Marketplace: Recalling Berlin's wall, and the rebuilding of lives

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G-20 officials clash on bank tax

U.K., U.S. disagree on fee to fund bailouts at weekend meeting; stimulus measures stay in place

By Laurence Norman And Paul Hannon

ST. ANDREWS, Scotland—U.K. Prime Minister Gordon Brown and U.S. Treasury Secretary Timothy Geithner clashed over potential taxes on bank transactions at a weekend meeting here of finance policymakers from the Group of 20 leading economies.

At the gathering, G-20 finance ministers and central-bank chiefs discussed the fragility of the global economic recovery, agreed that stimulative efforts should continue and approved a timetable for agreeing on policies to help rebalance the global economy.

The group failed to agree on how to help fund developing countries' efforts to combat climate change, adding to the challenge of reaching a comprehensive climate deal when members of the United Nations meet in Copenhagen next month.

On Saturday, the U.K.'s Mr. Brown surprised many attendees by throwing his weight behind the idea of levying a tax on financial transactions and using those funds to pay for future bank bailouts. Germany and France reaffirmed their support for such a tax. Mr. Brown conceded that reaching a global agreement on such a plan would be difficult.

Mr. Geithner made plain that the U.S. wouldn't support a bank-transaction tax. Mr. Geithner's view is backed by Canada and Russia.

Despite conflicting ideas on how to prepare for financial crises, Mr. Geithner said economic leaders agreed that taxpayers shouldn't have to foot the bill. The G-20 appears unlikely to agree to a tax on financial transactions, even if the U.K.'s conversion adds significantly to the notion's momentum.

Dominique Strauss-Kahn, managing director of the International Monetary Fund, said his organization also is studying the idea of some kind of tax. The IMF is examining a levy that would be an incentive to take less risks, and would also create an insurance fund to be used in case of a future crisis.

As expected, G-20 governments agreed to keep stimulus measures in place, despite signs that the global economy is on the road to recovery.

"Economic and financial conditions have improved following our coordinated response to the crisis," G-20 officials said in a statement. "However, the recovery is uneven and remains dependent on policy support, and high unemployment is a major concern. To restore the global economic and financial system to health, we agree to maintain support for the recovery until it is assured."

G-20 officials agreed to "develop further" their exit

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Britain's royal family pays its respects to fallen troops

Agence France-Presse

Queen Elizabeth II, center, arrives with, from second from left, Prince Andrew, Prince William, Princess Anne, Prince Harry and the Duke of Edinburgh at a Sunday service in London saluting the sacrifice of British and Commonwealth soldiers. Two British soldiers were killed over the weekend in explosions in southern Afghanistan.

Banks are still vague on new rules for pay

By Harry Wilson

Most investment banks have yet to lay out how they will implement new international guidelines on pay, which means those rules are unlikely to lead to the level playing field that regulators hope to create on compensation, according to industry professionals and consultants.

Since the rules were published in September and then clarified by several national authorities including France, Switzerland and the U.K., most large investment banks have said they will become "G-20-compliant" by the start of next year. However, many say firms are nowhere near finalizing details on how new rules will work in practice.

Jeff Visithpanich, a principal at U.S.-based pay consultants Johnson Associates, said many of his clients don't believe the proposals are "workable." The clients "are all preparing statements saying 'we agree in principle, but this is how we are actually going to handle it,'" he said.

One of the most contentious aspects of the guidelines from the Group of 20 leading economies is the provision for "clawback arrangements," where a bank could take back a portion of employees' pay should deals or trades they work on negatively impact the firm in the future.

Several banks have announced clawback provisions

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What's News

U.S. authorities worked to learn more about the alleged shooter at the Texas military base in hopes of trying to discern a motive for the rampage that left 13 dead. Pentagon officials, meanwhile, face difficult issues surrounding the military's growing Muslim population. Pages 16-17

■ European officials worried about future economic growth consider the possibility of a "lost decade" similar to Japan's in the '90s. Page 2

■ EU finance ministers will discuss how to wean their economies and banks off state support at a meeting this week. Page 8

■ Kraft is expected Monday to officially launch a hostile bid for Cadbury, setting in motion a tussle for control of the British company. Page 7

■ Obama agreed to meet Netanyahu just hours before he was due in the U.S., underscoring tension between the U.S. and Israel over the Mideast peace process. WSJ.com

■ Pilot error and confusion may have caused the crash of a Yemenia Airways jet as it tried to land in June. Page 4

■ Saudi Arabia said it has taken back border areas overrun by Yemeni rebels during four days of fighting. Page 4

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■ Iraqi lawmakers passed a long-stalled election law, reaching a compromise on an issue that had threatened the timing of next year's parliamentary vote. Page 31

■ Lebanese opposition lawmakers, led by Hezbollah, said they agreed to join a unity government with Prime Minister-designate Hariri. Page 4

■ The Taliban claimed responsibility for a bombing near Peshawar that killed at least 12 people. Page 3

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DJIA	10023.42	+0.17
Nasdaq	2112.44	+0.34
DJ Stoxx 600	241.06	+0.22
FTSE 100	5142.72	+0.33
DAX	5488.25	+0.13
CAC 40	3707.29	-0.04
Euro	$1.4870	-0.13
Nymex crude	$77.43	-2.75

Lost output worries Europe's policy makers

Potential growth becomes a hot topic; test of German model

By Brian Blackstone

THE OUTLOOK

Policy makers around the world are sifting through the wreckage of the Great Recession. They're immediately finding gaping holes in the form of lost economic output.

The question they must consider soon is whether any of that lost production is recoverable once growth resumes. And it has once again made potential growth—defined as an economy's ability to grow without inflation—a hot topic.

For Europeans, a big dent to potential growth for at least the next couple of years, or even longer, would mean output lost during the recession is probably gone for good. European officials are already musing about a "lost decade" like Japan experienced in the 1990s. In contrast, stronger productivity in the U.S. gives it a better shot at recouping at least some of its lost output, with a helping hand from the Federal Reserve.

It's more than an academic issue. Potential growth greatly affects living standards, and a few tenths of a percentage point pile up quickly in terms of incomes and national wealth.

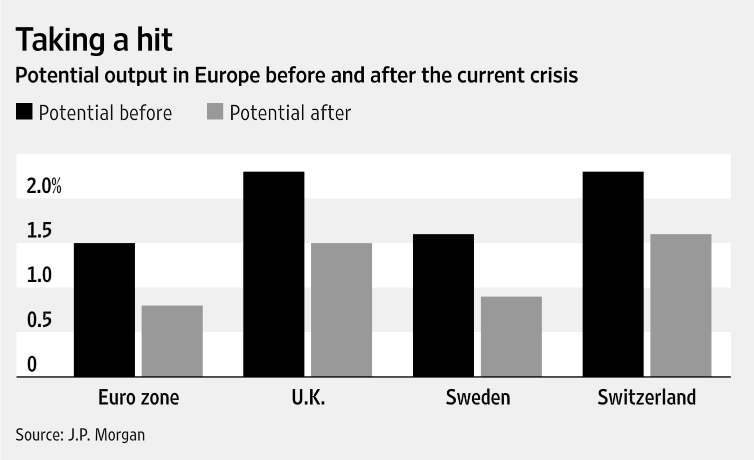
The hit to potential comes through several channels: productivity softens; companies cut back too much on efficiency-improving investments; discouraged workers leave the labor force for good; their skills idle; and after bank crises, financial markets no longer effectively channel savings into productive investment.

In a report last month, the European Commission issued its warning that an entire decade may be lost, outlining a scenario in which potential growth in Europe takes 10 years to return to precrisis rates. Under that scenario, "output lost during the crisis years is definitely lost," it said.

Compared with the U.S., Europe hasn't taken a large labor-market hit—especially its largest economy, Germany, where unemployment has actually fallen four months running. That suggests productivity is a lot lower. Economists at UBS figure productivity in Europe will shrink 1.4% this year, while it expands 2.3% in the U.S.

European Central Bank officials also are pessimistic. Potential growth was once assumed to be in the 2% range or a bit higher, but officials have cited estimates showing it is under 1% this year and next. That means even sluggish growth could lead to price pressures, keeping the ECB on edge.

"The question urging itself upon us is, whether we will succeed in turning this weak upswing into stronger growth dynamics, or whether we will see the same problem that Japan faced—that of the lost decade," ECB Governing Council member Ewald Nowotny, who heads Austria's central bank, said Friday. "It's a danger I won't rule out."



Economists at J.P. Morgan don't necessarily see quite that much lost. Still, they think the recession will shave the level of potential output in the euro zone by 3.4% by the end of 2011. That means output will be tens of billions euros less than it would have been had the region stayed on its precrisis path. That loss is "in some sense permanent," said Malcolm Barr of the bank's London office. He also sees a big effect in the U.K., Sweden and, to a lesser extent, Switzerland.

J.P. Morgan didn't do an estimate for U.S. potential like it did for the euro zone. But according to Mr. Barr, "at first glance, the fact that the U.S. has seen more intense labor shedding is suggesting that the weakness in output may be more transitory."

U.S. potential has long been thought to be a little under 3%, thanks to annual productivity gains of 2% to 2.5% and half a percent or more labor-force growth per year. That means strong gross-domestic-product growth wouldn't put upward pressure on inflation or trigger a need for an interest-rate increase, a scenario supported by a 9.5% explosion in third-quarter productivity, at an annualized rate. That makes it easier to try to get that lost output back without risking an inflationary outburst.

A pair of San Francisco Fed economists recently concluded that "there is no evidence that the pace of efficiency gains has slowed" in the U.S. To the extent those gains have been maintained during the crisis, "growth accounting offers little evidence that potential output itself has fallen," John Fernald and Kyle Matoba wrote.

Europeans have some cause for hope. In countries like Germany the bet is that by keeping people in their jobs and delaying the type of sharp adjustment that happened in the U.S., workers will maintain their skills and motivation. Human capital, after all, is key to long-run growth.

So this crisis offers a rare case study in how governments should respond to maintain potential growth. If the recession turns out to have been brutal but not seismic in terms of forcing a major adjustment, then Germany's focus on maintaining labor supply may be right. If, however, the fallout means new industries drive growth, then allowing resources to be reallocated while cushioning the effects on demand—the U.S. response—will be validated.

One risk is certain: The more policy makers worry about growth being fundamentally weaker after the crisis, the more likely it is to happen. In the midst of crisis, attitudes toward potential growth don't really matter; everyone needs stimulus, no matter how fast or slow they think they can grow.

But it's at turning points—like now—when it makes a difference.

It might mean an itchier trigger finger on monetary policy in Frankfurt than in Washington. And it could make potential-growth worries a self-fulfilling prophesy in Europe.

India plans pullback on stimulus amid signs of economic upturn

By Abhrajit Gangopadhyay
And Subhadip Sircar

NEW DELHI—India will pull back on its easy fiscal stance next year, Prime Minister Manmohan Singh said Sunday, as the nation looks poised to post growth of more than 7% in the next fiscal year.

Speaking Sunday at the India Economic Summit, Mr. Singh cited improving signs within the economy, despite a disappointing monsoon season that led to drought in several areas.

"There are clearly signs of an upturn in the economy and with a normal monsoon next year we hope to achieve a growth rate over 7%," he said.

India is the latest Asian nation to look to ease back on its stimulus efforts as the global economic slowdown passes. As in other nations, policy makers are debating how to exit the generous fiscal and monetary accommodation provided by the government and central bank without hurting a still-nascent recovery.

The risk of moving too late is rising inflation. The Reserve Bank of India has raised its inflation forecast for the year ending in March to 6.5% with an upward bias, from 5% previously, citing sharply higher food prices.

"India's exit policy will be a coordinated action [between the government and central bank], but the key to the exit will be inflation," said Rajat Nag, managing director at Asian Development Bank, in an interview.

The Reserve Bank of India, in its first step at monetary tightening last month, asked banks to set aside more government bonds against deposits and withdrew some special refinance facilities provided to mutual funds and housing companies during the downturn. It also took steps to cool the property sector. But, unlike Australia, it didn't raise key policy rates.

India's plans to step back from stimulus efforts are broadly in line with other nations' moves, said Montek Singh Ahluwalia, deputy chairman of the Planning Commission of India, also at the forum. He said the moves would also help India reduce its fiscal deficit.India's economy expanded 6.7% in the fiscal year that ended March 31, sharply lower than the average 8.8% growth in the previous four years. It is estimated to grow 6.5% this fiscal year ending in March.

"The performance in highly adverse circumstances indicates the resilience of our economy," Mr. Singh said Sunday.

The government has spent heavily through the past year to shield the economy from global financial shocks. It cut factory levies and waived farm loans to stimulate demand in the economy.

A return to a high growth rate hinges on a strong rebound in global demand, though India's economy is primarily driven by local consumption.

INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal Europe is intended to include all significant references to companies. First reference to these companies appear in boldface type in all articles except those on page one and the editorial pages.

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INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.

Taliban face new strikes

U.S., Afghans target northern provinces once held by allies

BY ALAN CULLISON AND ANAND GOPAL

KABUL—U.S. and Afghan forces are engaging in heavy fighting against the resurgent Taliban militants in the Kunduz and Badghis provinces of northern Afghanistan, pushing into once-peaceful areas overseen by European allies.

In restive Kunduz province bordering Tajikistan, U.S. special operations forces and the Afghan army have carried out a major offensive against the Taliban over the past several days in the Chahar Dara district, a Taliban stronghold near the provincial capital, officials said. "This is the biggest operation seen so far," said Kunduz Gov. Mohammad Omar. "We've been able to kill a lot of Taliban."

The Taliban, while saying insurgent casualties were limited, confirmed that the fighting now raging in Kunduz is at its fiercest since the Taliban regime was ousted in 2001. "The last time they had a major operation we abandoned our positions in the villages to avoid civilian casualties," said the Taliban spokesman for Kunduz, Wasiq, who like many Afghans goes by one name. "This time we have decided not to cede any ground."

German army Lt. Col. Frank Warda, spokesman for the coalition's Regional Command North, said he can't comment on the operation because it is led by Afghan troops. Kunduz and adjoining provinces of northern Afghanistan are under the responsibility of some 4,250 German troops.

The U.S. and NATO members are considering further troop commitments to Afghanistan, but are also increasing pressure on President Hamid Karzai to reshuffle his cabinet and launch a serious fight against corruption now that he has been declared winner in presidential election.

Last week the top U.N. official in Afghanistan, Kai Eide, called on Mr. Karzai to rid his government of corrupt officials, and said that international patience was wearing thin because of the slow progress of reforms. On Friday, the U.N. Security Council in New York called on Mr. Karzai to "effectively address the issues facing the country, including security, good governance and the fight against corruption."

Britain's Prime Minister Gordon Brown likewise called the Afghan government a "byword for corruption," adding that he wouldn't continue to risk British lives if the Karzai regime doesn't make changes.

The Afghan Foreign Ministry over the weekend rebuked the corruption criticisms, saying they "violated respect for Afghanistan's national sovereignty." In his first direct response to the criticisms last week, Mr. Karzai laid some of the blame Sunday on the international community, which he said has been fostering corruption with costly development projects.

"There is a new kind of corruption that started with the arrival of international aid in Afghanistan," he told the Public Broadcasting Service, according to excerpts released by the presidential palace. "There is no transparency in the contract process, and there is also a lot of corruption in the implementation of projects."

Afghan officials have long been calling on the U.S. to bring more forces to northern Afghanistan, where the security situation has deteriorated following the Taliban's decision to attack NATO supply lines from Tajikistan, Uzbekistan and Turkmenistan. The alliance has increasingly relied on these routes as security along the Pakistan border crumbled.

"The strength of the insurgents is increasing, and we don't have enough Afghan army troops and equipment to defend ourselves," said Maj. Gen. Murad Ali, commander of the Afghan army 209th Corps that is responsible for the nation's north.

Afghan government officials said the offensive in Kunduz started last week as Afghan army units and U.S. special operations forces surrounded known Taliban strongholds in the Chahar Dara district, while German troops sealed off the area and trapped fleeing insurgents. Local officials said more than 100 Taliban were killed, a claim that couldn't be verified.

Unlike in Kunduz, the offensive in Badghis was an unplanned operation, and began with the disappearance of two paratroopers from U.S. 82nd Airborne Division during a resupply mission near the border with Turkmenistan on Wednesday. A search party in the district of Bala Murghab, a Taliban stronghold on the border, was ambushed, leading to further fighting and at least one coalition air strike. The whereabouts of the missing servicemen remains a mystery.

—Yaroslav Trofimov contributed to this article.

Agence France-Presse/Getty Images

The U.S. and other NATO members are calling on Afghan President Hamid Karzai to shuffle his cabinet and launch a serious fight against corruption.

Suicide bomb in Pakistan kills anti-Taliban mayor

BY MATTHEW ROSENBERG

NEW DELHI—A Taliban suicide bomber detonated explosives in a cattle market in northwestern Pakistan Sunday, killing the town's anti-Taliban mayor and at least 11 other people, officials said.

The early morning attack in Adazai, appeared aimed at the mayor, Abdul Malik, a onetime Taliban supporter who in recent years turned on the militants and raised a militia to protect his town, which isn't far from the city of Peshawar.

To kill Mr. Malik, the bomber struck a crowded market where people were buying animals, such as goats and cattle, to be sacrificed during the coming holiday of Eid al-Adha, a Muslim festival.

"Mr. Malik was the target of the bomber. [Malik] had earlier escaped several attacks on his life but this time unfortunately we are deprived of our brave colleague who resisted the terrorists and never bowed to them," said Mian Iftikhar Hussain, the information minister of North West Frontier Province, where Adazai is located, in a telephone interview.

"Our local fighters carried out this attack," a purported Taliban commander, who gave only one name, Omar, said by telephone from an undisclosed location, the Associated Press reported.

Reuters

At right, a man outside Lady Reading hospital in Peshawar mourns the death of his father, who was among those killed in a suicide-bomb attack on Sunday.

LEADING THE NEWS

Pilot error cited in Comoros Islands crash

Preliminary findings are fueling objections from Yemeni Airways

Investigators believe that pilot error and confusion in the cockpit of a Yemenia Airways jetliner caused the plane to crash in the Indian Ocean as it tried to land in the Comoros Islands in June, said people familiar with the analysis.

By ***Andy Pasztor, Daniel Michaels*** and ***Stefania Bianchi***

Agency France-Presse/Getty Images

Cockpit confusion

Loss of control by pilots is now the predominant cause of commercial-aviation fatalities. Several significant crashes:

Airline	Nationality	Crash location	Date	Fatalities	Airplane Model
Yemenia (pictured)	**Yemen**	**Indian Ocean, near Moroni, Comoros**	**June 30, 2009**	**152**	**Airbus A310**
Aeroflot Nord	Russia	Russia, near Perm	Sept. 14, 2008	88	Boeing 737
Adam Air	Indonesia	Indian Ocean, near Pambauang, Indonesia	Jan. 1, 2007	102	Boeing 737
Armavia	Armenia	Black Sea, near Sochi, Russia	May 3, 2006	113	Airbus A320
Gulf Air	Bahrain	Persian Gulf, near Bahrain	Aug. 23, 2000	143	Airbus A320

Note: Finding of Yemenia crash as a loss-of-control accident is preliminary Source: Aviation Safety Network

Preliminary findings regarding the crash, which killed all but one of the 153 people board, haven't been released by the international committee investigating the incident. But the findings are already prompting strong disagreement from the airline, which has cited bad weather as the primary cause.

"There's no final report on the findings of the investigation yet, so it's too early to speculate on what caused the crash," Yemenia Airways Chairman Abdulkalek Saleh Al Qadi said in an interview.

Since the Airbus A310 crashed on June 30, officials in Yemen and Comoros have objected to suggestions by some European officials that the airline and its staff were to blame for the accident.

"No other airline has had such a negative attack after an accident," Mr. Al Qadi said. Yemenia has lost 70% of its traffic from Europe, he said, because French authorities expressed concerns about Yemenia's safety "even before a full investigation."

Europeans were aware of the carrier's safety because over the past two years, European Union officials considered placing Yemenia on an EU blacklist of carriers forbidden from flying to the 27-country bloc.

The airline was cited following multiple reports of lapses in maintenance and equipment on Yemenia planes—including the one that crashed—at airports in France, Italy and Germany.

EU aviation officials have monitored Yemenia closely since July but haven't blacklisted it. If the airline is eventually deemed to have trained its pilots insufficiently, it could increase pressure in the EU to sanction the carrier. An Airbus spokesman said the unit of **European Aeronautic Defence & Space** Co. is supporting the continuing investigation.

People familiar with the work of investigators, who have studied the plane's digital recorders of flight data and cockpit conversations, say there was no indication the 19-year-old plane or its engines malfunctioned. Instead, investigators believe the pilots were overwhelmed by circumstances, these people said. While bad weather and rudimentary airport systems were apparently contributing factors, the pilots' actions seem to have been the root cause of the crash, these people said.

The incident has drawn the attention of safety experts partly because so-called loss-of-control accidents have become the single largest source of airliner fatalities. Although the aviation industry has developed technologies to help planes avoid collisions with terrain or water, loss-of-control involves circumstances such as pilot disorientation.

Several deadly crashes this decade in this category include the May 2006 crash of an Armenian Armavia Airbus A320 near Sochi, Russia, that killed 113 people, and the August 2000 crash of a Gulf Air A320, landing at its home airport in Bahrain, that killed 143 people.

In the Yemenia crash, investigators know from air-traffic data that the plane, en route to Comoros from Sana'a, Yemen, was circling to land at the Moroni Airport in rain and blustery winds. The airport lacks sophisticated navigation equipment that can guide pilots in such conditions.

The approach can be particularly difficult at night and in bad weather because pilots have to bank and circle while also ensuring they line up correctly with the runway. If they turn too sharply, the plane can end up too high and too fast, without enough time to make the proper descent to the landing strip.

According to the people familiar with the investigation, the plane had trouble maintaining steady altitude in the turn, possibly because of strong winds. Air-traffic controllers and navigation equipment had given the pilots a landing path, but they circled the airport and belatedly turned to line up with the tarmac. The plane ended up overshooting the runway and continuing for several miles before plunging into the Indian Ocean, according to the people familiar with the investigation.

The scenario explains why the wreckage was found farther at sea than rescuers initially expected, these people said. The only survivor was a 12-year-old girl who could barely swim and clung to wreckage for 10 hours before being rescued.

During the descent, according to these people, the pilots received automated warnings to "pull up, pull up." The crew tried to react, but made various incorrect adjustments to the flight controls that investigators believe complicated their problems. Investigators believe pilots got confused, lost sight of the horizon and failed to regain altitude after the plane went into a stall, these people said.

"The crew became disoriented and improperly flew the aircraft," according to one person familiar with the investigation.

Mr. Al Qadi of Yemenia said a committee of international investigators handling the crash may meet Tuesday for an update on the analysis. He said Yemenia plans to conduct an independent analysis of flight recorders, both of which were damaged in the crash.

French investigators extracted usable data from the two recorders with help from the U.S. National Transportation Safety Board, according to the people familiar with the case. There are gaps and comments on the cockpit recorder that analysts are still trying to understand.

Saudi Arabia says it cleared Yemeni rebels from border

By Mohammed Aly Sergie

AL KHUBAH, Saudi Arabia—Saudi Arabia said Sunday it cleared Yemeni rebels from the border between the two countries, confirming that three Saudi soldiers died and 126 were wounded in four days of fighting.

Prince Khaled bin Sultan, the kingdom's assistant minister of defense and aviation, told the official Saudi Press Agency that all border areas that had been overrun by Yemeni rebels—including Al Dokhan mountain, straddling the two countries—had been retaken. Four soldiers are still missing, he said.

The offensive was a rare show of force from Saudi Arabia's rulers, who have used their enormous oil wealth to build the Mideast's largest and best-equipped armed forces. But they haven't had the opportunity to use most of that equipment in real combat until now.

Prince Khaled praised the performance of the Saudi air force and ground troops, calling them "the eagles of the sky and the lions on land," in a rousing speech here, a small town at the foot of the mountain range between the two countries.

Saudi Arabia's military rushed to the southwestern border with Yemen after unknown infiltrators from Yemen attacked Saudi border guards last week. One border patrol officer was killed by the Houthi rebels, a group that has been battling Yemen's central government for autonomy since 2004.

In recent months the rebellion had taken on the air of a proxy battle between regional superpowers Saudi Arabia and Iran. Yemen's government accused Iran of supplying the Houthi insurgents, while the rebels accused Saudi Arabia of supporting the central government's campaign against them. Riyadh and Tehran have both denied involvement.

Saudi Arabia pounded the border's mountains with medium- and long-range artillery for two days, and then sent in ground forces to weed out rebels that Saudi Arabia alleged had crossed over the border and occupied three small mountain towns. Saudi-based news reports put rebel casualties in the dozens, but it wasn't possible to confirm those numbers.

Resistance was heavier than expected, according to one Saudi civil-defense officer, who spoke on condition of anonymity. He said Saudi forces were limited to operating from Saudi territory, which tied commanders' hands. (Rebels said last week that Saudi forces had bombarded positions inside Yemen.)

At one point in the fighting, a group of rebels, dressed in abayas—the black head-to-toe gowns worn by women—approached a group of Saudi soldiers and opened fire, killing two, according to the director of the area's biggest hospital. The account was corroborated by a Saudi security-services spokesman near the border.

On Saturday, the hospital was full of injured soldiers and civilians, along with one hurt Houthi rebel. Doctors said most casualties weren't serious.

Along a two-lane road leading to the mountain range near the border, artillery installations and makeshift camps peppered fields. Checkpoints diverted traffic from the border, but soldiers allowed access to the area.

Soldiers appeared in good spirits, with one group tucking into a traditional meal of rice and lamb, washed down with Mountain Dew.

Lebanese opposition agrees to unity government as regional tensions ease

By Nada Raad

BEIRUT—Lebanon's opposition bloc of lawmakers, led by Hezbollah, said over the weekend it had agreed to join a unity government with Prime Minister-designate Saad Hariri, a move that could end more than four months of political deadlock.

Mr. Hariri has yet to announce his 30-member cabinet, and a final accord could snag in coming days. But opposition officials have given their clearest signal yet that they will share power with the Western-backed bloc of lawmakers that Mr. Hariri led to victory in June parliamentary elections.

Opposition leaders met Friday evening and "agreed to go ahead with the formation of the national unity cabinet," Hezbollah said in a statement Saturday. Mr. Hariri could announce a cabinet lineup in days, officials said.

A deal would represent a significant easing of political tensions in Lebanon. It would also mark a deepening regional détente between two foreign powers that have exercised outsize sway in Lebanese politics: Saudi Arabia and Syria.

Lebanon has long served as a battleground for bigger Middle East and global powers. The June election pitted Mr. Hariri's bloc, backed by the U.S., European allies and Saudi Arabia, against an opposition led by Hezbollah, the Shiite political and militant group supported by Syria and Iran.

In the vote, Mr. Hariri retained his bloc's majority in the 128-seat parliament. But Lebanon's quota-based political system apportions top posts according to a crazy quilt of ethnic, sectarian and religious affiliations, requiring consensus and compromise.

Saudi Arabia and Syria appeared to officially patch up their differences last month when Saudi King Abdullah visited Mr. Assad in Damascus. Analysts and politicians involved in the process said the easing of regional tensions allowed Lebanese political leaders on both sides to make compromises over cabinet seats that they might not have been able to make without a nod from their foreign sponsors.

"The agreement over the cabinet formation was 100% due to regional factors," said Antoine Zahra, a Christian lawmaker aligned with Mr. Hariri.

CORPORATE NEWS

Bharti seeks new targets in Africa

After failure of MTN deal, Indian wireless giant sees limited options for growth

By Paul Beckett

NEW DELHI—After the collapse of a $24 billion merger deal with **MTN Group** Ltd. at the eleventh hour, **Bharti Airtel** Ltd., India's biggest wireless telecommunications company, remains interested in targets in Africa but will be more cautious in its pursuit of a partner and sees only limited options, the company's chairman said.

In an interview, Sunil Bharti Mittal, chairman of **Bharti Group**, which includes Bharti Airtel, said any prospect of a renewed deal with MTN of South Africa was dead for now. "I am not harboring any hopes this will come back anytime soon," he said. The deal fell apart a few weeks ago even though commercial terms were agreed upon because South African regulators objected that the national character of MTN wouldn't be preserved.

"There are very few, limited options" for another deal in Africa, Mr. Mittal said, "but everyone knows we're a candidate to do an acquisition and people know we can do big deals that are fully funded and have everything in place."

Reuters

Bharti Group Chairman Sunil Bharti Mittal, left, joins PepsiCo CEO Indra Nooyi at a New Delhi economic summit Sunday.

Mr. Mittal mentioned **Zain** of Kuwait, which has large operations in Africa as well as the Middle East, as a possible potential fit "but whether they want anything of this nature we don't know." A Zain spokesman declined to comment.

However Bharti Airtel pursues its expansion in Africa, it wants to consummate a deal quickly in the aftermath of the lengthy but unsuccessful courtship of MTN. "We are not willing to embark on a mission that does not have an end," Mr. Mittal said. "We are a little more cautious."

Growth prospects for telecommunications in Africa remain strong and expansion abroad is a priority for Bharti as a hedge against a shortage of radio spectrum at home and fierce competition from low-priced start-ups, which are hurting profit margins in an industry-wide price war.

Mr. Mittal, 52 years old, said those price wars are unlikely to end anytime soon because the market is flooded with new carriers. "Obviously we are going to see squeezed margins in the short to medium term," he said.

He added that he believed Bharti to be the best prepared because of its financial health and heft: It has more than 110 million subscribers, the most for any wireless company in India.

"Telecommunications is a long, dark tunnel that takes you 10 years to come out, and you come out battered and bruised and then you heal yourself," he said. "We are the only company to come out of the tunnel and we are in the pink of health. Some are trying to enter this tunnel: Good luck to them. Some are in the middle: They are the most at risk."

There has been little consolidation in the industry recently because the country as a whole remains relatively lightly penetrated compared with other major economies, so companies still see room for growth through customer acquisition. An auction for third-generation spectrum is also expected in the next few months, which could greatly increase the country's scarce usage of broadband.

WSJ.com

Lessons Learned
Excerpts from the interview with Sunil Bharti Mittal on how the MTN deal was a turning point for India at **India.WSJ.com**

Critics cite Eni's African oil-sands project

By Guy Chazan

Criticism is mounting against Italian energy giant **Eni** SpA's plans to squeeze oil from the tar sands of the Republic of Congo, which campaigners claim could endanger one of the world's largest tropical rain forests.

Eni says the crude would be produced in areas of grassy savannah, and wouldn't harm the local environment in the country, the capital of which is Brazzaville. But a study to be released today cites internal Eni reports as saying more than half the tar-sands exploration zone is made up of "primary forest and other highly bio-diverse areas."

The study is published by the Heinrich Böll Foundation, the think-tank of Germany's Green Party, and was authored by a coalition of Congolese human-rights organizations and Western researchers.

At issue is a technology condemned by environmentalists as polluting and out of synch with global efforts to tackle climate change. Eni's project would mark the first time the process of deriving synthetic crude from oil sands—a mixture of sand, clay and bitumen—has been applied on any scale outside of Canada.

"This is a particularly dirty, carbon-intensive form of oil production and it is being planned for an area that's highly sensitive in ecological terms," said Dr. Sarah Wykes, one of the authors of the report. "It's just too high-risk."

In a response to emailed questions, Eni said the tar-sands project would involve "no destruction of primary forest; no occupation of existing farmland; no impact on areas of high biodiversity; and no...resettlement of people." It said whatever the conclusion of the environmental and social impact assessment it is currently conducting, "no rain forest area will be affected by the project."

Canada's oil sands, lying under an area of boreal forest the size of Florida, have helped turn the country into a major oil producer. Canada boasts 174 billion barrels of recoverable bitumen, making its oil reserves the world's second-largest after Saudi Arabia.

But the industry has come under attack for the huge amounts of energy and water it consumes. Scientists have calculated that extracting one barrel of crude from oil sands produces at least three times as much carbon dioxide as drilling for a barrel of conventional oil.

Meanwhile, water used to separate the oil from the sand is dumped in toxic tailing ponds, some of which are so big they are visible from space. Huge tracts of forest have been cleared to make way for oil-sands developments.

The enormous cost of such projects hasn't deterred Western majors from seeking to increase their exposure to so-called unconventional resources such as oil sands. Many of them are considering the Orinoco Belt, a vast deposit of heavy oil in Venezuela.

The cost of the projects hasn't deterred Western majors from increasing their exposure to oil sands.

Eni first unveiled its tar-sands investment in the Republic of Congo in May last year. It also pledged to build a new electric-power station and to create oil-palm plantations. Eni received permits to explore for tar sands in two areas—Tchikatanga and Tchikatanga-Makola—that cover an area of 1,790 square kilometers. It believes the area could hold several billion barrels of oil.

The Italian company is already well-established in Congo, sub-Saharan Africa's fifth-largest oil producer. Eni operates a huge onshore oil field called M'boundi, and plans to use natural gas from the field to power a plant that will upgrade the bitumen from its tar-sands development. Currently, the gas is simply flared into the atmosphere.

But from the outset, the project was seen as controversial. About 60% of Congo is covered by lowland tropical forests, much of it undisturbed wilderness that acts as a vital carbon sink.

Over the past year or so, Eni has been trying to establish the extent of the tar-sands resource, by drilling wells and using seismic testing and satellite imaging. Eni also has been studying the potential environmental and social impact of the project, a process the company says is continuing.

An internal progress report cited in the Heinrich Böll study that was dated March 31, 2009, which the study says was circulated to Eni senior management, said remote sensing and mapping of flora in the permit area showed that "tropical forest and other very sensitive environments of the biosphere (e.g. marshes) represent about 50% to 70% of the permits," according to the report, a translation of which was reviewed by The Wall Street Journal.

Condé Nast plans increase in China titles

By Norihiko Shirouzu

BEIJING—**Condé Nast Publications** Inc. aims to continue adding more magazine titles in China, already a top-five global market for the U.S. publisher, the head of its international arm said.

"In emerging markets like China...the magazine business and magazine development continue to go very strong," even as the publishing industry suffers in America amid the rise of Web-based content, said Jonathan Newhouse, chairman of Condé Nast International Ltd.

Mr. Newhouse spoke to a small group of reporters in Beijing Saturday to mark the launch last month of the mainland China edition of GQ magazine.

Mr. Newhouse said the success of Condé Nast's magazines in China, which include Vogue, Self and Modern Bride in addition to GQ, has boosted the company's global circulation over the past five years.

"We would very much like to produce new magazines in partnership with Chinese partners and we are working in that direction," he said.

Still, Mr. Newhouse warned that the pace of the expansion for Condé Nast will likely be slowed by the requirement in China of having to obtain approval from the country's central government for each title the company adds.

Foreign publishers also cannot operate in China independently and have to do so with local publishing partners. Condé Nast publishes Vogue in China, for example, in cooperation with China Pictorial, a local magazine.

The regulatory requirements are part of the sometimes complicated reality of publishing magazines in China, Mr. Newhouse said. "I know at least one magazine which was forced by the government to stop publishing," he said. "Some publishers are not strictly meeting these requirements. They are in my opinion at risk to run into legal problems."

Cao Wei Ming, managing director of Condé Nast China, said the publisher isn't making a profit in China currently.

"Condé Nast is looking at really long-term profit potential" in the China market, he said. "We are looking at five-to-10 years" down the road to start generating profit.

Associated Press

Jonathan Newhouse is head of Condé Nast's international arm.

Ghosn reaffirms India investment

Renault, Nissan remain committed to India, chief says

BY SANTANU CHOUDHURY AND NIKHIL GULATI

Agence France-Presse

Nissan's Teana sedan and X-Trail sport utility vehicle, pictured at a product launch in Mumbai, India, in September.

NEW DELHI—**Nissan Motor** Co. and **Renault** SA chief Carlos Ghosn reaffirmed the two companies' commitment to a nearly $1 billion plant in India and to the country's market, despite Renault's delayed plan to make new vehicles in India.

Mr. Ghosn, chairman and chief executive of Renault, said both auto makers still plan to tap India's expanding automotive market and use it as a global manufacturing base. He said Renault's decision in September to delay its investment in a 45 billion rupee ($958 million) car factory reflected more global concerns.

"We suspended [the second phase] not because we do not believe in the potential of India's internal market or the capacity of exports from India, but until we see where this decline in the global automotive market will end," he said on the sidelines of the World Economic Forum's India Economic Summit on Sunday.

Nissan and Renault, which have a global alliance, have an equal joint venture to build a new factory at Chennai in the southern Indian state of Tamil Nadu. The plant is expected to have an annual capacity of 400,000 cars.

Renault is also considering various ways to move forward with its car-making joint venture with **Mahindra & Mahindra** Ltd., India's biggest sport-utility vehicle maker by sales, which is witnessing lower sales, Mr. Ghosn said.

Nissan, of which Mr. Ghosn is president and chief executive, is going ahead with its part of the investments and will start producing a new small car in May.

"I am absolutely convinced about not only the potential of the internal market in India, but also the potential of India as an exporter and also the potential of India as an important participant to the engineering effort and product planning effort of the group," Mr. Ghosn said. "That's why you are going to see us for a very long time in India."

Renault manufactures and sells its midsize Logan sedan in a 51-49 joint venture with Mahindra. Logan sales declined 69% from a year earlier in the April-September period this year to 2,901 vehicles.

Toyota plans to roll out small car in India

BY NIKHIL GULATI

NEW DELHI—**Toyota Motor** Corp. is to introduce its first small car in India, with a 1.2-liter gasoline engine, and is also considering offering a diesel-engine option, a senior executive at the auto maker's local unit said Friday.

"We are well on track to launch the small car by end-2010 and will showcase it during the upcoming [New Delhi] Auto Expo in January," Sandeep Singh, deputy managing director at Toyota Kirloskar Motor Pvt. Ltd., told reporters. The week-long auto show is to start Jan. 5.

The small car will likely help Toyota strengthen its position in India, where the auto maker trails **Suzuki Motor** Corp., **Hyundai Motor** Co. and **Tata Motors** Ltd.

Hatchbacks make up nearly two-thirds of total car sales in the country, where annual sales are forecast to increase about threefold to three million units by 2016.

Car sales in India started rising in February this year, aided by several federal-government stimulus packages and a cut in lending rates by commercial banks.

Sales at Toyota Kirloskar fell 7.4% from a year earlier during the April-September quarter, dropping to 27,477 vehicles. That compares with a 15% rise in local-industry car sales to 689,339 vehicles.

Toyota Kirloskar is 89%-owned by Toyota, with the remainder owned by India's Kirloskar group.

Mr. Singh said Toyota Kirloskar also plans to unveil the Prius hybrid sedan in India during the automotive show. He added that the company plans to start selling the Prius in India if it receives positive feedback from customers.

Toyota Kirloskar plans to produce the new small car at its second factory, which is being built with an investment of 32 billion rupees ($681.3 million) near the southern city of Bangalore. The new factory is to be located in the same complex as the existing plant, where Toyota makes the Innova multipurpose vehicle, Corolla sedan and the Fortuner sport-utility vehicle. It also imports and markets the Land Cruiser and Land Cruiser Prado SUVs as well as the Camry sedan.

The second plant is to open with an initial capacity of 70,000 cars a year, Mr. Singh said.

Toyota is among several global car makers, such as **Ford Motor** Co., **Nissan Motor** Co. and **Volkswagen** AG, that have either entered the Indian small-car market or said they plan to do so starting next year.

Toyota Kirloskar plans to increase its vehicle prices in January because of rising raw-material prices. Mr. Singh said the size of the price increases will be decided by December. He added that Toyota Kirloskar intends to increase production of the Fortuner SUV to 800 vehicles a month in January, from 500, amid strong demand. "We have stopped fresh bookings for the Fortuner as there is a huge waiting list," Mr. Singh said.

GM advances restructuring of Opel unit

BY JOHN D. STOLL AND VANESSA FUHRMANS

A team of **General Motors** Co. executives is to arrive in Germany Monday to fine-tune a restructuring plan for **Adam Opel** GmbH and search out a new leader for the European unit, company officials said.

The U.S. auto maker said Friday that Carl-Peter Forster, who worked for GM for more than nine years, is quitting as chief executive of **GM Europe**. The decision follows a vote by the company's board of directors on Tuesday to scrap a plan to sell control of the German **Opel** unit to **Magna International** Inc. and Russia's **Sberbank**.

GM now intends to keep Opel and its sister brand Vauxhall, but needs to update its restructuring plan in order to win financing for the move from Germany, the U.K., Poland and Spain. GM said Tuesday it needs €3 billion ($4.46 billion) in government financing, but in recent days has indicated it may have other ways to help fund a restructuring, including using its own liquidity.

Mr. Forster, an opponent of the board's decision to keep Opel, will be succeeded for now by GM marketing chief Robert A. Lutz, who will be head of the Opel supervisory board but not GM Europe CEO.

A GM Europe spokesman declined to make Mr. Forster available for comment.

The company is starting a search for a new chief of its European unit, with strong preference for a German executive, two people familiar with the matter said. Hiring a German executive could smooth the tension that arose between GM executives and German labor and government officials after GM dumped the Magna plan.

Mr. Lutz is expected to step aside as the head of the supervisory board once a new GM Europe chief is picked. For now, the 77-year-old Mr. Lutz could be regarded as an ideal fill-in given his command of the German language and his decades of experience in automotive leadership, including a stint running Ford Motor Co.'s European business.

This week, GM Chief Executive Frederick "Fritz" Henderson and key lieutenants—including GM international chief Nick Reilly and current Opel chief Hans Demant—will take a fresh look at Opel's operations and decide how many of the division's 55,000 workers and 10 plants in Europe need to be eliminated to make the business viable.

GM said Mr. Forster will be an adviser as the company searches for a new head of European operations.

Mr. Forster, a former BMW AG executive lured to GM in 2001 to turn around Opel, was increasingly at odds with executives in Detroit as he became an outspoken advocate for the sale of Opel to Magna, a Canadian-Austrian auto-parts supplier.

Despite his dissent of late, Mr. Forster's departure serves another blow to Mr. Henderson, who has seen his management bench shorten far more than he expected since the company's exit from bankruptcy. Recently GM's longtime sales chief, Mark LaNeve, and a key finance executive, Joe Peter, left the company.

—Sharon Terlep, Christoph Rauwald and Joann S. Lublin contributed to this article.

Kraft expected to go hostile in Cadbury bid

BY DANA CIMILLUCA AND JEFFREY MCCRACKEN

Kraft Foods Inc. is expected on Monday to officially launch a hostile bid for **Cadbury** PLC valued at roughly £10 billion ($16.6 billion), setting in motion a tussle for control of the famed British confectionary company.

People familiar with the matter said Kraft planned to take its offer directly to Cadbury shareholders on Monday, when it faces a deadline from the U.K. Takeover Panel to either make a formal offer or back off for six months. It is unclear whether Kraft plans to maintain the cash and shares offer that Cadbury rejected in September or raise it modestly. The offer, which was worth 745 pence ($12.38) at the time, has fallen to 720 pence with a decline in Kraft shares.

By launching its offer Monday, Kraft would set in motion a 28-day deadline for it to publish a prospectus on the offer for Cadbury shareholders.

By making its offer official, Kraft would effectively appeal directly to Cadbury shareholders to accept a merger proposal that Cadbury's executives and directors have steadfastly rejected. Kraft, facing lackluster sales and upward pressure on its raw-material costs, wants to absorb Cadbury to boost its exposure to developing markets and growth prospects.

But few Cadbury shareholders are expected to tender their shares until Kraft offers something above 800 pence per share. Cadbury shares closed Friday at 758 pence each.

By launching its offer Monday, Kraft would set in motion a 28-day deadline for it to publish a prospectus on the offer for Cadbury shareholders. It would then have as many as 60 days to collect enough shares to seal the deal. That means the takeover fight could last until early February. Should another company launch an interloping bid in the meantime, the takeover battle could drag on even further.

Kraft must declare its intentions by 5 p.m. London time Monday. The U.K. Takeover Panel issued a so-called Put Up or Shut Up Order at Cadbury's request. The order forces Kraft to formalize its takeover offer or walk away for at least six months.

ECONOMY & POLITICS

China-U.S. trade row escalates

Beijing calls America's move to impose duties on steel pipe imports 'abusive protectionism'

By Aaron Back
And Patricia Jiayi Ho

BEIJING—China called a U.S. decision to impose duties on imports of Chinese steel pipe "abusive protectionism," and both nations moved ahead with new trade investigations on Friday, heightening a trade quarrel a little more than a week ahead of a visit to China by U.S. President Barack Obama.

Imports of Chinese pipe to the U.S. totaled $2.6 billion last year, the U.S. Commerce Department said, more than four times the amount in 2006. The United Steelworkers union, which petitioned for the duties with seven U.S. companies, called the case the largest against Chinese imports in U.S. history, based on the volume of imports.

On Friday, a U.S. trade panel said the Commerce Department can go forward with investigations into alleged dumping—selling at below market prices—of coated paper from China and Indonesia, and of certain phosphate salts from China. Beijing started its own investigation into imports of some cars from the U.S.

The steady stream of trade disputes has been at the forefront of relations between Washington and Beijing since a U.S. decision in September to hit Chinese tire exporters with punitive tariffs.

The tire, steel and coated-paper cases were all brought by United Steelworkers. Union President Leo Gerard hailed the U.S. decision Thursday to levy preliminary tariffs on Chinese imports of steel pipes used to extract oil or gas from a drill well. "China's government and exporters are being told we are fed up with their cheating on our fair-trade laws, and penalties for these transgressions are long overdue," Mr. Gerard said.

Thursday's move followed an initial finding by the U.S. Commerce Department in September and mostly raises duties then imposed on Chinese exporters.

The tariffs will affect dozens of Chinese companies. **Tianjin Pipe International Economic & Trading** Corp. received preliminary rates of 36.53%, the Commerce Department said. It said 37 other companies qualified for a rate of 36.53% and that all other Chinese producers and exporters of the pipe will receive a preliminary rate of 99.14%.

An official at Tianjin Pipe International Economic & Trading said on Friday that no one was available to comment on the issue.

The U.S. International Trade Commission must still clear the duties for them to become finalized. The Commerce Department will make a final antisubsidy or countervailing duty determination this month and the dumping portion of the case will be wrapped up in the spring.

China's Ministry of Commerce, in a statement on its Web site responding to the U.S. pipe tariffs, noted that members of the Group of 20 have promised to resist protectionism. "China resolutely opposes this abusive protectionism and will take action to protect the interests of domestic industries," it said. The statement said the frequency of U.S. trade investigations against China this year has been "rarely seen in history."

Later on Friday, the ministry said it has begun investigating imports of some U.S. vehicles for possible dumping or subsidies that unfairly benefit U.S. auto makers. It wasn't clear whether the move was linked to the U.S. steel-pipe announcement.

The investigation affects sedans and sport-utility vehicles with engine capacities of 2.0 liters and above, China's Ministry of Commerce said on its Web site Friday. The probe is unlikely to have much of an effect on U.S. auto imports as only a small percentage of vehicles sold in China are imported, with most global auto makers having manufacturing facilities inside the country.

—Henry J. Pulizzi contributed to this article.

Reuters

Laborers hook up steel pipes for transport in China's Anhui province. China denounced new U.S. duties on Friday.

Seeds of a trade war, battle by battle

The Sept. 11 announcement of a 35% U.S. tariff on imports of Chinese-made tires began a flurry of tariffs and probes affecting products including:

- **Steel:** The U.S. is investigating allegations of dumping of several products, and Thursday announced preliminary duties on steel pipes.
- **Chicken:** China is investigating alleged U.S. dumping and subsidies.
- **Paper:** A U.S. body Friday approved a probe into alleged dumping of coated paper from China.
- **Raw materials:** The U.S. and EU filed a WTO complaint.
- **Autos:** China plans probes of imports of U.S. auto parts and cars.
- **Chemicals:** Beijing imposed tariffs on imports of two chemicals from the U.S. and other countries.

EU finance ministers to examine bank support

By Adam Cohen

BRUSSELS—European Union finance ministers this week will discuss how to wean their economies and the bloc's banking sector off state support.

One plan the ministers will discuss, according to a document reviewed by Dow Jones Newswires, could end government guarantees for bank debt before much of the aid is due to expire.

The ministers, meeting Monday and Tuesday in Brussels, are expected to restate their plan to withdraw fiscal support for the economic recovery, a timetable they set last month. But consensus on how and when to curb state support for the banking sector could be trickier.

Some EU policy makers are worried that government guarantees, created in the wake of last year's market turmoil, could create unfair competition between banks in various EU countries. They are also worried that allowing state support to continue longer than necessary could prop up banks that should be left to fail, according to the document.

The European Commission, the EU's executive arm, has suggested the debt guarantees be phased out starting in June, with a gradual increase in the fees banks pay for this government aid. EU countries and the commission have negotiated a range of timetables. Many of these measures are set to expire in two or three years, though in some countries they are due to end as early as this year.

The other option would be to allow state guarantees to expire naturally, according to terms EU countries already have negotiated with the commission.

This could be complicated, as different countries have different timetables for their debt guarantees. In Germany, for example, government guarantees are to expire at the end of 2012, while Spain's support for bank debt is to end on Dec. 15 of this year. Spain last month asked the commission to extend this deadline to July 1.

The document prepared for the finance ministers' meeting says it is still too early to withdraw government support for the banking sector. But it says finance ministers should start preparing "principles and a timeframe" to end state debt-support plans for the banking sector.

Other state support granted to banks since the financial crisis began, including recapitalization plans and plans to handle impaired assets, pose fewer risks to the EU's banking sector, according to the document.

Talks about unwinding broader state support for the recovery should find quick consensus among the EU finance ministers. They already have pledged to withdraw stimulus measures when the recovery is "sustainable."

Commissioner for Economic and Monetary Affairs Joaquín Almunia, who also participates in the monthly meetings, will lead a discussion on the commission's latest forecasts, published Nov. 3. The commission expects the bloc's economy to recover gradually, expanding 0.7% in 2010 and 1.6% in 2011.

Mr. Almunia last week said these forecasts should reinforce the timetable the finance ministers have set. But the ministers could face a test of nerves at the beginning of next year, when the commission expects the EU economy to hit a "soft patch."

If growth retreats toward zero as the commission expects, ministers might find it hard to tighten their belts. Austerity measures could be complicated further by the unemployment rate, expected to average 10.3% next year, up from 7% in 2008.

IMF, EU delay Romania loans until next year

By John W. Miller

BRUSSELS—The International Monetary Fund and the European Union told Romania on Friday that they will delay the next installments of a bailout loan package valued at more than $30 billion, until the country has a new government.

The lenders were responding to the collapse of Romania's coalition government last month, which froze the country's ability to enact spending cuts the IMF has demanded as a condition of its loan.

"We will proceed to the next disbursement once the political situation is resolved," Jeffrey Franks, head of the IMF's mission in Bucharest, told reporters, according to wire reports. He called for "quick action." The EU will wait until next year to disburse its next tranche, a spokeswoman for the 27-nation bloc said.

There appears to be little risk, however, that the EU or IMF will turn off the tap for long to Romania, a nation of 22 million that joined the EU in 2007. Mr. Franks promised a "swift completion" of the payment once the new government is in place.

The IMF gave sizable loans to Romania, Latvia, Hungary and Iceland following the earthquake that hit financial markets at the end of last year. The countries, whose currencies and current accounts were on the edge of collapse, were bailed out by international lenders including the IMF, the World Bank, the EU, and the European Bank for Reconstruction and Development.

Romania, a relatively poor nation, was one of the hardest hit in the region. Its economy is expected to contract by 7.5% to 8% this year, the IMF says.

In December, Romania was scheduled to receive installments of €1.5 billion ($2.3 billion) from the IMF and €1 billion from the EU. But on Oct. 13, the government fell, following a no-confidence vote. On Wednesday, the parliament rejected a proposed prime ministerial candidate to form a new government, Lucian Croitoru.

Presidential elections, scheduled for Nov. 22 with a runoff on Dec. 6, are expected to resolve the impasse. But the paralysis has spooked financial markets in recent weeks, forcing up the price of government debt.

The IMF is asking the country to trim its deficit to 7.3% of gross domestic product in 2009, below the estimates of around 8% foreseen by most analysts. The IMF wants a budget deficit of 5.9% of GDP in 2010. The EU sets a recommended ceiling of 3% of GDP on the budget deficits of its members, though it isn't enforced.

The spending cuts recommended by the IMF would likely result in the loss of more than 100,000 state jobs and painful pension cuts, the government says.

Romania is likely to agree to the spending cuts, say analysts, although it remains unclear what will go. "Discussions with leaders of the main political parties suggest that there is broad agreement on the fiscal target for 2010, although differences of views remain about how to achieve this target," said Mr. Franks.

The December election is a three-horse race between incumbent president Traian Basescu, Social Democrat Mircea Geoana and center-right Crin Antonescu. None of the candidates has been willing to campaign on a platform of spending cuts.

Obama's agenda in China

New trade frictions, vast schedule await president on his trip

BY IAN JOHNSON

Associated Press

The popularity of U.S. President Barack Obama among Chinese has been dented by the view that he has failed to do enough to overhaul the U.S. financial system.

BEIJING—When President Barack Obama arrives in Shanghai for a four-day China visit, he will be accorded all the normal pomp and circumstance: He'll mingle with top leaders and ordinary people, local media will be filled with stories, and speeches will be rife with words like "vision" and "partnership."

But the greeting won't be as warm as those he has received in other parts of the world, where he frequently has been seen as a transformative figure.

That is because Mr. Obama—who arrives Nov. 15 during an eight-day tour of the region—will be largely continuing previous U.S. administrations' policies on China. He will also face new friction over long-term problems, and he and his hosts will have to contend with a range of global issues that have overtaken the summit agenda.

Mr. Obama follows an administration that is widely credited with success here. The Bush team—building on progress made during the Clinton administration—deepened trade, expanded exchanges and resolved conflicts peacefully. "Little Bush," as the Chinese call the 43rd U.S. president, was widely liked.

"China was about the only thing [the Bush administration] did in international affairs that was a true success story," says David Shambaugh, a professor of international relations at George Washington University. "So Obama comes in and he inherits a very solid working relationship."

Since taking office, however, the Obama administration has limited some Chinese imports to the U.S., leading to what appears to be tit-for-tat responses from Beijing. China is especially sensitive to trade spats because it relies on exports for much of its economic growth.

That has dented Mr. Obama's popularity here, as has the view that Mr. Obama has failed to do enough to overhaul the U.S. financial system—a concern for China because it is the largest holder of U.S. government debt.

A decade ago, most discussions at China-U.S. summits were limited to three issues: human rights, nuclear nonproliferation and trade. Now, the list of topics has grown to include almost every problem facing the world, from clean energy and the war in Afghanistan to African development and fixing the world economy—all of which are expected to have a place in talks between Mr. Obama and his Chinese counterpart, President Hu Jintao.

"For the first time in the history of our relationship, global issues are at the top of the agenda," says Kenneth Lieberthal, a fellow at the Brookings Institution in Washington who was a special assistant on Asian affairs to former President Bill Clinton. "This is new territory for us."

It is a change that analysts on both sides see as potentially problematic. Chinese officials and analysts note that the U.S. still has an arms and high-tech embargo on China—hardly something one does with a true partner, they say. "Obama wants us to become strategic partners or friends but we aren't either of those," says Yan Xuetong, a professor of international relations at Tsinghua University. "We are business partners who share material interests rather than common values."

Mr. Shambaugh of George Washington University says the recent push to make China a global partner may be part of a 30-year pattern of unrealistic expectations followed by disappointment. "We are hoping for too much out of China," Mr. Shambaugh says. "We have very different political systems and value systems."

That is reflected in the fact that although relations are arguably better than ever, most of the issues on the table are as intractable as ever.

The U.S., for example, is likely to at least hint that China should revalue its currency, the yuan. China is likely to politely decline. Both sides will agree that nuclear weapons shouldn't spread, but are unlikely to agree on concrete measures to deal with North Korea, Iran or Pakistan. And as for a climate deal, both will want to wait for next month's summit in Copenhagen before committing to anything.

All of this will make Mr. Obama's trip less than epochal. Shi Yinhong, a professor at People's University in Beijing and a longtime observer of U.S.-China ties, adds that another factor is at work: size. China, like the U.S., is a continent-sized country that is relatively insular.

"China is different," Mr. Shi says. "Foreigners rarely make a big impact here."

U.S. to decide next Pyongyang step

BY EVAN RAMSTAD

SEOUL—The U.S. is near a decision on whether to send an envoy to North Korea, just as top American and South Korean officials are speaking more directly about their goal of breaking Pyongyang from a two-decade pattern of provocation and extortion.

A senior U.S. official on Friday made clear the Obama administration is aware that sitting down with North Korea risks entering a diplomatic black hole in which matters thought long gone show up again to be renegotiated.

Meanwhile, South Korean President Lee Myung-bak damped speculation about a possible summit with North Korean dictator Kim Jong Il, saying he wouldn't meet "just for show."

The U.S. and South Korea and other countries have tried for years to persuade North Korea to give up its pursuit of nuclear weapons. So many tactics, including rewards and penalties, have been tried and failed that diplomats today face a challenge coming up with a new, plausible approach to Mr. Kim's authoritarian regime.

In a briefing on topics U.S. President Barack Obama will face this week during his trip to Asia, Jeffrey Bader, senior director for East Asian affairs at the National Security Council, said Friday that Pyongyang is engaged in the same cycle of provocative-looking actions, diplomatic delays and extreme demands. The U.S. could announce its decision on whether to send an envoy in coming days, possibly while Mr. Obama is in South Korea next week.

Mr. Bader said North Korea missed an opportunity when Mr. Obama arrived in office by not taking advantage of the administration's often-expressed openness to meet directly with U.S. adversaries.

"Instead, dusting off its old playbook, North Korea abrogated its agreements, launched ballistic missiles, conducted a nuclear test, resumed reprocessing of spent fuel and threatened its neighbors," Mr. Bader said.

He said Mr. Obama still believes it is better to hear directly from other leaders than through third countries. But he made clear that administration officials are wary about North Korea because it broke two previous agreements to close its Yongbyon nuclear plant, which it uses to produce fuel for nuclear weapons, after receiving U.S. payments. Also, Pyongyang has repeatedly declared it wants more from the U.S. because it views itself as a nuclear state after testing two atomic explosives.

"We are not in talks for talks' sake," Mr. Bader said. "We are not interested in buying Yongbyon for a third time. We are not interested in indulging North Korea's dream of validation as a self-proclaimed nuclear power."

A two-way meeting, he said, hinges on North Korea's promise to return to the six-nation, aid-for-disarmament talks, which began in 2003 and led to the second agreement to close the Yongbyon plant. North Korea declared in April that it wouldn't return to the six-way process but told Chinese officials in September that it was open to the possibility if it could meet with U.S. officials first.

French police seek driver missing with $16 million

BY DAVID GAUTHIER-VILLARS

French police

A recent photograph of Toni Musulin, issued by police Friday.

PARIS—French police are working to solve what appears to be a simple—and substantial—bank heist.

Authorities on Friday were searching for the driver of an armored van who vanished with €11 million ($16 million) in cash. Toni Musulin gave his two co-workers the slip on Thursday while the three men, who work for an armored-car firm, were on a routine round of money-collection in the central French city of Lyon, according to police and prosecutors in the case.

Eleven million euros of freshly minted banknotes, divided into 49 vacuum-sealed packs, disappeared along with the driver.

Police say that at this stage in their inquiry, the 39-year-old Mr. Musulin may have been a victim or a witness, but that they suspect he had a more active role in the robbery.

Police say they are stumped by some details in the case. When police searched the driver's house "the fridge was empty as when someone leaves for a long trip," according to an officer on the case. Mr. Musulin recently withdrew all the money from his bank accounts, the officer said.

Around the world, armored vehicles that transport cash are a frequent target of robbers, and drivers are sometimes coerced by attackers to cooperate against their will. In a recent heist of another armored van operated by the same company that employed Mr. Musulin—Swedish cash-transport company **Loomis** AB—a gangster forced an employee to help steal money by holding the worker's wife hostage.

In the Lyon case, however, there doesn't seem to be any sign of coercion, police say. On Thursday, they eventually located the white Loomis truck Mr. Musulin drove, empty and parked in Lyon, the engine still running. Police say they found no sign of an attack. The GPS system had been disconnected, they said.

The robbery took place shortly after Mr. Musulin, who has worked for Loomis for 10 years, and his colleagues had loaded the €11 million from the Bank of France's Lyon branch.

The armored van then made another stop to collect more cash from a local business, officers in charge of the investigation said. When Mr. Musulin's two colleagues walked out of the business with the new cash in hand, the truck—and Mr. Musulin—had disappeared.

A nationwide search is under way. Officers said the driver's photo also had been dispatched to police forces across Europe.

Until Mr. Musulin is found, officers said their main lead is the register numbers on the newly minted banknotes.

—Max Colchester contributed to this article.

China offers African nations a $10 billion loan package

BY SHEREEN EL GAZZAR

SHARM EL-SHEIKH, Egypt—China's prime minister said his country will give $10 billion in loans to African countries without any political strings attached.

"We will provide $10 billion in concessional loans to African countries," Chinese Premier Wen Jiabao said Sunday at the opening ceremony of the two-day Forum on China-Africa Cooperation, or FOCAC, at the Egyptian Red Sea resort of Sharm el-Sheikh.

Wen Jiabao

Mr. Wen, in separate comments, also urged the U.S. to keep its deficit at an appropriate size to maintain basic stability in exchange rates. If the U.S. keeps the deficit at such a size, there will be basic stability in the exchange rate, which would be conducive to the stability and recovery of the world economy, the Chinese premier added.

The Africa loan package will include a $1 billion special loan for small and medium-size African businesses, Mr. Wen said, adding that China will also cancel debts of some African countries.

"For the heavily indebted poor countries and least developed countries in Africa having diplomatic relations with China, we will cancel their debts associated with interest-free government loans due to mature by the end of 2009," Mr. Wen said.

China's investment in Africa has grown sharply in recent years from a low base, as Beijing catches up with Western companies already established on the African continent. But critics say Beijing's no-strings-attached investments and loans undercut political and economic overhaul efforts by Western governments and bodies such as the World Bank.

"China has never attached any political strings to its support and assistance to Africa, and nor will it do so in the future," Mr. Wen said. "We will put more emphasis on agriculture, education, health, poverty reduction and clean drinking water."

On Saturday, Mr. Wen said China will give African goods more access to the Chinese market by gradually removing tariffs for the majority of African countries.

Chinese investment in Africa reached $26 billion by the end of 2008, and trade between China and Africa hit $106.8 billion.