant groups, according to officials.

Taliban seek deal on foreign forays

By Anand Gopal

KABUL—The Taliban said in a statement Saturday they would provide a "legal guarantee" that they wouldn't intervene in foreign countries if international troops withdraw from Afghanistan, the closest the movement has come to publicly distancing itself from al Qaeda.

The Taliban have "no agenda of meddling in the internal affairs of other countries and is ready to give legal guarantee if the foreign forces withdraw from Afghanistan," the group said in a statement emailed to news organizations. The statement didn't specify what such a guarantee would look like. A Taliban spokesman wasn't available for comment.

U.S. President Barack Obama has said the main purpose of the war in Afghanistan is to prevent al Qaeda from reacquiring a safe haven from which it can launch attacks against the West. U.S. and Afghan officials have been looking for ways to exploit the differences between al Qaeda, a mostly Arab organization that is focused on fighting a global holy war, and the Taliban, an Afghan group that largely restricts its activities to Afghanistan though it has links to the Taliban in neighboring Pakistan.

U.S. officials are skeptical that the Taliban can be taken at their word. "This is the same group that refused to give up [Osama] bin Laden, even though they could have saved their country from war," said a U.S. official. "They wouldn't break with terrorists then, so why would we take them seriously now?"

In the years immediately following the U.S. invasion, Taliban leader Mullah Omar repeatedly pledged support for Mr. bin Laden. But more recently the Taliban have fallen silent on the question of al Qaeda, with most of the Taliban's communiqués emphasizing their willingness to engage with the international community.

In an October message, for instance, they attempted to reach out to the Shanghai Cooporation Organization, a mutual security organization comprising Russia, China and some Central Asian states.

Such efforts caused a flurry of dissent from al Qaeda-linked militants, who posted sharply critical statements on a number of Islamic-extremist Web sites. Al Qaeda has declared a global jihad and rejects any collaboration with what it views as enemy governments.

Nonetheless, U.S. officials say there isn't enough evidence that these tensions exist at the leadership levels of al Qaeda and the Taliban.

Guinean regime urged to quit by Africa group

By Will Connors

ABUJA, Nigeria—A regional African organization on Sunday urged Guinea's military to step down from power, in a sign of growing concern about the country's stability following the assassination attempt on its current leader, Capt. Moussa Dadis Camara.

The Economic Community of West African States, or Ecowas, called for the military junta to put in place a transitional government and to organize democratic elections. In October, Ecowas had placed an arms-sale embargo on Guinea's military-led government.

The most recent statement reflects worries that Guinea's strife, fed by ethnic and military rivalries, could spill into neighboring states. But with tensions in Guinea high, the prospect of a peaceful return to democracy appears remote, at least in the near term. The mineral-rich nation has endured military rule for more than two decades, and opponents of the juntas have been under constant threat.

Military leaders have come under threat, too. On Friday, Capt. Camara, was flown to a Moroccan military hospital with a bullet wound to the head, allegedly inflicted by a former aide who tried to kill him.

Guinea security forces are now hunting for the aide, Lieut. Aboubakar "Toumba" Diakite, who had commanded the elite presidential guard. Human-rights groups have blamed the guard for a September crackdown on protesters that left more than 150 people dead. The United Nations has been investigating the incident.

Guinea is the world's leading exporter of bauxite, the main ore used to produce aluminum, and has significant gold and copper resources.

Analysts don't foresee Lt. Diakite taking power, but he and his backers could continue to destabilize Guinea, and to pose a threat beyond its borders, they say.

"It's not clear that 'Toumba' has the manpower or firepower" to take power, said Michael McGovern, a West Africa expert at Yale. "But could they turn themselves into a lethal nuisance for a period of time? Definitely."

On Sunday, the Moroccan news agency MAP quoted Morocco's chief military doctor as saying Capt. Camara was recovering and his condition was "not worrying." Gen. Sekouba Konate, the Guinean vice president and minister of defense, is now in control, according to the ruling junta, known as the National Council for Democracy and Development.

Guinea is the world's leading exporter of bauxite, the main ore used to produce aluminum. It also has significant but largely untapped gold and copper resources. But after Capt. Camara came to power in a Dec. 2008 coup, after which Guinea was hit by trade sanctions from a number of countries.

INTERVIEW

Reuters

Richard Laing, the CEO of CDC Group, aims to bring long-term benefits to those areas of the developing world where he invests.

An adventurous fund manager takes aim at developing world

CDC's chief believes investing in businesses that will create jobs and pay taxes will lift countries out of poverty

[Richard Laing]

By Patience Wheatcroft

Richard Laing must count as one of the world's more adventurous fund managers. His portfolio spans banking in Rwanda and clothing in El Salvador, with an assortment of energy, environmental and manufacturing projects along the way.

His aim isn't simply to turn a profit, but to bring long-term benefits to those areas of the developing world where he puts his cash, helping them toward economic growth and a better future. He is firmly embedded in the school of thought that says that simply giving cash aid to poor countries isn't the answer to their problems. Investing in businesses that will create jobs and pay taxes is his preferred route to lift these countries out of poverty.

Mr. Laing spreads his net widely by running a fund of funds, investing in funds run by dozens of fund managers. "We're now involved in around 130 funds with 65 fund managers," he says. But his mode of operation is far more active than the normal fund of funds. If there is an area in which his team particularly wants to get involved, it will encourage proposals for new funds for which it would be the primary backer.

His employer is the British Government, for Mr. Laing's role is a modern reincarnation of what was Colonial Britain. His business now rejoices in the anodyne name of **CDC Group** PLC but was once the Commonwealth Development Corporation.

Despite government backing, it is a commercial operation that doesn't drain taxpayers' funds.

That didn't prevent the cries of righteous indignation from political campaigners when it was learned that Mr. Laing's 2007 salary had reached almost £1 million. The shrieks implied he was profiting at the expense of those his business purported to help rather than being rewarded for generating successful returns that would then be plowed back into more investments.

Those voices weren't heard last year, when Mr. Laing's earnings took a hit, as did the value of CDC's portfolio. By the year end, net assets had fallen 13% to £2.3 billion ($3.78 billion at today's exchange rates) and the value of the portfolio was down 22%. The current year hasn't been easier, as economic turmoil has continued to envelop the world. But CDC's performance over the longer term has been above average: in the five years to the end of 2008, it produced an average annual return of 18%.

Mr. Laing has been chief executive of the business since 2004, having joined as finance director. He had previously been at De La Rue, the bank-note printer, a position that had also brought him a directorship at Camelot, in which De La Rue is an investor.

Camelot runs the U.K.'s national lottery, and some might see a link between lotteries and investing in some of the businesses that CDC backs. But Mr. Laing, a Cambridge-educated accountant, believes that, with careful homework, the risks can be modified.

"We spend a lot of time on doing due diligence of the fund and the team running it, and we do stay in dialogue and monitor the projects," he says. Occasionally, when things appear to be going wrong, CDC will step in and get more directly involved. That has happened a couple of times during the past year, he says, adding that only two out of 130 funds that have needed extra attention.

Infrastructure is high on the investment-priority list with a $500 million commitment to infrastructure funds, but, at the other end of the scale, CDC has committed $5 million to a fund backing small and midsize businesses in Sierra Leone.

"Our managers tend to like businesses that aren't export led," Mr. Laing says. "In sub-Saharan Africa there are consumers who, for the first time in their lives, have a little bit of money to spend and who want products and services." Backing businesses catering to them is an important part of the CDC philosophy.

Emerging markets aren't easy places to do business. Corruption can be rife and Mr. Laing doesn't deny it. But he insists those he backs manage to avoid getting embroiled in it.

It is the scale of bureaucracy that can be the biggest problem, he says, citing the case of a Bangladeshi business that needed to import spares for its power business. "They needed to get 57 different signatures in order to bring them in," he says with a sigh.

Given such difficulties, perhaps it isn't surprising he says the biggest issue for CDC is "finding good fund managers."

Some of the most successful managers it now backs originated in CDC. Actis, spun off in 2004, is styled as a private-equity fund specializing in emerging markets. Since it gained independence, it has raised $7.6 billion, a chunk of it from CDC. Now, however, the Actis model of investing in larger projects is drawing ample backing from the private sector, and CDC is lessening its involvement with the firm, which currently accounts for around 45% of its portfolio.

'Where we can be most efficient is in focusing on those areas where there is a shortage of capital," Mr. Laing says. He sees plenty of potential investments to be made and finds it frustrating that, because of the difficulties that have hit markets recently, his existing investments aren't throwing off the level of return that would enable him to take full advantage of opportunities. "We're cash restrained when there are bargains to be had," he explains.

But he sees plenty of upside in his job, too. "I love it," he says with a smile. He spent three years working in Brazil in his previous job and determined he wanted to work in emerging markets. Now he spends a great deal of time traveling around them and is convinced that he and CDC are benefitting countries in which they put their cash.

He is a realist and recently wrote in the group's Development Report that: "With such a large portfolio of companies which operate in some difficult environments, things don't always go according to plan, and we do have instances of business failure, governance frailty and environmental concern. However, we work hard with our fund managers so that these are identified and rectified as soon as practicable."