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THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

Addressing a cause overshadows a court date

Reuters

Italy's Silvio Berlusconi attends the Food and Agriculture Organization Food Security Summit in Rome. Meantime in Milan, the prime minister's trial on a tax-fraud charge reopened Monday.

Bernanke moves to defend dollar

Fed chief says strength of U.S. economy will aid currency

By Luca Di Leo

The U.S. economy will continue to grow in 2010, and the underlying strength of the world's largest economy will help ensure the dollar stays firm, Federal Reserve Chairman Ben Bernanke said Monday.

In a rare move, the Fed chairman spoke about the dollar, which has fallen in value recently as financial markets have improved and investors no longer sought the safety of dollar assets.

"Our commitment to our dual objectives [of maximum employment and price stability], together with the underlying strengths of the U.S. economy, will help ensure that the dollar is strong and a source of global financial stability," Mr. Bernanke told the Economic Club of New York.

Mr. Bernanke said the central bank would keep a close eye on the dollar's recent slide, but at the same time reiterated that the key federal-funds target rate is expected to remain at record lows for some time amid the fragile recovery.

To lift the dollar's value, the Fed would need to raise rates, thereby increasing the return investors get on dollar assets. However, that could hurt the economy's recovery, which Mr. Bernanke cautioned was threatened by weakness in the labor market and tight bank lending.

"I expect moderate economic growth to continue next year. Final demand shows signs of strengthening, supported by the broad improvement in financial conditions," Mr. Bernanke said.

Giving his first official speech since the Fed voted Nov. 4 to hold interest rates at a record low in a range from zero to 0.25%, Mr. Bernanke said jobs are likely to remain scarce and inflation low for some time.

The central bank said it expects to keep rates close to zero for an "extended period" in the face of high unemployment and low inflation.

For the first time, the Fed's rate-setting committee earlier this month spelled out the three key indicators it would be looking at to set rates: unemployment, core inflation and inflation expectations.

"Both the decline in jobs and the increase in the unemployment rate have been more severe than in any other recession since World War II," Mr. Bernanke said.

The U.S. economy is slowly recovering from its worst recession since the Great Depression. Although the economy expanded in the third quarter for the first time in more than a year, the recovery remains fragile, with unemployment at a 26-year high of 10.2% in October.

Data released Monday showed some signs of economic improvement. U.S. retail sales increased 1.4% in October on stronger demand for cars. Sales of autos and parts rebounded 7.4% in October, after a September drop of 14.3% as a result of the expiration of the government "cash for clunkers" incentive program.

But September sales were revised down, to a 2.3% decrease from a previously estimated 1.5% fall. And aside from automobiles in October, sales rose just 0.2%. It was the third increase in a row, yet smaller than the 0.4% climb predicted by economists.

Another report said U.S. business inventories in September fell 0.4%, less than the 0.8% drop expected.

—Jeff Bater contributed to this article.

Welcome

The European edition of the Wall Street Journal has a bright new look and a host of new features designed to enhance its usefulness and your enjoyment.

Building on the Journal's unique reputation as the global authority for news and information, we are adding more of the analysis and insight that readers value, which complements our Web site, WSJ.com.

A greatly simplified structure makes it easier to navigate the paper. And for those who want their news at a glance, the daily World Watch/Business Watch (pages 38, 39) will keep even the most time-impoverished executive up to speed.

Osborne targets pensions

By Alistair MacDonald

If it wins the election next year, the U.K.'s opposition Conservative Party would seek to tackle the country's large, unfunded public-pension liabilities and doesn't "feel bound" by the agreements made between the Labour government and unions to protect these pensions, Shadow Chancellor, George Osborne, said in an interview Monday. At the same time, Mr. Osborne said it will likely be "some years" before the U.K. can realize any windfall from selling its stake in bailed-out banks such as **Royal Bank of Scotland Group** PLC and **Lloyds Banking Group** PLC.

Mr. Osborne said that deficit reduction is at the top of the Tories' list, should it prevail in a general election that

Martin Sisvka for The Wall Street Journal

George Osborne says he "has not ruled out tax increases."

must be held by June. "I regard it as an absolute and urgent priority of any new government that we set out a credible plan to deal with the deficit, and I don't think that credible plan exists at the moment," he said. The man who would be Treasury chief if the party wins an election says the bulk of savings will come through reducing government spending.

The party is in the process of going through individual government departments to see where savings can come from. Still, Mr. Osborne says that he "has not ruled out tax increases."

Mr. Osborne also said he would reorganize the Treasury, narrowing its remit, and could support any international push to make banks pay an insurance levy that would create a fund to help troubled banks. (See interview on page 14.)

PAGE TWO

The boundaries facing global firms

[Agenda]

By Patience Wheatcroft

If a global company is headquartered in the U.S., the chances are that a disproportionate share of its expenditure, whether on research and development or procurement, accountancy or advice, will be spent there. The location of ownership is important.

Finance knows no national boundaries; it flows freely between continents and is oblivious to oceans. Yet the businesses that are dependent on that capital are rooted in the physical world, providing jobs, nurturing talent and sustaining communities on the ground.

Protectionism is a dirty word in the 21st century but there should surely be discussion, and rational consideration, of the implications when large parts of a country's corporate structure are sold to overseas interests.

The issue is being flagged in the U.K. because of the $16.2 billion Kraft bid for Cadbury. Confectionery can't be claimed to be an industry on which national security depends, although Dairy Milk, Creme Eggs and Wispa form an integral part of a sweet-toothed nation's heritage. The management of the company is very deliberately avoiding deploying any arguments which might be seen as veering toward the protectionist and concentrating solely on price.

Perhaps because of the recession, which forms the backdrop to the bid, there is in the background more muttering than usual about the implications for the U.K. of the potential takeover.

As the U.K. has allowed a raft of its important businesses, from utilities and steelmakers to airport operators and glass manufacturers, to be taken over by foreign-owned businesses, other European countries have been more circumspect.

In 2005, when there were rumors of a PepsiCo bid for Danone, the then French Prime Minister, Dominique de Villepin, declared the yogurt maker was "a national treasure" and should be protected from the prospect of a foreign takeover. PepsiCo withdrew and there are rumors Danone might instead be looking at a major U.S. acquisition.

France has been equally effective at keeping its energy business national: A bid by the Italian Enel to takeover Suez was stymied by a government-orchestrated merger of Suez with Gaz de France. And in Spain, the reaction when the German E.ON tried to buy its energy company Endesa a couple of years ago was to push through emergency legislation to protect it. After protracted wrangling, a solution was found that was more acceptable to the Spanish government, with the company being jointly taken over by a Spanish infrastructure company and Italian Enel.

Protectionism is a dirty word in the 21st century but there should surely be discussion

That there should be such protectionist attitudes even to intra-European deals has rankled the European Union. Charlie McCreevy, the Internal Markets commissioner, said: "Everywhere you see the same recipe of protection of the status quo, of governments promoting national champions, of shutting out competitors." Neelie Kroes, the Competition commissioner, has been equally vociferous in her opposition to any type of protectionism.

However, Lord Mandelson, the U.K.'s business minister, has recently talked of how he fears "U.K. manufacturing could be a loser" from overseas takeovers of national businesses. Business leaders suspect he is right. When investment decisions are being taken in one country, they tend to favor the home territory . Research and development inevitably gravitates toward headquarters, as does spending on services such as audit and consultancy. It isn't just national pride that sees some European countries fighting so hard to retain national ownership of businesses but also a belief that jobs are at stake.

Should that be a concern of the owners of those businesses? It certainly isn't at the moment. The ownership structure that has evolved for quoted companies is one that largely divorces them from any interest in the long-term future of the business or the economy in which it is based. This isn't a new observation but one that is, perhaps because of the difficult economic environment, beginning to focus thoughts of politicians and business leaders.

The U.K.'s Treasury minister, Lord Myners, has said: "The danger is that nobody really seems to think of themselves as owners." When the rating of fund managers depends on their quarterly performance, they can't be expected to take decisions about what will be in the long term interests of the businesses in which they invest. Thus when Kraft Foods finally announced the terms of its initial offer for Cadbury, there were some fund managers prepared to take a quick profit and sell out to the hedge funds, which will now play an important part in deciding the company's future. The unusual thing in Cadbury's case is that only 14% of the shares have changed hands since the bid was announced, whereas in other high profile bid situations the turnover can be as high as 35% or 40% after an offer is announced. But Cadbury can't rely on the current low level of turnover as evidence of loyalty to the company, merely it is an indication of a prevailing view that Kraft's initial offer significantly undershoots the value of the business. At a higher price, many of them would be out of the door without a second thought of an iconic British business falling into overseas ownership.

Alistair Darling, the U.K.'s Chancellor of the Exchequer, recently berated the owners of banks for the poor stewardship they had provided. "What questions were they asking," he wanted to know, as they watched the banks get deeper and deeper into subprime lending and derivatives. The question was rhetorical, because it is clear investors weren't asking questions, merely joining in the madness and hoping that the money would keep rolling in. If they had qualms about the business model, they didn't express them but, presumably, merely took comfort in the belief they would be able to sell the stock before the problems became apparent. Many of them may now be realizing that they left it too late and they will be nursing losses for years to come.

"Ownership is important," opined Mr. Darling. Responsible owners might look beyond a quick short-term financial gain to see the benefits of backing a company, and perhaps an economy, for the longer term. If they were invested in that economy in other ways, then it might make sense for them to do so. In much of Europe, governments apparently feel they shouldn't leave it entirely to owners of companies to decide the fate of important businesses.

In the U.S., takeover law makes it easier for managements to put up barriers to unwanted suitors, with poison-pill defenses being adopted to forestall a hostile takeover. But on occasion, the government has stepped into the fray.

As China and India become ever more ambitious in their corporate adventuring, this issue looks likely to climb up the agenda in many countries that might still like to characterize themselves as anti-protectionist.

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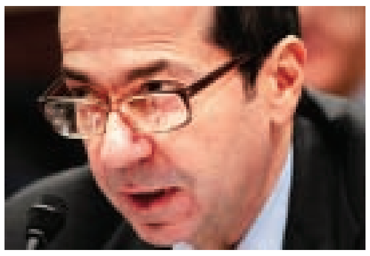

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Lauren Mills on J.P. Morgan's investment in stockbroker Cazenove

Continuing coverage

Follow Obama's trip to China as he meets with President Hu Jintao, at wsj.com/world.

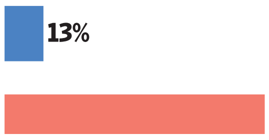
Question of the day

Vote and Discuss: Should governments regulate bankers' compensation?

Vote online and join a discussion at europe.wsj.com.

Yesterday's results

Q: Should the trial of Sept. 11 terrorism suspects be held in New York City?



What's News

■ **GM delivered** the first postbankruptcy look at its financial health, showing it is inching toward recovery but with daunting hurdles ahead. It reported a $1.15 billion loss for July 10 to Sept. 30, narrowing the red ink from its prebankruptcy days. 25

■ **The U.S. economy** will keep growing in 2010 and its underlying strength will help ensure the dollar stays firm, the Fed's Bernanke said. 1

■ **Middle East airlines** will lead the aviation industry out of its downturn, Airbus and Boeing said, on the second day of a Dubai Airshow that produced few orders. 23

■ **Cisco raised its bid** for Norway's Tandberg to $3.39 billion and said its offer for the video-conferencing-equipment maker was final. 24

■ **European stocks rose** on further indication a global recovery is taking hold. Gold futures hit record highs. 31

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NEWS

Caught between a rock and a hard place

Diamond miners agree to slowly boost output to ease pain on companies that cut and polish stones

By John W. Miller

ANTWERP, Belgium—The world's top diamond miners plan to slowly increase output to tamp down prices of rough diamonds, a cautious move to appease customers who have been squeezed by flat prices for polished gems in a recession-damaged retail market.

The delicate choreography comes even as the top four diamond producers fret that demographic and other changes threaten to permanently sap demand for the gems and create a long-term crisis for the industry.

As the financial crisis crushed the luxury-goods market, **De Beers Group**, **Rio Tinto**, **BHP Billiton** and **Alrosa** Co. slashed production this year. The four diamond miners control 90% of global production and influence prices through a Byzantine, yet legal, system of closed sales; secret, long-term contracts; and a few auctions.

De Beers, for example, slashed output by more than 90% in the first quarter.

And Alrosa sold all its production to the Russian state in the first half, rather then sell rough diamonds to its regular manufacturer customers who cut and polish the stones for sale to consumers.

Total diamond-mine production is forecast to fall to $8 billion world-wide this year from $13.1 billion last year, according to Toronto-based RBC Capital Markets.

"We had to avoid a large-scale and catastrophic collapse of our industry," Sergey Oulin, vice president of Alrosa, said Monday at a diamond-industry conference in this port city, the center of the world diamond trade.

The result is that prices for rough, uncut rocks have risen more than 40% since February.

But retail sales are falling, to $65 billion this year from $74 billion in 2008, and share prices for companies in diamond-related industries are down more than 50%, according to RBC.

With manufacturers and polishers complaining of vanishing profit margins, the big four miners pledged Monday to ease their pain. While the miners are loath to see prices for uncut diamonds drop too sharply, they are also worried that they might put some of their customers out of business if prices stay high.

The miners plan to increase production gradually to avoid destabilizing the market. Alrosa holds more than $1 billion of diamonds, but won't sell it all at once, Mr. Oulin said.

Any increase poses risks for the miners, however. Short-term retail demand was hit by the global recession, especially by rising unemployment. But even as economic growth resumes, the industry faces other longer-term challenges, particularly in the U.S., which accounts for 40% of global production.

Where diamonds come from

The world's major diamond producers, by carats and estimated revenue, 2008

	Carats, in millions	Revenue, in billions of U.S. dollars
De Beers	50.0	$6.5
Alrosa	36.0	2.5
Rio Tinto	25.0	1.1
BHP Billiton	3.2	0.4
Harry Winston Diamond	3.2	0.4
Gem Diamonds	0.3	0.2
Petra Diamonds	1.1	0.1
Trans Hex	0.2	0.1

Source: RBC Capital Markets Photo: Bloomberg News

Reuters

Belgian Prime Minister Herman Van Rompuy, seen at plenary session of Parliament in Brussels last week, would spend more time on farm policy than foreign policy as the European Union's president.

Belgian is good bet for EU presidency

Prime Minister Van Rompuy, fond of haiku and seen as a consensus builder, gets oddsmakers' nod for new position

By John W. Miller

BRUSSELS—When it chooses its historic first permanent president this week, the European Union is expected to pass over former British Prime Minister Tony Blair and other heavy hitters in favor of a balding, bespectacled Belgian named Herman Van Rompuy.

The charismatic Mr. Blair walked the international stage long enough to wear grooves in it. Mr. Van Rompuy, Belgium's prime minister for the past 11 months, is a modest functionary known inside his country for writing haikus in his native Flemish. His lack of ostentation is reflected in his poem "Hair":

Hair blows in the wind
After years there is still wind
Sadly no more hair.

Mr. Van Rompuy is the clear favorite oddsmakers including Ladbrokes and other oddsmakers to be chosen president by the leaders of the EU's 27 member nations Thursday. Though the vote could still hold surprises, Mr. Van Rompuy's likely ascendance speaks to the baroque nature of EU politics—where permanent presidents need not be permanent or presidential, and where the race tends to go not to the strong, but to the Belgians, Danes and Luxembourgers.

The permanent president's term is 2½ years. Responsibilities include running the EU's legislative branch and representing the bloc abroad, so the job favors candidates who can run meetings and speak in one voice for the EU's often-bickering heads of state. The bloc's other president—the leader of the European Commission, the EU's executive arm—enjoys more power and independence.

Mr. Rompuy is the right man, Belgian political scientist Tobias Van Assche argued in a paper published last week by the University of Antwerp. After all, the 62-year-old Belgian scored low in a measure of "self-confidence" and "will to power."

"That makes him the ideal EU leader," says Mr. Van Assche, who used character-assessment techniques similar to those employed by the Central Intelligence Agency. "He's a consensus-builder and somebody who will listen."

Mr. Van Rompuy declined to comment on his candidacy or qualifications. "He likes to keep a low profile," says spokesman Dirk De Backer.

Mr. Van Rompuy isn't the only politician from a small state giving Mr. Blair a run for his money. Dutch Prime Minister Jan Peter Balkenende, perhaps best known outside his native Netherlands for his resemblance to Harry Potter, is Ladbrokes's second favorite. Mr. Blair is third, followed by Jean-Claude Juncker, prime minister of Luxembourg.

The permanent president position, together with that of a foreign minister, was created by the just-ratified Lisbon Treaty, which is designed, among other things, to bolster the global clout of the bloc that represents 500 million Europeans.

The jobs may be new, but scuffles over how to fill them won't be, say diplomats.

When European nations formed a free-trade bloc a half-century ago, Germans and Frenchmen dominated. The group has expanded greatly but even now, votes cast by leaders of the EU's "Big Six"—Germany, Spain, France, Italy, Poland and the U.K., with more than 350 million Europeans between them—carry more weight than those cast by smaller members.

But past votes on EU Commission president and other top jobs show that Big Six leaders have often been unable to agree on candidates from their own countries—opening the door for consensus picks from smaller countries. These politicians don't create so many enemies, diplomats say, or cast limelight-loving national leaders into the shade. Often crafty intellectuals instead of populists, they master the EU's 80,000-page rule book. They also tend to stick up for each other: 21 small states can occasionally overwhelm the Big Six.

It's a "mixture of ability, suitability, blackballs [and] national horse-trading," says Christopher Tugendhat, a Briton who was once the No. 2 official in the commission. "Sometimes a suitable person does get it."

Two Luxembourgers and one Belgian have already headed the European Commission. The current commission president, Jose Manuel Barroso, hails from Portugal—whose population of 10.7 million roughly equals Belgium's—and is soon to embark on a second five-year term.

Luxembourger Jacques Santer exemplifies how little guys can end up with the big prizes. When EU leaders started discussing in 1994 a successor for powerful French commission president Jacques Delors, "Nobody knew my name," Mr. Santer said in an interview.

Germany balked at the notion of another Frenchman but didn't present its own viable candidate. Other front-runners failed to gain broad support. Mr. Santer's name emerged during sidebar discussions at a Group of Seven summit in Naples as the only common ground between U.K. prime minister John Major, German chancellor Helmut Kohl, Italian premier Silvio Berlusconi and French president François Mitterrand.

Mr. Santer received a call from Mr. Kohl. "He said, 'We all support you—even John Major,'" Mr. Santer recalls. "I immediately called the Grand Duke [of Luxembourg] and offered my resignation as prime minister."

Added the Luxembourger: "We were founded in 1815 as a buffer state between France and Germany. So this is our destiny."

Mr. Blair's appeal seems less universal. Many Europeans from left-of-center parties, who would be expected to back him, distrust him for the way he took Britain to war in Iraq alongside former U.S. President George W. Bush. He is from Britain, which has stayed out of the European common currency and forces other Europeans to show their passports to enter the country.

Like some other potential candidates, Mr. Blair hasn't formally said he wants the job, and a spokesman said Monday: "We are not giving a running commentary on this." People close to Mr. Blair say he would be interested only if the role was seen as "presidential" rather than as a committee chairman.

Plus, for all the talk of Europe needing a flashy spokesman, the EU president will spend more time on farm policy than foreign policy. "From an American perspective, you think about the president as someone on the world stage," says Oly Nyborg, author of a book about Denmark's role in the EU. "But the truth is that the EU president's big job will be drafting the 2013-2020 EU budget."

The skills of politicians from smaller countries shouldn't be underestimated, analysts say. Luxembourg's Mr. Juncker has struck key compromises, brokering a 1996 deal between France and Germany that paved the way for the creation of the euro.

Mr. Van Rompuy is known as a master of procedural minutiae who can run committee meetings in several languages. But as Belgium's budget director in the 1990s, he also helped the massively indebted country meet the criteria for joining the euro.

After becoming Belgium's prime minister in December, Mr. Van Rompuy has repaired fissures with the country's French-speaking minority and managed a bureaucracy of six parliaments and more than 50 cabinet-level ministers.

"If you know how to run Belgium, you can deal with the EU," says Piotr Maciej Kaczynski, an analyst with the Brussels-based Center for European Policy Studies. "Belgians and Luxembourgers are always mentioned for top positions. Always. They have it in their blood."

Mr. Van Rompuy's particular knack was evident in the haiku he read at a recent news conference with the prime ministers of Spain and Hungary:

Three waves together,
Rolling into the harbor—
The trio is here.

—Alistair MacDonald contributed to this article.

EUROPE NEWS

Opel might not get German aid to revamp

Economics minister says assistance must be reconsidered, given GM's reversal of plan to sell control

By Patrick McGroarty
And Roman Kessler

FRANKFURT—Germany's new economics minister said Monday that former offers of federal aid for **General Motors** Co.'s German subsidiary, Adam Opel GmbH, have to be reconsidered after GM reversed plans to sell control of the unit.

"Just as any other company, [Opel] has the right to apply for new state help," Rainer Bruederle said at a financial conference. "It's a new situation that has emerged—old deals need to be reconsidered," Mr. Bruederle said.

Over the past three months, German state and federal officials had backed a deal to help a consortium led by Austrian-Canadian auto-parts maker **Magna International** Inc. take control of Opel and sister Brit-ishbrand Vauxhall with aid from the federal government. But the GM board changed course, deciding Nov. 3 to keep the operations.

Reuters

German Economy Minister Rainer Bruederle, at left, says Germany will have to reconsider its aid offer to GM's Opel.

Mr. Bruederle said Monday the aid offer was no longer binding, and in an interview with the Bild am Sonntag newspaper Sunday he suggested that states with Opel factories could contribute aid to GM's restructuring if they wished.

Some German state governors reacted angrily to the comments, accusing Mr. Bruederle of backing out of an agreement on the terms for Opel aid that they reached at a meeting in Berlin earlier this month.

"When [the restructuring plan] is presented, the federal government and states will—as before—respond together," Juergen Ruettgers, governor of the state of North Rhine-Westphalia, said Monday

Mr. Bruederle's disinclination to provide Opel with more federal aid appeared to be a departure from Chancellor Angela Merkel's speech to parliament last week, when she said that GM should contribute "the main part" of funding under any plan her government might support. Her finance minister, and fellow Christian Democrat, Wolfgang Schaeuble, has also said Opel might receive government aid.

GM is working on an Opel restructuring that includes at least €1 billion ($1.49 billion) of its own money and less reliance on German aid, people familiar with the plan said Friday.

The GM plan also foresees Poland, Spain and the U.K.—which all have Opel or Vauxhall plants—and potentially other countries contributing about €1 billion and would require concessions from labor unions.

EUROPEAN NEWS

Moscow's man in Kiev strikes back

Viktor Yanukovych, the defeated candidate in the Orange Revolution, calls for improved relations with Russia

By James Marson

KIEV—The defeated candidate from Ukraine's 2004 Orange Revolution says this time it's the former Soviet republic's pro-Western president who will be swept from power in the upcoming election.

Viktor Yanukovych, the front-runner in opinion polls for the Jan. 17 ballot, called for improved relations with Russia, a jab at President Viktor Yushchenko, who has had a strained relationship with Ukraine's eastern neighbor.

"I have never denied the influence of the Russian factor in Ukrainian politics," Mr. Yanukovych said. "We should always have taken it into account."

Mr. Yanukovych, who was backed by Moscow in 2004, was initially declared the winner of the close vote. But hundreds of thousands of people hit the streets in Kiev in protests against alleged rigging. The Supreme Court called for a rerun, which was won by Mr. Yushchenko.

Mr. Yanukovych said he still considers himself the winner of the ballot, as the allegedly huge falsifications haven't been proved in court.

This time, opinion polls put Mr. Yanukovych in the lead ahead of the January vote, with 29% support, according to an October survey by the Razumkov Center in Kiev. Mr. Yushchenko trails in low single digits, while his bitter rival, Prime Minister Yulia Tymoshenko—his former Orange Revolution ally—is polling in second place at 20%. She and Mr. Yanukovych are expected to make it to a second round of voting in February.

Observers attribute Mr. Yanukovych's resurgent popularity to the failure of Mr. Yushchenko to push through promised overhauls and the infighting between him and Ms. Tymoshenko.

Ukraine's gross domestic product contracted 18% in the first half of the year, damaging the rating of Ms. Tymoshenko, who as prime minister is responsible for the economy.

Mr. Yanukovych's campaign is focused less on questions of Russia and the West than in 2004, and more on social issues and the economy. The Party of Regions, which he leads, was the driving force behind legislation recently signed into law by Mr. Yushchenko which provides for large rises in wages and pensions.

The International Monetary Fund, which has helped shore up the Ukrainian economy with almost $11 billion in loans since last fall, has said the law is the biggest obstacle to further lending.

Mr. Yanukovych blamed Ms. Tymoshenko's government for not implementing the economic program agreed with the IMF, and said the law was needed to support low-income households during a biting crisis.

Mr. Yanukoych made clear that he would seek to improve ties with Russia, calling for "well-balanced" relations with the European Union and Russia, given Ukraine's strong economic ties with both neighbors.

He also said he wants to build "beneficial" relations with the North Atlantic Treaty Organization, but not seek membership until the majority of Ukrainians are in favor. Surveys show that currently isn't the case.

Mr. Yushchenko has repeatedly clashed with the Russian leadership over natural gas shipments that transit through Ukraine, his push for NATO membership and his support for Georgian President Mikheil Saakashvili during Russia's war with Georgia in 2008. In August, Russian President Dmitry Medvedev sent a letter to Mr. Yushchenko condemning his "anti-Russian" policies.

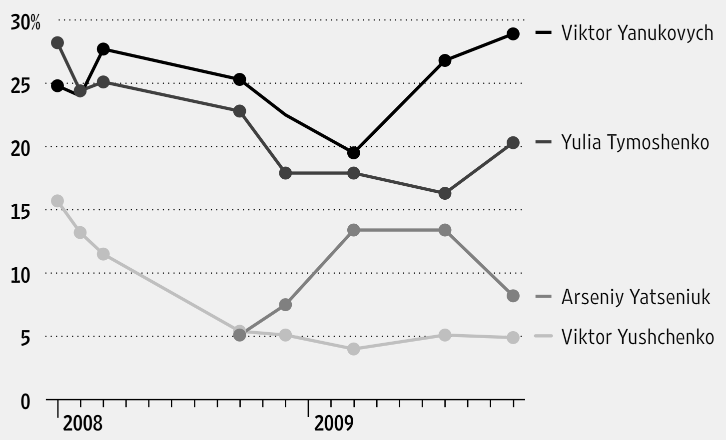
Natural-gas supplies to the European Union have been cut twice after disputes between Ukraine and Russia. Mr. Yanukovych said he wouldn't allow interruptions to happen, although Mykola Azarov, one of his top advisers, said the contracts signed by Ms. Tymoshenko in Moscow in January were "extremely unfavorable" for Ukraine and should be revised.

Associated Press

Viktor Yanukovych, seen here greeting supporters in Kiev last month, is the front-runner in opinion polls for the Jan. 17 presidential election in Ukraine.

Poll positions: Ukraine's presidential election

Q: If the elections were held this week, who would you vote for?



Source: Razumkov Center polls of about 2,000 voters, margin of error: +/- 2.3 percentage points

Policy makers discuss bank capitalization

Bloomberg News

Paul Tucker, a deputy governor of the Bank of England, in Istanbul last month.

By Natasha Brereton

LONDON—Paul Tucker, the Bank of England's deputy governor for financial stability, said that contingent capital instruments could play an important part in recapitalizing banks.

The key element of the bonds, which have received endorsements from other policy heavyweights such as U.S. Federal Reserve Chairman Ben Bernanke, is that they convert into equity during times of stress. This boosts bank capital and helps to reduce the need for support from the government.

Critics of the securities, which are already offered by the U.K.'s **Lloyds Bank** PLC, warn that bond investors, who are the traditional buyers of bank hybrid capital, might steer clear of the securities because they are prohibited from owning equity, and would be forced to sell if the instruments converted.

Mr. Tucker is chairman of the Cross-Border Crisis Management Working Group, part of the Financial Stability Board, which was established in April by the Group of 20 leading economies. The working group is spearheading efforts to develop recovery and resolution plans for about 25 of the world's top banks.

In a speech in Brussels, Mr. Tucker said banks should take a leading role in creating contingency plans and reiterated that public authorities could levy banks surviving any future crises for the cost of public support, as a means of enhancing market discipline. While Mr. Tucker's remarks represent the U.K. central bank's ideas on global financial revision, they also highlight a debate among global policymakers on contingent capital instruments, also known as CoCos.

"The weaker a recovery plan and the greater the obstacles in the way of its effective resolution, the more capital—and liquidity—a bank is going to have to hold. This is why emerging interest in contingent capital instruments is so important," Mr. Tucker said. "If CoCos could form a material part of recovery plans, the landscape might just be transformed."

The practicality of CoCos' more widespread use has been called into question by some analysts and industry bodies. Many bond investors don't want the bonds included in bond indexes because they are prohibited from owning equity.

Nevertheless, Mr. Tucker and other BOE officials have emphasized that the option should be given more consideration.

"By taking a hit in one part of their portfolio by providing equity protection to banks, institutions might well be able to support the value of their investments more widely," Mr. Tucker said.

U.S. NEWS

China's limitations foil Obama's charm

The visit has been tightly scripted, giving the U.S. president little opportunity to speak directly to the Chinese people

By Ian Johnson
And Jonathan Weisman

BEIJING—As he dives into the heart of his trip to China, U.S. President Barack Obama is finding it hard to bring his trademark charisma to bear.

Mr. Obama is slated to meet Chinese President Hu Jintao on Tuesday, after which the two will make statements to be broadcast live on Chinese television. But that is likely to be the only chance he has to address the Chinese people directly. A town hall event Monday that was supposed to highlight Mr. Obama's common touch ended up being a tightly scripted affair.

The net effect is that the trip, which isn't expected to yield major substantive agreements, also isn't likely to give Mr. Obama much of a symbolic victory either. Longtime observers say the visit, which ends Wednesday, is one of the most tightly controlled in recent memory, with Mr. Obama afforded none of the opportunities to reach Chinese people given to his two predecessors.

"The mystery is the lack of public contact," said David Shambaugh, a professor of Chinese studies at George Washington University, currently on a fellowship in China. "He's a populist politician but he's not getting any interaction with Chinese people."

According to U.S. and Chinese officials, the itinerary has been sharply contested by both sides. The U.S. wanted a chance for Mr. Obama's telegenic personality to shine through and make a case for greater freedoms, but Chinese officials pushed back, according to a Chinese media insider. The Chinese side was wary of making Mr. Obama look more accessible than China's own politicians, who appear on television only during highly scripted moments, such as inspection tours.

Senior administration officials defended the trip and rejected negative comparisons to a longer, more free-wheeling visit by then-President Bill Clinton.

A packed agenda in Asia meant Mr. Obama had to keep the visit to China short, said David Axelrod, one of Mr. Obama's senior advisers. Mr. Obama had to stop first in Japan to visit a trusted ally, join the Asia-Pacific Economic Cooperation forum in Singapore, and stop by South Korea for consultations on one of the most pressing foreign-policy issues: North Korea.

"Clinton came for more than a week, which gave him the latitude to do a variety of things and to meet with more people. We're here for 2½ days," Mr. Axelrod said.

The lack of public interaction will be especially obvious Tuesday. Although Mr. Hu and Mr. Obama will meet the press, they won't take questions. Mr. Obama will spend the afternoon sightseeing and then go to a state dinner, with an invitation list controlled by the Chinese side, according to people familiar with the planning. Senior U.S. business leaders weren't invited to the event, nor were scholars.

On Wednesday, Mr. Obama is due to meet Chinese Premier Wen Jiabao and then fly out in the afternoon. None of the meetings are expected to result in significant agreements or statements.

This is in sharp contrast to President Clinton's trip to China in 1998, when he got four opportunities to speak directly to the Chinese, including an uncensored live interview on China Central Television and speeches to Chinese students. At the time, however, China had courted Mr. Clinton, who was making the first presidential visit to China since the 1989 Tiananmen Square massacre.

In 2002, former President George W. Bush made a speech to Chinese university students extolling political and religious freedom. It was broadcast on national television.

In contrast to those visits, the U.S. is in a far weaker position, its economy racked by financial crisis and its military engaged in two long-running wars abroad. "The U.S. is not able to force its agenda on China anymore," said Shi Yinhong, a professor at People's University in Beijing.

The differences were apparent in the Monday meeting in Shanghai with Chinese youth. It was meant to be a town hall-style event—which normally feature open discussions from audience members who choose to participate. Instead, Mr. Obama addressed a group of carefully selected young people from the Shanghai area, some of whom said they had been bused in for the event after "training." White House reporters covering the event were put in a "viewing room" with no view of the event.

Perhaps more significantly, the event wasn't widely available to ordinary Chinese. It was broadcast only on a local television station. The government news service, Xinhua, said it would stream video of the event on its Web site but it ended up carrying only a transcript of the questions and answers.

Perhaps fittingly, Mr. Obama used the forum at Shanghai's Museum of Science and Technology to make a plea for a free flow of information, saying it makes societies stronger and holds political leaders accountable. People in positions of power may bristle at criticism, he said, but open criticism "makes our democracy stronger, and it makes me a better leader because it forces me to hear opinions that I don't want to hear."

National Security Council spokesman Mike Hammer said after Monday's event, "we're satisfied that the Chinese people will know what the president said today." White House spokesman Nicholas Shapiro said the limited dissemination and lack of advanced promotion only underscored the importance of Mr. Obama's message.

One questioner suggested Americans and Chinese have different cultures and that the U.S. shouldn't impose its views on China. Mr. Obama responded that the U.S. believes "there are certain fundamental principles that are common to all people regardless of culture."

But he didn't mention hot-button human-rights issues such as Tibet or the Muslim Uighurs. Instead, he said children shouldn't be exploited or forced into labor, and women should be respected, educated and allowed to pursue careers. His emphasis was on U.S.-Chinese cooperation and the need to improve political and economic relations. *—Aaron Back contributed to this article.*

Getty Images

U.S. President Obama arrived in Beijing on Monday as part of his four-nation Asia tour. China seemed wary of making him look more accessible than its own politicians.

China faces own race issues

By Sky Canaves
And Shai Oster

BEIJING—Barack Obama's first state visit to China comes as Chinese are, for the first time, engaging in unusual public dialogue about racism in a country where prejudice has long been seen as a foreign problem.

While many young people here are inspired by what Mr. Obama represents in terms of ideals of equality, the reality for Chinese citizens with similar family backgrounds sometimes involves outright racism and discrimination, which in turn has led some to reflect on its sources. More than 90% of the population is ethnic Han Chinese, and there is still little public discussion of the underlying tensions that sparked anti-Han ethnic riots among Tibetans last year and among Uighurs this year.

But as the country's economic might grows, it is attracting more foreigners in search of opportunity, from a 100,000-strong community of African traders in Guangzhou to Middle Eastern traders in the east-coast manufacturing town of Yiwu. At the same time, changes from abroad—such as the growing popularity of African-American basketball players in China in the past decade—have challenged entrenched stereotypes in the country much the way they have elsewhere.

The changes are prompting some Chinese to confront issues of racism and discrimination for the first time. Attitudes toward blacks have come into especially sharp relief in recent weeks, thanks to an incident involving a nationally televised talent show. One contestant on the show, called "Oriental Angel," was a young Shanghai woman named Lou Jing, who is the child of a Chinese mother and an African-American father—a relatively rare combination in China. Her participation in the show prompted a firestorm of epithets from viewers—and criticism of that reaction from others.

Jeremy Goldkorn, a white South African in Beijing who co-produced a 2006 documentary on African football players in Beijing and who runs a popular Web site on Chinese media, described the prevailing attitudes toward black people in China as "naïve racism."One typical example would be the treatment of another half-Chinese, half-African American celebrity, Ding Hui, who earlier this year was selected for the Chinese volleyball team, becoming the first black athlete on a national sports team here. Media reports on Mr. Ding often include references to his white teeth. During last year's U.S. presidential campaign, a leading Chinese Web site dubbed the U.S. president "Black Kid Obama" in a special section that paid tribute to the then-candidate.

Agence France-Presse/Getty Images

Lou Jing, right, plays cards during a recording of an 'American Idol'-style show last month in Shanghai. The opera singer faced prejudice when named a finalist.

U.S. NEWS

Associated Press

U.S. Ambassador Karl Eikenberry, left, and U.K. counterpart Mark Sedwill at Monday's launch of an anticorruption unit in Kabul.

Kabul to fight graft

Afghan officials create special anticorruption force to appease allies

By Anand Gopal

KABUL—In response to pressure from Washington and its allies, Afghan authorities announced new anticorruption measures, unveiling a special task force that will investigate graft by senior officials.

"This force will make sure no high-ranking official who is involved in corruption will go unpunished," said Interior Minister Hanif Atmar, speaking as he stood alongside the U.S. and British ambassadors to Kabul. The new body will receive training and support from the European Union and the U.S. Federal Bureau of Investigation, officials said.

The task force, which began operating in recent days, has already netted three high-ranking government officials and charged them with stealing money meant for the families of policemen killed in the line of duty, said Amrullah Saleh, chief of Afghanistan's National Directorate of Security. He didn't identify the detained men beyond saying that one of them was a general.

Widespread government graft in Afghanistan has fueled popular discontent in recent years, invigorating the Taliban's resurgence. Independent watchdog Transparency International has ranked the nation as the fourth most corrupt out of the 180 countries in its recent survey.

Police officers and other low-ranking public servants often demand bribes for basic services, while senior officials are often accused of misappropriating public funds.

Anticorruption groups have alleged that several high-ranking Afghan officials close to President Hamid Karzai, including his brother Ahmad Wali Karzai, chief of the provincial council in Kandahar, control organized-crime networks. Ahmad Wali Karzai has denied such accusations.

In recent weeks, leading U.S., European and United Nations officials issued warnings on graft to President Karzai, who won a fraud-marred election in August and is scheduled to be inaugurated Thursday.

As Washington debates whether to inject more troops into the country, a critical question is whether the U.S.-led coalition will have a credible partner in the Afghan government. President Barack Obama has cautioned that continuing American support for Kabul will depend on how seriously Mr. Karzai cracks down on corruption.

While Mr. Karzai has acknowledged a problem with graft, he and other government officials have tried to turn the tables on the West. They accused foreign companies and aid groups of fostering corruption in the country.

> **"Hundreds of millions of dollars are wasted in fraudulent contracts."**

"Hundreds of millions of dollars are wasted in fraudulent contracts with international companies," said Sebghatullah Sanjar, the Afghan president's chief policy adviser. "Why doesn't the international community do anything about this, and instead just focus on the corruption from our side?"

It isn't clear how willing the newly established government anticorruption task force will be to go after senior-level fraud, independent analysts caution. "If they want to fight corruption, they should establish an independent commission," said Waheed Muzjda, a Kabul-based political commentator. "So many of these ministers and other officials associated with Karzai have questions of credibility as well."

Separately, U.K. Prime Minister Gordon Brown was set to argue in a speech Monday night that success in Afghanistan is crucial for keeping Britain safe. Since January 2008 seven of the top dozen figures in al-Qaeda have been killed, depleting its reserve of experienced leaders and sapping its morale, Mr. Brown planned to say, according to excerpts of his speech reported by the Associated Press.

On Sunday, U.S. Secretary of State Hillary Clinton said the Obama administration was seeking greater accountability from the Afghan president, suggesting that future civilian aid to the country could be tied to more aggressive action to combat corruption.

"President Karzai and his government can do better," Mrs. Clinton told ABC News's "This Week with George Stephanopoulos." She said the U.S. wanted to see "tangible evidence that the government ... will be more responsive to the needs of the people."

The secretary of state said she has "made it clear" that continued U.S. civilian aid to Afghanistan would depend on whether the U.S. could ensure that the funds were properly spent. She said the U.S. expected the Afghan government to create a tribunal to investigate major crimes, and a commission to investigate allegations of corruption.

"We're going to be doing what we can to create an atmosphere in which the blood and treasure that the United States has committed to Afghanistan can be justified, and can produce the kind of results we're looking for," she said.

Mrs. Clinton said the U.S. has no interest in staying in Afghanistan for the long term.

"We came to do a mission," she said, adding that the administration's "primary focus" was on protecting the U.S. against future terrorist attacks, and supporting U.S. troops in the battlefield.

"We do not want to see Afghanistan return to being a safe haven and a staging platform for terrorism as it was before," Mrs. Clinton said.

—Greg Hitt in Washington contributed to this article.

In Afghanistan, a question of when, not how many

[Capital Journal]

By Gerald F. Seib

Policy arguments in Washington sometimes take on an otherworldly feel—and so it is with the public wrangling over Afghanistan policy.

Outside the walls of the Obama administration, the argument has been almost entirely about numbers: How many additional troops should be sent to Afghanistan? Should it be 10,000, 20,000 or 40,000? But inside the Obama administration, say those who actually have been involved, the debate has been much less about troop levels than commonly imagined. Instead, it has much more to do with ensuring that the American troop buildup, whatever its size, isn't open-ended.

The key for President Barack Obama, these people say, is having a plan that ensures the American presence is a prelude to, rather than a substitute for, Afghanistan taking over the security job itself. The goal is for American troops to reverse the rise of Taliban strength in the short term, buying time for Afghan President Hamid Karzai to build up security and police forces that can take over while American forces phase out.

The internal discussion, in short, is less about the size of the entrance ramp than the location of the exit ramp.

Seeing the debate this way helps decode what seem to be the riddles in the Obama administration's long pause for a policy review before deciding what steps to take next. President Obama, who has a plateful of other security issues to worry about as well, ordered a rethink because he feared the military plan for a buildup, whatever its other virtues, seemed open-ended.

This summer's Afghan presidential election, marred by evidence of corruption, threw a big wrench in the works because it suggested President Karzai wasn't taking steps to gain the legitimacy needed to take over his own security portfolio. (Monday's announcement that Mr. Karzai is forming an anticorruption unit, by contrast, shows he might be getting the message.)

And last week's much-publicized cables from Karl Eikenberry, the American ambassador to Afghanistan, which expressed skepticism about a troop buildup, were less a statement opposing more troops than a declaration of concern that if the U.S. does too much on the security front, President Karzai's interest in doing more for himself might atrophy.

The goal in the rethink, then, is to put in place a specific plan for an Afghan force buildup that moves directly parallel to a new American military push against the Taliban. And a crucial, but little-noticed, adjunct of that strategy requires making sure that next-door-neighbor Pakistan steps up the pressure on the Taliban and al Qaeda elements that use its territory as a safe haven for their operations in Afghanistan.

On that front, the problem is that Pakistan has great interest in clamping down on the Taliban factions that target the Pakistani government—but relatively little interest in worrying about the Taliban elements that target Afghan's government next door. That needs to change, which is a big reason Gen. James Jones, President Obama's national security adviser, made a quiet trip to Pakistan over the weekend.

Constructing such a two-track Afghan policy—American troops in while Afghan forces bulk up—may sound easy, but in fact it's quite hard. It requires talking tough to President Karzai without alienating the very man who is the essential partner in the entire enterprise. Indeed, the administration may well have over-done the bad-mouthing of Mr. Karzai, weakening the very Afghan leader it now must depend upon.

The strategy also faces a profound practical problem: Poor Afghanistan simply can't afford to sustain the kind of robust security force the administration desires. Years of American aid in the billions likely will be needed to pull off that feat.

But the most insidious problem is that setting hard timetables for a military withdrawal almost inevitably aids the enemy. Departure schedules, if known publicly, simply make it clear how long the bad guys must endure to simply outlast rather than defeat the Americans. That's why military leaders blanch at the thought of setting precise timetables.

So can the U.S. build up while also setting the stage for an eventual wind-down?

One who says yes is Brett McGurk, who served on the National Security Council staff of President George W. Bush and, until recently, President Obama. Mr. McGurk argues that success is possible because he helped pull off something very similar in Iraq.

In Iraq, the 2007 "surge" of U.S. forces unfolded alongside a painstaking process of negotiating a security agreement with the Iraqi government, laying out not just the role of American forces but a timetable for their withdrawal. "The surge is now called the surge," Mr. McGurk says. "But internally in Iraq, when we were talking about it, we called it the bridge"—as in, the bridge to an Iraqi takeover.

There are, of course, huge differences between Iraq and Afghanistan, Mr. McGurk notes, the key one being that Iraq's government wanted American troops to phase out, while in Afghanistan "almost all the political actors want us to stay."

Still, "on the core question, they're not that different," Mr. McGurk says. "The trajectory of the conflict was going south, the host nation was seen as too weak. But at the same time we had to talk to the Iraqis about what our strategy was going to be." Indeed, the leader the U.S. had to work with in Iraq, Prime Minister Nouri al-Maliki, was seen as lacking the strength the U.S. needed. But that changed over about a year's time. Maybe, just maybe, Iraq showed it's possible to see an entrance and exit ramp at the same time.

U.S. retail sales jumped in October

Rebound in car demand accounts for big part of 1.4% increase, easing some fears about effect of job losses on consumers

By Jeff Bater

WASHINGTON—U.S. retail sales rose more than expected in October on rebounding demand for cars, easing fears of the toll rising unemployment might take on the economic recovery.

Retail sales increased 1.4%, the government said Monday, compared with the 0.9% rise projected by Wall Street for the first month of the fourth quarter.

But the report didn't exactly present a picture of economic strength. September sales were revised down, to a 2.3% drop from a previously estimated 1.5% decline.

And aside from automobiles, sales rose just 0.2% in October. It was the third increase in a row but smaller than the 0.4% climb predicted by economists.

Consumer spending makes up 70% of gross domestic product, the broad measure of U.S. economic activity. The retail-sales data are an important indicator of consumer spending.

Concerns have mounted that joblessness, a remnant of the severe recession, will stop people from spending money and thwart the recovery. The U.S. unemployment rate rose to 10.2% in October, the highest since April 1983. Incomes have fallen in the past year, and getting credit remains difficult.

Associated Press

Concerns persist that joblessness, a remnant of the recession, will stop people from spending money and thwart the recovery.

"It seems unlikely that households will be able to spend more freely any time soon," said Paul Dales, an economist at Capital Economics. "We continue to think that the failure of households to join the party will be the main reason why the overall economic recovery disappoints."

Big retailers aren't exactly brimming with cheer as the holidays near. **Wal-Mart Stores** Inc. last week projected earnings of $1.08 to $1.12 a share in the fourth quarter. Its U.S. chief, Eduardo Castro-Wright, said in a conference call: "We recognize that some customers may be more cautious in their holiday spending."

Sales of autos and parts rebounded in October, up 7.4% after a September drop of 14.3% with the expiration of the government "cash for clunkers" incentive program to boost car sales.

Excluding sales of gasoline and cars, other retailers' sales increased 0.3% last month, the third consecutive gain.

Health and personal-care stores increased 0.5%. Restaurants and bars were up 1.2%. Mail order and Internet retailers rose 1.0%.

Housing-related categories fell sharply, with furniture retailers down 0.8% and building-material and garden supplies-dealers off 2.4%.

Separately, the Federal Reserve Bank of New York's Empire Manufacturing Survey showed its general business conditions index fell by 11 points to 23.51 in November from 34.57 in October. November is the fourth consecutive month that the general business conditions index has remained in positive territory.

—Karen Talley and Deborah Lynn Blumberg contributed to this article.

U.S. Supreme Court declines 'Redskins' suit

By Kristina Peterson

WASHINGTON — The Washington Redskins ended their four-game losing streak Sunday. On Monday, the U.S. Supreme Court handed the professional football team another victory, declining to hear a petition alleging its use of the "Redskins" mascot is racially disparaging.

Suzan Harjo v. Pro-Football Inc., a case that began in 1992, centered on whether a dispute over a potentially offensive trademark can be dismissed if the challenge was not filed promptly. Though the Trademark Trial and Appeal Board ruled in 1999 that the name was disparaging and should be changed, the U.S. District Court for the District of Columbia and U.S. Circuit Court of Appeals in Washington, D.C. later decided that the challengers had waited too long to file their petition. The Redskins first registered the mascot with the Patent and Trademark Office in 1967.

The Redskins acquired their controversial name in 1933, before they arrived in Washington.

Originally the "Boston Braves," then-owner George Preston Marshall renamed the Boston Redskins in honor of their head coach, William "Lone Star" Dietz, himself a Native American, according to team lawyers in a brief for the high court.

When the team moved to Washington in 1937, the name was tweaked to reflect its new hometown.

Groups of law and psychology professors have filed amicus briefs in the case, urging the court to prohibit dismissing trademark disputes based on timeliness questions if the name does public damage.

In this case, use of the "Redskins" epithet propagates a negative stereotype of Native Americans, the psychology professors argued.

Associated Press

Washington Redskins' Shaun Suisham celebrates a field goal with teammates Hunter Smith, left, and Derrick Dockery, right, during a game Sunday.

In a brief filed during the current season, the professors also assert that the damage incurred by the mascot is greater given the popularity of professional football and of the Redskins themselves.

"For example, highlights from Redskins games are played on [Walt Disney Co.'s] ESPN and countless stories are written about the team," write the professors.

The Supreme Court denied the case Monday without comment.

Separately, the court has thrown out, for the third time, a federal appeals court ruling favorable to a convicted murderer in California whose case has bounced around the courts for a quarter-century.

The justices, in an unsigned opinion Monday, moved to reinstate the death penalty for Fernando Belmontes in the beating death of a 19-year-old woman in 1981.

Mr. Belmontes broke into a house, confronted Steacy McConnell and beat her with a dumbbell. She later died from her injuries. Mr. Belmontes stole her stereo, sold it for $100 and spent some of the money on beer. A jury convicted him of first-degree murder and sentenced him to death.

Three times, the 9th U.S. Circuit Court of Appeals in San Francisco has commuted Mr. Belmontes' sentence to life in prison. The Supreme Court has three times reversed the appeals court.

In its most recent ruling, the appeals court split 2-1 in saying that Mr. Belmontes' lawyer did such a poor job during the sentencing phase of the trial that it had no choice but to throw out the death sentence. The dissenting judge noted that, whatever the lawyer's failings, he succeeded in keeping from the jury strong evidence that Mr. Belmontes had committed another murder — information that may well have overwhelmed evidence favorable to Mr. Belmontes.