Old-fashioned social network offers lessons for today
THE BIG READ 14-15

Irrational exuberance: The cost is still growing
PATIENCE WHEATCROFT'S AGENDA 2

THE WALL STREET JOURNAL.

VOL. XXVII NO. 209 — EUROPE — Thursday, November 26, 2009

DOWJONES A News Corporation Company — europe.WSJ.com

£1.50
Bahrain BD 1.50 - Egypt $1.75 (C/V)
Jordan JD 2 - Kuwait KD 1 - Oman OR 2
Qatar QR14 - Saudi Arabia SR 14

THE WALL STREET JOURNAL.
48

EDF's CEO says he can fund growth with cash

By Geraldine Amiel And Sebastien Moffett

PARIS—Électricité de France SA can finance its ambitious new program of nuclear investments with cash, the energy provider's new chief executive, Henri Proglio, said in an interview.

EDF, which is 83% owned by the French state, has embarked on a rapid expansion abroad, marketing its nuclear expertise in countries such as the U.S. and Britain. In 2008, the company bought U.K. nuclear operator British Energy, and last month, authorities in the U.S. approved EDF's purchase of the nuclear activities of Constellation Energy, a U.S. power group. EDF also has a stake in Italian power company Edison. The expansion has left analysts wondering whether the company will need to tap the markets to finance these investments over the next decade.

"I'm not traumatized by this….We have enough cash flow," Mr. Proglio said. He said the company generates about €10 billion ($15 billion) in cash flow annually that could be used for investments to prolong the life of existing nuclear plants and boost capacity.

■ EDF builds on past ....Page 22

Bloomberg News

The Burj Dubai, the world's tallest skyscraper, towers over the Business Bay area in the debt-laden city-state.

Grim warning as Dubai delays debt payments

By Chip Cummins

DUBAI—This debt-laden city-state said Wednesday it would restructure its largest corporate entity, **Dubai World**, a conglomerate spanning real estate and ports, and announced a six-month standstill on the group's debt.

The surprise move quickly sapped investor confidence in Dubai's ability to pay down its large debt load, sharply increasing the price of insuring against a default. It also represents the most significant fallout so far in the city-state's yearlong economic crisis, triggered by a collapse in its once-booming real-estate sector late last year.

The government of Dubai said it appointed Deloitte LLP to spearhead the restructuring effort, naming an executive at the consultancy as the group's "chief restructuring officer." The move appeared to sideline, at least for the time being, the company's current management team, which had launched an internal corporate restructuring earlier this year.

Government officials, company executives and company spokespeople weren't available for comment Wednesday. Sultan Ahmed bin Sulayem, Dubai World's longtime chairman and a top lieutenant to Dubai's hereditary ruler, Sheikh Mohammed bin Rashid Al Maktoum, didn't respond to an email request for comment.

City-state turmoil

■ An upbeat few months come to an end 8
■ Is Dubai about to give a lesson on what happens when there is no bailout? 32

A spokeswoman for the Dubai government's Department of Finance, which issued the statement, said Mr. Sulayem and the rest of the current management team would remain in place and would be working with Deloitte.

Dubai World executives have "actually been trying to restructure themselves for awhile, and the Dubai government decided it needed to take a more proactive role," the spokeswoman said late Wednesday.

The government said its Financial Support Fund, a fund set up to manage Dubai's debt earlier this year, would start to assess and evaluate the extent of the restructuring required. As part of that assessment, it said officials intend to ask lenders for a debt "standstill" and request they extend debt maturities until at least May 30.

Dubai said the corporation's portfolio includes "strategically important businesses" and said "the restructuring will be designed to address financial obligations and improve business efficiency for the future."

Most immediately, the standstill will affect a $3.5 billion bond that Dubai World's real-estate subsidiary, Nakheel, was scheduled to repay next month. The bond was seen as a crucial test of Dubai's ability to pay its debts, amid a real-estate market crash that has ric-

Please turn to page 8

The Quirk

Bakery with upper-crust clientele adds a bouncer to keep order. Page 29

World Watch

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

Editorial & Opinion

Tim Geithner is not Barack Obama's biggest problem. Page 11

U.K. investigates claims court in Georgia seized and sold mill

By Alistair MacDonald And Samantha Shields

U.K. officials are looking into claims by a British company that its steel mill in Georgia was effectively seized and sold off by that country's courts.

The issue involves a claim by Thomas Blake, a director at **Thames Steel UK** Ltd., that the mill was essentially given away by Georgia's courts. Mr. Blake's firm had bought the mill from Badri Patarkatsishvili, a Georgian tycoon whose death in February triggered a battle over his assets.

The dispute has gotten the attention of British Foreign Secretary David Miliband, who has taken it up with the Georgian government, a spokesman for the British Foreign and Commonwealth office said. On Thursday, a foreign-office minister is expected to meet with Georgian Prime Minister Nika Gilauri during the latter's visit to London. Mr. Gilauri is in London for a conference at which he will urge British investors to do business in Georgia.

Mr. Blake says that his company, U.K.-registered Thames Steel UK, bought Energy & Industry Complex, a holding company for the mill operators, from Mr. Patarkatsishvili's Global Steel Holdings for $70 million in September 2007.

Mr Patarkatsishvili moved to Britain in 2007 from Georgia claiming the government was trying to assassinate him, then unsuccessfully ran for president of Georgia in January 2008. The Georgian government has said that Mr. Patarkatsishvili had planned a coup in their country.

Mr. Patarkatsishvili died of what a British coroner said was heart failure, and the ownership of the assets of a man once dubbed the wealthiest in Georgia has been contested since.

Mr. Blake, a British national, says that in September, Thames Steel UK discovered from a listing in a local newspaper that an enforcement process was under way to transfer the mill to a creditor called Kolkhis Business Corp. Having failed to find any records for the firm, Mr.

Please turn to page 3

PAGE TWO

A strong economy isn't built on sand

[Agenda]

By Patience Wheatcroft

Earlier this month, the Dubai International Financial Center celebrated its fifth anniversary. It was launched with the ambition of creating 10,000 jobs across the banking-and-finance spectrum, and, with its promise of zero-rate tax on income and profits, it soon began to attract a mixed bag of financiers.

Marking the occasion, the governor of the DIFC, His Excellency Dr. Omar Bin Sulaiman, said: "His Highness Sheikh Mohammed Bin Rashid Al Maktoum has reshaped the world's financial map by establishing DIFC, which today has emerged as a competitor to the world's top-ranked financial centers."

Yesterday, Dubai emerged in less-flattering form, as it effectively admitted it couldn't pay the interest on what amounts to sovereign debt. Although Dubai's economy had been fuelled by oil, Sheikh Maktoum determined this was a limited resource and the long-term future lay in financial services and tourism. The extraordinary buildings that sit on what was sandy desert or man-made islands are testimony to the vigor with which he set about transforming the place. But Sheikh Maktoum had been pursuing his dream with borrowed money. Now, the turmoil that hit financial markets and devastated property prices in the region has made servicing that debt somewhat difficult.

Dubai may not be alone in its predicament. There is nervousness about the prospects for Greece's bonds and the ratings agencies now deem the country a greater credit risk than Colombia or Panama. Two weeks ago Jean-Claude Trichet, the president of the European Central Bank, declared that the country needed "a very serious rectification program" to cope with its ballooning budget deficit. The new government in Greece had just admitted that the country's deficit for 2009 would be double what the previous government had been forecasting. Mr. Trichet took a stern view of this, believing it showed up some grievous failings in the country's statistics. "There is a problem of credibility," he said. But economic forecasting isn't an exact science. Britain's deficit, most recently forecast by the government to hit £175 billion this year, is now estimated to be growing at a hefty £3 billion a week, making that £175 billion figure look very optimistic.

Agence France-Presse

The Dubai International Financial Center

The best insulation against downturns is a balanced economy, not one built on sand

Ratings agency Fitch has already warned that it could downgrade the country's credit rating if the printing of money, which is cloaked in the euphemism of "quantitative easing," continues.

The problem for those countries that have been propping up their economies with injections of cash they don't have is the fear of what may happen if they stop.

There is a widespread fear among business people—though it doesn't seem to reach the ears of many government ministers—that the worst of the recession may not yet be over. That fearful scenario, the double-dip recession, is seen as a threat that cannot be discarded.

Yesterday the German Bundesbank warned that the country's banks may need to write off another €90 billion before they have fully absorbed the effects of the global financial crisis and the recession. More grim forebodings about property values came this week from credit-ratings agency Moody's, which warned about the risk to bonds issued against U.S. commercial property during the boom years.

It predicts rising default rates as the cash-flows to service the bonds have been badly hit. The bonds are the products of the boom years, when from the U.S. to Spain and from Dublin to Dubai, there was a belief that property prices could only rise, or, as hindsight now allows us to perceive, irrational exuberance was everywhere.

Now that exuberance has dimmed and property prices, always a good barometer of confidence as well as economic conditions, have plummeted. It may not just be in Germany that the banks haven't yet fully recognized the hits that they are going to have to take against the real estate that, either through choice or by default, they have accumulated. In Spain, there are concerns that the banks may not yet have fully acknowledged the scale of the property crash that has hit the country.

Within Britain's nearly nationalized Royal Bank of Scotland, for instance, there are said to be some commercial properties that not even the most enthusiastic realtor could ever have described as "prime."

The U.K. government has encouraged taxpayers to believe they will see a speedy return on their billions of pounds that have been used to buy stakes in RBS and Lloyds Banking Group, but the likelihood is that it could take several years before the government is able to exit from its positions in these banks.

Sheikh Maktoum is already effectively the owner of many of the distressed assets that now cover his state. He launched his own answer to quantitative easing, the Dubai Financial Support Fund, in the summer, but bondholders who are now facing a stalemate on their interest payments may not be the beneficiaries. Neither will the many expatriates and optimistic investors who bought property off-the-plan in the emirate, which, until so recently, seemed as if it was the shape of the future. Its dependence on oil long gone, by 2006, less than 6% of its revenues came from energy. Instead, it had moved to a dependence on tourism and financial services.

In today's straitened economic climate, neither looks like the safest bedrock on which to build a secure future.

Financial services have a crucial role to play in the modern world. Access to finance is essential if businesses are to grow. But the best insulation against downturns such as that we are now suffering is a balanced economy, not one built on sand.

What's News

■ **Dubai plans** to restructure its largest corporate entity, Dubai World, and announced a six-month standstill on the group's debt. The surprise move sapped investor confidence in Dubai's ability to pay down its big debt load. 1

■ **GM said it will keep** all four German Opel plants open, but the future of an Opel plant in Antwerp, Belgium, is uncertain. 17

■ **The philanthropic trust** overseeing Hershey has sought the blessing of the Pennsylvania attorney general for a potential $17 billion bid for Cadbury. 19

■ **The U.K. economy** contracted for a record sixth consecutive quarter, adding to expectations the Bank of England will maintain expansive monetary policies. 4

■ **A Pakistan court indicted** seven men allegedly behind the Mumbai attacks, a day before India marks the first anniversary of the assault. 9

Inside

Photographer's career puts the focus on climate change. 27

Cricket governing bodies swing the bat at online piracy. 28

ONLINE TODAY

Most read in Europe

1. Opinion: Global Warming With the Lid Off
2. Lieberman Digs In on Public Option
3. Saab Faces Scrapheap as Sale Fails
4. Climate Emails Stoke Debate
5. Wikipedia Volunteers Log Off

Most emailed in Europe

1. Opinion: Global Warming With the Lid Off
2. Gucci Heir to Double Fashion Bet
3. One in 4 Borrowers Underwater
4. Climate Emails Stoke Debate
5. The Flu Fighters in Your Food

Iain Martin on Politics

blogs.wsj.com/iainmartin

"Can Team Obama sprinkle a little gold dust on Labour's forthcoming general election campaign?"

Iain Martin on Labour's coming talks with Obama administration advisers

Continuing coverage

Follow developments as General Motors races to find a buyer for its Saab brand at **europe.wsj.com**

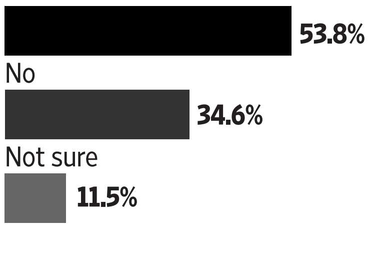
Question of the day

Vote and discuss: Should governments more closely regulate banking fees?

Vote online today at **europe.wsj.com**

Yesterday's results

Q: Should the U.K.'s probe into the Iraq war include a ruling on the legality of the conflict?



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

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

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

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

Registered as a newspaper at the Post Office.

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

NEWS

Swiss court sets bail for Polanski

Director would put up $4.5 million to remain under house arrest while awaiting ruling on U.S. extradition request

By Deborah Ball

ZURICH—A Swiss court agreed Wednesday to release Roman Polanksi on bail of 4.5 million Swiss francs ($4.5 million), persuaded that the large sum was enough to keep the Oscar-winning film director from fleeing the country while he awaits a ruling on whether he would be extradited to the U.S.

In granting Mr. Polanski's request, the Swiss Federal Criminal Court reversed a decision last month by the Swiss Justice Ministry to reject his offer to put up his ski chalet in the tony resort of Gstaad as a guarantee. At the time, the ministry said the lack of a cash guarantee might not keep Mr. Polanski from attempting to flee the country. The ministry now has 10 days to appeal the court's decision, but a spokesman said it would make a decision much sooner.

The court decided that Mr. Polanski's advanced age and the fact he is the father to two underage children would deter him from forgoing such a large amount by fleeing.

Swiss Justice Minister Eveline Widmer-Schlumpf said she saw "no reason" to appeal Mr. Polanski's release, the Associated Press and Swiss TV reported. The ministry had no further comment on the court's ruling. Mr. Polanski's lawyer in France had no immediate comment.

Mr. Polanski has been in a Swiss jail since police arrested him Sept. 25 upon his arrival in Zurich, where he was slated to receive an award at a film festival. He was arrested on a U.S. warrant issued in 1978 when he fled California after pleading guilty to having had sex with an underage girl. In late October, U.S. authorities filed a formal request for him to be extradited. The Swiss Justice Ministry is still processing that request, but is expected to make its decision within about a month, according a person familiar with the situation.

The criminal court ordered that Mr. Polanski be confined to house arrest in his chalet in Gstaad pending the extradition proceedings, that he wear an electronic-monitoring device and that he surrender his passport. In a statement, the court said it considered the large cash payment to be a substantial portion of the 76-year-old Mr. Polanski's fortune. While still regarding him as a flight risk, it decided that Mr. Polanski's advanced age and the fact that he is the father to two underage children would deter him from forgoing such a large amount by fleeing Switzerland.


Associated Press

Roman Polanski, shown at a film festival in 2007, has been in a Swiss jail since police arrested him Sept. 25.

The decision by the court was a surprise, given that release on bail in Switzerland is relatively rare, particularly for those awaiting extradition. Lawyers said the fact that Mr. Polanski, who holds both Polish and French passports, isn't a Swiss citizen was also like to work against him.

After fleeing the U.S., Mr. Polanski, the director of acclaimed films such as "Rosemary's Baby" and "Chinatown," settled in France, which refused for three decades to extradite him. Gstaad, a favorite vacation resort for both European and American celebrities, is about a 90-minute drive from the French border. The court's decision has no bearing on the Swiss Justice Ministry's proceedings regarding the U.S. extradition request.

Mr. Polanski's arrest became a cause celebre in France, where leading political and artistic figures sharply criticized Swiss authorities, accusing them of currying favor with the U.S. Some prominent figures in Hollywood also blasted the arrest, although that sentiment subsequently faded as others expressed outrage at Mr. Polanski's crime.

U.K. looks into mill claims

Continued from first page

Blake says he believes this company was created to make the transfer claim. In October, a Georgian court tried to auction Thames Steel's mill. No bids came through, and the mill was later passed to Kolkhis, Mr. Blake said.

Kolkhis's contact information couldn't be found and the company couldn't be reached to comment.

The Georgian Ministry of Economic Development didn't respond to emailed questions and government agency Invest in Georgia declined to comment.

"We are very much aware of the issues and we do continue to raise it at an official and ministerial level," a spokesman for the U.K. Foreign and Commonwealth Office said.

Mr. Gilauri is scheduled to meet British foreign-office minister Chris Bryant on Thursday.

Mr. Gilauri is in London to kick off a three-city international investment roadshow that will hit New York on Dec. 1 and Abu Dhabi two weeks later. The roadshow will present "Georgia's unique investment opportunities" and give executives a chance to "hear success stories from foreign investors," according to a Georgian government news release.

The U.K. was Georgia's most vocal ally among the large European nations when Georgia was invaded by Russia in 2008. Britain blamed Russia for the war, but stopped short of backing U.S. calls to kick the country out of forums such as the Group of Eight.

With Georgia's economy hit hard by the war and the global recession, the Georgians have been keen to attract investment. Before these events, Western-style overhauls had helped the economy more than double in five years as the country worked hard to create a business-friendly environment, including a lower corporate-tax rate. That helped to encourage foreign investment to rise to $2 billion in 2007 from $336 million in 2003. British oil major BP PLC is one of the country's largest foreign investors.


Reuters

British Foreign Secretary David Miliband has taken up Thames Steel's claims with the Georgian government.

Chancellor of the Exchequer Alistair Darling speaks in the House of Commons on a secret loan made by the Bank of England to Royal Bank of Scotland and HBOS in October 2008.

U.K. banks face tougher rules

By Sara Schaefer Muñoz

LONDON—An independent commission on corporate governance at U.K. banks on Thursday will issue a final report recommending tough new rules seeking greater disclosure of high-end compensation and calling on boards to more closely monitor risk.

The report, commissioned by the U.K. government and drawn up by David Walker, a former executive director of the Bank of England and now a senior adviser to Morgan Stanley, also calls for board members to be more deeply involved in the operation of banks in areas such as remuneration and risk.

"It is not about presiding over a lunch and then taking all the board off to the golf club," said Sir David in an interview Wednesday.

The report, to be released Thursday, follows preliminary findings that were released in July. The proposals are advice to the U.K. government, which commissioned the report earlier this year.

Governing principles

Key recommendations from the Walker report

- Non-executive directors more involved in risk management
- A "stewardship code" for shareholders
- Remuneration committee covers firm-wide pay policy
- Two-thirds of cash bonuses should be deferred.
- At least half of bonuses should be paid over the long term

The final report hews closely to the earlier proposals but tightens in some areas. For example, it says banks should be required to disclose—but not name—earners making more than £1 million ($1.7 million) per year in total compensation, and disclose details of employee salary, cash-bonus, deferred shares and long-term awards. The preliminary report had suggested the disclosure be voluntary.

Sir David said the disclosure would shift attention away from top executives' pay and ensure other employees who influence the bank are held more accountable. It also recommends extending the role of the board's compensation committee to oversee the pay of all the firm's employees, not just highly paid executives.

Other recommendations concerning pay packages are broadly similar to those proposed by the Group of 20, which were agreed to by U.K. banks last month. The Walker report says that at least half of bonuses should be paid in the form of a long-term incentive plan, with half vesting after three years and the rest after five years, and that two-thirds of cash bonuses should also be deferred.

Espousing the idea that investors should be encouraged to behave more like owners of the bank, rather than short-term traders, the report proposes they sign up for a stewardship code spelling out good-management and risk practices. Compliance would be monitored by the Financial Services Authority. The report also says bank chairmen should encourage regular dialogue with investors.

Over some banks' objections, the report also calls for establishing independent risk committees at board level as well as mandating that banks employ a chief risk officer who can be fired only with the board's agreement.

BOE to maintain expansive stance

By Natasha Brereton And Nicholas Winning

LONDON—The U.K. economy contracted for a record sixth consecutive quarter, adding to expectations the Bank of England will maintain expansive monetary policies even if growth returns soon.

Gross domestic product in the third quarter contracted 0.3% from the second quarter and was 5.1% weaker than in the 2008 third quarter, the Office for National Statistics said, revising both measures up by 0.1 percentage point from last month's initial estimate.

The revised data are unlikely to ease concerns the country is taking longer to emerge from recession than the rest of Europe. Germany and France returned to growth in the second quarter.

The BOE has stressed that it will take years for the U.K. economy to catch up to the level it would have been at, had the financial and economic crisis not occurred.

"It is still pretty awful and shows that the U.K. economy has a mountain to climb to eradicate spare capacity," said Alan Clarke, U.K. economist at BNP Paribas.

The output gap, also referred to as spare capacity, is the difference between the level of output that a country is actually producing and what it is capable of producing without creating sustained inflationary pressures. When, as in current conditions, output falls below the economy's potential, that pushes down on companies' pricing power.

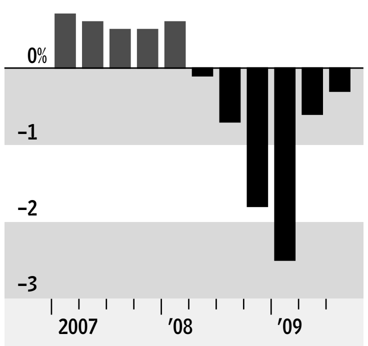
BOE Gov. Mervyn King has taken pains to stress that a recovery in the level of output, which has contracted 6% since the crisis began, is crucial—and not whether the economy is able to secure modest growth in the second half of this year.

The BOE has kept its main interest rate at a record low of 0.5% since March. The government has said it expects the economy to return to growth by the turn of the year.

However, it faces considerable headwinds with unemployment at 7.8% and rising, value-added tax due to rise to 17.5% from 15% next year, and the prospect of a withdrawal of stimulus measures and efforts to rein in soaring government debt.

Recession drags on

U.K. gross domestic product, change from the previous quarter



Source: U.K. Office for National Statistics

Darling says secret loans were low risk

By Laurence Norman

LONDON—U.K. Chancellor of the Exchequer Alistair Darling Wednesday defended authorities' secret provision of emergency assistance to Royal Bank of Scotland Group PLC and HBOS during the height of last year's financial crisis.

The Bank of England said Tuesday it had provided a total £61.6 billion ($102.1 billion) in emergency liquidity assistance to RBS and HBOS from mid-October 2008.

In a written ministerial statement to parliament, Mr. Darling said any disclosure of the loan at the time would have "seriously" jeopardized financial stability and "the risk to public resources was low" given the quality of the collateral received by the Bank.

"I remain of the view that the Bank of England must be allowed to provide assistance to financial institutions on a confidential basis as financial stability may require," Mr. Darling wrote.

He added that the Treasury indemnified the Bank of England against losses on the loan, and that the central bank paid the Treasury £18.9 million for this indemnity.

The loan to RBS and HBOS came as the U.K. banking sector moved to the brink of collapse in the aftermath of the bankruptcy of Lehman Brothers. HBOS has since been taken over by Lloyds Banking Group PLC.

Adair Turner, chairman of the U.K.'s Financial Services Authority, told a U.K. parliamentary committee Wednesday it had been publicly disclosed during the merger process that there was "significant" liquidity support being provided by the BOE to HBOS.

The loan to RBS and HBOS came as the U.K. banking sector moved to the brink of collapse.

This "clearly alerted people to the fact that both HBOS and, therefore, the combined group, were dependent on liquidity support by the [BOE] and also...alerted them to the fact that, if that support was ever removed, that there could be a threat to the solvency and sustainability of the groups," Lord Turner told the Treasury Committee.

The provision of the secret loan contrasted with the events of September 2007 when U.K. authorities were obliged to announce the provision of emergency liquidity assistance to struggling lender Northern Rock. Media reports about the loan precipitated a crisis at Northern Rock, which ended in the lender's nationalization and led authorities to introduce legislation handing the BOE power to make such loans without disclosing them.

In comments to lawmakers later, Mr. Darling said that no taxpayer money was lost by giving the loans to RBS and HBOS because of the indemnity and that the two banks repaid the money in full—in the case of RBS by mid-December 2008 and in the case of HBOS by Jan. 16. Mr. Darling also said the banks paid a fee for the liquidity assistance although he didn't disclose what the interest rate on the loan was.

—Adam Bradbery contributed to this article.

EUROPE NEWS

Leterme becomes Belgium premier

By John W. Miller

BRUSSELS—Belgium named controversial Dutch-speaking conservative Yves Leterme as prime minister Wednesday—his second time in the post—succeeding Herman Van Rompuy who resigned to become the European Union's first president.

The 49-year-old Mr. Leterme, though held in disdain by many people in the country's French-speaking south, got the job because he is the most popular politician in Belgium's majority party, the Dutch-speaking Christian Democrats.

He follows a striking success at the helm of Belgian politics. Mr. Van Rompuy has won plaudits for steering this divided kingdom of six million Dutch speakers, four million French speakers and 70,000 German speakers through the financial crisis. Though also a Dutch speaker, Mr. Van Rompuy is respected by Francophones.

Mr. Van Rompuy is handing over the country in relatively good shape, given the global economic slowdown. His government has already drafted budgets for 2010 and 2011. Tensions between the language groups have been low.

Mr. Leterme's biggest challenge will be keeping Belgium harmonious, especially until July 2010—when the government takes over the six-month rotating presidency of the European Union, which will conduct most EU business even though it has a new permanent president in the shape of Mr. Van Rompuy.

Mr. Leterme's first term as prime minister in 2008 was a tumultuous nine months. He called Belgium "an accident of history," kept together only by the monarchy, the national soccer team and beer. His popularity sank so low that in July 2008 he offered to resign. King Albert II, anxious for political stability, refused.

In October 2008, Mr. Leterme oversaw a deal to save Fortis bank by selling it to France's BNP Paribas. Fortis shareholders sued to block the deal. Members of Mr. Leterme's cabinet were found to have tried to influence the judges. Mr. Leterme, while not under suspicion, resigned in December.

Mr. Leterme, still popular in Flanders, staged a quick comeback and became Mr. Van Rompuy's foreign minister. In June he won a seat in the European Parliament.

Now, with the economy improving, Mr. Leterme will have to resolve internal tensions over how much autonomy to grant to the three regions of Wallonia, Brussels and Flanders.

Dutch-speaking Flanders wants to avoid paying taxes that fund the poorer region of French-speaking Wallonia and seeks to expand its administrative powers. But it has so far stopped short of demanding full independence, mostly for fear of losing its shared political control of Brussels, a majority French-speaking city located within Flanders.

The current main point of contention is two northern suburbs of Brussels that are located in Flanders but included on Brussels electoral rolls.

Mr. Leterme, a lawyer from West Flanders, the most conservative part of Belgium, attracted support by campaigning before elections in June 2007 to get the suburbs back. He is now "in a tough place because his supporters want him to be aggressive on these issues," says Jean Faniel, an analyst with the Centre for Socio-Political Information and Research. "This is complicated even for Belgians."

Even in Flanders, however, Mr. Leterme's star may be waning. A majority of Dutch speakers think Mr. Leterme will fail, according to a poll in Het Laatste Nieuws, a Dutch-language daily. "In Flanders, people don't think about him with the same love as before," says Marc Desaedeleer, a retired bilingual car mechanic.

Reuters

Yves Leterme, right, was named Belgium's prime minister Wednesday. He is shown with Defense Minister Pieter De Crem ahead of a cabinet meeting last week.

Leterme's Fall and Rise

June 2007: Wins election landslide, fails to form government

June 2007–March 2008: Belgium has no elected leader

March 2008: Yves Leterme becomes prime minister

July 2008: King Albert II turns down Mr. Leterme's offer to resign

Dec. 2008: Mr. Leterme resigns over cabinet's role in Fortis sale

Nov. 2009: Herman Van Rompuy becomes European president. Mr. Leterme named prime minister

EU, U.S. prepare for climate summit

Obama to attend, set targets; Europeans say steps to curb emissions could hurt industries if others don't take part

As the prospect of a global climate deal this year recedes, European governments worry that their critical industries will be left dangerously uncompetitive.

U.S. President Barack Obama will attend a global climate summit in Copenhagen next month, where he will lay out specific targets for curbing greenhouse-gas emissions, White House officials said Wednesday—the first time the Obama administration has offered to commit to concrete goals on emissions.

*By **Alessandro Torello** in Brussels and **Stephen Power** in Washington*

While the summit isn't expected to produce a legally binding agreement, Mr. Obama's decision to attend ratchets up pressure on his administration to narrow differences with other nations over how to distribute the costs of cutting emissions.

The United Nations' top climate negotiator, Yvo de Boer, said Mr. Obama's participation in the summit is "critical to a good outcome."

However, a summit of leaders from the Asia-Pacific Economic Cooperation forum, including Mr. Obama, earlier this month dropped plans to reach a binding agreement in Copenhagen, and instead pledged what they called a "political framework" for future negotiations.

European Commission President José Manuel Barroso is now also talking about Copenhagen as being "a springboard" for a new treaty, possibly in 2010, after pushing hard for a binding deal this year.

The European Union agreed last year on a set of rules to cut carbon-dioxide emissions by 20% of 1990 levels by 2020. A change in the EU market for allowances to emit carbon dioxide—called the Emissions Trading System, or ETS—will play a crucial role. According to the new rules, from 2013 many industries will have to start buying part of their rights to emit carbon dioxide, rather than getting them free.

European governments worry that if the rest of the world is operating with looser controls over carbon emissions—and therefore with cheaper energy as well—the EU commitment will hamper the competitiveness of key industries, or that they will move their production out of the EU.

Associated Press

Beginning in 2013, many European industries will have to start buying part of their rights to emit carbon dioxide, rather than getting them free.

The ETS rules approved last year did make a provision for a delay in reaching a comprehensive agreement. Under that plan, major industrial sectors competitively disadvantaged by the ETS regime could be given leeway on their allowances.

Eligible industries include those for which the cost of emissions would sharply increase production costs, or whose products are heavily traded internationally, or both. Businesses as diverse as oil and gas extraction, paper-making, musical instrument and underwear manufacturing ended up being eligible.

The breaks will be crucial for certain industries, even though only the best-performing plants in each sector will get 100%-free allowances, with the rest getting some lower percentage.

"It can be a question of survival for some companies in those sectors," said Folker Franz, senior adviser for environment issues at BusinessEurope, the European Union's largest business lobby.

French President Nicolas Sarkozy has proposed a tariff on certain goods imported to the EU to offset the benefits foreign manufacturers could experience by not having to face emissions standards as stringent as Europe's.

Such a tariff could "prevent unfair competition, it could finance part of the new green industry, and it could encourage other nations to adopt similar [carbon reduction] targets," said Antonio Dai Pra, an energy and environment consultant at European Consulting Brussels.

Carbon costs

Estimated cost increases of capping and buying CO_2*

Sector	Cost increase
Manufacture of lime	65.2%
Manufacture of cement	45.5
Aluminum production	14.0
Manufacture of paper and paperboard	10.2
Manufacture of bicycles	less than 5
Manufacture of musical instruments	less than 5
Manufacture of underwear	less than 5
Extraction of crude petroleum and natural gas	0.8

*Assuming the industry will purchase 75% of their CO_2 allowance
Source: European Commission

In the U.S., Mr. Obama intends to propose that the U.S. cut its greenhouse-gas emissions by 17% from 2005 levels by 2020, and by 83% by 2050, officials said. Those proposed reductions are consistent with targets laid out in a bill passed by the House of Representatives in June. Senate leaders have said the full chamber won't take up climate legislation until the spring.

—Frank Huetten and Carolyn Henson contributed to this article.

China attacks EU's emissions track record

Bloomberg News

Yu Qingtai, China's climate envoy, at a news conference Wednesday, where he set a tough stance ahead of the summit in Copenhagen beginning Dec. 7.

By Shai Oster

BEIJING—China's top climate envoy lashed out at Europe for failing to meet its previous greenhouse-gas commitments, and said reaching an agreement at the global warming summit in Copenhagen next month is essential.

"Europe made a lot of commitments. But if you compare those commitments to actions, there is a big disparity," China's special envoy on climate change, Yu Qingtai, told reporters Wednesday. He said Europe had failed to meet its previous promises to cut greenhouse gases and deliver on technology transfer and aid to poor countries.

Mr. Yu's comments reinforce China's tough negotiating stance less than two weeks ahead of the Dec. 7 global climate summit in the Danish capital. China has repeatedly called for a global agreement on carbon emissions, but has been unwilling to commit to the kind of difficult sacrifices needed to reach one, saying the burden lies on wealthier nations.

Global climate negotiators had hoped to make Copenhagen a key turning point in two-year-long talks over the successor to the Kyoto Protocol, which is set to expire in 2012. That goal appears to be slipping as obstacles appear insurmountable in the coming days and negotiators are pointing fingers at each other.

Getting agreement between China and the U.S., which together account for 40% of the world's greenhouse-gas emissions, is crucial to the success of climate talks.

China says the rich countries of the world have an obligation to clean up the carbon they produced. China has proposed that developed nations contribute 1% of gross domestic product to subsidize efforts by poorer nations to cut carbon emissions, a proposal rejected as unrealistic by the U.S.

"We cannot accept that Chinese people would have one-third the emissions of the developed countries," Mr. Yu said. He blamed the lack of progress in talks so far on developed countries. "Admittedly, we spent a lot of the past two years on marginal issues," he said. "Personally, I think it was because of the lack of faith by developed countries in the negotiations."

China has unilaterally taken measures to try to increase energy efficiency and energy security—measures that have helped to slow the pace of growth of China's greenhouse-gas emissions. According to the Paris-based International Energy Agency, China's energy consumption targets would contribute a quarter of what needs to be done globally to limit carbon emission and slow global warming.

A new terror front opens

By Evan Perez
And Cam Simpson

Federal counterterrorism officials investigating the recruitment of ethnic Somalis in the U.S. for jihad in Somalia say the case echoes the type of homegrown radicalization that threatens parts of Europe.

The U.S. announced charges against eight men this week, and agents allege three of them helped persuade men to join an extremist group.

The recruiting network enlisted about 20 young men, many of them born in the U.S. and having little knowledge of Somalia, to join the al-Shabaab insurgent group in Somalia. The network's apparent success is influencing the way government counterterrorism officials view the threat of radicalization in the U.S.

Ralph Boelter, special agent in charge of the Federal Bureau of Investigation's Minneapolis office, said the notion of domestic radicalization "is a moving target. It's evolving. These young men traveled without consulting their families. Now it's happened; now we should all be on guard."

Patrick Rowan, who was chief of the Justice Department's national-security division when the Somali probe began, said: "If there was ever a subconscious belief in the counterterrorism community that our society is different from Europe and therefore we don't have to worry about problems like they've had, the activities in Minneapolis demonstrate we can't think that way."

Intelligence officials in the U.K. have repeatedly found that a few charismatic extremists can convert what had been disaffected youths into terror cells.

The cases come amid a flurry of terror investigations in which radicalization may have played a role. In September, federal prosecutors charged an Afghan national in what authorities believe was the most advanced al Qaeda plot to bomb targets in the U.S. since the Sept. 11, 2001, attacks. Authorities are also investigating whether radicalization was involved in the case of Maj. Nidal Malik Hasan, the Army psychiatrist charged with killing 13 people at Fort Hood, Texas.

The Somali cases are different because the motivation of the Somalis was to fight for their homeland. Still, investigators fear that once indoctrinated abroad, such youths could turn their attention to the U.S.

Experts in counterterrorism say one key part of radicalization in Western countries appears to be the role of the charismatic extremist who trolls for clusters of young men, then persuades them to make their own jihad.

Intelligence officials in the U.K.—where homegrown terrorists have carried out deadly attacks—and the U.S. have repeatedly found that such men play a crucial role in converting disaffected youths into deadly terror cells. In the Minneapolis case that role appear to have been filled by Mahamud Said Omar, Cabdulaahi Ahmed Faarax and Abdiweli Yassin Isse, according to people close to the probe.

Investigators see distinctions between the U.S. and Europe, home to a large underclass of young immigrant Muslims. The ethnic Somalis accused this week aren't charged with plotting attacks in the U.S.; they were charged with providing support to terrorists.

Mr. Omar is a 43-year-old Somali citizen and legal U.S. resident who allegedly helped fund the travel to Somalia of six young men from Minneapolis's large Somali immigrant enclave in December 2007, according to an FBI affidavit filed in court. He was arrested in the Netherlands earlier this month, and U.S. officials have requested his extradition.

Before the trip to Somalia, the recruits met at mosques and private homes to discuss the need for jihad in their ancestral homeland, which had been invaded in 2006 by Ethiopia, according to a separate FBI affidavit. The al-Shabaab forces, accused by U.S. authorities of having links to al Qaeda terrorists, were part of a loose confederation of Islamist insurgents battling the U.S.-backed Ethiopians and forces from the African Union regional group. Messrs. Faarax and Isse allegedly attended some of the meetings in 2007 and 2008.

At one such meeting in 2007, Mr. Faarax allegedly described how he had participated in such fighting in Somalia and told the potential recruits that "traveling to Somalia to fight jihad will be fun," an FBI affidavit filed against the two men says. Mr. Isse, prosecutors allege in court documents, described plans for a "jihad" against Ethiopians and raised money for airplane tickets under the guise of sending young men to Saudi Arabia to study the Quran. Both men slipped into Mexico last month before they could be arrested, prosecutors said.

Lawyers for Messrs. Omar, Faarax and Isse couldn't be reached for comment.

In early 2008, weeks after the arrival of the first batch of recruits in Somalia, Mr. Omar allegedly visited the young men in an al-Shabaab safehouse in Somalia, and bought them provisions and AK-47 assault rifles, according to an FBI affidavit unsealed Tuesday.

One of the young men who joined the trip later told FBI agents that the recruits received training from Somali, Arab and Western instructors at an al-Shabaab training camp alongside "dozens of other young ethnic Somalis from Somalia, elsewhere in Africa, Europe and the United States." The young men received training in machine guns, rocket-propelled grenades and military tactics and were "indoctrinated with anti-Ethiopian, anti-American, anti-Israeli, and anti-Western beliefs," according to a separate FBI affidavit.

In October 2008, one of the young recruits, Shirwa Mohamud Ahmed, a 26-year-old Minneapolis college student, drove an explosives-laden Toyota truck into a government building in Bossasso, Somalia. His and four other coordinated suicide bombings occurred at about the same time, killing about 20 people.

European Pressphoto Agency

Government soldiers north of Mogadishu, Somalia, on Tuesday, who saw heavy fighting with Islamist insurgents.

WORLD NEWS


Bloomberg News

Dubai World's real-estate subsidiary, Nakheel, built the emirate's iconic palm-tree-shaped island, packed with luxury villas and hotels.

Raining on Dubai's day at the beach

Before surprise announcement, emirate fueled slow recovery by tapping petrodollars; property market remains shaky

By Chip Cummins

DUBAI—This city-state's surprise move to restructure its corporate jewel—and announce a standstill of **Dubai World**'s debt payments—stunned bankers and executives here, who appeared to be just shaking off the worst of a particularly nasty strain of the global financial crisis.

Dubai's announcement ended what had been an unusually upbeat past few months for the city-state. Despite the lingering debt woes at Dubai Inc., many fundamental economic indicators are signaling a slow recovery.

The biggest plus: Oil prices are rising, after plummeting late last year. Even though Dubai doesn't pump much oil itself, petrodollars grease the entire region. Marios Maratheftis, Standard Chartered's Dubai-based regional head of research, is predicting 4% growth for Dubai in 2010, compared with a 1% contraction this year.

The higher oil price "affects sentiment, it affects confidence," he says. "It affects wealth in the U.A.E. and the region."

This city-state was long the epicenter of a dizzying boom in the Persian Gulf. An oil-fired investment and spending binge culminated in the summer of 2008 when crude hit more than $140 a barrel. But by the time of Dubai's biggest bash later that year—a $20 million hotel opening on the emirate's man-made, palm-shaped island—the global financial crisis was washing ashore. Dubai property prices had already started their precipitous descent.

In the rout that followed, government-controlled and private developers postponed or canceled projects, shed workers and stopped paying bills.

At the beginning of the 20th century, Dubai was little more than a pearl-trading hub and regional entrepôt. In the 1960s, oil revenue fed infrastructure investment. Later, Dubai's rulers, with a small and dwindling supply of oil, pushed economic diversification, building the region's biggest port. Starting in the 1980s, it launched a building boom that has transformed the desert town into a dazzling canyon of skyscrapers and beachside luxury hotels. The Burj Dubai, the world's tallest skyscraper, is expected to open its doors early next year.

Without much oil revenue, Dubai is reliant on debt markets not only to pay for its ambitious infrastructure projects, but also to service previous borrowing that funded explosive growth in recent years. It and its corporate entities have nearly $50 billion in debt coming due over the next three years, according to Standard & Poor's.

Despite the numbers, international bankers and executives are now sometimes pointing out a handful of hopeful—though anecdotal—signs: Traffic is snarling again at rush hour; Parking lots are filling up outside some of Dubai's vast office parks; A taxi is harder to find than just a few months ago.

Revamp saps faith in city-state's ability to pay debt

Continued from first page

ocheted across the emirate's once-booming economy. Dubai World this spring signaled that a restructuring of the bond was an option, but hasn't provided details since.

The spokeswoman for the Dubai Department of Finance said company officials were currently discussing options with lenders, but didn't give details.

The cost of insuring Dubai debt, which had fallen sharply amid signs of a global economic recovery, shot higher after the announcement, rising by more than a third by late Wednesday, to $429,700 to insure a $10 million loan for five years, according to CMA, a credit-information specialist.

Ratings agencies also reacted. Moody's Investors Service and Standard & Poor's heavily downgraded the debt of various Dubai government-related entities. In Moody's case, the downgrade meant that the affected agencies lost their investment-grade status.

Dubai's announcement came hours after the city-state said separately that it raised $5 billion from two local banks, the second installment of what officials had said would be a $20 billion borrowing program. The bond program was unveiled in February, with the federal government of the United Arab Emirates snapping up the entire first tranche.

The bonds were effectively a federal bailout by the U.A.E., led by oil-rich Abu Dhabi, the country's capital. (Abu Dhabi and Dubai are the biggest of seven semiautonomous emirates that make up the U.A.E.)

Since then, Dubai officials have suggested they would seek international investors to fund the remaining $10 billion. Dubai says it is using the funds to pay down international debt and unpaid bills to contractors.

Wednesday's $5 billion funding announcement initially cheered analysts and investors. While the issue's two lenders were both Abu Dhabi-controlled banks, the deal suggested to many that Dubai was able to go to sources besides the federal government for cash. An earlier, unrelated debt issue by Dubai in October was also oversubscribed.

The Dubai World announcement raised fresh questions over the federal government's willingness to help Dubai out. A federal government spokesman in Abu Dhabi declined to comment late Wednesday.

It also appeared to contradict signals from Dubai's government that it was willing to fully support its corporate entities. In its statement about Dubai World, Dubai officials said the $5 billion bond issue wasn't linked to the Dubai World restructuring.

"It opens more questions than it gives answers," said Philipp Lotter, an analyst with Moody's Investors Service in Dubai. "Is this [standstill] voluntary or involuntary? If it's voluntary, fine, it makes perfect sense. If it's not, it's a default."

In an October report, Standard & Poor's estimated Dubai World could be responsible for as much as 50% of Dubai's total government- and corporate-debt load of some $80 billion to $90 billion.

Dubai World was long the crown jewel of Dubai's economy, operating a globe-spanning ports and transportation group and spearheading ambitious real-estate and infrastructure projects at home and abroad. Nakheel built Dubai's iconic palm-tree-shaped island, packed with luxury villas and hotels, many still under construction.

It was caught in a political maelstorm in Washington in 2006 after its core ports division, now called DP World, proposed to buy a competitor, which at the time owned a handful of U.S. ports. Political opposition on Capitol Hill blocked the acquisition.

In recent years, Dubai World launched a debt-fueled international buying binge. Some of its U.S. investments have dropped substantially in value.

In August 2007, Dubai World agreed to purchase half of **MGM Mirage**'s CityCenter mixed-use casino project when the real-estate market in Las Vegas had reached its peak. At that point, CityCenter was only partially complete and the project's assets were valued at $5.4 billion. A little more than two years later, MGM Mirage said it was writing down around $2.34 billion in value for the project, which devalued Dubai World's stake in CityCenter by around $1.17 billion, to $2.44 billion. Total cost of the project, meanwhile, rose to $8.5 billion.

An MGM Mirage spokesman said Wednesday that Dubai World had fulfilled its commitments to funding the project. The total amount it invested is $4.65 billion, according to a person familiar with the situation.

The same year, Dubai World's investment outfit Istithmar bought high-end retailer Barneys New York for just under $1 billion.

David Jackson, chief executive of Istithmar, didn't immediately return an email message sent Wednesday.

A Barneys New York spokeswoman declined to comment.

—*Vanessa O'Connell in New York and Alexandra Berzon in Los Angeles contributed to this article.*

WORLD NEWS

India grapples with security fears

Improvements evident, but not enough; shortfalls seen in maritime patrols, police: 'We are just as vulnerable as before'

One year after 10 young men arrived by fishing boat from Pakistan to terrorize Mumbai, many Indians are feeling less secure about their government's ability to protect them.

The date 26/11 in India—like 9/11 in the U.S—has become synonymous with a national trauma. Yet India has been slow to plug holes in national security exposed by the attack, security analysts say, as New Delhi wrangles with state governments over how to fill shortfalls in maritime patrols, intelligence manpower, and police staffing and capability.

*By **Peter Wonacott** in New Delhi and **Geeta Anand** in Mumbai*

"We are just as vulnerable as before, because the deficits in security are so great," says Ajai Sahni, executive director at the Institute for Conflict Management, a New Delhi think tank.

Home Secretary Gopal Pillai asserts that the country's terrorism defenses have improved, but acknowledges that much more work needs to be done. "We are better prepared, yes, but can we prevent anything?" Mr. Pillai asks, pausing. "We've managed to prevent some attacks," he says.

But to some, the long coast off the city of Mumbai seems more menacing than ever. "You just know that anybody can land there and disappear," says Sonali Goculdas, a 40-year-old Mumbai resident.

Last year's attacks were an eye opener for India. While a 1993 series of bomb explosions in Mumbai killed more people, 26/11 jolted the entire country into feeling that no one was safe.

Among the targets, the Taj and Oberoi hotel complex was popular with the India's elite and foreign visitors, and a signpost of the country's growing affluence. A train station held crowds of commuters who powered an economic boom. A tucked-away Jewish center hinted at the religious diversity at Mumbai's heart.

Live television coverage magnified everything. In all, over the 60 hours the attackers killed 166 people, and nine of the 10 gunmen died.

In the emotional aftermath, Home Affairs Minister P. Chidambaram announced new security measures and told Parliament: "Given the nature of the threat, we cannot go back to 'business as usual.' "

Some analysts say the Indian response, however, hasn't been as dramatic as hoped.

In the U.S. after 9/11, "There has been a pan-government effort to rethink how we do terrorism," says C. Christine Fair, a South Asia security specialist at Georgetown University in Washington. "Mumbai hasn't had that effect in India."

Mr. Pillai, the home secretary, predicts it will take five or six years to build the security infrastructure the nation needs.

In the past year, Mr. Pillai says, India has set up a national antiterrorism investigation team. A group of high-ranking officials—including Mr. Pillai, the home affairs minister and various heads of Indian security agencies—meet daily for an intelligence briefing. Antiterrorism legislation has been tightened so that suspicious financial transactions can be monitored more easily and terrorism suspects can be held longer without bail.

Mr. Sahni, the Indian terrorism expert, says the central government's leverage is limited because it can allocate money but can't force states to spend it. He says some states have diverted police funds and manpower to fight what is viewed in those areas as a more urgent threat: armed Maoist rebels who occupy territory in several Indian states and have kidnapped police officers and hijacked trains.

Another big challenge has been recruiting and training new security personnel. India's Coast Guard aims to expand its forces threefold by the year 2022, according to a spokesman. Mr. Pillai says the agency that handles domestic intelligence is hiring 2,000 additional agents. State police across the country are recruiting 80,000 people a year to fill a 300,000-officer shortfall, he says.

Yet the drive to hire security personnel has created a severe shortage of people to train them. The government has been pulling out of retirement former police, military officers and others who, Mr. Pillai says, "know how to set up an obstacle course." Less than one-third of the 20 antiterrorism police-training centers promised last year are operational.

The search for talent is likely to be an uphill struggle, says Vikram Sood, who served as chief of India's spy agency, the Research and Analysis Wing. As the Indian economy has taken off, government agencies have suffered in the competition with the private sector. "A government job is not what people aspire to," says Mr. Sood.

In Mumbai, much scrutiny has focused on the local police, many of whom were called into action with bamboo canes and bolt-action rifles to combat terrorists armed with assault weapons and grenades. Sixteen police and two national guardsmen died in the attack.

The city now has 39 new bulletproof "combat mobiles," and officers have 1,300 new semiautomatic weapons, according to Deven Bharti, additional commissioner in Mumbai Police's crime branch.

Meanwhile, only a third of the 128 high-speed patrol boats that the government wants to patrol 7,500 kilometers of coastline are on the water due to procurement problems, according to Mr. Pillai. Local environmental and property regulations, he adds, have tripped up plans to add more coastal police posts.

Associated Press

Members of a new Indian elite commando force carry out a drill during an inauguration ceremony in Mumbai on Tuesday. But India's drive to hire security personnel over a range of services has created a severe shortage of people to train them.

Sanjit Das for The Wall Street Journal

Pakistan court indicts seven for attack on Mumbai

By Zahid Hussain

ISLAMABAD—A day before India marks the one-year anniversary of the assault on Mumbai, a Pakistani court Wednesday indicted seven members of the Islamist militant group supposedly behind the attack.

The proceedings against seven alleged Lashkar-e-Taiba operatives mark the first time Pakistan is trying its own citizens for an act of terror committed abroad. The move could help ease tensions with India, which has demanded a broad crackdown on Lashkar.

The U.S., too, has pressed Pakistan to take strong action against the group, and Pakistani officials say they are committed to seeing it dismantled.

Many of Lashkar's thousands of members are still operating in Pakistan, U.S. and Indian officials say. But many people in Pakistan dismiss Lashkar's role in the attack, which killed 166 people. In a sign of security concerns and sensitivities in Pakistan, the trial is being held behind closed doors at the Adiala prison outside Islamabad, and lawyers have been ordered to not publicly detail its progress.

The case got under way Wednesday after months of delays. The brief session saw the suspects formally charged under Pakistan's antiterrorism laws, although lawyers for the accused said they were prohibited from specifying the exact charges. "All of them pleaded not guilty, saying the charges were not supported by evidence," said Shabaz Rajput, a defense lawyer. After hearing the pleas, the judge adjourned the proceedings until Dec. 5.

The suspects include two men that Pakistani and Indian officials say played a key role in plotting the attack: Zaki ur-Rehman Lakhvi, Lashhar's alleged operations chief, and Zarar Shah, a senior member of the group.

Pakistani investigators say they have found substantial evidence of how Lashkar trained the 10 Mumbai attackers in various parts of Pakistan, financed the operation and set up communications to stay in contact with the men during the attack.

Not on trial, however, is the founder of Lashkar, Hafiz Mohammed Saeed, who Indian officials say was the attack's true mastermind. Mr. Saeed, who says he runs a charity, has been in and out of house arrest in Pakistan since the attack. Pakistani officials say India hasn't provided enough evidence to try him.

Indian Prime Minister Manmohan Singh, on a visit to Washington, said he welcomed every step Pakistan took to bring the Mumbai attackers to justice.

Agence France-Presse/Getty Images

Members of an Indian 'laughter club' participate in a laughter-therapy session Wednesday at the Gateway of India plaza in Mumbai, opposite the Taj Mahal hotel.

WORLD NEWS

Associated Press

U.S. and European officials say NATO nations could provide from 3,000 to 7,000 additional troops in Afghanistan. On Tuesday, U.S. President Obama is expected to announce a deployment of about 30,000 personnel, including a contingent of security-force trainers. Above, troops fire mortars in exercises at an outpost in Logar province, Wednesday.

Kabul raises pay to bolster police

By Anand Gopal

KABUL—The Afghan government is raising police salaries by as much as two-thirds, with the U.S. and others footing the bill, in an effort to rein in corruption and boost recruitment.

The central government will increase Afghan National Police monthly pay in volatile provinces to $240 from $180, and in nonvolatile provinces to $200 from $120, Interior Ministry spokesman Zamarai Bashari said. He said the U.S. has pledged to pay for the wage increase for the first year, and other donor countries will contribute in subsequent years.

The move is part of an effort to bolster Afghan security forces in the face of a growing insurgency. As the Obama administration has considered options for a new Afghan war strategy, U.S. officials have recently focused attention on an option combining bringing in added forces for both combat and training.

British Prime Minister Gordon Brown said this week he is "optimistic" that NATO countries are set to increase the number of troops that they contribute to the war.

A competent, professional police force will be essential for an eventual handover of responsibilities by the U.S.-led Western troops deployed here. President Hamid Karzai said in his inauguration address this month that he wants Afghan forces to take the lead within five years.

The 93,000-strong Afghan National Police is widely considered ill-equipped and corrupt. Many U.S. military officials complain that the ANP isn't a reliable partner because policemen often steal from the local population and at times maintain ties with insurgents.

Mr. Bashari acknowledged these problems, and said officials were working on improving the force. Afghan officials say they hope the increased salaries will curb the temptation to extract bribes or steal.

Also Wednesday, Taliban leader Mullah Omar rejected Mr. Karzai's recent call for dialogue with the insurgents and urged all Afghans to break off relations with what he described as the "stooge" government in Kabul. In a statement emailed to reporters and posted on the Taliban Web site, Mullah Omar called on the U.S. to "choose the path of reason instead of militarism" and leave Afghanistan.

—Alistair MacDonald contributed to this article.

Netanyahu makes settlement proposal

By Charles Levinson

JERUSALEM—Prime Minister Benjamin Netanyahu declared a 10-month suspension of new building in Jewish settlements in the West Bank, but excluded thousands of units already under construction as well as Jewish building in predominantly Palestinian East Jerusalem.

Obama administration officials said they hoped the Israeli announcement Wednesday would revive moribund peace talks between the two sides, but Palestinians said the partial freeze was insufficient.

"I hope that this decision will help launch meaningful negotiations to reach a historic peace agreement that would finally end the conflict between Israel and the Palestinians," Mr. Netanyahu told a televised news conference following a vote in favor of the proposal by Israel's 10-member political and security cabinet.

Mr. Netanyahu said his government would "not put any restrictions on building in our sovereign capital," meaning East Jerusalem, which Palestinians claim as the capital of their future state.

The 10-month partial freeze, which also excludes buildings necessary for "normal life" such as clinics and schools, is nearly identical to similar proposals floated by Mr. Netanyahu in recent weeks which Palestinians have repeatedly rejected.

"This does not seem to mark anything new from the Israeli side," said Palestinian Authority spokesman Ghassan Khatib. "If you don't include units that construction has already begun on in the freeze, it works out to be exactly the same amount of growth on average that Israel had been doing the last four years. Excluding East Jerusalem is very problematic for the Palestinians."

Senior U.S. and Israeli officials said the announcement was coordinated with Washington, which has struggled to kick-start direct negotiations between the two sides.

Following Mr. Netanyahu's announcement, U.S. Mideast envoy George Mitchell told reporters in Washington that the Israeli decision "falls short of a full settlement freeze." Mr. Mitchell added that the 10-month moratorium "is more than any Israeli government has done before and can help move toward an agreement between the parties."

Veteran peace negotiators in Israel and Washington have criticized the Obama administration's handling of the peace process. The Palestinians appear to be sticking to their demand for a complete settlement freeze largely because the White House first staked out that stance during the spring. Critics of the Obama administration's approach say it is politically impossible for a Palestinian leader to take a softer line toward Israel than a sitting U.S. president.

Agence France-Presse/Getty Images

Israeli Prime Minister Benjamin Netanyahu, in Jerusalem Wednesday, announced a 10-month moratorium on new building in Jewish settlements in the West Bank.

"Somehow the Americans don't understand that there is no way [Palestinian President Mahmoud] Abbas can resume negotiations based on this partial Israeli freeze," said Yossi Beilin, an ex-Israeli justice minister who negotiated the Oslo peace accords on behalf of Israel in the early 1990s and since then has had prominent roles in the peace process. "It would amount to a tacit agreement with the Israelis to allow settlement building in Jerusalem and natural growth throughout the West Bank."

Mr. Abbas, who is in Argentina, told Buenos Aires newspaper *Clarin*, "Obama is doing nothing for the Mideast peace process," in an interview published Wednesday.

Mr. Netanyahu's proposal also is drawing criticism from Jewish settlers and their supporters including senior members of Mr. Netanyahu's conservative Likud Party. Senior Likud lawmaker Danny Danon called the 10-month moratorium a "betrayal of commitments we made to our voters."

Russia details tax-dodge case against investor

By Gregory L. White

MOSCOW—Russia's Interior Ministry fired back at investor William Browder, rejecting allegations they were to blame for the jailhouse death of a lawyer who worked for him, and detailing their tax-evasion case against the U.S.-born fund manager.

The sudden death last week of Sergei Magnitsky, a lawyer who had been held in Moscow jails for nearly a year without trial in the tax-evasion case against Mr. Browder's fund, caused an outcry in Russia's business and legal communities. On Tuesday, President Dmitry Medvedev ordered prosecutors to open a formal investigation.

Mr. Browder, whose $4 billion Hermitage Fund was one of the largest foreign portfolio investors in Russia, was denied a visa to Russia in 2005 and hasn't returned since.

He alleged authorities were holding Mr. Magnitsky to pressure him to testify against Mr. Browder and as retribution for accusations Mr. Magnitsky made against police officials.

The 37-year-old lawyer was arrested shortly after testifying to investigators about what he and Mr. Browder claimed was a ring of corrupt police and other officials who had stolen $230 million in taxes paid by Hermitage Capital.

In a news conference Wednesday, Irina Dudukina, spokeswoman for the Investigative Committee of the Ministry of the Interior, which is handling the Browder investigation, rejected those allegations, saying the case was purely a matter of tax evasion.

"There was no need to force testimony out of Magnitsky against Browder, as Browder's guilt was proven," she said, noting that the case against Mr. Browder will be sent to court soon. She dismissed Hermitage's charges of corruption and fraud in the ministry as "stupidity."

Ms. Dudukina said the Ministry of the Interior couldn't comment on how Mr. Magnitsky was treated in jail, because the Ministry of Justice oversees such matters.

She showed reporters what she said were falsified documents signed by Messrs. Magnitsky and Browder as part of a 2001 effort to fraudulently qualify for big tax breaks for companies that hired the handicapped.

She also added an accusation not included in the charges against Mr. Browder—that Hermitage had used the companies, which held locally traded shares of oil giant OAO Gazprom, to get around a ban then in effect on foreign ownership of such securities.

Mr. Browder, in a phone interview from London, denied the allegations, saying, "everything was done completely legally."

"They've turned an entirely legitimate business into a 'crime' in order to cover up Sergei's death and their involvement in the theft of $230 million from the Russian government," he added. Mr. Magnitsky had no legal role at the companies involved until 2002, he said.

Ms. Dudukina said investigators had no alternative but to jail Mr. Magnitsky, because Mr. Browder and the other suspects in the case had already fled Russia for the U.K.