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Latest row on expenses overshadows royal speech

By Paul Sonne

The queen's speech outlining the legislative proposals of British Prime Minister Gordon Brown's government didn't include reforms to the U.K.'s expenses system for members of Parliament, prompting criticism from opposition parties.

Sir Christopher Kelly, chairman of the U.K. Committee on Standards in Public Life, tasked with making recommendations to overhaul the expenses system, said: "The leaders of all the main political parties have agreed that our recommendations should be implemented in full. It is disappointing, therefore, that today's queen's speech did not contain measures to address the changes we believe to be necessary."

Conservative Party leader David Cameron also criticized Mr. Brown.

A spokeswoman for Downing Street said Mr. Brown was not standing in the way of the expense-system reforms: "The prime minister has made it clear throughout that he accepts the Kelly review."

Among proposals mentioned in the speech was a financial-services bill, which would give Britain's financial-services regulator the power to clamp down on executive bonuses.

See article on page 4

Associated Press

Queen Elizabeth II arrives at Buckingham Palace after delivering her speech to Parliament Wednesday.

Iranian move jeopardizes nuclear deal

By Chip Cummins

DUBAI—Iran's foreign minister appeared to rule out sending the country's low-enriched uranium overseas for further processing, representing the Islamic republic's most definitive rejection so far of a nuclear deal reached with Western powers last month.

Iranian Foreign Minister Manouchehr Mottaki said Wednesday Iran wouldn't send any of its uranium out of the country, as envisioned in a deal between Iranian negotiators and counterparts from the U.S., France, Russia and the International Atomic Energy Agency.

The deal was at first seen as a potential breakthrough in the Obama administration's diplomatic outreach to Iran. But Iran's leadership has so far failed to approve it, instead suggesting in a flurry of often-contradictory statements that it would seek big changes.

Still, Iran has never completely rejected the deal. Further muddying the waters Wednesday, Ali Asghar Soltanieh, Iran's representative to the IAEA, said Iran was still ready to negotiate. In Vienna, he told reporters he hadn't received any orders from Tehran related to the proposed deal, according to an IAEA spokesman who witnessed the interview.

Washington has so far indicated it is willing to wait out discussions, though Western officials have said they aren't willing to offer significant alternatives to the pact.

On Wednesday, Ian Kelly, a State Department spokesman, said the U.S. would consult with the IAEA and its key partners in discussions with Iran, which include members of the United Nations Security Council, plus Germany.

At the heart of the agreement hammered out in Vienna in October is a proposed transaction in which Iranian negotiators agreed to send out the bulk of their low-enriched uranium to Russia for further processing. The uranium would then be returned to Iran for use in a medical-research reactor.

Shortly after the deal was disclosed, however, Iranian officials publicly disparaged it.

Mr. Mottaki's statement Wednesday seemed to rule out any Iranian acceptance of the deal in its current form. But he also held out the prospect of further talks with the IAEA.

—Jay Solomon in Washington and David Crawford in Berlin contributed to this article.

The Quirk

For 'mega marathoners,' the race is on to keep crossing finish lines Page 33

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Editorial & Opinion

Verhofstadt: Brussels should give bailouts to EU's newest members. Page 15

Planners seek Afghan exit

By Peter Spiegel and Yochi J. Dreazen

WASHINGTON—U.S. President Barack Obama and British Prime Minister Gordon Brown have turned the focus of Afghan war planning toward an exit strategy, in public remarks this week arguing that the U.S. and its allies can't send tens of thousands of additional troops without a plan for getting them out.

The shift has unnerved some current and former U.S. officials, particularly veterans of similar debates ahead of the 2007 surge in Iraq, where war planners fought vociferously over whether timetables for withdrawal were beneficial to the war effort. With Iraq, planners eventually set benchmarks that weren't tied to specific dates.

Mr. Obama isn't asking for the firm, publicly declared handover dates in Afghanistan that were the feature of early Iraq war plans, according to senior administration and military officials.

Instead, the officials said, the administration wants the Pentagon to identify key milestones—to be achieved before the U.S. role in Afghanistan could shift away from direct combat, allowing troop levels to decline—and then give a rough sense of when each objective is likely to be achieved.

The models under consideration are variations of the timeline devised by Gen. David Petraeus in the fall of 2007 which laid out a six-stage progression for gradually reducing U.S. force levels in Iraq, according to a defense official.

The Petraeus timeline was later largely incorporated into the formal long-term security pact between Washington and Baghdad, under which all U.S. combat troops are due to leave Iraq by next summer.

"What the White House wants is a strategic glide path that gives a sense of the path ahead and the time it will take to meet each specific target," the defense official said. "It's not a hard-and-fast timetable for withdrawal."

Mr. Obama said Wednesday in a CNN interview that he believed his new Afghan policy needed to include an "endgame" because "unless

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PAGE TWO

Embarrassing corporate soap opera heads toward a happy ending

[AGENDA]

By Patience Wheatcroft

The concept of corporate governance has provided sustenance for a myriad of committees and think tanks. It has generated lucrative employment for armies of consultants and authors and been pored over in acres of newsprint.

Yet the success of a business, its attitude and ethics as well as its profitability, ultimately depends not on a boardroom stacked with experience and ability but on the quality of the team at the very top. That is why the share prices of two U.K. firms moved significantly higher as each announced pivotal new appointments. Investors believe Marc Bolland and Archie Norman will make a big difference at Marks & Spencer and **ITV**.

The pair demonstrate that the market for commercial expertise is truly international. Bolland is a Dutchman with experience of working in such diverse locations as eastern Europe and the Congo. Norman is deputy chairman of **Coles Group**, the second largest retailer in Australia. Now, each is stepping into a high profile position in companies that attract attention disproportionate to their size, Bolland as chief executive of retailer Marks & Spencer and Norman as chairman of U.K. television business, ITV.

To say that neither case has provided an object lesson in successful succession planning would be to understate the embarrassing processes that have led to the two positions being filled. Yesterday, the ITV Web site had as its main press release the proud announcement "Macleans to sponsor ITV's Dancing on Ice."

Bloomberg News

The Marks & Spencer flagship store on Oxford Street in London

But the toothpaste manufacturer would surely have shied away from sponsoring the soap opera that centered on the M&S and ITV recruitment process, not wishing to be associated with such a depressing saga.

The hunt for talent to lead the two companies became every bit as public as that which now forms such a hefty component of television airtime. Candidates weren't quite auditioned in front of a paying audience, but their identities became widely known, in a way that is inevitably destabilizing, both for the staff in need of a leader and those working for the potential boss.

So loud became the speculation that candidates lined up to deny they had any interest in deserting their current posts in favor of M&S or ITV. Others found details of their supposedly private negotiations leaking out of the boardroom and into the public arena. Did Tony Ball, former CEO of Sky television, really demand a potential £42 million for five years work at ITV? It seems this was one sticking point that prevented that contract being signed.

Now both companies have netted individuals who look well qualified to help steer them through the difficulties they undeniably face. Yet the celebrations can't yet be wholehearted, for the recruitment process isn't yet complete. Marks & Spencer is now looking for a chairman and ITV for a CEO.

Given the crucial nature of the relationship between chairman and chief executive, recruiting for one when the identity of the other is unknown is never ideal. It is particularly problematic for a would-be CEO to take on the role without a clear idea of the identity of the person above him in the corporate hierarchy.

If anyone needed reminding of that, then last week's abrupt departure of Ian Smith from the chief executive's office at media group **Reed Elsevier** would have provided a resounding reminder. Smith had spent just eight months in the job, but, when he joined, there was a caretaker chairman. He was rapidly replaced by Anthony Habgood, a no-nonsense industrialist who fairly quickly formed the view that Smith wasn't the right man for the job. Smith might now consider capitalizing on his experience by penning a book on corporate governance.

If he does, he should devote some pages to the need for companies to avoid combining all the power at the top of a company in one individual. That is the real lesson to be learned from the mire in which M&S and ITV unnecessarily plunged themselves.

Faced with falling audiences and sales, ITV had turned to the charismatic Michael Grade, a man born into a show-business dynasty, to restore its fortunes. At the time, he was chairman of the **BBC** but Grade was tempted back into the private sector with the offer of the executive chairmanship. That he should be able to move seamlessly from one organization to head its archrival raised a few eyebrows but the BBC didn't put any obstacles in his way.

Over at M&S, trading was tricky and the chief executive was clearly under pressure. He argued, rather surprisingly, that it was a time to give said CEO more power and make him executive chairman. Sir Stuart Rose's elevation came in for heavy criticism but he was determined to take on the role.

ITV has fared the worse under such concentrated power structures. Now that each has accepted that two heads are better than one, they still have half of the top team to find. At least now though the contenders to be chief executive of ITV and chairman of M&S will have the encouragement of knowing they will be working with experienced and capable individuals. Archie Norman won't want to get involved in programming decisions at ITV and knows how to be a supportive, and nonexecutive, chairman. (Whatever the title says, not all chairmen are capable of the latter.)

Marc Bolland has demonstrated he is an effective chief executive, and that he has no experience of selling clothes should be no hindrance to him developing a team that does at M&S. The two companies are on the way to sorting out their structures but it shouldn't have been such a painful process.

What's News

■ **Ferrero confirmed** it had entered the preliminary stages of planning a rival bid for Cadbury, throwing itself into a high-profile international corporate battle and switching gears from its insular management style. 3

■ **John Paulson**, who made billions in profits wagering against the housing market and financial firms, is launching a fund dedicated to bullion-related investments. 21

■ **The BOE was divided** on deciding the appropriate level of bond purchases at its Nov. 5 meeting, marking the first three-way split in the vote since August 2008. 4

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■ **Iran's foreign minister** appeared to rule out sending low-enriched uranium overseas for further processing. 1

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New Europe

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"The palace is a part of Warsaw, just like communism is a part of Polish history."

Marynia Kruk, on calls by Poland's foreign minister to demolish the Stalin-era Palace of Culture and Science

Continuing coverage

Follow developments as European leaders meet to choose an EU president at **europe.wsj.com**

Question of the day

Vote and discuss: Which potential bidder is the best fit with Cadbury?

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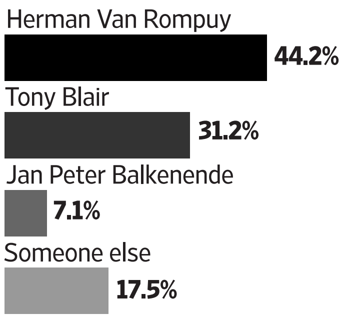
Yesterday's results

Q: Who should be chosen as the first EU president?



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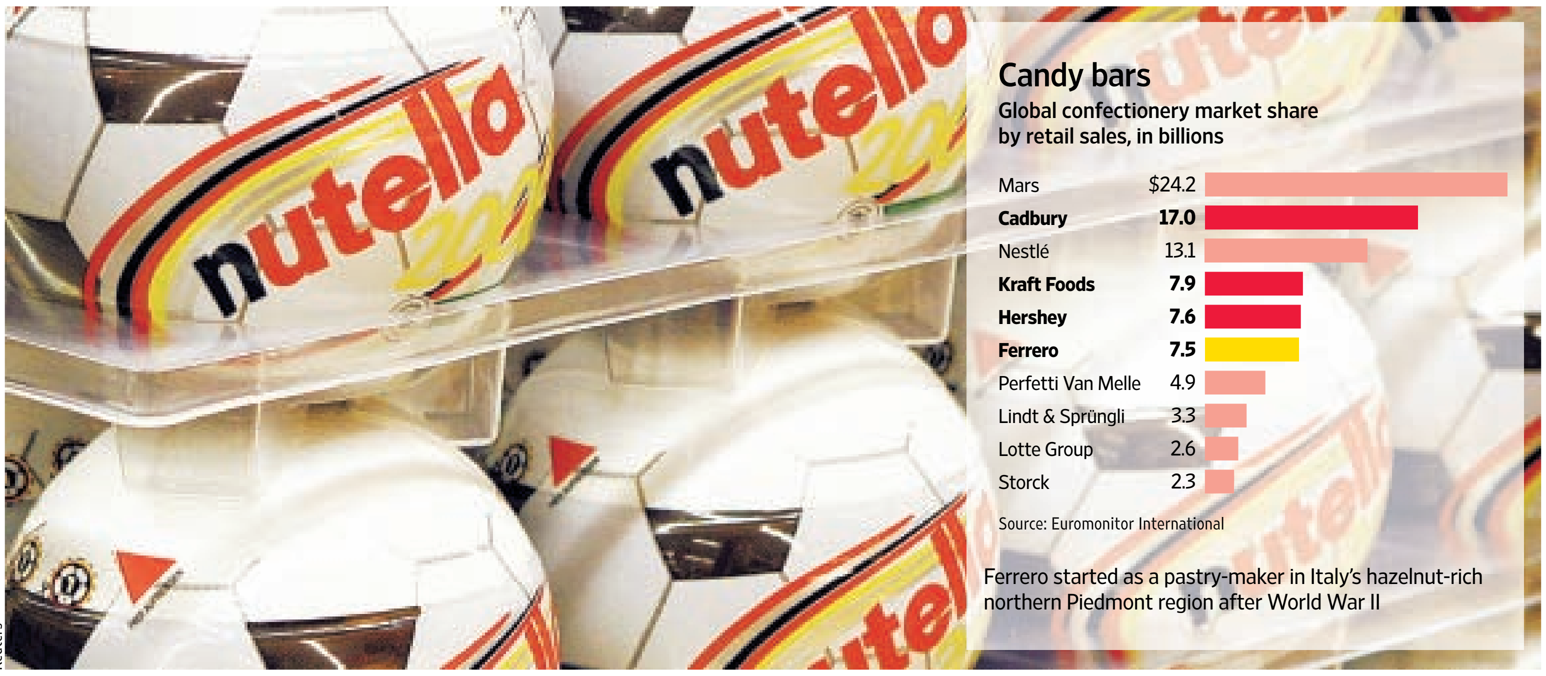

Reuters

Ferrero started as a pastry-maker in Italy's hazelnut-rich northern Piedmont region after World War II

Corbis

Pietro Ferrero, co-CEO of Ferrero, pictured earlier this year at a cocktail party at Michel Lacoste's home in Geneva.

Ferrero enters uncharted territory

The Italian owners will have a tough time matching the heft of heavy hitters Cadbury, Kraft and Hershey

By Stacy Meichtry

ROME—In weighing a potential bid for **Cadbury** PLC, **Ferrero** SpA is throwing itself into a high-profile, international corporate battle, switching gears from the insular management style that has guided the company for more than a half a century.

Ferrero on Wednesday said it is in the "preliminary stages" of planning a rival bid to **Kraft Foods** Inc's $16 billion offer for British candy maker Cadbury. If the smaller Italian chocolate company moves forward, Ferrero and the brothers who run it, Pietro and Giovanni Ferrero, would be faced with unprecedented market scrutiny.

Ferrero belongs to a breed of family-owned European candy companies that include German gummy bear maker **Haribo** GmbH and **August Storck** KG, which makes the Werther's Originals and Toffifee brands, as well as Belgian chocolatier **Confiserie Leonidas** SA.

Ferrero used pasta gianduja — a butter-like paste that combined hazelnuts with cocoa butter and vegetable oil — to form the basis of Nutella's recipe.

"We're talking about a closely held firm that has shied away from limelight. This will put them under the public microscope," said Raphael Amit, a professor of management at the University of Pennsylvania and the chairman of the Wharton Global Family Alliance forum. Many family-owned companies, Mr. Amit said, have often been wary of providing potential lenders with detailed earnings forecasts and other financial data about their companies in order to secure financing for large deals.

Ferrero shouldn't have much trouble lining up financing. Ferrero posted net profit of ·€371 million ($552 million) for the year through August 2008, the most recent results available, compared with ·411 million a year earlier, according to filings with the Chamber of Commerce in Luxembourg, where Ferrero has its corporate headquarters. Operating profit fell to ·€504 million from ·€605 million. The firm had ·€168 million in cash on hand at the end of August 2008, according to the filings.

Over the decades, Ferrero has developed a reputation for privacy—in the boardroom and factory floor.

After World War II, as he worked in his small pastry shop in the Northern Italian town of Alba, Pietro Ferrero began experimenting with new ingredients for chocolate-like sweets because cocoa was in short supply. He settled on pasta gianduja: a butter-like paste that combined hazelnuts with cocoa butter and vegetable oil. The recipe, the basis of what later became known as Nutella, was kept a family secret.

As demand for the paste took off, the family decided not to rely on the wholesalers who traditionally distributed confections, and instead rolled out its own fleet of trucks, emblazoned with a Ferrero logo, that delivered the paste directly to shopkeepers. In the 1960s Mr. Ferrero's son, Michele, took over the family business and quickly expanded it into foreign markets, opening subsidiaries and factories across Europe. The company shunned acquisitions, and instead broke into foreign markets by introducing new products catered to local tastes.

Nutella paste was initially marketed in France as La Tartinoise, for example. Facing stiff competition from peanut-butter makers in North America, Ferrero carved out a niche in the U.S. by introducing Tic Tac mints. Kinder Surprise, hollowed chocolate eggs embedded with toy figurines, were rolled out across Europe in 1989. Since the 1990s the group has focused on expanding into Eastern Europe and Russia.

Cadbury said Wednesday it would consider any takeover bid but that it has yet to receive one delivering "full value" and instead is focused on remaining a stand-alone company **Hershey** Co. said Wednesday it was "reviewing its options" regarding Cadbury. The Hershey, Penn., company's chief executive, David West, has spoken with Ferrero bankers in recent weeks about teaming up to buy Cadbury.

Ferrero didn't specify Wednesday whether it was in talks with Hershey regarding Cadbury and declined to comment further. Hershey and Ferrero each said there's no certainty any proposal will develop.

The Italian chocolate maker has a number of other options in bidding for Cadbury, according to a person familiar with the matter who declined to elaborate. The person said the brothers, who have managed the company since the late 1990s, have the support of their father, Michele Ferrero.

Linking up with Cadbury and Hershey would extend Ferrero's reach into key markets such as the U.K., where Ferrero's share of the chocolate market is 3%, and in the US.., where the company has 1% of the chocolate market, according to J.P. Morgan.

However, some analysts say Ferrero and Hershey could have difficulty reaching an agreement over how to either share or divide up Cadbury's lucrative chocolate business, which accounts for 45% of Cadbury's sales, according to J.P. Morgan. Cadbury's gum business, which represents 33% of sales, competes in a tough market with Mars-Wrigley.

A reason "the joint bid may not work is that in our view, Ferrero might be more interested in the chocolate business than the gum business," J.P. Morgan analyst Pablo E. Zuanic wrote in a research note Wednesday.

—Dana Cimilluca contributed to this article.

U.K.'s Labour details policy agenda

Conservatives assail pledges in 'queen's speech' as electioneering by a party behind in most polls before national vote

By Paul Sonne
And Alistair MacDonald

WPA Pool/Getty Images

Prime Minister Gordon Brown, left, walks to the House of Lords with Conservative Party leader David Cameron Wednesday for the opening of Parliament in London.

The U.K.'s Labour Party government on Wednesday laid out its final legislative program before next year's general election, with a raft of populist promises that were quickly dismissed by opposition politicians as election-year rhetoric.

The queen's speech, written by the government and delivered by the monarch to set out Britain's legislative agenda for the next parliamentary session, detailed Prime Minister Gordon Brown's plans to tackle fallout from the recession and guarantee public services.

"My government's overriding priority is to ensure sustained growth to deliver a fair and prosperous economy for families and businesses as the British economy recovers from the global economic downturn," Queen Elizabeth II said during the speech in the House of Lords amid full pomp and royal regalia.

Opposition leaders quickly branded the speech a party manifesto rather than a legislative program. With an election looming by June, Mr. Brown's Labour Party is well behind the opposition Conservatives in most polls. The Labour Party hopes this agenda will help it portray itself as a government that, despite the recession, is still committed to funding public services. It aims to contrast that with what it says will be indiscriminate Conservative spending cuts. The Conservative and Liberal Democrat parties have warned that most pledges in the speech won't become law before the election.

Conservative leader David Cameron, who has called the queen's speech a "political exercise" and a "waste of time," criticized Mr. Brown's government in Parliament Wednesday for failing to include immigration, parliamentary expenses or health care in the speech.

"What the prime minister is trying to do here is basically legislate a whole series of ideas saying that virtue is good, and then trying to dare his opponents to vote against them," Mr. Cameron said. "We're not falling for that one."

Mr. Brown defended his government's proposals. "We are responding to new national needs," he said, noting that the proposals weren't a reflection of party politics but of Britain's interests more broadly.

Among the legislative proposals detailed in the speech was the fiscal responsibility bill, to be published next month, which puts into law a promise to halve Britain's record deficit within 4 years. To meet the target, Mr. Brown's government has proposed tax increases and a lower rate of growth for government expenditure and is set to announce further ways to raise or save funds early next month. Next year the U.K. deficit is estimated to hit between 12% and 14% of gross domestic product, making it the biggest in the developed world.

"Everybody views halving the U.K.'s deficit as a mammoth task," said Jon Sibson, senior government and public sector analyst at PricewaterhouseCoopers LLP. Mr. Sibson said much will depends on the details, such as when the clock starts ticking. The Liberal Democrats' Treasury spokesman, Mathew Oakeshott, dismissed the announcement of a bill to halve the deficit as "the posturing of a banana republic rather than serious law-making for the Mother of Parliaments."

A financial-services bill, scheduled to be unveiled by Mr. Brown's government Thursday, was also included in the queen's speech. It would give the Financial Services Authority, the country's regulator, the power to clamp down on executive bonuses. The initiative, if passed, might mark the first time a regulatory agency in a major world economy wields the power to nullify individual remuneration contracts, according to observers. The bill also demands greater disclosure of top-executive pay and proposes that banks develop so-called living wills, or plans for their own failure that would render reliance on taxpayers a last resort, a Treasury spokesman said.

In a statement Wednesday, the British Banking Association warned that the proposals of Mr. Brown's government could put the U.K. banking industry at a disadvantage. "Our concerns remain that moves to bind how our banks operate at home and overseas could put the industry at a serious disadvantage and discourage global banks from coming to the U.K.," the association said. "This would be a major problem for jobs, the taxpayer and the wider economy as well as bad for business."

In the queen's speech, Mr. Brown's government also proposed bills to address child poverty, home care for the elderly and differences in pay between men and women. The speech included mention of legislation to make major changes in the House of Lords in a move that the government hopes will rid the house of its remaining hereditary peers and give the parliamentary body a democratic mandate.

Other planned bills would enshrine in law the government's commitment to abolish child poverty by 2020. The government also affirmed its commitment to devote 0.7% of national income to international development from 2013.

War planners shift focus to Afghan exit strategy

Continued from first page

you impose that kind of discipline, [U.S. policy] could end up leading to a multiyear occupation that won't serve the interests of the United States."

Mr. Brown, however, has been more explicit. The British leader has said he wants an international conference next year to come up with a "process for transferring district-by-district to full Afghan control," handovers he believed could begin as early as next year.

Even the less-firm timetable proposed by Mr. Obama has raised concerns, however. Officials in the U.S. and in Asia argued that even an unstated exit strategy could encourage the Taliban to wait out allied forces and exacerbate longstanding fears in Afghanistan and Pakistan that the U.S. wasn't committed to the region over the long term.

"It's not a good idea," said Rep. Ike Skelton (D., Mo.), chairman of the House Armed Services Committee and one of the most prominent Democratic supporters of counterinsurgency plans proposed by Gen. Stanley McChrystal, the U.S. commander in Kabul.

"When the area has been stabilized ... then it's time to go home. But to set up a timetable for people in that neck of the woods, they'll just wait us out."

Opinion over the efficacy of a timetable is divided within the administration as well as in the Pentagon. Some senior military officials involved in Afghan policy said getting the Afghan government to agree to benchmarks tied to a schedule could spur officials in Kabul—particularly President Hamid Karzai—to meet governance goals the U.S. says are essential to turning around local opinion.

"He won't act if he thinks we'll be there forever, and with constantly increasing numbers of troops," said a senior military official with recent experience in Afghanistan.

U.S. Secretary of State Hillary Clinton, on an unannounced visit Wednesday to Kabul to attend Mr. Karzai's inauguration Thursday, continued to pressure the Afghan president to overhaul his government to make it more responsive to the electorate.

"There is now a clear window of opportunity for President Karzai and his government to make a new compact with the people of Afghanistan to demonstrate that now there will be accountability and tangible results to improve the lives of people throughout this country," Mrs. Clinton told U.S. Embassy staff.

People familiar with U.S. deliberations over Afghanistan said the issue of timelines could have a direct effect on Mr. Obama's decision on troop deployments.

A military official briefed on the deliberations said a decision on timelines is likely to affect the "mix" of how additional forces are used between three different missions: direct combat with Taliban fighters; securing urban areas to protect local populations; and training Afghan security forces. A decision to push for a quick ramp-up of Afghan forces may lead more of the reinforcements to be deployed as trainers for Afghan army and policy units, the official said.

Another military official said a sped-up training effort could lead to an "effectively sized" Afghan force by 2013, which would allow North Atlantic Treaty Organization troops to concentrate on training and providing support to domestic security forces.

"There are of course many factors that could influence this—including what the enemy and population do to hedge their bets against an established withdrawal date, which is why we generally don't like to discuss timelines," said the military official of the 2013 goal.

—Anand Gopal and Alan Cullison in Kabul contributed to this article.

Goodbye to the Middle East

Agence France-Presse/Getty Images

Carla Bruni, left, and French President Nicolas Sarkozy leave Qatar after a tour of the Middle East. Mr. Sarkozy has said his country is ready to mediate between Syria and Israel and warned that extremists could benefit from a continued deadlock in the peace process.

EU can't pick leader—or job duties

Belgium's Van Rompuy remains odds-on favorite for nebulous role; Germany lets its choice slip?

By Charles Forelle

BRUSSELS—European Union leaders scrambled without success Wednesday to decide who should become the bloc's first president—but they don't even see eye-to-eye on what the eventual winner should do.

Though EU governments had years to mull over what the president's role will be in office, questions over authority and scope of the job remain alive just a day ahead of a summit called to appoint new leaders.

In part, that is because the job description itself is the thinly defined result of a years-ago compromise—just five clauses of vague responsibilities in the giant compendium of EU law.

Herman Van Rompuy, the Belgian premier, remains the bookies' favorite on the theory that the leaders will opt for a lower-profile president. Indeed, a German diplomat appeared to let slip that Mr. Van Rompuy was Germany's choice.

"Germany thinks that the Belgian prime minister is a good candidate for the EU presidency," the German ambassador to Belgium said in an interview printed Wednesday in the Belgian newspaper De Morgen. "Chancellor Angela Merkel and her government are supporting Van Rompuy for the job."

A German government official said the ambassador, Reinhard Bettzuege, was misquoted, and that no decision has been made by Berlin on whom to support. (The newspaper couldn't be reached.)

The president's job was outlined a half-decade ago when the EU tried unsuccessfully to give itself a constitution. It was a compromise between large countries eager for a strong personality to hold sway over the bloc and small countries who wanted a consensus-builder to ensure their interests didn't get trampled.

The constitution bid failed when French and Dutch voters rejected it in 2005, but the post of president and also that of a powerful foreign minister survived in a less-ambitious reworking of the constitution, the Lisbon Treaty, which was finally ratified last month.

> If it has a short description, the European Union president's job has a long history.

In that document, the president's duties are to head up the sessions of heads of state, "ensure the preparation and continuity" of the sessions' work, "facilitate cohesion and consensus" among countries, and represent the EU in foreign-policy matters alongside the foreign minister.

"It was left pretty inchoate," says Jo Shaw, a professor at the University of Edinburgh who studies European institutions.

Andrew Duff, a member of the European Parliament who served on the body's delegation to the constitutional convention, says the lack of detail was, in a way, deliberate.

In the Lisbon Treaty, pages are devoted to the roles of the president of the European Commission, the bloc's executive arm; and the new foreign minister—both jobs are defined in "far fuller and more precise detail" than the president's, Mr. Duff says. That "implies that their jobs are more powerful."

If it has a short description, the president's job has a long history. It arose earlier this decade as the bloc was preparing to take on 10 new countries in Eastern Europe.

The EU has a system of rotating presidencies, in which each country takes a six-month term at the helm of the European Council, the assembly of the national leaders—a system that many believed would be unwieldy with the additional countries. (Today, with 27 nations, each sits in the chair around seven times a century.)

During the constitutional deliberations, the notion of a more-permanent council president was put forward by José Maria Aznar of Spain, Tony Blair of the U.K. and Jacques Chirac of France. It became known as the ABC Proposal.

From the getgo, it was seen as a power grab by big countries, says Antonio Missiroli, the director of studies at the European Policy Centre, a think tank in Brussels. "All the smaller states opposed" it.

An unwritten "gentlemen's agreement" was struck, Mr. Missiroli says, under which the presidency would be created but a person from a small country would be the first office holder.

Though the constitution failed, "most of the smaller member states believe that deal should still be in force," Mr. Missiroli says.

In weeks and months past, a different vision emerged—a more-powerful president of the kind in the ABC proposal. Mr. Blair himself, a political superstar, was widely mentioned. France and Germany were said to favor a Blair-type personality.

But the tide has apparently since turned out again toward a lower-profile leader, such as Mr. Van Rompuy.

Swedish Prime Minister Fredrik Reinfeldt, charged with shepherding the selection process, said Wednesday there had been little progress on a decision despite marathon phone calls.

"I don't know if you have tried this, but good luck trying to get in contact with 26 heads of states within 24 hours," he said. The 27 leaders are set to meet Thursday for dinner in Brussels.

Ms. Merkel sounded an upbeat note about progress, saying she and French President Nicolas Sarkozy will vote for the same person to be the president—though she didn't say who that would be.

"We are in contact over this. I have no results to report yet, but I am optimistic that we will see a result tomorrow evening," Ms. Merkel said Wednesday following a two-day meeting of her cabinet.

As the EU's two largest countries, Germany and France have particular heft in the bloc's complex voting system, which gives more weight to bigger nations.

Bond-buying issue creates split at BOE

By Natasha Brereton And Paul Hannon

LONDON—The Bank of England's Monetary Policy Committee was divided on deciding the appropriate level of bond purchases at its Nov. 5 meeting, marking the first three-way split in the vote since August 2008.

Minutes of the meeting, released Wednesday, showed that external member David Miles voted to increase the quantitative-easing policy of buying bonds with freshly created central-bank money to £215 billion ($361.5 billion), rather than the £200 billion for which the seven-member majority opted.

BOE Chief Economist Spencer Dale preferred to keep the bond-buying policy unchanged at £175 billion, citing the risks to inflation and asset prices of trying to eliminate an uncertain margin of spare capacity more quickly.

"The vote at the minutes shows that all options are open," said Alan Clarke, U.K. economist at BNP Paribas. But "we have our doubts that the committee has the appetite to expand quantitative easing further," he added.

The bond-purchasing program, launched in March, is intended to support demand by increasing the supply of money and credit to households and businesses. It has yet to have a noticeable impact, with the U.K. economy contracting for the sixth straight quarter in the three months to September.

The division on the committee highlights the difficulties of setting policy amid a still uncertain economic outlook.

While the markets viewed the minutes as tending toward greater stimulus, the news that Gov. Mervyn King didn't vote for a larger increase in quantitative easing makes it more likely that the current £200 billion bond-buying target will mark the outer limit of the program.

The minutes also showed that the MPC discussed cutting the interest rate the bank pays on a proportion of commercial bank reserves. It judged that doing so would be unlikely to have a significant impact on the outlook but said it could be an option in the future.

All members of the MPC voted to keep the bank's key interest rate unchanged at its record low of 0.5%.

According to the minutes, the third-quarter contraction surprised MPC members, but they expect the economy to grow in the final three months of the year. By the time they next review the program in February, they should have received an official estimate of fourth-quarter growth.

Many economists believe that will be strong enough to persuade the MPC to leave the bond-buying program unchanged.

"With the economy almost certainly returning to growth in the fourth quarter and inflation now moving back up and set to spike up markedly over the next few months, we suspect that November marked the final extension to the … program unless the economy suffers a major relapse in 2010," said Howard Archer, an economist at Global Insight.

‘Maladministration’ on Intel

European ombudsman says the EU regulator didn’t handle the antitrust case correctly

By Charles Forelle

BRUSSELS—The European ombudsman said European antitrust regulators had committed “maladministration” in their case against **Intel** Corp. by not documenting a “potentially exculpatory” interview with a witness.

The finding, released Wednesday, will have little direct effect on Intel’s antitrust fight in the European Union, but it is an embarrassing black eye for the regulator and could serve as ammunition for critics who say its procedures are in need of greater oversight or reform.

In May, the EU’s regulator concluded that the chip giant had illegally used rebates to induce customers not to do business with its rival **Advanced Micro Devices** Inc. and ordered Intel to pay a $1.45 billion fine.

Intel has appealed the EU’s decision, and the company could use the ombudsman’s findings as it presses its case, but the court isn’t obliged to act on them.

The decision by the ombudsman, P. Nikiforos Diamandouros, was reached in July, and its details were reported by The Wall Street Journal in August. The ombudsman has spent the intervening months determining what information to redact before releasing the finding publicly.

According to the ombudsman’s report, an executive from Dell Inc. met in 2006 with EU antitrust regulators. Exactly what happened in the meeting isn’t known, because EU officials didn’t record contemporaneous notes.

Intel said the Dell executive expressed concerns with the performance of AMD products, which would lend credence to Intel’s argument that computer makers were avoiding AMD for technical reasons, not because of anticompetitive conduct.

Intel complained to the ombudsman in July 2008 that the failure to record the Dell executive’s statement was prejudicial to its case.

The ombudsman concluded the EU should have made a record of the meeting. The finding of maladministration is the most serious sanction the ombudsman can issue.

A statement by the spokesman for Competition Commissioner Neelie Kroes said the regulator “does not agree with the Ombudsman’s position” that formal notes should have been prepared.

For its part, Intel said in a statement that it “has consistently said that [the regulator] ignored evidence that was potentially exculpatory for Intel and that it was selective in its use of other evidence.”

Last week, Intel and AMD settled their legal disputes, including a private antitrust suit brought by AMD. Intel paid AMD $1.25 billion. That settlement doesn’t affect regulatory inquiries into Intel in the U.S. and Europe.

Paul O’Driscoll for The Wall Street Journal

Commissioner Neelie Kroes said the regulator didn’t agree that it should have prepared formal notes of a meeting with a Dell executive.

Cancer sidelines German Left leader

By Marcus Walker

BERLIN—Germany’s populist Left party, which has shaken up the country’s politics in recent years, faces an uncertain future after its charismatic chairman, Oskar Lafontaine, said he has cancer and is temporarily bowing out of politics.

Mr. Lafontaine said he will decide on his political future early next year, depending on his recovery and prognosis following an operation scheduled for Thursday. He wouldn’t say what kind of cancer he has.

The 66-year-old firebrand’s surprise announcement comes as a blow to the Left party less than two months after its gains in Germany’s elections in September, when it won 12% of the national vote and established itself as a strong voice of opposition to Chancellor Angela Merkel’s conservative-led government.

If Mr. Lafontaine retires, it could hurt the Left’s popularity. His vagueness about his illness also leaves open the possibility of a comeback. But his health problems are adding further fuel to a debate about his uncompromising style of leadership, which many in his party resent.

The Left wants to reverse Germany’s market-oriented overhauls of the past decade, including cuts to welfare benefits and privatizations of industry, and end Germany’s military presence in Afghanistan.

The popularity of those demands with many pacifist, business-skeptical German voters has prompted Germany’s established parties, including the moderate-left Social Democrats and Ms. Merkel’s Christian Democrats, to shift leftward.

Agence France-Presse/Getty Images

Oskar Lafontaine, the leader of Germany’s Left party, attends a regional parliament session in Saarbrücken in Western Germany, on Wednesday.

Mr. Lafontaine has been one of Germany’s highest-profile and most controversial politicians for over two decades. As the Social Democrats’ leader in the 1990s, he fought for old-school left-wing policies of strong union rights and welfare entitlements.

He became German finance minister in 1998 under then-chancellor Gerhard Schröder but resigned after only seven months, after clashing with Mr. Schröder over the chancellor’s business-friendly course.

During that short stint as finance minister, Mr. Lafontaine also fell out with the U.K. after calling for common tax rates across the European Union. A British newspaper suggested Mr. Lafontaine might be “the most dangerous man in Europe.”

Mr. Lafontaine defected from the Social Democrats, arguing the party’s market-oriented policies betrayed its left-wing roots, and became head of the new Left party, which was created in 2007 by a merger of East Germany’s former ruling Communists and an alliance of western German leftists.

His forceful personality and sharp tongue have turned the party from a pariah into a national force, winning votes especially at the expense of the Social Democrats.

Mr. Lafontaine’s clout has helped the Left to break out of its eastern heartland and build support in more conservative parts of Germany’s West. In August, the Left won 21% of the vote in Mr. Lafontaine’s home province, the western state of Saarland.

However, many in the party’s eastern wing have criticized Mr. Lafontaine as too ideologically rigid, and favor a more pragmatic stance, so that the Left can enter into governing coalitions at state and federal levels.

The strong animosity that many Social Democrats feel toward Mr. Lafontaine over his defection is another obstacle to cooperation between the two left-leaning parties.

One of the Left’s leading eastern figures, Bodo Ramelow, said this week that the Left should look beyond Mr. Lafontaine, regardless of his cancer, citing Mr. Lafontaine’s age.

“When the king weakens, the princes start to fight over the throne,” said Gero Neugebauer, a political scientist at Berlin’s Free University.

The Left’s eastern members “want to be a party of government—that’s their tradition from East German times,” said Mr. Neugebauer.

Mr. Lafontaine, however, is close to radical leftists in the party’s western wing whose utopian ideas make coalition deals difficult, Mr. Neugebauer says.

Speculation about Mr. Lafontaine’s future has surrounded him since he surprisingly announced in October that he wouldn’t continue to lead the Left’s caucus in Germany’s parliament, his main job besides heading up the national party.

New fight brews on extension of shoe tariffs

By Matthew Dalton

BRUSSELS—European Union trade officials are expected to oppose a proposal by the bloc’s executive arm to extend controversial duties on shoes imported from China and Vietnam, EU diplomats said Wednesday.

Officials representing the 27 EU governments are gathering Thursday in Brussels to discuss the European Commission’s proposal, which would extend the duties by 15 months. There are likely to be 15 or 16 countries opposing the plan by the commission, diplomats say.

The debate is pitting European countries where shoemakers are concentrated—mainly Italy, Portugal, Romania, Spain and Poland—against countries such as the U.K. and Sweden that tend to oppose trade tariffs and where shoe production has largely moved overseas.

Denmark, one of the staunchest opponents of extending the duties, said the added costs of the tariffs for consumers far outweighed their benefits to shoemakers.

“This kind of unjustified taxation of European importers and consumers will not get my support,” said Lene Espersen, Danish vice prime minister and minister for economy and business affairs.

If, however, the proposal is rejected Thursday by the committee as expected, it may still be sent to the European Council, where ministers from the 27 countries will vote on it. The outcome of that vote could be different as supporters of extending the duties could persuade other countries to change their votes, diplomats say.

The commission’s proposal claims that Chinese and Vietnamese shoe companies are dumping their products into the EU at below-market prices. The duties, which have been in place since 2006, would continue to be 16.5% on Chinese shoes and 10% on Vietnamese shoes under the commission’s proposal.

Global corporations, such as **Adidas** AG and one of Adidas’s main suppliers, Hong Kong-based shoe manufacturer **Yue Yuen Industrial Holdings** Ltd., have fought hard to end the duties. But European shoemakers in June 2008 asked the commission to extend the duties, and the commission agreed to examine the issue. The duties apply to leather footwear, which excludes most sneakers.

Over the past decade, Chinese and Vietnamese exporters have chipped away at the EU market share of European shoemakers, which has decreased to between 40% and 45% from around 60% in 2001. Supporters of extending the duties say they have prevented even more market-share losses by European shoemakers.

The case has been a top priority for the Chinese government, as millions of people in China are employed in the footwear industry. About 250,000 Europeans work in the European leather-goods industry, most of whom are employed making shoes.

Divide grows over how U.S. should push for job growth

[Capital]

By David Wessel

With the official unemployment rate at 10.2% and rising, pressure on the government to do something—anything—to create jobs is mounting for obvious reasons. The question: What the government can, should and will do about it.

One camp says to just wait. The economy is growing again, albeit slowly. Stage one: Employers stop firing workers. Stage two: Employers extend the hours of their existing work force. Stage three: Employers, confident of recovery and unable to meet demand without more labor, resume hiring.

"Given the large dose of monetary and fiscal stimulus we already have pumped into the patient and the signs of a beginning recovery, it is probably better at this point to take a wait-and-see approach," advises Gregory Mankiw, the Harvard University economist who was among President George W. Bush's advisers.

Another camp—which includes elected politicians from both parties and several Obama economic and political advisers—wants to speed the healing and use government policy to quicken the arrival of stage three. "What we're seeing now is businesses are starting to invest again, they are starting to be profitable again, but they haven't started hiring again," President Barack Obama told NBC News this week. He said his administration is now trying to "figure out if there are ways of us accelerating that hiring."

After all, unemployment creates misery for families, weakens demand for businesses, wastes human potential and can have long-lasting ill effects on the pace of economic growth. It also breeds a political climate distinctly hostile to global trade and business.

"I have never seen anything like this," Sen. John McCain, the Arizona Republican, told The Wall Street Journal CEO Council conference this week. "The level of anger and frustration…at what we do in Washington and what you do on Wall Street."

He warned that, without some change, rising unemployment and yelps from credit-starved small business could bring to Congress next year a cadre of populist, protectionist, pro-regulation *Republicans*.

But the do-something camp is divided. The options fall roughly into two categories.

One set, with a distinctly Keynesian flavor, would aim not at increasing employment directly, but at increasing overall demand so employers hire more people. Consumers are in the dumps, their ability to spend constrained by lack of income and an urge to reduce debt burdens. Business is in a funk, shaken by the deep recession, distressed by uncertainty about health, tax and energy policy, and excessively cautious. State and local governments are struggling. The Federal Reserve already has cut interest rates to zero. So the federal government should step up, the argument goes.

That was the rationale for the much-maligned fiscal stimulus, and the rationale for another round. Lawrence Katz, a Democratic-leaning Harvard labor economist, for instance, advocates more no-strings aid to state and local governments "to ease their budget situation, prevent layoffs and furloughs and cuts in local services." He calls it the "most effective and quick fiscal stimulus out there."

"Increasing overall demand in the economy is important for jobs," says Lawrence Summers, Mr. Obama's economic adviser. "We're looking at a variety of job creation measures. Some would require spending; others would increase demand with little or no impact on the deficit."

But Mr. Obama shows little political stomach for pushing Stimulus II, resorting instead to stealth stimulus—little dollops such as the $250-per-senior checks he got Congress to approve recently. More big stimulus, of course, means more government borrowing and that makes some Obama advisers, already facing a massive deficit and doubts about the stability of the dollar, very uneasy.

So look for the administration to promote cheap ways to spur demand—attempts to increase the flow of credit to business, speed approvals for siting the new electricity grid and promote exports. Each will be marketed as creating jobs. In fact, everything the administration does from now on will be marketed as creating jobs.

The other set of options aims not at increasing demand and output, but at increasing employment directly. The government could cut the payroll tax temporarily, for instance, to make it a bit cheaper for employers to hire. Or it could offer a tax credit to spur hiring, attempting to design it so it would reward hiring that wouldn't otherwise occur, which is very difficult, or simply tying a tax credit to the expansion in an employer's total work force.

Or it could try a more modest share-the-pain or work-sharing effort, such as pushing more states to offer jobless benefits to workers who are forced to work part-time, essentially making up some of the lost wages as Germany's Kurzarbeit—"short work"—program does. Seventeen states do this now, including California.

Proponents of a jobs tax credit or payroll-tax holiday, both inside the administration and in Congress, say the government can and should nudge reluctant private employers to hire, and that the benefits—to workers and those who sell to them—will be significantly greater than the costs and abuse.

Detractors say that pushing more jobs without more output is unwise, a deliberate attempt to reduce productivity that sounds appealing but isn't. It's like taking away shovels and giving ditch-diggers teaspoons so more will have jobs.

There are advocates for both views inside the administration. But at the moment, the foes of a new big-ticket stimulus or a big jobs tax credit appear to have the upper hand.

U.S. home starts skid

Reversal leads some analysts to trim 4th-quarter growth forecasts

By Jeff Bater And Luca Di Leo

Reuters

U.S. home construction fell sharply in October, erasing months of gains. Above, a house being built by developer KB Homes in Gilbert, Ariz., in October.

U.S. home construction declined sharply in October, an unexpected reversal that led some analysts to trim their economic-growth forecasts for the last quarter of 2009.

Housing starts in October erased months of gains as uncertainty over renewal of a U.S. tax credit for home buyers increased builders' caution. They decreased 10.6% to a seasonally adjusted 529,000 annual rate compared with the prior month, the Commerce Department said.

As a result, economists at Macroeconomic Advisers lowered its fourth-quarter gross domestic product growth forecast to an annual 3% from 3.2%.

Economists surveyed by Dow Jones Newswires had forecast a 1.7% increase in October housing starts, to an annual rate of 600,000. The 10.6% fall carried construction to the lowest point in six months.

The report also said building permits slipped. Both single-family groundbreakings and apartment construction tumbled.

The surprise decline came as an $8,000 tax credit for first-time buyers approached a Nov. 30 expiration. This month, Congress approved the credit through April, ending months of speculation whether the incentive would be extended.

The housing sector is struggling out of the long slump that followed its big boom earlier in the decade. The big fall in October starts marks a setback in the sector's recovery.

Meanwhile, U.S. consumer prices continued to rise only moderately in October despite a sharp gain in energy prices, confirming the Federal Reserve's view that a slow economic recovery should keep inflation at bay. The seasonally adjusted consumer-price index rose 0.3% in October, the Labor Department said Wednesday, as energy prices increased 1.5%.

U.S. NEWS

Obama to press trade in South Korea

On final stop of Asian tour, U.S. president will focus on the stalled pact, as well as unified approach toward the North

By Jonathan Weisman
And Evan Ramstad

SEOUL—U.S. President Barack Obama arrived in South Korea, ready to solidify a unified approach toward North Korea but facing friction over free trade with the South.

The final stop on his Asian tour will offer Mr. Obama a respite after 2½ rocky days in China. White House aides said Mr. Obama is ready to discuss how to move forward on a U.S.-South Korea free-trade agreement that has been hung up for two years and faces new questions from the Obama administration over barriers to U.S. auto imports. That trade agreement is likely to top the agenda of his host, President Lee Myung-bak.

At the same time, Mr. Obama is preparing to dispatch Stephen Bosworth, his North Korea special envoy, to Pyongyang before the end of the year to press North Korea back to aid-for-disarmament talks with China, Japan, Russia, South Korea and the U.S.

On Thursday, Mr. Obama will spend three hours with Mr. Lee, a conservative former businessman who became president last year and took a harder line with North Korea than his two immediate predecessors did. Mr. Lee ended a decadelong policy of economic aid to North Korea with no strings attached, insisting it be conditioned on progress on disarmament. When Mr. Obama took office in January promising to reach out to North Korea, some South Koreans feared the two countries' approach to the North would fall out of sync.

Instead, North Korea tested weapons from March to July, including ballistic missiles and a nuclear device, and Messrs. Obama and Lee worked closely to impose new penalties on Pyongyang. And when North Korea in August turned on a charm offensive, the two leaders didn't budge.

Reuters

Anti-North Korea and pro-U.S. activists scuffle with policemen at a rally near the U.S. Embassy in Seoul on Wednesday.

In discussing preparations for Thursday's meeting, a senior aide to Mr. Lee noted that it was the first time in the nearly 20 years that North Korea has run its hot-and-cold pattern of diplomacy that neither the U.S. nor South Korea instantly dropped sanctions or penalties when Pyongyang shifted from belligerence to seeking talks.

The U.S. agreed last week to send Mr. Bosworth at North Korea's request, a step South Korea says it supports. But Mr. Lee is likely to seek assurance from Mr. Obama that the U.S. won't engage in prolonged talks with North Korea to the exclusion of South Korea and other nations in the multilateral talks.

The two leaders are likely to spend more time discussing how to push forward the free-trade agreement the two countries concluded in April 2007 but that hasn't been ratified by lawmakers in either one.

The agreement, the largest free-trade deal the U.S. has negotiated since the North American Free Trade Agreement with Canada and Mexico in the early 1990s, is expected to boost the $80 billion in annual two-way trade between South Korea and the U.S. by $10 billion to $20 billion about five years after ratification. U.S. food producers and auto makers stand to gain the most because Korean trade barriers are currently high in those markets.

But U.S. officials in recent weeks have said they may want changes in the auto section of the agreement, though they haven't announced specifics. South Korean officials are reluctant to reopen the pact because of domestic political pressure. They also note auto tariffs in both countries evaporate immediately upon ratification and there is a so-called snapback provision that allows the U.S. to reimplement tariffs if they believe South Korea is violating the pact.

"The question is whether we can get it done in the beginning of 2010, whether we can get it done at the end of 2010," Mr. Obama said of the trade agreement, in an interview with Fox News on Wednesday in Beijing. "There's still some details that need to be worked out. Overall, I think it's a potential good deal for U.S. exporters. But there's certain sectors of the economy that aren't dealt with as effectively, and that's something that I'm going to be talking to President Lee about."

Middle managers turn to crime amid downturn

By Paul Sonne

The economic downturn has caused a global upsurge in accounting fraud and induced more middle managers to commit economic crimes, according to a study released Thursday by PricewaterhouseCoopers LLP.

The Global Economic Crime Survey, which surveyed 3,037 corporate employees in 54 countries in conjunction with the Fontainebleau, France-based INSEAD Business School, also found that fraud was more prevalent in companies with high-variable, performance-based pay schemes for senior executives.

"If would-be fraudsters see that the bosses are taking out unfair, arguably-obscene amounts of money, it creates an environment that probably unwittingly attracts fraudsters from the inside," said Tony Parton, the London-based PwC partner who spearheaded the report. Mr. Parton said there was a correlation between instances of fraud and "the tone at the top."

With the economic downturn tempting more executives to cook the books, the survey found a notable jump in reported cases of accounting fraud. Among the 905 respondents who reported witnessing some sort of economic crime in the workplace, 38% cited occurrences of accounting fraud in the past year, compared to 27% who noted occurrences of accounting fraud over a two-year period in 2007.

The PwC report also found a marked increase in the incidence of economic crime committed by middle managers, who this year accounted for 42% of reported internal fraudsters compared with to 26% in 2007, when PwC last did the survey. The most common form of economic crime committed among middle managers was asset misappropriation, with middle-manager fraudsters most often exaggerating expenses or finding other ways to embezzle funds or property.

Mr. Parton says this increase in so-called "cappuccino crime," or offences committed by middle managers, makes sense because that cross-section of the workforce has felt a particular pinch during the downturn.

"In order to maintain their lifestyle, they need to supplement their income by unscrupulous means," he said.

U.S. NEWS

Getty Images

U.S. Attorney General Eric Holder appears Wednesday at a hearing before the Senate Judiciary Committee in Washington, where he faced criticism over his decision to try alleged 9/11 plotters in civilian courts.

Holder defends decision on 9/11 trial

U.S. attorney general pushes back against criticism of using civilian court in New York for case against alleged plotters

By Evan Perez

WASHINGTON—U.S. Attorney General Eric Holder for the first time Wednesday directly confronted some 9/11 families and other critics of his decision to try Khalid Sheikh Mohammed and four other alleged 9/11 plottters in a New York civilian court.

Family members of people killed on Sept. 11, 2001, sat in a Senate hearing room and applauded when a Republican senator mocked Mr. Holder over his assertion that the detainees now held at the Guantanamo Bay, Cuba, prison were more likely to be convicted in civilian courts than in military trials.

A heated exchange followed between Mr. Holder and Sen. Jon Kyl (R., Ariz.), who noted that Mr. Mohammed had already asked to plead guilty before a military commission.

Following the hearing, Alice Hoagland, whose son perished in the crash of Flight 93 in Pennsylvania, told the attorney general she opposed his decision, saying he gave "short shrift" to military commissions.

At Wednesday's hearing, Mr. Holder said one reason he chose civilian courts to try 9/11 detainees was a certainty of success. In response to questions about the possibility some detainees may not be found guilty, he said: "Failure is not an option. These are cases that have to be won."

The military commissions, as reconfigured under President Barack Obama, give the government greater leeway in evidence rules, allowing certain types of evidence, such as hearsay and coerced statements, that civilian courts don't.

Some civil libertarians have criticized Messrs. Holder and Obama for keeping military commissions alive and accused them of using the commissions in cases where they were unlikely to win convictions in civilian courts.

Mr. Holder announced last Friday that in addition to bringing Mr. Mohammed and four co-defendants to a civilian court, he was planning military tribunals for five other detainees at the Guantanamo Bay prison, including Abd al-Rahim al-Nashiri, alleged to have planned the 2000 bombing of the USS Cole.

Sen. Kyl asked the attorney general: "How could you be more likely to get a conviction in federal court, when Khalid Sheikh Mohammed has already asked to plead guilty before a military commission and be executed?

Mr. Holder, after some more prodding from Sen. Kyl, responded: "That was then. I don't know what Khalid Sheikh Mohammed wants to do now. And I'm not going to base a determination, on where these cases ought to be brought, on what a terrorist—what a murderer—wants to do."

The attorney general said using civilian courts to try 9/11 detainees didn't mean the administration is abandoning the view the U.S. is "at war" with terrorist groups.

Mr. Obama signed an executive order Jan. 22 to close the prison for terrorism suspects at Guantanamo Bay within a year. On Wednesday, during a visit to China, Mr. Obama for the first time said in a Fox News interview that his self-imposed deadline was likely to be missed, but he expressed hope that the prison could be closed next year.

The Obama administration has found key support for civilian trials in New York from that city's mayor, Michael Bloomberg. The city estimated its cost for a one-year trial would be $75 million.

Mr. Holder, at Wednesday's hearing, said he would support the mayor's request to be reimbursed by the federal government for the costs associated with hosting the trial.

—Suzanne Sataline contributed to this article.

FBI sees terrorists exploring cyber attacks

By Siobhan Gorman

The Federal Bureau of Investigation is looking at people with suspected links to al Qaeda who have shown an interest in mounting an attack on computer systems that control critical U.S. infrastructure, a senior official told Congress Tuesday.

While there is no evidence that terrorist groups have developed sophisticated cyber-attack capabilities, a lack of security protections in U.S. computer software increases the likelihood that terrorists could execute attacks in the future, the official warned.

If terrorists were to amass such capabilities, they would be wielded with "destructive and deadly intent," Steven Chabinsky, deputy assistant director of the FBI's Cyber Division, told the Senate Judiciary Committee.

"The FBI is aware of and investigating individuals who are affiliated with or sympathetic to al Qaeda who have recognized and discussed the vulnerabilities of the U.S. infrastructure to cyber-attack," Mr. Chabinsky told the committee, without providing details.

Such infrastructure could include power grids and transportation systems.

The control systems of U.S. infrastructure as well as money transfers are now connected directly or indirectly to the Internet. Hackers have been able to penetrate computer systems running components of the U.S. electric grid as well as divert bank transfers.

In an interview Tuesday, former Homeland Security Secretary Michael Chertoff said al Qaeda already has some cyber-attack capability. "I don't think they're the most capable in the world, but they have some capability," he said.

Getty Images

Former Homeland Security Secretary Michael Chertoff, shown in September, says al Qaeda is capable of cyber attacks.

Mr. Chertoff said he expects al Qaeda to develop more cyber-attack skills that would allow them to attack infrastructure that is less well protected, perhaps in the transportation and energy sectors. "It's only a matter of time," he said.

WORLD NEWS

Armed U.S. ship beats back pirates

The Maersk Alabama, captured in April, used weapons, evasive maneuvers and a new acoustic device to repel attack

By Sarah Childress

European Pressphoto Agency

The Maersk Alabama, seen in a file photo after its April capture, escaped a second hijacking by pirates off the Somalia coast after its security personnel opened fire.

NAIROBI, Kenya—The Maersk Alabama, the American-flagged ship captured briefly by pirates in April before a dramatic rescue of its captain, came under fire again early Wednesday morning off the Somalia coast, but evaded the attackers.

Four men in a skiff sped within 300 yards of the container ship, firing automatic weapons in an attempt to board it, according to the U.S. Navy's Fifth Fleet. A security team aboard the Alabama fired back and managed to fend off the attack, the Navy said.

The onboard security detail was a private contractor, not a military detachment, according to a Fifth Fleet spokesman. A U.S. P-3 surveillance aircraft established radio communication with the ship's captain Wednesday, and the ship reported that all aboard were safe and that the ship was proceeding to its next port of call.

In the attack, the Alabama's crew also took evasive maneuvers and used a new technique to repel pirates: deploying a long-range acoustic device that emits high-pitched sounds painful to the human ear.

A Somali claiming to represent the pirates, speaking by phone from Xaradheere, a pirate stronghold in Somalia, said the U.S.-flagged vessel narrowly escaped capture. His account matched details provided by U.S. and European military officials, lending credence to his claims of speaking for the pirates.

"It narrowly escaped and opened fire on us," said the man, who identified himself as Abdullahi Nor, a pirate spokesman. "One of our colleagues was injured in the attack." Mr. Nor said he had spoken to the would-be hijackers by satellite phone.

A vessel from the European Union Naval Force Somalia, a mission set up to fight piracy, was dispatched in an attempt to track down the skiff.

The U.S. Navy said that the Maersk Alabama is en route to Mombasa, Kenya, its original destination. It is expected to arrive early Sunday morning.

Amid a sudden jump in pirate attacks off the east coast of Africa, the shipping industry has adopted a raft of new "best practices," policies and guidelines used by shipping crews and owners to help defend against piracy. They include using water hoses to knock pirates from their ladders, lacing a ship's railings with barbed wire, and making evasive maneuvers when under attack.

The shipping industry so far has stayed clear of endorsing the use of armed security. But amid the recent surge in attacks, a few ship owners and operators have chosen to do so.

Most shipping companies fear that armed personnel could increase liability and the possibility of violence. The Maersk Alabama's use of a private security firm is still rare, piracy analysts said.

"The industry does not currently encourage or advocate the carriage of any form of arms onboard the vessels," said Cyrus Mody, the manager of the International Maritime Bureau.

Kevin Speers, a spokesman for Maersk Line Ltd., said the company revised its security plan for the Maersk Alabama to include armed security after the ship was boarded by pirates in April.

"Armed security is not the preferred route," Mr. Speers said, but he added that the company decided to hire the guards because the Alabama regularly sails in the high-risk waters to deliver food aid. He said that the move was approved by the U.S. Coast Guard. "It's something they encourage," he added.

The U.S. Coast Guard requires all U.S.-flagged ships in high-risk areas to have security, but it is up to the carriers to decide on whether they should be armed, said Lt. Cmdr. Chris O'Neil, a Coast Guard spokesman. The Coast Guard must approve all security plans, he said.

Piracy has been on the rise off the Somali coast since mid-2008. Attempted attacks have increased since late September, analysts say, in part because the seas have calmed after local monsoon winds. Pirates also have improved their ability to operate farther from the Somali coast, relying on large "motherships" that can launch small skiffs, operating more than 1,000 miles offshore, away from the warships that now patrol the Gulf of Aden's high-traffic shipping route.

On Tuesday, pirates released 36 crew members from a Spanish tuna trawler, after holding them hostage for more than six weeks. A man who told the Associated Press he was a pirate said the captors had been paid a $3.3 million ransom. A day earlier, pirates hijacked a North Korean vessel and took its crew hostage.

Somali pirates seized the Maersk Alabama in April. The pirates took the ship's captain, Richard Phillips, of Vermont, hostage. He was held at gunpoint aboard the Alabama's lifeboat for days before he was rescued by U.S. naval forces, who killed three of his captors and arrested the fourth.

—Abdinasir Mohamed in Mogadishu contributed to this article.

Iraqi vice president vetoes new election law

By Ben Lando

Associated Press

Gen. Ray Odierno told a Baghdad news conference Wednesday he doesn't see changes in troop-withdrawal plans despite concerns about upcoming elections.

BAGHDAD—Iraqi Vice President Tariq al-Hashimi vetoed a recently approved election law Wednesday, throwing a parliamentary vote slated for January into question.

The veto is the latest holdup for the legislation, which election officials say they need in place before national polls early next year. The elections have become a factor in U.S. planning for a large-scale military withdrawal scheduled for 2010.

The Obama administration aims to withdraw all but about 50,000 military personnel from Iraq by the end of August, down from around 115,000 currently. Military officials said they would gauge the pace of the withdrawal after the national polls. A peaceful vote could accelerate the drawdown, they have said.

Parliament passed the legislation this month, but election officials hadn't yet set an exact date. U.S. Army Gen. Ray Odierno, America's top general in Iraq, told a news conference Wednesday that despite the veto, he remains optimistic an election will take place as scheduled some time in January.

The election law appears headed back to parliament, which approved it after months of sectarian squabbling and heavy U.S. lobbying. The sticking point in the final weeks of debate was how to carry out the vote in Kirkuk, a province claimed by Kurds, Arabs and Turkmen.

Mr. Hashimi's veto introduces a fresh hitch. An Arab Sunni, he has demanded that the legislation be amended to allow more special seats to be set aside to represent Iraqis who have fled the country. The law stipulates that a given number of special parliamentary seats be reserved for particular groups, including minorities, internally displaced Iraqis and refugees in other countries.

Most of the nearly two million Iraqis who have fled the country are Arab Sunnis, setting up another possible sectarian clash in parliament over Mr. Hashimi's demands. Iraq's Kurdish leadership has criticized the law for not giving its semiautonomous northern enclave adequate representation. The president of Iraqi Kurdistan, Massoud Barzani, has threatened to boycott the election.

Amid the squabbling, the Iraqi High Electoral Commission said Wednesday it stopped all preparations for the vote, aside from training workers.

The U.S. has pushed for a vote to take place on time next year. A stable political landscape from which to start withdrawing large numbers of troops is especially important for American commanders. U.S. forces must leave Iraq by the end of 2011, according to a bilateral security accord between Baghdad and Washington.

"We're disappointed in the developments today regarding the elections law," said a spokesman for the U.S. Embassy in Baghdad. "We hope that a quick resolution to this dispute can be found so that elections can go forward in January."

Gen. Odierno said military planners have flexibility to finetune the withdrawal if violence flares. He said any decision to delay troop cuts wouldn't have to be made until May.