



Medvedev's change of heart on forest highway irks activists

EUROPE NEWS 6

Private-equity firms plan an \$8.5 billion cleanup

HEARD ON THE STREET 22

THE WALL STREET JOURNAL.

VOL. XXVIII NO. 224

EUROPE

Wednesday, December 15, 2010

DOW JONES
A NEWS CORPORATION COMPANY

europe.WSJ.com

Berlusconi hangs on, but barely



Associated Press

Italian students protesting university reforms turned violent after news of the confidence vote.

BY STACY MEICHTRY
AND GIADA ZAMPANO

ROME—Italy's Prime Minister Silvio Berlusconi narrowly won a confidence vote in the lower house of the Italian Parliament on Tuesday, surviving a crucial political and personal challenge, but seeing his ability to govern hampered at a time when European leaders are facing major fiscal turmoil.

Mr. Berlusconi's win in the lower house underscores the uncanny survival skills that have made him one of Europe's most enduring leaders. But his thin victory—314 votes in support of the government and 311 votes against—shows how he has been weakened by the fracture of his conservative People of Freedom Party. It also highlights a bigger long-term challenge facing Italy's 74-year-old billionaire leader and four-time premier: whether he can find a successor to carry on his political legacy.

"I am calm, just as I have always been," said Mr. Berlusconi after the vote.

The premier's calm, however, belies a rising tide of discontent over his leadership. Moments after the vote, violent protests broke out in central Rome, as thousands of students clashed with riot police who had set up blockades across the city.

The students have been



Prime Minister Silvio Berlusconi

protesting a planned overhaul of Italy's university system for weeks, and had timed Tuesday's protest in Rome to coincide with the confidence vote, which drew scores of television cameras around Parliament. Though peaceful at first, the demonstration turned violent after news of the confidence vote circulated among the students and anti-government rabble rousers joined the fray, according to police. Protesters broke through some of the police cordons, hurdling cobblestones and setting some cars ablaze.

It is unclear what Mr. Berlusconi's next move will be. Hours after the vote, the premier met Italian President Giorgio Napolitano to discuss

his options, including the possibility of bringing the pro-Vatican Union of Christian Democrats, or UDC, into his government as part of a potential cabinet reshuffle, according to a person familiar with the matter.

Speaking after the meeting, Mr. Berlusconi said he was open to bringing UDC into his government to "reinforce the team."

A reshuffled government would allow Mr. Berlusconi to avoid the prospect of early elections, which risk creating political instability at a time when Italy is facing market scrutiny amid Europe's debt crisis. One cabinet member who is likely to keep playing a key role is Giulio Tremonti, Italy's respected economy minister, credited with keeping Italy's fiscal house in order.

A reshuffled government, however, would need strong backing from Parliament to forge ahead with Mr. Berlusconi's policy agenda, which focuses on a planned overhaul of the justice system and other structural measures aimed at kick-starting the economy.

"We can avoid early elections if we can get broad political support for reform," said Labor Minister Maurizio Sacconi.

Please turn to page 4

■ Italian students protest bill to slash university funds..... 4

The Quirk



Ugly truth: the man tempting tourists to visit a Belgian eyesore. Page 33

World Watch

A comprehensive rundown of news from around the world. Pages 34-35

Editorial & Opinion

Europe's creditors and the search for cheap money. Page 15

Fed sticks to easy money as U.S. economy rallies

Federal Reserve policy makers said Tuesday they are sticking to their easy-money policy of buying Treasury bonds and keeping short-term interest rates near zero, amid strong retail-sales data that signaled the U.S. recovery is gathering more steam.

According to government data released Tuesday, U.S. holiday shoppers streamed into malls and cyberspace in November, with retail sales up by 0.8%, better than expected. Also, the October sales gain was revised to 1.7%, up from a previously estimated 1.2%.

The Fed was restrained in its own assessment of how the economy is doing. The recovery is continuing, "though at a rate that has been insuffi-

cient to bring down unemployment," the Fed said. Consumer spending is increasing at a "moderate pace," officials said, adding that it remains constrained by high unemployment and tight credit, among other factors.

In the most recent Wall Street Journal forecasting survey, conducted last week, the 55 economists on average expected GDP to grow 2.6% at an annual rate in the fourth quarter from the third. But on the back of the retail report and a strong increase in October exports Friday, many have revised their estimates to above 3%. Of seven revised forecasts, the average expected fourth-quarter growth forecast is now 3.3%, from

2.6% before the retail release.

But not everyone is convinced. "The holiday shopping season appears to have got off to a very good start," said Paul Dales of Capital Economics. "But without a meaningful acceleration in real income growth, this tentative consumer revival cannot last."

Fed officials also reaffirmed Tuesday that their plan to buy \$600 billion in U.S. Treasury debt through June would be subject to regular reviews and may be adjusted depending on how the economy fares.

■ Fed keeps policy steady amid sober outlook..... 7

■ Retail sales signal brighter holiday mood in U.S. 9

DESIGNED FOR PERFORMANCE.
ENGINEERED FOR ELEGANCE.



TIMING PARTNER
PORSCHE
MOTORSPORT



TUDOR

TUDORWATCH.COM

Bahrain BD 1.50 - Egypt \$17.5 (CV)
Jordan JD 2 - Kuwait KD 1 - Oman OR 2
Qatar QR14 - Saudi Arabia SR 14

THE WALL STREET JOURNAL.

5.0
9 7792 19 9869 3

PAGE TWO

Don't forget the EU lessons of 1990

[Agenda]

BY TERENCE ROTH



The European Union summit beginning Thursday will again focus on technicalities of bailout plans and maybe even the birth of the euro bond. To hold the EU together, what they might do instead is revisit 1990 and the raw political origins of today's euro.

German Chancellor Helmut Kohl early that year had a problem. East Germany's utter collapse had made reunification inevitable and Germany's neighbors were anxious about a new German political and economic supremacy.

Then European Commission President Jacques Delors openly backed a united Germany and wanted payback in the form of Bonn's promise to speed more integration. French President François Mitterrand, then Mr. Kohl's co-equal on the European stage, pressed him to take the next step to full monetary union in what was clearly understood as the quid pro quo.

Germany's chancellor also was negotiating with the former allied powers Britain, the U.S. and the Soviet Union to get their blessing. Mr. Kohl saw integrating Germany deeper into the EU, even at the cost of the Deutsche mark, would show that his Germany would in no way resemble the Germany of the first half of the 20th century.

Germany's central bank, the Bundesbank, warned loudly against a monetary union without solidifying political and fiscal union first. One senior Bundesbanker had then likened the project to building the roof of a house before its walls.

Faced with geopolitical imperatives, the German government pushed ahead and into monetary union talks at Maastricht in December 1991 and teed up the euro for launching



Chancellor Angela Merkel and former Chancellor Helmut Kohl, left, in October.

within eight years. The political details were papered over with promises of economic and fiscal convergence.

So, here we are again with a new emergency in Europe requiring decisive action. The rushed monetary union, born without a real political infrastructure, is under threat after the national economies failed to converge as the Maastricht founders promised they would.

The political details were papered over with promises of economic and fiscal convergence.

Now the project that was to anchor Europe threatens to pry it apart. The energy behind the superficial effort to lock a reunified Germany into Europe two decades ago would be well spent today fixing earlier shortcomings.

The EU is splitting along three

fault lines. The "core" of more-or-less fiscally sound countries clustered with Germany; fiscally enfeebled nations threatened with default; and EU members outside the euro zone no longer in a hurry to join the mess.

The last category is probably the most telling. British government leaders openly thank their predecessor for staying clear. Czechs who barely 20 years ago couldn't rub two convertible krona banknotes together are among those backing away.

Where does that leave political Europe?

We are proffered scenarios of a broken euro zone, with noncore members spinning off with restored currencies or even given a "soft" euro option, leaving behind the Germanic core. Harsher seers wonder whether the EU itself could survive a euro crack-up.

Germany has never been more dominant since the euro zone's beginning. Its financial muscle, industrial boom and streaming exports have been driving economic growth and creating jobs. Meanwhile, many of the

other 15 euro-zone countries wallow on the verge of a new recession.

With its Afghanistan contingent, the German military, with the largest standing army in the European Union, has now broken with its careful restriction after reforming in 1955 of not deploying outside its borders.

A threat of a newly nationalistic Germany is profoundly distant. But that wouldn't comfort Russia and others if the region's powerhouse suddenly became a free agent again.

The pressure is on in Berlin. Chancellor Angela Merkel is pre-eminent at EU summits, but doesn't have the political capital at home to push through ambitious European projects like fiscal or political union.

Her concessions so far to the cause of the euro have hurt her at home, where German taxpayers grouse about playing EU paymaster. When Ms. Merkel isn't stonewalling on new initiatives from Brussels, she isn't offering much in the way of alternatives.

Chancellor Kohl was luckier, capitalizing on the euphoria that immediately followed reunification to ram through a currency project that Germans didn't begin doubting until later. Once costs of reunification became known and the loss of the Deutsche mark loomed, Germany was already locked into a treaty for monetary union.

Mr. Kohl also had the drama of history in 1990, epochal changes that demanded broad thinking and bold decisions. Ms. Merkel doesn't have that sweeping momentum, working instead with a tired government and seemingly intractable problems in a monetary commonwealth that wasn't updated in time.

Immediate help will come only from a deep dig into Germany's treasury, whatever the technical contrivance. Then the EU will need to install the deeper political and fiscal union that Messrs. Kohl and Mitterrand didn't have the time for.

What's News

■ **Ireland's finance minister** instructed Allied Irish Banks to renege on \$53.6 million of employee bonuses after a public outcry over the impending payments at the state-supported bank. 25

■ **The ECB president** called on EU governments to enhance the financial-rescue vehicle set up in the wake of the Greek debt crisis. 6

■ **France's antitrust watchdog** said it found that Google had a dominant position in the local Internet search advertising market. 21

■ **A U.K. judge** agreed to release Julian Assange from custody once he posts \$316,000 in bail, but the WikiLeaks founder will remain in custody as Swedish prosecutors appeal. 4

■ **GM's finance chief** is engineering a radical shift in the car maker's strategy—to pay off virtually all of its borrowing in a few years and keep debt at close to nothing. 21

Inside



Turn off those ringing sounds: treatments to tackle tinnitus. 31



England leads in battle of the Ashes bowling machines. 32

ONLINE TODAY

Most read in Europe



1. Court Strikes at Health Law
2. Wishing Upon a List
3. Banker Sees Peril in Hungary
4. AIB Ordered to Hold Bonuses
5. Spreading the Wealth

Most emailed in Europe

1. The (Un)Marriage Penalty
2. An 'Ugly' City Gets Its Due
3. Offshore Trading in Yuan Takes Off
4. Opinion: José María Aznar: What's Wrong With Spain?
5. German Prosecutors Raid Ford Offices

The Source

blogs.wsj.com/source

'The thought of non-specialists piling into commodity markets can't help but stir uncomfortable memories.'



Continuing coverage



See analysis and stories of the day's top news at wsj.com/europeanalysis

Question of the day

Vote and discuss: Should Google be allowed to place its own enterprises first in search results?

Vote online today at wsj.com/polls

Previous results

Q: Do you think Italian Prime Minister Silvio Berlusconi will survive a test of his leadership?

Yes

52%

No

48%

THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Commodity Quay, East Smithfield,
London, E1W 1AZ

SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 20 3426 1234. 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 29725 390;
London: 44 203 426 1111; 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 Teletampa 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 Basınevi.

Registered as a newspaper at the Post Office.
Trademarks appearing herein are used under license from
Dow Jones & Co. ©2010 Dow Jones & Company. All
rights reserved. Editeur responsable: Patience Wheatcroft
M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200
Brussels, Belgium

NEWS

Austere winter for Wall Street elite

By ROBERT FRANK

In Christmases past, the top bankers on Wall Street would often load their families onto private jets and head to the beaches of St. Barts or the slopes of Aspen for the holidays.

This holiday season, many Wall Streeters are flying commercial, according to jet brokers. Those who are still flying private are jet-pooling with strangers to cut costs. Some are even skipping the catered in-flight meals, which can cost \$1,000 or more for four people.

"They're telling me, 'We'll just bring our own lunch,'" says Ricky Sitomer, chief executive of **Blue Star Jets**, a private-jet charter company. "They still want to travel in luxury, but they want the best value they can get."

Austerity is a relative concept on Wall Street, where year-end bonuses are measured in "bucks" (millions) and flying private is often considered a basic human need. Yet this year, amid the largest decline in bonuses since the onset of the financial crisis, the Street's big spenders are reining in their seasonal shopping spree in favor of more restrained indulgence. Brown-bag lunches aboard the Gulfstream are just the start.

December is usually a time when bankers crowd the showrooms and aisles shopping for their next big bonus toys. But jewelers, sports-car dealers and yacht brokers say this Christmas, bankers are hard to find.

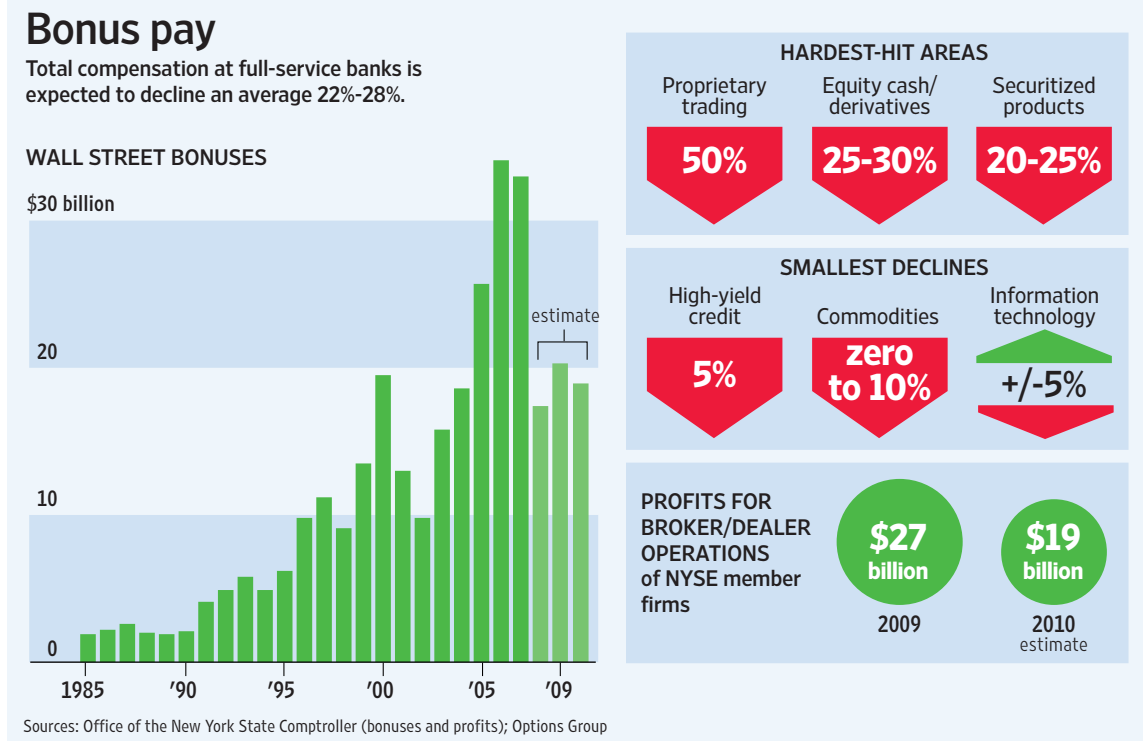
"We haven't seen them come in yet," says Jeff Drajin, looking out over a largely empty showroom at Manhattan Motorcars. Mr. Drajin, who sells Lamborghinis, Bentleys and Lotuses, says that in the good old days of 2007 and even 2009, December would see bankers start pouring in. "This year is different. It's a little quiet."

While pay may increase slightly in the financial-services world—including retail banks, hedge funds and private-equity firms—bonuses at the core Wall Street firms are likely to take a double-digit hit, analysts and pay consultants say. On Monday, New York Stock Exchange member firms that conduct business with the public reported third-quarter after-tax profits of \$4.7 billion, down from \$8.7 billion in the third quarter of 2009.

Wall Street bonuses are likely to be down 22%-28% this year, according to Options Group, an executive-search and consulting firm. The drop follows last year's much-criticized surge in banker pay and highlights uncertainty on Wall Street ahead of regulatory scrutiny and weak financial markets.



Cars await high-dollar drivers inside Manhattan Motorcars on Friday. In boom times, bankers would flock to dealers.



Bankers at **Goldman Sachs Group Inc.**, **Morgan Stanley**, **Citigroup Inc.**, **Bank of America Corp.**'s Merrill Lynch and **J.P. Morgan Chase & Co.** say they are being told bonus pools are likely to be down between 10% and 25%. Some divisions, like proprietary trading, could be down as much as 50%, bankers say.

Exact bonus amounts won't be

known for another month or two, since most banks pay out bonuses early in the new year. Yet senior bankers who have seen bonus-pool estimates say many employees are likely to be disappointed.

One Citigroup banker says colleagues who have been coming out of compensation meetings in the past two weeks "look like they've been hit by a truck."

Bankers will get less cash this year in part because of new pay structures. Regulators and shareholders have pushed banks to link pay to long-term performance rather than short-term trading gains. As a result, some bankers, accustomed to getting as much as 50% of their bonus in cash, may get only 20% this year, with the rest usually paid out in deferred stock, accord-

ing to Wall Street compensation consultants.

Not that Wall Street is exactly hurting. Total pay for the top three dozen publicly held securities and investment-services firms is expected to top \$140 billion, according to a Wall Street Journal study. Goldman Sachs set aside \$13 billion for compensation and bonuses in the first nine months. That is down about 20% from last year but works out to more than \$367,000 per employee.

"Let's be honest, 2010 is still going to be a pretty darn good year," says Michael Karp, chief executive of Options Group. "But people have been humbled. I don't think we'll see them resume their exuberant habits or the wild crazy parties."

Jonathan Beckett, CEO of yacht brokerage firm Burgess, says demand for weekly yacht rentals in the Caribbean this winter is "quite poor," in part because of Wall Street.

In previous years, yachts in the Caribbean were booked months in advance for the prime week after Christmas. This year, there are dozens of boats up to 76 meters long still available. The boats usually charter for between \$250,000 and \$1 million a week—food, beverages and fuel not included.

Bankers booking boats are discount shopping, with some charters seeing price cuts of 20% or more, Mr. Beckett says. Many are also booking cheaper, shorter trips.

"They used to call up and say, 'I want this boat on this date, just send me the contract,'" Mr. Beckett says. "Now they're saying, 'Who's giving the best deals?'"

Wall Street's taste in bling has also moved downscale. Wempe, a high-end jewelry and watch store in midtown Manhattan, says business is booming, especially for exclusive watches like the \$65,000 A. Lange & Söhne's Datograph. Yet most of the demand is from rich Chinese and Brazilians, not Wall Streeters.

"The overall spending of the Wall Street group has definitely shrunk," says Ruediger Albers, president of Wempe's U.S. division. "They've got other issues to contend with, like a roof over their head and private school."

One area where bonus spending remains strong is real estate. But bankers are redefining their ideas of a summer cottage. Rather than buying or renting 1,100-square-meter homes, they are downsizing to 550 to 750 square meters.

"It still accommodates a Brady Bunch-size family," says Beate Moore of Sotheby's International Realty.

"But it's not over the top."

Dress to impress, UBS tells staff

By ELENA BERTON

First impressions count. This is the message Swiss bank **UBS AG** is sending its Swiss retail banking staff with a 43-page code dispensing advice on how to impress customers with a polished appearance.

Echoing rules applied at Swiss boarding schools, UBS's guidelines go beyond a list of dress "dos" and "don'ts" by providing grooming tips often dotted with aphorisms worthy of fashion and beauty magazines.

The move is part of a test UBS is

carrying out in Switzerland across five pilot branches. It follows a recent advertising campaign aimed at re-establishing confidence in the Swiss bank's brand.

As if taking a cue from style manuals, which often stress the importance of well-cut basic outfits in neutral colors, the bank expects its retail banking staff to wear suits in dark grey, black or navy blue, since these colors "symbolize competence, formalism and sobriety."

The document isn't short of handy grooming tips.

"Light makeup consisting of foundation, mascara and discreet lipstick ... will enhance your personality," the code says, while advising women not to wear black nail polish and nail art.

The hair-care section notes studies have shown that properly cared-for hair and a stylish haircut "increase an individual's popularity."

UBS's advice for men even extends to underwear, which should be of good quality and easily washable, but still remain undetectable. Black knee-high socks are preferable

as they prevent showing bare skin when crossing legs, it says.

UBS spokesman Jean-Raphael Fontannaz acknowledged that the code may appear very detailed, but pointed out that these guidelines were originally set up for temporary staffers who may be new to working in a banking environment.

"The goal is for clients to immediately know that they are at UBS when they are entering the bank," he said.

—Anita Greil in Zurich contributed to this article.

Selected 'don'ts'

- Eating garlic and onions
- Smoking or spending time in smoke-filled places
- Wearing short-sleeved shirts or cuff links
- Wearing patterned socks
- Wearing socks that are too short, showing skin while sitting
- Allowing underwear to be seen
- Touching up perfume during or after lunch break

EUROPE NEWS

Italy's students fight change

BY FRANCESCA ANGELINI

ROME—Italian students demonstrated around the country Tuesday to protest a bill to overhaul universities and slash funding for education—and express broader frustration at the government's handling of a troubled economy.

In Milan, students forced their way into Italy's stock exchange, strewing the building with leaflets that read "give us our money back" and unfurling banners that denounced the governing coalition as "shady businessmen, racists and thieves."

The controversial bill is on its way to the Senate and will likely become law, having already made its way through the fractious Italian lower house in November.

While violent protests in the U.K. have been prompted by plans to triple tuition fees in English universities, the Italian overhauls are more complex and focus on recruitment processes, postgraduate academic jobs and plans to engage the private sector in university governance.

Students around Italy are keen to fight the changes, but the timing of Tuesday's demonstrations in Rome, Milan and elsewhere reveal a wider anger at Italian economic malaise.

"The protests are a manifestation of discontent with the economic crisis, and the government's way of handling it," said Fulvio Esposito, rector of the University of Camerino. "The reforms may be the pretext but there's unhappiness at the bottom."

Unemployment among Italians below the age of 29 is already near 30%, and many younger people are now forced to take short, fixed-term contracts that contrast with the country's traditional lifetime employment protection.

Those challenges are compounded by a government that is one of the few in Europe to be slashing funding for higher education. A third of Italians say the main problem with higher education in the country is inadequate public funding, according to a recent poll by Italian research institute Demos & Pi.

A majority of Italians believe their university system has declined in stature over the past decade, and



Smoke billowed above Rome's Piazza del Popolo amid clashes between students and police on Tuesday.

nearly half expect the planned reforms to make things even worse, the poll showed.

Italy's education minister, Mariastella Gelmini, says her plan will make Italy's university system, which many allege is marred by nepotistic hiring practices, more transparent and meritocratic.

Students are skeptical. "These are simply drastic spending cuts disguised as reforms," said Duccio Piovani, a 25-year-old physics postgraduate student at Rome's La Sapienza University.

The government plan would mean cuts of €1.3 billion (\$1.74 billion) in public university funding by 2013.

The cuts have focused Italians' attention on the amount spent on education. Italy spends 4.5% of GDP on education, well below the 5.7% average of industrialized nations, according to the Organization for Economic Cooperation and Develop-

ment.

Fees are still low, with the average cost of an undergraduate year at university running at around €900, compared with up to €10,700 in the U.K. under the new plan to raise tuition caps there.

The U.K. overhauls could exacerbate the situation in Italy, as they are likely to deter the thousands of Italians who choose to study abroad, with the U.K. a prime destination.

"The tuition hikes will put off thousands of Italian students," said Marina Benedetti, a 26-year-old who graduated from the University of London's Royal Holloway college.

Her younger cohorts are "really stuck for choice, now that the U.K.'s universities are so expensive and the quality of education offered by the Italian system poor," she said.

Ms. Gelmini's overhauls do, however, have some champions.

The proposed changes will set term limits for rectors—often

dubbed "barons" because of their grip on staffing politics.

They will also introduce rules to cap the number of close kin allowed to work in the same university, and create an American-style tenure system designed to ease tensions in a system where 40% of teaching is now done by "researchers," who have to fight to renew their contracts.

But the overhauls will also put a cap on new faculty appointments—meaning many of today's researchers won't get tenure—and introduce private-sector representatives on the university boards that set curricula and add or eliminate courses.

"Research needs funding and cuts can only be harmful," said Alberto Civica, an official with the UIL trade union, which represents about 500 researchers and 300 professors. "The uncertainty of the future among university researchers is certainly not helping the situation."

Berlusconi wins vote of confidence in tight split

Continued from first page

Some lawmakers believe Mr. Berlusconi's wafer-thin majority will pave the way to early elections despite the confidence vote. "The government can't make it anyway. The political crisis is heightened even more," said Pier Luigi Bersani, head of the center-left opposition Democratic Party.

If Mr. Berlusconi were to go to the polls, there are doubts as to whether opposition forces could muster a formidable candidate to challenge him. Many political analysts say the real question is whether Mr. Berlusconi is grooming anyone to take over Italy's conservative leadership.

Gianfranco Fini, the former ally of Mr. Berlusconi who broke away last summer and prompted Tuesday's vote, was once considered a possible successor to Italy's premier. Since the vote, a question hangs over the future of Mr. Fini, who has faced repeated calls from Mr. Berlusconi to resign as speaker of the lower house. "Berlusconi's numerical victory is as evident as our defeat," Mr. Fini said after the votes were tallied.

Franco Pavoncello, a professor of political science at John Cabot University in Rome says Mr. Berlusconi has been so individualistic in his power that "he didn't allow any successor to emerge."

Mr. Berlusconi had appeared vulnerable after Mr. Fini, a co-founder of the People of Freedom Party, accused the premier of quashing internal dialogue within the party and announced he was jumping ship. The premier also was hit by renewed scrutiny of his late nights with young women, prompting a firestorm of criticism.

On Tuesday, Mr. Berlusconi easily won the first confidence vote—in Italy's upper house of Parliament, or Senate, with a majority of 162 votes to 135. At the second vote in the lower house, however, tensions ran high. Lawmakers shoved each other on the floor of the Chamber of Deputies while the voting was carried out. Once the results were in, Mr. Berlusconi immediately left the lower house, prompting howls from opposition lawmakers.

"Go! Go and hide yourself in the Bahamas!" opposition lawmaker Antonio Di Pietro shouted at Mr. Berlusconi.

By the time lawmakers had filed out of the chamber, riot police had fanned out across downtown Rome to push back protesters who stormed the cobblestone streets of Rome's historical center, wearing motorcycle helmets and wielding flares. Students have been protesting across Italy for weeks, charging into the Milan Stock Exchange headquarters and hanging banners from prominent monuments, such as the Leaning Tower of Pisa.

The images of protest contrasted with Mr. Berlusconi's status as a bulwark of stability in Italy's volatile political system in uncertain economic times. In a prevote speech in the Senate on Monday, Mr. Berlusconi told lawmakers they should back his government, arguing that political instability could aggravate investors' concerns.

U.K. judge grants Assange bail

BY JEANNE WHALEN

LONDON—A U.K. judge agreed to release WikiLeaks founder Julian Assange from custody once he posts £200,000 (\$316,000) in bail, but Mr. Assange will remain in custody for up to 48 hours as Swedish prosecutors seeking to extradite him appeal the decision.

Mr. Assange has been in custody in London since last week, when he was arrested by U.K. police on a European warrant issued by Sweden, which wants to question Mr. Assange about allegations he raped one woman and molested another. Sweden hasn't formally charged him with wrongdoing. Mr. Assange's arrest comes amid a global furor over WikiLeaks's release of thousands of leaked classified documents.

Mr. Assange was denied bail at his first court appearance a week ago. On Tuesday, Judge Howard Riddle at London's Westminster Magis-

trates' Court agreed to release him, provided that he post bail; wear an electronic monitoring tag; report in person to police every evening between 6 p.m. and 8 p.m.; and stay at the same address in Suffolk, a county northeast of London, where he will be subject to a curfew.

Mr. Assange has denied the sexual-assault allegations and called them an attempt to smear him. He is to appear in court next on Jan. 11.

One of the Swedish women alleges that Mr. Assange forcibly held her arms and legs, preventing her from moving, and had sexual intercourse with her without using a condom despite knowing it was a prerequisite for her. The other woman alleges that Mr. Assange had sex with her while she was asleep, again failing to wear a condom despite knowing she required it.

The Swedish case has left the WikiLeaks founder in legal paralysis as his website attempts to continue



Mr. Assange arriving at court Tuesday.

publishing thousands of U.S. diplomatic cables. Publication of the cables has heightened Washington's anger with WikiLeaks.

Mr. Assange's lawyer, Mark Stephens, said in an interview last week that he believes the Swedish case is a "holding offense" that allows authorities to detain Mr. Assange while the U.S. builds a case. Swedish authorities have denied their case is politically motivated.

The U.K. court has mostly reviewed the question of bail so far, without wading into whether to extradite Mr. Assange, or into the detail of the allegations against him. One question the court is likely to address later is whether Sweden can use a European arrest warrant to extradite someone it hasn't formally charged with wrongdoing. Geoffrey Robertson, another lawyer for Mr. Assange, suggested on Tuesday that this was an inappropriate use of the European arrest-warrant system.

Gemma Lindfield, acting for Sweden, said the U.K. should trust that Sweden is making the extradition request "in good faith."

IT'S TIME
OIL
 COMPANIES

GET
 BEHIND
 THE DEVELOPMENT OF

RENEWABLE
ENERGY.



Something's got to be done.
 So we're doing it.
 We produce more renewable geothermal energy than anybody in the world.
 Our venture capital arm is investing millions in alternative energy start-ups.
 And we're partnering with Weyerhaeuser to commercialize cellulosic biofuels.
 We're not just behind renewables.
 We're tackling the challenge of making them affordable and reliable on a large scale.
 Learn more at chevron.com/weagree

WE AGREE.

Tom Gideon
 Thomas Gideon
 Executive Vice President, Timberlands
 Weyerhaeuser Company

Desmond King
 Desmond King
 President, Chevron Technology Ventures
 Chevron

EUROPE NEWS

Trichet urges EU to boost aid fund

BY GEOFFREY T. SMITH

FRANKFURT—European Central Bank President Jean-Claude Trichet called on European Union governments to enhance the financial-rescue vehicle they set up in the wake of the Greek debt crisis.

Mr. Trichet's remarks come as Europe's fiscal crisis shows signs of deepening despite stepped-up efforts by the ECB to contain it by buying more government bonds of Greece, Portugal and Ireland and making unlimited loans available to commercial banks into next year.

Standard & Poor's Corp. lowered its ratings outlook on Belgium to negative from stable Tuesday, saying the country could face a one-notch downgrade if it fails to form a government within six months. Portugal's Prime Minister José Socrates moved to reassure markets that his country, viewed by many observers as the most likely in the euro zone to follow Greece and Ireland into a bailout package, is getting its finances in shape.

Yield spreads between Irish and Portuguese government bonds and safe German equivalents widened Tuesday, while Spain and Belgium had to pay sharply higher yields to attract investors at separate Treasury bill auctions.

The debt crisis hasn't derailed Europe's recovery. Germany's economy continues to show strength.

The currency bloc's debt crisis hasn't derailed the region's recovery despite wide variations between Germany and the periphery. German economic expectations improved for the second consecutive month in December, the ZEW think tank said.

The EU's statistics agency said October industrial production across the currency bloc rose 0.7% from September. The increase was largely the result of a strong performance from Germany, which offset declines in Ireland and Portugal.

Mr. Trichet told journalists late Monday that "we are calling for maximum flexibility and for maximum capacity, both quantitatively and qualitatively," in response to a question on whether the EU's €440 billion (\$583.46 billion) European Financial Stability Facility should be expanded to buy government bonds.

His comments echo others by his

colleagues on the ECB's governing council for governments to do more of the heavy lifting in addressing the euro zone's debt problems, rather than rely on the ECB's emergency liquidity measures, which Mr. Trichet insists are only temporary.

Leaders of the European Union's 27 nations meet Thursday and Friday to agree on the outlines of a permanent bailout fund for when the EFSF expires in 2013. They are also expected to discuss allowing the fund to buy bonds.

The ECB's extraordinary efforts to stem the crisis, via asset purchases and generous loans against a broad range of collateral, have put its nearly €2 trillion balance sheet at risk. The ECB loaned commercial banks in Greece, Ireland, Portugal and Spain €333.6 billion last month, 64% of all ECB lending, said Nick Matthews, a Royal Bank of Scotland economist. A drop in borrowing by Spanish banks was offset by higher borrowing in Ireland and Greece.

ECB officials have discussed the idea of a capital increase and may take a decision on the issue when they convene for one of their twice-monthly meetings Thursday, officials in the euro zone said Tuesday.

The move appears to be aimed at strengthening the capital base of the central bank after a massive expansion of its balance sheet in the wake of the financial crisis. It comes just days after Austrian National Bank head Ewald Nowotny, a member of the ECB's governing council, warned that the Eurosystem, which comprises the ECB and the 16 national central banks of the euro zone's members, was undercapitalized.

"We are clearly seeing that risks are increasing in the system for European central banks because we are having to take on a whole range of extra risks," Mr. Nowotny said on Dec. 10. "So in the whole European system we'll have to get a better capital base for central banks."

The ECB was set up with €5 billion in capital from its original 11 members, and that has grown to €5.76 billion as five more countries have joined the euro zone.

Given the increase in the risks that the ECB has assumed through its efforts to stem the financial crisis, "it does make sense they ask for some sort of capital increase," said Marco Valli, chief euro-zone economist at UniCredit in Milan. An ECB spokesman declined to comment.

—Ilona Billington, Nina Koeppen, Alex MacDonald, Jonathan House and Art Patnaude contributed to this article.



Reuters

Medvedev driving at the site of a planned technology park Tuesday, as Russia said a delayed road plan would go forward.

Russia road plan puts a brake on optimism

BY GREGORY L. WHITE

MOSCOW—When he ordered a halt to construction of controversial highway through a forest in a Moscow suburb in August, President Dmitry Medvedev was seen by activists as taking a rare stand—turning a local environmental dispute into a national test of his pledges to make Russia's political system more responsive to its people.

On Tuesday, after completing the additional review Mr. Medvedev ordered, the government approved plans to restart the project along the original route. The decision evoked howls from environmental and community activists, who said it fueled growing doubts that Mr. Medvedev's liberal rhetoric is anything more than just talk.

"If he were a strong president, he would have taken a different decision," said Yaroslav Nikitenko, a leader of the For Khimki Forest group, whose protests helped draw national attention to the opposition to the road project. "It was a litmus test of how the authorities relate to the people."

Mr. Medvedev's August decision to suspend the construction for additional public review had left opponents of the road elated, even though it didn't change the route. The move seemed to put him at odds with powerful officials who had endorsed the original route, including Moscow's then-mayor Yuri Luzhkov and Prime Minister Vladimir Putin. Mr. Medvedev, who was selected for the presidency by Mr. Putin in 2007, is widely viewed as the weaker partner in Russia's ruling tandem.

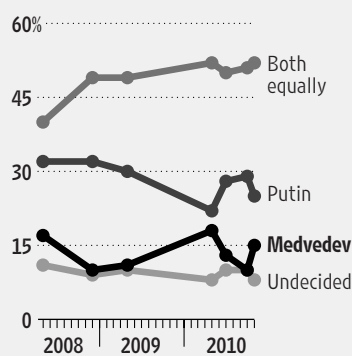
Mr. Medvedev used his video blog to announce the August move. He didn't speak publicly about the issue Tuesday.

Kremlin officials defended the decision as a step toward greater openness, saying it sent a clear signal about the importance of dialog with civic groups on controversial projects. "The head of state thinks that the example of the Khimki forest should be a lesson that such dia-

Who's the boss?

Russians doubt President Medvedev is really in charge

Who holds the real power in Russia?



log is necessary," Mr. Medvedev's spokeswoman, Natalya Timakova, told reporters. She said the president thought the discussions had led to changes that would ease the impact of the project on the forest.

In more than two years in office, Mr. Medvedev has encouraged pro-democracy advocates with calls for greater openness and political competition. But critics say real change—such as easing the ruling party's political monopoly or Kremlin control of national media—has been slow to follow the public pledges.

"It's a very difficult situation because we'd like to support him, but it has to be a reciprocal process," said Yevgeny Gontmakher, an economist at a liberal-leaning institute that sometimes advises the Kremlin. "For the moment, it's all just on the level of rhetoric."

Mr. Nikitenko and his allies said Tuesday's decision left them disillusioned with Mr. Medvedev. They vowed to join opposition groups to challenge the Kremlin's candidate in presidential elections in 2012.

Political analysts say expectations of major shifts under Mr. Medvedev are unrealistic, however, given

his commitment to ensuring the stability of the current ruling tandem. Mr. Medvedev is moving cautiously, they say, but is making some changes.

"This is a different president," said Gleb Pavlovsky, a political consultant who works with the Kremlin and participated in some of the hearings on the Khimki case this fall. "He's more attentive to popular protest and demands debate on important issues."

When Mr. Putin was president, "Civil society was viewed not as a partner for the authorities but as an enemy backed by Western money," said Alexei Makarkin, a Moscow political consultant.

As an example of the change, Kremlin officials and analysts noted that last week, St. Petersburg city officials gave in to popular pressure and agreed to move a planned skyscraper that had prompted protests as a threat to the historic city's skyline. Mr. Medvedev had questioned the original plan earlier this year.

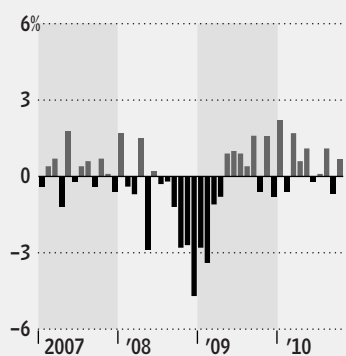
In the Khimki forest case, Mr. Nikitenko and other activists say the review process after Mr. Medvedev's August order was a formality. They denounced the proposed changes—elimination of planned stores along the route in the woods and planting of more trees in a nearby region to compensate those lost—as inadequate to protect the forest. They blamed the choice of the route on what they said were corrupt links between officials and project investors. The road's backers deny that.

Officials defended the review process. Changing the route, they said, would have delayed completion of the road by four years, to 2017, and required relocating dozens of residents to new apartments.

The road, the first leg of a new highway that will link Moscow and St. Petersburg, is needed to alleviate congestion along the existing Soviet-era highway. Traffic jams now can make the trip from central Moscow to the city's main international airport, located just beyond the Khimki forest, into a multi-hour ordeal.

Healthy outlook

Euro-zone industrial production, change from previous month



Sources: Eurostat, ZEW

Germany's ZEW index of economic expectations



U.S. NEWS

Fed policy steady amid sober outlook

Federal Reserve officials stuck to their easy-money policy of buying U.S. Treasury bonds and keeping short-term interest rates near zero amid new signs that the recovery is gathering some steam.

By Luca Di Leo,
Jon Hilsenrath
and Jeffrey Sparshott

Fed officials also reaffirmed that their plan to buy \$600 billion in U.S. Treasury debt through June would be subject to regular reviews and may be adjusted depending on how the economy fares. But after a one-day policy meeting—their last gathering of the year—they gave no indication that they're considering changing anything.

The Fed's widely expected decision came as new data showed consumers kicked off their holiday shopping with a burst of spending. Strong November retail sales and upward revisions to the prior two months led many private economists to raise their economic forecasts for the fourth quarter.

The Fed was restrained in its own assessment of how the economy is doing. The recovery is continuing, "though at a rate that has been insufficient to bring down unemployment," the central bank said in a statement at the end of the meeting. Consumer spending, a key growth engine for the U.S. economy, is increasing at a "moderate pace," officials said, adding as they have for months, that spending remains



Fed chief Ben Bernanke, seen here in Ohio last month, is likely to face some new dissent on the bond program in 2011.

constrained by high unemployment, modest income growth, lower housing wealth and tight credit.

The Fed could be settling into a relatively quiet period after months of fraught decision-making. Because the bond-buying program is scheduled to run through mid-2011, it could be in a position to spend the early part of next year assessing the program and the economy before signaling its next steps. Better economic growth and tame inflation take some pressure off the Fed to

shift its stance for now, and taxes look likely to dominate Washington policy discussions.

"The [Fed's] first two meetings in early 2011 are likely to be similarly uneventful," Goldman Sachs economists wrote in a note before the Federal Open Market Committee meeting.

Fed officials likely spent much of their meeting discussing how the bond buying is doing. The purchases are aimed at keeping longer-term borrowing rates, which are tied to

U.S. Treasuries, low. They're also meant to drive investors into stocks and other riskier investments. The infusion of dollars into the financial system also has the potential to weaken the currency, which could help exports.

Many Fed officials believe the policy is working, though results have been mixed at best. Bond yields and the dollar fell in anticipation of the Nov. 3 decision to initiate the program, but both have jumped as stronger economic data and the

tax-cut deal led investors to expect more growth and inflation—and to worry about budget deficits. Stock prices, meantime, have risen, a welcome development for the U.S. central bank.

Still, Fed officials say the program isn't a panacea. Top U.S. financial firms don't expect it to have big effects on either unemployment or prices, according to a survey released this week by the Securities Industry and Financial Markets Association, or Sifma. The survey also showed that 80% of respondents don't expect the Fed to increase short-term interest rates until 2012 or beyond. In its previous June forecast, more than 60% had predicted that the Fed would begin raising rates by mid-2011.

Kansas City Fed President Thomas Hoenig was the only dissenter to the Fed's decision Tuesday. Mr. Hoenig, who has formally objected to Fed policy at all eight of the committee's meetings this year, said in the release that easy money policies could, over time, increase long-term inflation expectations that may destabilize the economy.

Fed Chairman Ben Bernanke is likely to face some new dissent in 2011. Out of the four regional Fed bank presidents who will join the eight permanent voters on the FOMC next year, two have expressed reservations on the bond program: Richard Fisher of the Dallas Fed and Charles Plosser of the Philadelphia Fed. Neither has been shy of casting dissenting votes in the past.

New bill to repeal 'don't ask'

BY NATHAN HODGE

WASHINGTON—House Democrats introduced a bill Tuesday to overturn the Pentagon's ban on gays serving openly in the military, adding momentum to an effort to repeal the policy before the end of a lame-duck session in Congress.

Rep. Patrick Murphy (D., Pa.) introduced legislation that parallels a Senate bill that would lift the ban, known as "don't ask, don't tell." In a statement, House Majority Leader Steny Hoyer (D., Md.) said he would push to bring the bill to a vote soon.

A congressional aide said the bill could come to the House floor as early as Wednesday.

In a major defeat for proponents of repeal, Senate Republicans last week blocked a larger defense-authorization bill that contained language that would set aside the policy. Sen. Joseph Lieberman (I., Conn.) and Sen. Susan Collins (R., Maine) then introduced a stand-alone bill that would offer a more straightforward up-or-down vote on ending the policy. Gay-rights groups have applauded the move, which represents a last-ditch effort to overturn the ban before a new Congress takes office in January.

"I think that we enter into an environment in the next Congress when Republicans are more than likely to not view this as a priority for our nation," said Fred Sainz, vice president of communications and marketing for the gay-rights group Human Rights Campaign.

The push for repeal faces opposition, as well as a tight legislative calendar.

Rep. Howard "Buck" McKeon (R., Calif.), the incoming chairman of the House Armed Service Committee,



Rep. Patrick Murphy, left, introduced legislation to repeal 'don't ask, don't tell.' House Majority Leader Steny Hoyer, right, said he would push for a vote soon.

chastised Democrats for moving forward on repeal while the larger defense-authorization bill—which sets spending priorities for the Pentagon, and which is typically seen as must-pass legislation—languished.

"Congressional Democrats continue to place a higher priority on repealing 'don't ask, don't tell' than the actual legislation which would provide for our nation's security, troops and military services," he said. "The defense-authorization bill could—and should—have been passed months ago, but Democratic leaders have held it up because of controversial social provisions."

Congress is now scrambling to tie up a number of legislative items before the holidays. Most importantly, legislators need to pass a continuing budget resolution to fund government operations. A major tax bill and an arms-control treaty are also up for consideration.

Supporters of the stand-alone repeal say the measure is gathering bipartisan support. If repeal is signed into law, the Pentagon would then have to fully implement the change by revising department policies and regulations.

Opponents of the policy have also sought to overturn the ban through the courts. On Monday, the Servicemembers Legal Defense Network, a group that opposes the ban, filed litigation in federal court seeking to reinstate several officers who were discharged under the policy.

Secretary of Defense Robert Gates has endorsed legislative repeal, saying it would be less disruptive than lifting the ban by court order. A Pentagon study released in late November concluded that ending the current policy would create only isolated disruptions, but some military service chiefs have expressed reservations about repeal.

CLASSICAL
DEWITT
AUDACITY



EVERY DEWITT IS BUILT BY A DEDICATED MASTER HOROLOGIST AND EACH INCLUDES AN AUDACIOUS TWIST ON THE CLASSICAL WATCHMAKERS ART.

WWW.DEWITT.CH

U.S. NEWS

A bulldog among diplomats in several eras

[Remembrances: Richard Holbrooke]

BY STEPHEN MILLER

He was a hard-nosed negotiator who seemed to achieve results by sheer force of will.

Richard Holbrooke, who died Monday night at age 69 after undergoing surgery for a ruptured aorta, garnered the nickname "The Bulldozer" for his forceful deal making. He represented American power from the early days of the Vietnam War and subsequent peace talks, in the 1990s settlement of the Bosnian War and, in recent years, in the remote highlands of Afghanistan.

His greatest success was the Dayton agreement of 1995 that ended the Bosnian war, a protracted conflict waged by Muslim, Catholic and Orthodox citizens of the former Yugoslavia.

In 2009, Mr. Holbrooke was named special representative for Pakistan and Afghanistan, and spent much of the past two years shuttling between Kabul, Islamabad and Washington, D.C., organizing military and diplomatic affairs among the fractious U.S. allies.

The Dayton agreement "was 21 days and it was pass or fail," he told the Wall Street Journal in 2009. "This is a more complicated event than that."

"Af-Pak," as he called it, was to be his final mission, he told The New Yorker magazine in 2009. He was quoted as writing to a friend that "It's worse than the Nam."

In Washington earlier Monday, President Barack Obama called Mr. Holbrooke "simply one of the giants of American foreign policy" and added that "America is more secure—and the world is a safer place—because of the work of Ambassador Richard Holbrooke."

In a statement Monday, Secretary of State Hillary Clinton characterized Mr. Holbrooke as "the consummate diplomat, able

to stare down dictators and stand up for America's interests and values even under the most difficult circumstances."

Few diplomats in U.S. history could boast a resume as deep. In the 1960s, Mr. Holbrooke served as a diplomat in Vietnam, was a White House staff member under President Lyndon Johnson and attended the Paris peace talks aimed at ending the Vietnam War.

At age 35, he became assistant secretary of state for East Asian and Pacific Affairs under President Jimmy Carter. He served as ambassador to Germany, assistant secretary of state for Europe and Canada, and U.N. ambassador under President Bill Clinton.

Mr. Holbrooke returned to the State Department in 1994 as assistant secretary of state for European and Canadian Affairs, where he became involved in mediating a truce in the Bosnian War.

For several years, the complex conflict had been marked by ethnic cleansing via forced migration, artillery strikes and murder. Mr. Holbrooke famously insisted on negotiating with all sides in a the conflict, regardless of allegations of atrocities.

"If you can prevent the deaths of people still alive, you're not doing a disservice to those already killed by trying to do so," he said in a 1998 speech, explaining why he was willing to negotiate with Serb President Slobodan Milošević, who was later charged with crimes against humanity by the International Criminal Tribunal for the former Yugoslavia.

Mr. Holbrooke brokered the end of the Bosnian conflict by negotiating the Dayton agreement with the presidents of Serbia, Croatia, and Bosnia-Herzegovina. He wrote a memoir of the negotiations, "To End a War," and became enough of a regional celebrity that a bar in Kosovo was named for him. Between diplomatic assignments, especially when Republican presidents held



Associated Press

Richard Holbrooke famously insisted on negotiating with all sides in a conflict, regardless of allegations of atrocities.

power, Mr. Holbrooke worked as an investment banker—for Lehman Brothers in the 1980s, Credit Suisse First Boston in the 1990s and for private-equity firm Perseus LLC in the 2000s.

Later, as President Clinton's ambassador to the U.N., Mr. Holbrooke negotiated an agreement to settle the U.S.'s back dues to the international body and to lower its annual contribution.

Raised in Scarsdale, N.Y., Mr. Holbrooke was the son of Jewish immigrants, a physician father and a potter mother. He said that he found out only later in life that his parents were Jews; the family attended Quaker meetings on Sundays.

A close friend in high school was David Rusk, son of Dean Rusk, who became secretary of state

under President John F. Kennedy. He was the first of many powerful patrons Mr. Holbrooke found in government.

Mr. Holbrooke attended Brown University and studied diplomacy at Princeton's Woodrow Wilson School. He joined the foreign service, attended language school and worked in Vietnam starting in the early 1960s.

Mr. Holbrooke served in the Saigon embassy and in the Mekong Delta under top officials in Vietnam, including General Maxwell Taylor and Ambassador Henry Cabot Lodge.

In addition to serving W. Averell Harriman in negotiations with the Vietcong, he edited one of the volumes of the so-called Pentagon Papers, the secret government history of the

Vietnam War that was later leaked to the press.

He continued to be an active critic of Vietnam policy as editor of Foreign Policy magazine for five years, beginning in 1972.

Asked by the Wall Street Journal last year if similarities existed between Vietnam and Afghanistan, Mr. Holbrooke said, "There are a lot of structural similarities.

"But the fundamental difference is 9/11," he said. "The Vietcong and the north Vietnamese never posed a threat to the United States homeland. The people of 9/11 who were in that area still do and are still planning. That is why we're in the region with troops."

Email remembrances@wsj.com

Republican chief seeks second term at helm

BY PATRICK O'CONNOR

WASHINGTON—Michael Steele said Monday he would fight to remain chairman of the Republican National Committee next year, ignoring calls from some in the party for a new leader to help unseat President Barack Obama in 2012.

Mr. Steele notified fellow RNC members during a conference call Monday night that he would seek a second two-year term in the Jan. 14 election, participants said. The announcement ends weeks of speculation in which the 52-year-old former lieutenant governor of Maryland kept an unusually low profile.

"I'm asking for your vote for a second term," Mr. Steele told fellow committee members toward the end of his almost hour-long speech, according to the notes of one person on the call.

His decision could spark a contentious fight to lead the committee as the party gears up for the next presidential primary season and its effort to defeat Mr. Obama. Four

candidates have already announced their intention to replace Mr. Steele, and others could enter the race.

The announced candidates are Saul Anuzis, a former Michigan Republican party chairman; Maria Cino, a veteran of the Bush administration, who claims the backing of former Vice President Dick Cheney and former RNC Chairman Ed Gillespie; Reince Priebus, chairman of the Wisconsin Republican party; and Ann Wagner, a former U.S. ambassador to Luxembourg.

As chairman, Mr. Steele presided over the biggest Republican gains in decades. The party netted 63 House seats in last month's midterm elections, regaining the majority, and gained seven Senate seats, including one in January.

Despite those gains, critics complained that Mr. Steele spent lavishly, neglected the party's biggest donors and failed to prove he can raise the money necessary to deny Mr. Obama a second term.

The RNC raised \$192 million during his tenure as chairman and



Some Republican party members want Mr. Steele, above, to step aside.

spent \$206 million, according to the Center for Responsive Politics. That left the committee with more than

\$15 million in debt, according to its latest filing with the Federal Election Commission.

On Monday, Mr. Steele promised to "streamline the RNC" and told members that the committee had already begun implementing a new accounting system to track fundraising and spending. He trumpeted the committee's expanded base of small-dollar donors and, in a direct nod to his critics, acknowledged that "a significant number" of major donors "have migrated to other organizations led by former RNC chairmen...that are not bound by the same laws as the RNC."

Mr. Steele had drawn attention for comments that seemed out of step with the views of many in the party, as when he called the war in Afghanistan "a war of Obama's choosing" and called abortion "an individual choice" to be left to the states.

On the call, Mr. Steele acknowledged missteps, telling members of the committee that he had "stumbled along the way," according to

notes taken during the call. He also challenged his critics directly, saying people have been "talking a lot of trash about the RNC" and urging members to "keep our stuff inside the family." He said he has "made no excuses" and "never tried to hide the ball from the members."

The normally visible Mr. Steele has been coy about his plans since the midterms on Nov. 2, doing few public interviews in the weeks since. Meanwhile, established figures inside the party, including Mr. Cheney, have rallied around candidates seeking to replace Mr. Steele.

Other candidates are mulling bids. Gentry Collins, a political operative from Iowa who abruptly resigned his post as RNC political director late last month, has launched an exploratory committee. Former U.S. Sen. Norm Coleman (R., Minn.) has also been mentioned as a potential candidate.

The election for chairman is determined by the RNC's 168 voting members, which includes representatives from five U.S. territories.

U.S. NEWS



Getty Images

Americans are spending more at shops, restaurants and dealers. Shoppers queue at a store checkout in Texas on Nov. 27.

A rebound in spending suggests further recovery

By SUDEEP REDDY AND RACHEL DODES

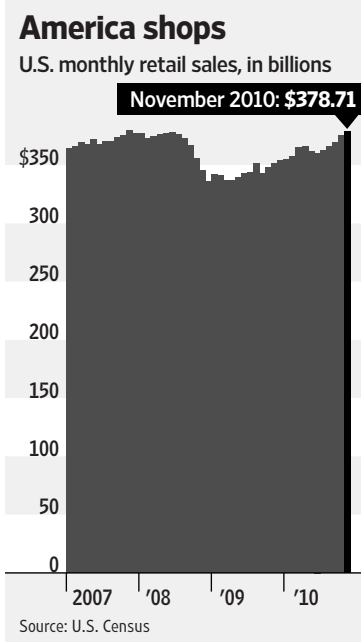
Americans are spending more freely this holiday season, pushing retail sales back to levels not seen since before the recession.

Spending at retailers—including stores, car dealers, restaurants and online shops—rose 0.8% in November, compared to the month before, with strong gains in clothing, cars, sporting goods and books, the Commerce Department said Tuesday. October's results were also revised up.

The upturn in spending is especially striking compared to last year, with sales up 7.8% for the three-month period through November compared to same period a year ago. Overall retail sales have now reached the highest level since November 2007, a month before the recession started.

The figures suggest the recovery is gaining steam, since consumer spending accounts for 70% of demand in the economy. Many economists sharply raised their estimates for fourth-quarter growth based on the stronger retail numbers. "I wouldn't break out the champagne, but things are looking better," says IHS Global Insight economist Chris Christopher. "There was a lot of pent-up demand. Consumers are feeling a little more confident."

The retail sales report pushed stocks to a new two-year high. The Dow Jones Industrial Average was up 42 points at 11471—after touching 11514, the highest since the fi-



financial crisis struck in September 2008.

To be sure, not all is well. The jobless rate has remained near 10% despite a strengthening recovery. The Federal Reserve, worried about the threats of high unemployment and low inflation, is continuing its \$600 billion bond-buying plan to keep business and consumer borrowing costs low. And the retail lift isn't evenly felt: **Best Buy Co.**, the nation's largest electronics retailer, warned sales at stores open at least 14 months fell and full-year earnings

would fall short of a prior estimate.

Still, the strong start to the holiday season among most retailers offered the latest evidence of an accelerating recovery. The National Retail Federation on Tuesday raised its forecast for growth in holiday sales by a full percentage point to 3.3%.

Strengthening consumer demand could provide a key boost to spur stronger hiring. The National Federation of Independent Business said its small-business optimism index rose 1.5 points in November to 93.2, its highest since December 2007. The Business Roundtable, a group of CEOs at large corporations, said optimism among its members rose to the highest level since early 2006. Four out of five CEOs said they expect sales to grow in the next six months, while 45% expect to increase payrolls.

The retail sales report also came against a picture of stronger-than-expected price pressures due largely to rising commodity prices. The government on Tuesday reported the producer price index increased 0.8% in November, or 3.5% from a year earlier, as gasoline prices rose and food prices—largely eggs and fruit—moved higher.

The figures indicated that underlying inflation remained slow as the Federal Reserve decided at its Tuesday meeting to leave monetary policy unchanged. The central bank said "the economic recovery is continuing, though at a rate that has been insufficient to bring down unemployment."

Tax deal now sets stage for some real reform later

[Capital Journal]

By GERALD F. SEIB



This week's great debate over the fate of the Bush-era tax cuts is doing something more important than determining tax levels for a couple of years: It's helping to set the table for a fundamental reform of the tax system.

House Democrats are being dragged along kicking and screaming, but the current debate is almost certain to end with the extension of those Bush tax rates for two years, alongside a batch of tax breaks President Barack Obama wants to help middle-income workers and stimulate the economy.

Which actually is a reasonable outcome for now. Yet it's also an outcome that will leave a jury-rigged and complex tax system feeling just a little more jury-rigged and complex. The deal kicks long-term decisions on tax rates down the road, into and beyond the 2012 presidential campaign.

That may be a blessing in disguise. Today's tax compromise is laying the groundwork for tomorrow's badly needed national debate over how to perform a much more fundamental makeover of the tax code, most likely after the next presidential election.

Actually, this week's tax debate is merely the second big recent event pushing the country closer toward this rendezvous with real tax reform. The first came in the form of the report issued by the bipartisan deficit-reduction commission Mr. Obama created to deal with Washington's tide of red ink.

The commission's most important contribution in the long run may not be its myriad suggestions for dealing with deficits and debts, but its call for a simpler and more efficient tax system. Last week, Mr. Obama threw himself behind the reform idea, at least rhetorically.

As the deficit commission's report suggests, our tax system is inefficient and overly complicated, it distributes the tax burden unfairly and adds to American competitiveness problems with a corporate-tax rate that's too high, and it fails to end deficits. The fix lies in a simpler system with fewer loopholes and cutouts that could actually impose lower tax rates while generating higher revenue, lower deficits and a more efficient economy in return.

One man who dares to dream that dream is conservative Republican Sen. Tom Coburn of Oklahoma. He was a member of the deficit commission, and one reason he voted in favor of the panel's final report was to push the nation down the road to tax reform.

He leans toward a national sales tax, which wouldn't tax returns on investment and could be structured to give advantages

to American exports. That's unlikely to happen, so his more realistic goal is "a flatter tax, a fairer tax." The commission actually laid out a plan that, by eliminating tax deductions of all kinds, would produce a system with three tax rates as low as 8%, 12% and 23%, and a corporate-tax rate reduced to 26% from the current 35%.

If individual rates were lowered that way and the corporate rate reduced, "I think you'd see a massive expansion," Mr. Coburn says. "We have all this anticompetitive incentive in the tax code that makes people make all these strange calculations that are based on lowering their tax bill."

Mr. Coburn isn't even demanding that a tax reform be "revenue neutral"—that is, that it bring in only the amount of government revenue the current system does. In other words, he wouldn't mind more revenue if it came from a better tax system.

None of this is easy, nor does history suggest it can happen quickly. The last time the system was fundamentally overhauled was in 1986, and that experience suggests that it probably requires several years to lay the political and policy groundwork.

A simpler tax system with fewer loopholes and cutouts could actually impose lower tax rates while generating higher revenue and a more efficient economy.

In that case, it was becoming clear by the recession of the early 1980s that the tax code was broken and adding to the economy's woes. Republicans argued that marginal tax rates—then at 50%—were too high to fuel a recovery, but mounting deficits meant they couldn't be lowered without finding other ways to generate tax revenue. That was hard because tax shelters were flourishing.

So Democrats Richard Gephardt and Bill Bradley introduced a plan for a fundamental overhaul in 1982. Republicans Jack Kemp and Robert Kasten began working on their own version the following year.

By 1984, the tax-reform idea had become so trendy that President Ronald Reagan feared Democrats could steal the issue in that year's campaign, so he called for a Treasury Department study of tax-reform ideas to be delivered just after the election.

That put all the major players on the side of a fundamental makeover. But even then, it took a presidential election and two more years to get the deed done.

If all that sounds like a model for the years ahead—well, let's hope so.

Write to Gerald F. Seib at jerry.seib@wsj.com

U.S. to join BP oil-spill suits

By EVAN PEREZ

WASHINGTON—The U.S. Justice Department on Wednesday is expected to seek to join civil lawsuits resulting from the Gulf of Mexico oil spill, the first major federal legal action in the matter, according to people familiar with the situation.

Dozens of private-party lawsuits have been consolidated in so-called multidistrict litigation in federal court in New Orleans, representing claims against **BP PLC** and its contractors for damages from the worst offshore oil spill in U.S. history.

In its complaint, the Justice Department is expected to allege violations of environmental-protection regulations, which could trigger penalties under laws including the Clean Water Act and the Oil Pollution Act, these people say.

By joining the litigation, Justice Department lawyers would likely play a major role in legal steps in the cases, including depositions of key witnesses, which could aid the government's ongoing investigation, these people say. The Justice Department declined to comment.

The government's civil complaint

is the first salvo of what is likely to be a lengthy legal fight as the government and the companies try to assign blame for the April 20 oil-rig accident and spill. The rig explosion killed 11 people. Government officials estimate 4.9 million barrels of oil spilled from the well before BP plugged the leak on July 15.

Most of the government's legal strategy isn't public. But government lawyers in recent months have tussled with a BP contractor, **Transocean Ltd.**, which owned the ill-fated rig, over the company's attempts to limit its liability.

WORLD NEWS

Oprah makes a push for Australia

By GEOFFREY ROGOW
AND JAMES GLYNN

SYDNEY—Oprah Winfrey spent this week helping to sell Australia to the world as the country looks for new ways to stem a sharp fall in tourism at a time when the strength of its currency makes it an increasingly unaffordable destination.

Outbound travelers now exceed arrivals by roughly 1.2 million a year, according to the Australian Bureau of Statistics, with the 20% appreciation of the Australian dollar against the U.S. dollar blamed as the biggest turnoff for tourists from Europe and the U.S.

The slump in tourism is one of the few bleak spots in an economy that is expected to expand by 2.7% this year as demand from Asia for its resources drives growth.

The Australian government has invested three million Australian dollars (US\$2.96 million) to host Ms. Winfrey and her entourage, including 200 support staff and 18 tons of filming equipment, to shoot a series of her top-rated show in the country. The aim is to protect an industry that accounts for 2.6% of gross domestic product, or A\$26 billion of revenue. The country's flag carrier, **Qantas**

Airways Ltd., provided the flights from the U.S. and within Australia.

The slump in tourism is one of the few bleak spots in an economy that is expected to expand by 2.7% this year as demand from Asia for its resources drives growth.

"It's been quite difficult in the local tourism industry and that is going to have an impact on the broader economy," said Stephen Roberts, a Sydney-based economist for Japanese investment bank Nomura. "There has even been a lot of discounting in tourist venues overseas as those economies have gotten weak with that and the strong Australian dollar pushing locals out of the country."

Thousands queued Tuesday to view filming or gain a glimpse of the show outside the Sydney Opera House where Ms. Winfrey discussed the country's virtues as a holiday destination with guests including actress Nicole Kidman. Many observers such as Jenifer Ablan, a schoolteacher from the city's southern suburbs, weren't convinced that the shows, set to air next year to an average weekly U.S. audience of 40 million will help offset the impact of the Australian dollar on tourism.

"I had to bring my kids to see Oprah but it's just too bad about the dollar," Ms. Ablan said. The Australian currency is trading close to 28-year highs.

Ms. Winfrey's ability to sell almost anything to her fans is well chronicled. Upon being included in her book club, publishers immediately order printing in the hundreds



Oprah Winfrey greets her fans during the filming of 'The Oprah Winfrey Show' at the Sydney Opera House Tuesday

of thousands to prepare for with coming sales.

For Qantas, Ms. Winfrey's visit comes as it seeks to deflect attention from an engine failure last month on one of its Airbus A380 superjumbos that forced it to briefly ground its entire fleet of the aircraft.

Qantas flew some 300 audience members of 'The Oprah Winfrey Show' from the U.S., and has since provided 88 flights for the cavalcade to visit some of the country's best-known attractions, including Uluru,

or Ayers Rock, and Port Arthur in the remote southern state of Tasmania.

"This is marketing gold," said Alan Joyce, the airline's chief executive, after attending the filming of Ms. Winfrey's show in Sydney.

The flight across the Pacific from the U.S. is a key route for the airline, which is keen to see its investment in Ms. Winfrey's tour of Australia help reverse a 9% drop in U.S. arrivals over the past year, according to data from the Australian Bureau of Statistics.

On the flip side for Qantas, travel by Australians out of the country is up 25% over the period.

What isn't in doubt is Ms. Winfrey's confidence that she can help bring Australia once again to the attention of Americans.

"I have named myself the unofficial ambassador for Australia and I have the biggest mouth on earth," she told the crowd gathered in Sydney on Tuesday.

—Ross Kelly
contributed to this article.

When it was initially developed and immediately became functional, further development and adaptation was contemplated alongside its international rollout. Whereas a mobile phone application may takes hours to search for any new platform to be customized so it can learn and compensate for the information you need, and then operate on other platforms too. As far as starting a global marketing trend, the new platform has potential for wide adoption now that the business has evolved to post development. The immediate intention is to commence the rollout of the product offering, initially in the United States and South Africa to be followed in the medium term by a staged international rollout. But Mobile users who download the consumer-friendly application remain wary about hidden costs and ask is it really free?

Factiva®. The Intelligence Engine.

Accurate. Powerful. Efficient.

- ▶ Factiva provides actionable insight from 28,500 sources, spanning 200 countries, in 23 languages—when, where and how you need it.
- ▶ Quickly find critical information not available on the free Web, on or before the day of publication.
- ▶ Keep ahead of competitors with the world's most influential publications, newswires, websites, blogs and broadcast media—all on one page.

For more information, visit factiva.com/wsje

U.S. pushes India to lift solar limits

By AMOL SHARMA

NEW DELHI—U.S. government officials and companies are pushing India to remove restrictions on imports of solar technology, which they say threaten to cut out American companies as India embarks on a major rollout of solar power.

On a recent trip here, U.S. President Barack Obama noted the potential for the U.S. and India to deepen collaboration in alternative energy. India's solar program, which aims to spend tens of billions of dollars to subsidize the generation of 20,000 megawatts of power by 2022—one of the most ambitious solar projects in the world—was expected to jumpstart that collaboration.

Instead, the initiative has spawned a trade dispute. India said Tuesday that it has selected 30 companies to receive government subsidies for generating solar power. But those companies are barred for the next several months from importing certain types of solar panels and will face a complete import ban starting in April.

U.S. companies including **First Solar Inc.** and **SunPower Corp.** are among the world's largest suppliers of solar panels, along with Chinese companies such as **Suntech Power Holdings Co.** and European companies, including Germany's **Q-Cells SE.**

Top Indian officials say they have no plans to relax the current restrictions or hold off on the upcoming full ban.

Gauri Singh, of India's Ministry

of New and Renewable Energy, says India plans to spend \$20 billion in the first few years of the program and that it is natural that the nation wants the benefits to accrue at home. She says the policy allows foreign companies to set up manufacturing facilities in India through joint ventures.

Some U.S. and Indian solar-power developers say they believe the rules are aimed at protecting two Indian companies, **Moser Baer India Ltd.** and **Tata BP Solar India Ltd.**, saying they don't produce a wide enough range of highly efficient solar panels for power generators. Tata BP is a joint venture of **Tata Power Co.** and **BP Solar International Inc.**

China, which aims to generate 20% of its power from renewable sources by 2020, initially had similar domestic-manufacturing requirements in its wind-power sector. They were eventually repealed following complaints from Western companies, but by that time China had developed a thriving domestic wind-power industry.

K. Subramanya, chief executive of Tata BP Solar, says the import restrictions are justified because one goal of the solar program is "to create a whole new solar ecosystem generating employment, entrepreneurship and technical innovations." Indian companies already make highly efficient products, he says.

Moser Baer didn't respond to a request for comment.

—Shai Oster
contributed to this article.

WORLD NEWS



Japan's Prime Minister Naoto Kan seen in front of Yoshito Sengoku, his chief of staff, in Tokyo this month.

Sengoku shifts focus from Bank of Japan

By YUKA HAYASHI

TOKYO—The chief spokesman for Japan's government said additional monetary easing, including setting an inflation target, won't help Japan conquer deflation.

He also suggested Tokyo won't press the Bank of Japan for more steps to prop up the economy anytime soon.

Yoshito Sengoku said in an interview that Japan has experienced continued price declines despite years of aggressive easing policies from both the monetary and fiscal sides, a phenomenon he attributes to the nation's proximity to lower-cost economies like China and the nations in Southeast Asia.

"Some people seem to believe the BOJ can generate an adequate level of inflation by just printing money. But I don't think that's the case," said Mr. Sengoku, who serves as chief of staff to Prime Minister Naoto Kan. "Policies like inflation targeting could come with side effects and leave a burden for the next generation. In that sense, I do think the BOJ is doing a good job with its current policy."

The government's chief cabinet secretary also defended Tokyo's handling of a recent territorial dispute with China.

Mr. Sengoku's remarks come at a time when Japan, like the U.S. and other nations, faces the frustrating combination in its fight to keep its economy from falling back into recession: monetary policy already at supereasy levels and soaring national debt that limits the government's ability to stimulate the economy with fiscal spending. With debts totaling nearly twice the size of its economy, Tokyo, in particular, faces severe fiscal restrictions.

On Monday, Prime Minister Naoto Kan ordered a five-percent-point cut to the corporate tax

rate, from roughly 40% now, although economists doubted whether the reduction is big enough to spur the economy. That was followed by a move Tuesday to extend for two years the current 10% tax on dividends and capital gains. The tax will rise back to 20% at the end of 2011.

The developments highlight the pressure the government is under to do more for the economy. Some politicians—including dozens within Prime Minister Kan's ruling Democratic Party of Japan—have prodded the central bank through steps like setting an inflation target and giving the government more say in appointing top central bankers.

Japan's chief government spokesman said additional monetary easing won't help Tokyo counter deflation.

While Mr. Sengoku's comments provide a relief for the BOJ for now, there is no guarantee the situation will last. Political turmoil fueled by a divided parliament is increasingly clouding the outlook for Mr. Kan's government. Opposition parties are demanding policy changes, a cabinet shuffle, Mr. Kan's departure, or the calling of general elections.

Mr. Sengoku has been under sharp attacks for his handling of a spat with China, following a vessel collision in disputed waters in the East China Sea in September. Specifically, Mr. Sengoku is criticized for releasing a Chinese sea captain that rammed into a Japanese patrol ship without indicting him, a decision many in Japan saw as capitulating to pressure from China. Opposition parties have filed a censure motion against him, and have threatened to boycott the parlia-

ment session in January unless he resigns.

Mr. Sengoku said Japan's actions succeeded in keeping under control rising nationalism in both nations.

"The bilateral trouble over the Senkaku islands came at a time when different nations, and their people, are growing inward-looking and show the tendency to rush to protectionism in the economic domain. In the society and political world, nationalism is threatening to burst into flames with just a spark," he said. "Given such a situation, our government did nothing wrong from the medium- and long-term perspectives."

Mr. Sengoku doesn't offer a policy solution for deflation, but he believes inflation will return in time. Given that deflation is caused by the pull from other Asian nations where prices and production costs are lower, prices in Japan should start rising again once these economies begin to experience inflation, Mr. Sengoku said.

Once inflation returns, Japan also needs to worry about its negative effect on the government's debt burden. A pick-up in inflation sets off interest-rate increases, bloating the burden of debt repayments. "We really need to keep one eye on how inflation will affect our national debts," he said.

The inflationary trend in Asia should be accelerated once China lets its currency strengthen. "It is very important for Japan and the U.S. to work in lockstep [to pressure China] so it will move toward a floating system," he said.

The strong currency in China, he added, is part of a problem that is making it necessary for the governments in the U.S. and Europe to consider further economic stimulus policies.

—Takashi Namaichi contributed to this article.

Asians go shopping for Japan property

By MARIKO SANCHANTA

TOKYO—As property prices in Japan head down for the 19th consecutive year, a new breed of investor has taken up some space long dominated by Western institutions.

Flush with cash and unscathed by the credit crisis, Hong Kong Chinese, Singaporeans, Malaysians and mainland Chinese investors have stepped up their purchases of Japanese real estate over the past year. Compared with the astronomical prices in Hong Kong, Singapore and parts of China, valuations are lower—and returns are less volatile.

Asian firms and individuals have made 18 real-estate acquisitions in Japan this year, valued at \$372 million, up from eight last year, according to Dealogic. That compares with U.S. buyers' three deals totaling \$6 million and European buyers' one deal, Dealogic reports. (These numbers exclude deals involving private companies and funds.)

Some notable 2010 Asian purchases: the Hilton in Niseko Village, a popular ski resort in Japan's northernmost island of Hokkaido, was snapped up by **YTL Corp.**, a Malaysian infrastructure conglomerate, for six billion yen (\$72.3 million); three logistics facilities on the outskirts of Tokyo were purchased by **Mapletree Logistics Trust**, a Singapore-based real-estate investment trust, for 13 billion yen in July; and, according to people familiar with the matter, the Hyatt Regency Hakone Resort & Spa was bought by an unnamed private investor in Hong Kong in March.

Real-estate funds run by the likes of **Morgan Stanley**, **Deutsche Bank AG** and **Goldman Sachs Group Inc.** and private-equity firm Lone Star Funds did spectacularly well buying up distressed assets in the years after Japan's bubble burst 20 years ago, as the country's banks offloaded their nonperforming loans.

Prices even turned around in Tokyo in 2007; at that time, Morgan Stanley's property business was one of the firm's biggest revenue generators in Japan.

Now, many of the deals made during that Tokyo spike are dogging the U.S. investment bank as property values plummet and refinancing options remain scant.

Nationwide, according to a government survey, the average price for residential land fell 3.4% in the 12 months ended June, and the average for commercial land fell 4.6%. These overleveraged Western banks and funds have reined in their proprietary investments since the global credit crunch—and Asian investors have rushed to fill the void.

"Asian investors have not suffered that much during the down cycle, and they're not overleveraged," said Raymond Wong, executive director of Saizen Reit, a Singapore-based real-estate investment trust that manages 180 residential properties throughout Japan. "The yields in Japan are attractive by any standard, and the interest rates are so low. Asian investors are so flush with cash, they have no choice but to look at Japan."

"We are taking up some of the space that used to be dominated by Western capital," said Ben Cha, the chief executive of HKR Japan, who is busy flying back and forth between Tokyo and Hong Kong to set up the local offices of **HKR International Group**, a Hong Kong-based real-estate development firm that is also a family-run business. "It's a trend that's going to be around for a while. We have capital to deploy."

Investors said that on residential properties in Tokyo, the yield—a property's annual expected net income as a percentage of its capital value—is 4.5% to 5%, compared with less than 3% in Hong Kong.

"The yields on residential assets in Japan is very stable—we have had a lot of highly volatile growth in China and Hong Kong," Mr. Cha said. "The relative pricing in Japan is attractive. There is a lot of volatility in the Chinese market and policy factors that no one can predict."

HKR this year bought three residential buildings in Japan for a total of nine billion yen, and Mr. Cha said the firm aims to significantly expand its Japan portfolio. Credit conditions in Japan, land of the near-zero interest rate, have started to ease as well. New lending by banks for real estate increased 6.6% in the July-September quarter compared with a year earlier, according to research by Deutsche Bank's real-estate fund, called RREEF.

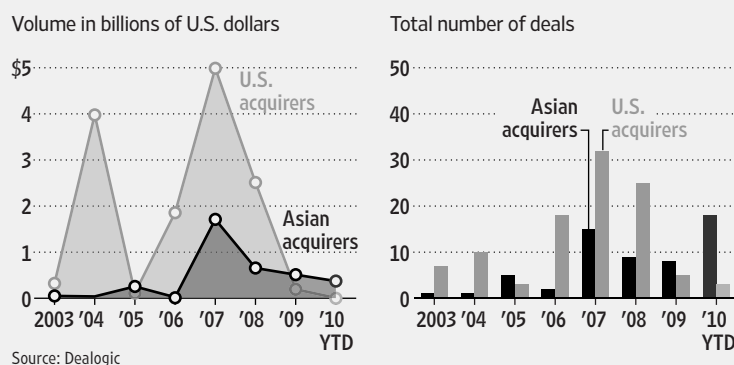
Industry players said that although there are more Asian buyers, they still don't have the purchasing power to match the scale of the deals the Western institutions made before the collapse of Lehman Brothers.

In June 2007, the Morgan Stanley Real Estate Funds unit, known in the industry as Msref, completed the acquisition of 13 hotels and two property-management units known as ANA from All Nippon Airways Co. for 281.3 billion yen, \$2.4 billion at the time—a record for a Japanese real-estate deal.

But Asian investors tend to be longer-term buyers than Western funds, which typically focus on exiting from an investment in three to five years.

Changing hands

Japanese real-estate purchases, by origin of buyers



WORLD NEWS

Pyongyang on offensive, literally

BY EVAN RAMSTAD

SEOUL—North Korea's official state media, ever a source of bellicose articles and anachronistic Cold War-style rhetoric, went into overdrive Tuesday to sell its version of the recent firefight that killed four South Koreans.

North Korea's biggest newspaper, Rodong Shinmun, wrote that the Nov. 23 shelling of Yeonpyeong Island was a "provocation" to North Korea—a mirror image of recent international accusations that the North had provoked the South in launching the fatal artillery fusillade on the island.

"The south Korean authorities have misled public opinion by asserting that the recent case of the Yonpyeong Island shelling occurred due to the DPRK," the newspaper said, using the Northern spelling of the island and acronym for the country's formal name.

The story was one of three issued Tuesday bearing the North's criticism over the attack, with headlines that also included "DPRK Will Never Pardon Anyone Who Slanders Its Dignity and System" and "S. Korean Minister of Unification's Reckless Remarks Flayed."

Four more articles issued Tuesday by the Korea Central News Agency carried broad criticism of South Korea, the U.S. and Japan, the countries that North Korea's authoritarian regime has long portrayed as enemies ready to invade the country at any moment. Others conveyed statements from what the North said were its international allies, such as a report of a Malta group's statement, "U.S. and S. Korean Puppet Forces' Moves for Invading DPRK Slammed."

Tuesday's articles appear part of a far more concerted public-relations effort by Pyongyang than was



Tourists used telescopes to view North Korean territory on Tuesday from the Unification Observatory in Goseong in northeastern South Korea.

seen in its conflict with Seoul earlier this year over the sinking of the South's patrol ship Cheonan, in which 46 South Korean sailors died.

North Korea's first external article on the Cheonan didn't appear for more three weeks after the March 26 incident. Its state-run media issued an additional 20 articles about the sinking over the following two months, a period in which it was formally accused of firing a torpedo to sink the ship and penalized by Seoul.

By contrast, North Korean state media issued its first statement about the Yeonpyeong attack less than three hours after it happened. Hardly a day has gone by since when it hasn't issued at least one more report about it.

That has given analysts another issue to study as they try to sort out the reasons for the attack. North Ko-

rea has repeatedly used the attack to call for—and on at least one occasion claim outright—a new maritime border off the west coast of the two Koreas.

But it has made that argument for years, and it is unclear why Pyongyang has now turned so aggressive about the border issue. North Korea analysts have recently posited that the North is also driven by Kim Jong Il's desire to smooth a succession for his son and to pressure Seoul into providing economic aid with few questions asked, as it did before 2008.

South Korea's government doesn't, as a policy, respond to specific statements from the North. But on the flow of articles in general, a spokeswoman at South Korea's Unification Ministry, which is in charge of North Korean affairs, said:

"Among the tough and extreme language, we need to figure out the true messages that the North is sending out."

Occasionally, officials express weariness with the North's blustery means of expression. South Korean President Lee Myung-bak on several occasions over the past two years urged North Korea to speak more directly. And a subtext in calls by Washington and Seoul for Pyongyang to "take denuclearization seriously," diplomats say, is a desire by the U.S. and South Korea for North Korea to cool its rhetoric.

The hyperventilating tone doesn't mean the messages should be dismissed, says Brian Myers, a professor at Dongseo University in Busan who chiefly researches the messages that North Korea's government delivers internally rather than

to the outside world.

"What they want us to know is also interesting information itself," he said.

North Korea's internal and external messages deliver the same general message: the country is under siege from the U.S., South Korea and Japan.

But they sometimes differ in the details. For instance, North Korea's subscription to the Nuclear Non-proliferation Treaty and its later withdrawal from it was portrayed in the country's internal media, including newspapers and books, as a crafty exploitation of the treaty for its own purposes.

"This would never be said in external propaganda, which tries to show the North as a beleaguered, insecure country that feels threatened by warmongers in Washington and Seoul," Mr. Myers said.

Internally, he said, North Korea portrays itself as "an invincible military power, an object of terror to a craven United States and South Korea, a country that plays by its own rules."

One of the stories conveyed by the KCNA on Tuesday sharply criticized South Korean President Lee Myung-bak for statements he made to reporters during a trip to Indonesia and Malaysia last week. Mr. Lee said South Korea has a responsibility to ensure that North Korean people enjoy basic rights and South Koreans should prepare for unification with the North, though he set no timetable for that.

The KCNA report account said Mr. Lee "did not hesitate to let loose a string of such insulting remarks as 'it is irresistible' and 'unification is drawing close,' while impudently ballyhooing about 'basic right' and 'right to happiness.'"

—Jaeyeon Woo
contributed to this article.

China R&D to overtake Japan

BY GAUTAM NAIK

China is on the verge of overtaking Japan as the second-biggest spender on research and development after the U.S., marking another key shift in the rivalry between the world's economic powerhouses, a new report shows.

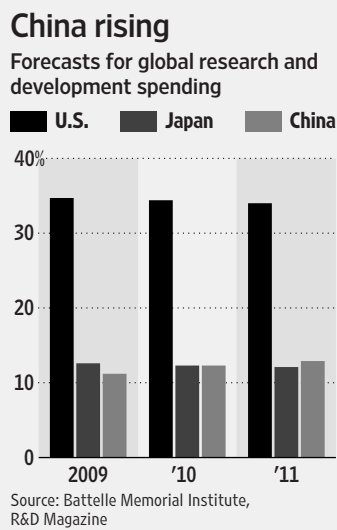
China is expected to spend \$153.7 billion on R&D in 2011, up from the \$141.4 billion it will spend this year, according to Battelle Memorial Institute, a nonprofit that does scientific research for the government and industry. By comparison, Japan is expected to spend \$144.1 billion next year, up from \$142 billion in 2010.

Despite China's surge, the U.S. remains by far the biggest R&D spender, making up one-third of the global total.

"China has sustained this kind of growth [in R&D spending] for a number of years and they're sticking to it regardless of what's going on in the global economic cycle," said Martin Grueber, senior researcher at Battelle and co-author of the report, which is published in R&D magazine.

For example, China continued to make a sustained R&D push in 2009, a year when the U.S. and many other advanced countries cut back in response to recessionary times.

In 2010, growth world-wide rebounded, and it is likely to be sustained. Total global spending on R&D in the coming year is forecast



to rise 3.6% to nearly \$1.2 trillion, according to the Battelle report.

The U.S. picture is mixed. In 2010, U.S. R&D spending rose 3.2% to \$395.8 billion. It is expected to grow a modest 2.4% next year, partly reflecting a likely decline in federal R&D funding.

The impact of this decline is partly offset by R&D spending in 2011 resulting from previously awarded government stimulus funding. Without that stimulus effect, and after accounting for inflation, U.S. R&D spending is forecast to actually show a decline next year.

American corporations are spending more on R&D now that the worst of the recession's effects appear to have passed. But they're still below the longer-term historic R&D spending rate.

"In a perfect world, the industry rate would be greater than 5% or even 7%," said Mr. Grueber. He estimates that the actual R&D growth rate figure for the U.S. corporate sector in 2011 will be closer to 3.3%.

Among individual companies, the picture varies. Intel Corp. and Cisco Systems Inc. cut R&D spending significantly in the first nine months of 2009 versus the same period in 2008, but they increased their spending significantly in the first nine months of 2010 compared with the equivalent period in 2009.

Microsoft Corp., International Business Machines Corp., and Johnson & Johnson each cut R&D spending in the first nine months of 2009 when compared with the same period in 2008, but raised their spending slightly in the first nine months of 2010.

While China's overall R&D spending is still far behind that of the U.S., China is making a concerted push in certain cutting-edge areas—such as alternative energy, life sciences and advance materials—while the U.S. and Japan have a good chunk of their R&D tied up in older fields, such as the automotive industry.

Ghana to start pumping at new Jubilee oil field

BY WILL CONNORS

LAGOS, Nigeria—Ghana is set to become Africa's newest oil producer on Wednesday when one of the world's biggest recent oil-field discoveries comes online, capping three years of fierce competition for the region's energy resources.

The 1.5 billion-barrel Jubilee field has drawn interest from Western and Chinese oil multinational corporations as well as from American venture capitalists. At least \$4 billion has been invested in the offshore field by various partners.

The field is operated by the U.K.'s Tullow Oil PLC, which has a 34.7% stake. Dallas-based Kosmos Energy LLC—which is backed by private-equity firms Blackstone Group LP and Warburg Pincus LLC—and Houston-based Anadarko Petroleum Corp. own 23.49% apiece. State-run Ghana National Petroleum Corp. is the other major shareholder, with 13.75%.

The light, easy-to-refine oil is expected to start flowing at 55,000 barrels a day, following a ceremony Wednesday attended by Ghanaian President John Atta Mills.

Stewart Williams, an oil analyst at Wood Mackenzie, an energy-research firm, says interest has been keen because of the oil's quality and

the field's proximity to European and U.S. markets. Oil companies also could use investment in Jubilee as a foothold to explore elsewhere in the Gulf of Guinea, he says. "Ghana is a game changer," Mr. Williams says.

Development of the field hasn't been entirely smooth, though.

Kosmos last year decided to sell its stake in the Jubilee field and eventually reached a \$4 billion deal with U.S. oil giant Exxon Mobil Corp. But the government objected, saying it hadn't been adequately informed about the negotiations. Kosmos denied wrongdoing, and Exxon walked away from the deal.

Spokesmen for Kosmos and Exxon declined to comment Tuesday. Ghana National Petroleum couldn't be reached.

Although Ghana's estimated three to five billion barrels of reserves are about a third those of African oil power Nigeria, Ghana's political stability and its potential for economic growth are attractive to foreign investors.

Washington-based Oxfam America has expressed concern that the Ghanaian government hasn't opened up oil contracts to public scrutiny.

The government has said it is working hard to put regulatory measures and an oil-revenue bill in place.

OPINION: REVIEW & OUTLOOK

ObamaCare Loses in Court

Only a few months ago, the White House and its allies on the legal left dismissed the constitutional challenges to ObamaCare as frivolous, futile and politically motivated. So much for that. On Monday a federal district court judge in Virginia ruled that the health law breaches the U.S. Constitution's limits on government power.

In a careful 42-page ruling, Judge Henry Hudson declared that ObamaCare's core enforcement mechanism known as the individual mandate—the regulation that requires everyone to purchase health insurance or else pay a penalty—exceeds Congress's authority to regulate the lives of Americans.

"The unchecked expansion of congressional power to the limits suggested by the Minimum Essential Coverage Provision [the individual mandate] would invite unbridled exercise of federal police powers," Judge Hudson writes. "At its core, this dispute is not simply about regulating the business of insurance—or crafting a scheme of universal health insurance coverage—it's about an individual's right to choose to participate."

So the issue is joined, and no doubt with historic consequences for American liberty. For most of the last century, the U.S. Supreme Court interpreted the Con-

stitution's Commerce Clause as so elastic as to allow any regulation desired by a Congressional majority. Only with the William Rehnquist Court did the Justices begin to rediscover that the Commerce Clause has some limits, as in the *Lopez* (1995) and *Morrison* (2000) cases.

The courts up through the Supremes will now decide if government can order individuals to buy a private product or be penalized for not doing so. If government can punish citizens for in essence doing nothing, then what is left of the core Constitutional principle of limited and enumerated government powers?

Judge Hudson's opinion is particularly valuable because it dispatches the White House's carousel of rationalizations for its unprecedented intrusions. The Justice Department argued that the mandate is justified by the Commerce Clause because the decision not to purchase insurance has a substantial effect on interstate commerce because everybody needs medical care eventually. And if not that, then it's permissible under the broader taxing power for the general welfare; and if not that, then it's viable under the Necessary and Proper clause;

and if not that, well, it's needed to make the overall regulatory scheme function.

But as Judge Hudson argues, the nut of the case is the Commerce Clause. Justice can't now claim that the mandate is "really" a tax when the bill itself imposes what it calls a "penalty" for failing to buy insurance and says the power to impose the mandate is vested in interstate commerce. Recall that President Obama went on national television during the ObamaCare debate to angrily assert that the mandate "is absolutely not a tax increase."

Moreover, Judge Hudson says that no court has ever "extended Commerce

Clause powers to compel an individual to involuntarily enter the stream of commerce by purchasing a commodity in the private market."

Liberals are attacking Judge Hudson because he was appointed by George W. Bush, but his ruling is relatively narrow. He didn't strike down the rest of ObamaCare even though it lacked a severability clause, and he didn't enjoin the law's implementation pending appeal. His opinion also doesn't touch Virginia Attorney General Ken Cuccinelli's long-shot claim that

his state's "health freedom" law can nullify an act of Congress. In fact, federal laws that are constitutional are supreme under the 10th Amendment.

This week liberals are crowing that even if the mandate is eventually declared illegal, it's no big deal because the rest of ObamaCare's new system would remain intact. Yet they've argued for years that the mandate is essential to health reform, because the mandate is at the heart of the regulatory machine. ObamaCare without a mandate would mean individuals wouldn't have to pay into a system until they were sick, driving up costs even faster and ruining what's left of health insurance markets.

While Judge Hudson's ruling is the first to declare part of the law unconstitutional, more than 20 state attorneys general and the National Federation of Independent Business are also suing in Florida. Oral arguments will be heard tomorrow in that case, which we think is the strongest constitutional challenge to the law.

As the Virginia case shows, ObamaCare really does stretch the Commerce Clause to the breaking point. The core issue is whether the federal government can order individuals to do anything the political class decides it wants them to do. The stakes couldn't be higher for America's constitutional order.

A victory for liberty and the U.S. Constitution in Virginia.

Islam's Christians

The New York Times to its credit made the continued persecution of Iraq's Christian minorities its lead story in Monday's paper. Amid bloodshed on a large scale in so many places, this may seem like a relatively minor, if unhappy, story. In fact, it raises questions about contemporary Islam's ability to coexist with non-Islamic peoples—in Iraq and elsewhere.

A spate of anti-Christian bombings and assassinations in Iraq culminated recently in the siege of a church, Our Lady of Salvation, which resulted in the death

of 51 worshipers and two priests. Afterward, Prime Minister Nouri al-Maliki spoke with force and eloquence about the deaths: "The Christian is an Iraqi. He is the son of Iraq and from the depths of a civilization that we are proud of."

This is an important and accurate description of the Iraqi past. Some of these Christian minorities have coexisted with Islam in Iraq and elsewhere in the Middle East since the time of Jesus. Some still speak Aramaic, the ancient language of Christ.

With the rise of radical Islam, this tra-

dition of peaceful and productive coexistence has been displaced by a practice of religious cleansing. It is estimated that of the 100,000 Christians who once lived in Mosul, Iraq, only some 5,000 are still there. In Egypt, Coptic Christians have been brutalized. Assaults on churches increase around Easter or Christmas, as worshipers attempt to observe holy days.

For years, the Vatican has worked to restore what Pope Benedict XVI has called a *modus vivendi* between modern reason and faith. But for all these good-faith efforts, there has been little progress. The

Vatican's Islamic counterparts either cannot sustain initiatives on behalf of moderation and tolerance, or they receive no political support from their own countries.

Living amid an overwhelmingly large majority, the small Christian sects pose no conceivable threat to Islamic hegemony. One can only conclude that they are attacked merely because they exist amid Islamic majorities. The implications of watching a strain of Islam show that it cannot coexist with others extend well beyond the borders of Iraq.

The Bond Rout and the Fed

The U.S. Federal Reserve's Open Market Committee met yesterday amid lots of chin-pulling and moaning about the recent rout in the bond market. Wasn't the idea to *reduce* bond yields? What's going on out there?

Count us among the optimists who think this is good news, a sign that markets are concluding that the American economy is improving as major policy obstacles recede and the risk of deflation vanishes, if it ever existed.

The bond rout is hardly surprising given the previous rush to Treasuries in the anticipation of the Fed's second round of quantitative easing and the summer deflation scare. (See nearby chart.) Treasury yields hit historic lows, and a correction is hardly surprising or worrisome unless you bought in at the yield bottom. The return to a more normal yield curve is good news to the extent it makes investors look to assets other than government bonds. Banks should see higher earnings, too, boosting

their ability to repair their balance sheets. Even corporate junk bonds are suddenly in vogue.

Economic growth prospects have also improved thanks to changes in Washington, as the bipartisan tax deal delays the damage of a tax increase by at least two years. The American Democratic left has been marginalized for now, and the tax deal easily passed the 60-vote Senate hurdle on Monday. The 100% expensing provision in the deal will pull investment into 2011 from future years, but in the short run this is good for corporate investment and earnings.

The QE Bond Tour

Ten-year U.S. Treasury note yield, June-December 2010



Source: WSJ Market Data Group

President Obama has also made a bow in the growth direction with the South Korea trade deal, and even the Environmental Protection Agency has delayed a pair of destructive new rules.

America's recovery still faces headwinds, especially job creation and a housing market that hasn't

found its bottom due to persistent political interventions. Another problem is the rolling costs of implementing new regulations on carbon use, coal plants, health care and telecommunications; financial-market reregulation; energy exploration, and much more as the Obama Administra-

tion pursues its agenda through agencies rather than Congress.

There are also risks to growth outside America, as China tries to rein in its inflation problem, and of course from Europe. But given all of the damage imposed by Washington, the remarkable story is how resilient the economy has been.

All of which suggests to us that the Fed should announce an early end to QE2 and its intention to return as quickly as possible to a more normal interest rate environment. The sooner it does, the fewer risks it will run of creating new bubbles and more misallocated capital like the summer-fall bum's rush to Treasuries.

This would not mean returning to a "tight" monetary policy by any historic definition of the term. It would mean acknowledging that the fears of a double-dip recession have receded, deflation fears were overwrought, and the best way to nurture the U.S. economy to a durable expansion is with a return to monetary normalcy.

OPINION

Letters To The Editor

* * *
Not Empowering Islamists

Former Hizb ut-Tahrir extremist, Shiraz Maher, used a Dec. 2 op-ed ("Empowering Islamists") to air his grievances with the East London Mosque.

Not too long ago Mr. Maher would have been in the camp of those who call our mosque too "liberal." We are criticized, for instance, for encouraging our worshippers to be part of the democratic process, or for our engagement with non-Muslim communities. Former extremists once attacked the mosque and its leaders for being too soft. Apparently now "non-extreme," Mr. Maher criticizes us for being somehow fundamentalist.

He claims that "the East London Mosque is among Britain's most extreme Islamic institutions," which is a far cry from reality. Our mosque has hosted many dignitaries over the years, from royalty to ministers, so it should come as no surprise to Mr. Maher that the U.S. Ambassador to the U.K. chose to visit our mosque and center. The mosque is an active institution within the East London community, playing a vital role in promoting just values and freedoms. We are perfectly at ease engaging with the rest of society, from the youth, to the authorities and police, to journalists and members of the public. We are proud

to be a British Muslim institution, holding firm to our founding principles of 1910, as when we recently celebrated our centennial with dignitaries, guests and members of Parliament at the House of Lords.

The circumstances surrounding the London Muslim Center's airing of a pre-recorded lecture by Anwar al-Awlaki involved a third-party organizer (Noor Pro Media), and have now been clearly addressed. The East London Mosque Trust last month released a statement clarifying our position on the matter. Any prior lapses in our events-booking procedures have also been addressed and our standards are now strictly enforced.

I would like to restate for the record that our mosque is not dominated by Jamaat-e-Islami, nor does it aspire to establishing an "Islamist theocracy." Extremism in any form must be challenged. Our mosque is working constantly with its partners to meet these ends. Mr. Maher should be keen to scrutinize his own hypocrisy at labeling others extremists, as he further provides legitimate backing for bigotry and Islamophobia.

MUHAMMAD ABDUL BARI
Chairman, East London
Mosque Trust
London

* * *
Obesity in Africa?

Reading Julie Jargon's Dec. 8 article, "KFC savors growth potential in Africa," reminded me of a television commercial depicting a child getting into an Ivy League university. The child yells out: "I got into the best school in the country!" And the father hears: "I got into the most expensive school in the country." So when companies like Yum Brands, which owns KFC, and McDonald's, yell that they are getting into Africa to make huge profits and penetrate new markets, what I hear is: We will be exporting America's eating and dietary habits, here comes obesity to your country. Do Americans really want to export obesity and poor health to Africa? Maybe not.

PETER G. HILL
Boston Copley
Square Chiropractic
Boston

* * *
From the Land of Adam Smith

I read with interest your editorial on the Scottish government's views on taxation ("Scotland's Opportunity," Dec. 2).

Scotland's opportunity lies in the talent of our people and our ability to provide a competitive environment for business. In government, the Scottish National Party has clearly acted on our belief that lower business taxes are an important part of stimulating economic growth. We have lowered business rates, abolishing them entirely for 63,000 small businesses. We have also had a real-term cut in local taxes for three years—ensuring we are doing what we can to help families during challenging economic times.

We also believe it is important to assist both indigenous businesses and to attract foreign investment, which is why we continue to make the case for the Scottish Parliament to have responsibility for corporate taxes so we can provide an incentive for businesses to locate and stay in Scotland. Your editorial wrote of Scotland as the "land of Adam Smith." As countries both large and small develop strategies for growth following the global downturn, I can assure you that we have every intention that the birthplace of economics remains an attractive place for business in the future.

JIM MATHER
Scottish Minister for Enterprise,
Energy and Tourism
Edinburgh

Europe Needs a Tea Party

[Global View]

BY BRET STEPHENS



Once upon a not-very-long-ago time, Europe was the land of the future.

In 2005, American trendspotter Jeremy Rifkin published "The European Dream: How Europe's Vision of the Future is Quietly Eclipsing the American Dream." The same year, Washington Post reporter T.R. Reid came out with "The United States of Europe: The New Superpower and the End of American Supremacy." A year later we got "Why Europe Will Run the 21st Century" by British think-tanker Mark Leonard.

Whoops.

Say what you will about most seers, they usually have the sense to kick the proof of their predictions a century or more into the future. Sadly for our authors, Europe's dismal reckoning is unfolding now. Month after month, strikers, protestors and rioters in Athens, Paris, Dublin and London have offered their own verdict on Europe's future. So have the bond markets. Sooner or later this combined revolt of workers, students, pensioners and financiers will be joined—albeit for very different reasons—by middle-class taxpayers, mostly German, who will not endlessly finance the profligacy of people they're already inclined to detest.

What will happen then? Jean Monnet, the EU's founding father, famously predicted that Europe would be "forged in crises." In this crisis, it's just as likely that Europe will be broken by it.

The euro isn't what ails the continent.

For this the fault does not lie with the euro, as is so commonly alleged. It does lie with a political class that would not abide the terms they agreed to when they adopted the currency—the limits on deficit spending, flouted from the beginning; the fiscal requirements for joining the currency, conveniently ignored to get Greece in; the prohibition against bailouts, now comprehensively junked. A currency whose ground rules have been so utterly violated is not the sinner. It is the sinned against.

A more reasonable point is whether a continent that cannot contain its fiscal appetites should have ever attempted to subject itself to the discipline the euro was meant to instill. That's like asking whether its ever really worth enrolling an alcoholic in a 12-step. Europe can be awfully charming when it's on the sauce.

But it can be slovenly, surly and violent, too. So far Europe's financial tremors have hit mainly at its fringes. The €750 billion lending facility the EU established last spring has been more than adequate to bail out Greece and Ireland to the tune of €177 billion. But that's 23% of a fund for two countries whose combined GDP accounts for just 3.4% of the EU's. Next up is Portugal,



Associated Press

Democracies cannot be better than their own people.

with Spain and Italy likely not far behind. Collectively, they comprise 22% of the EU's GDP.

Portugal aside, those bailouts are almost certainly beyond Europe's reach. Yet European leaders are now attempting to rewrite the rules with a permanent bailout fund. The idea is to buy time and "confidence."

Good luck with that. Greece may already be violating the terms of its bailout. There is no long-term guarantee of a benign global economic environment that would give Europe's weaker economies time to recover. Berlin, Europe's proverbial paymaster, faces its own budgetary problems, and it can test German forbearance only so far. Nor is there any guarantee that a future Greek, Italian, Portuguese or Spanish government will abide by budgetary constraints imposed upon its predecessors. They will each have to make their own accommodations with their electorates. Democracies cannot be better than their own people.

There is the nub of Europe's problem. A notable difference between populist movements in the U.S. and Europe is that the American variety typically favors smaller and less-intrusive government. That's basically the tea party. It may be "Mad As Hell," as pollsters Doug Schoen and Scott Rasmussen write in their book on the movement, but it cleans up after itself. It also just elected a new Congress supposedly intent on reining in spending.

By contrast, the crowds that have so far paraded (or stomped) through Europe's capitals are an anti-tea party. They want more debt, not less, more entitlements, not fewer. Not yet demonstrating en masse, though they soon might, are nativist movements

that have seized on legitimate fears about immigration to advance policy ideas that typically range from the stupid to the hateful. France's National Front hasn't gained the traction it has just by railing against Islamization; it also rails against pension reform and free trade.

The real question for Europe is whether there's an unsuspected tea party lurking somewhere in its electorate that can exercise meaningful political influence. Britain certainly has one: A new survey of British social attitudes finds the public "more Thatcherite now than in the 80s," when Mrs. Thatcher was in power. But of course the U.K. never was (and never will be) part of the euro zone. In German elections last year, the libertarian-leaning Free Democrats won their largest-ever mandate, though that amounted to less than 15% of the overall vote. As it is, they've mainly abandoned their pledge to cut taxes. Italy has routinely returned Silvio Berlusconi to power on promises to roll back the reach of the state. Alas, he never keeps them.

Such are the glimmers of hope. But the tests and trials that the EU faces are fast coming upon it. Bismarck once remarked that "Whoever speaks of 'Europe' is wrong. It is a geographical expression." We may yet find out that he was right.

Write to bstephens@wsj.com

Pepper . . . and Salt

THE WALL STREET JOURNAL



"You have a wife—you don't need a life-coach."

Comments? The Journal welcomes readers' responses to all articles and editorials.

It is important to include your full name, address and telephone number. Please send letters to the editor to:

Letters@WSJ.com

THE WALL STREET JOURNAL.

EUROPE

Andrew Langhoff, Publisher
Patience Wheatcroft, Editor in Chief, Europe
Iain Martin, Deputy Editor in Chief
Tim Hanrahan, Managing Editor, News
Brian M. Carney, Editorial Page Editor

Tracey Lehane, Advertising
Jonathan Church, Circulation
Mike Elsas, Operations
Michele Lally, Marketing
Kate Dobbin, Communications
Published since 1889 by
DOW JONES AND COMPANY

© 2010 Dow Jones & Company. All Rights Reserved

OPINION

Europe's Creditors and the Search for Cheap Money

By DANIEL GROS

Imagine an enterprise that is losing lots of money and has considerable amounts of old debt coming due. As it is not alone in this situation, the authorities in the region have prepared a special agency to take care of situations like this one. When approached for help, the agency provides the enterprise with emergency funding to pay off its debts and to finance its current budget deficit, but it does not provide new capital. On the contrary, the emergency funding is declared to be senior to the existing, long-term, debt.

By insisting on a seniority clause, governments are sending a signal to markets: buyers beware!

The emergency funding is administered by a rescue team consisting of a world-class turnaround specialist (the International Monetary Fund), a stern financial controller (the European Central Bank), and an all-round adviser bent on imposing best practices everywhere (the European Union).

Once the rescue team has finished its job, which is expected to take a few years, it will make a final evaluation of the enterprise. If it finds that the turnaround has not succeeded, it will recommend a haircut for the enterprise's long-term creditors, whose claims at that point will have become effectively subordinate to those of the

rescue team. Under these conditions long-term creditors have no choice but to do an impairment test, mark their claims down, and accept their losses.

This is essentially what's happening in Europe, and illustrates why the euro-area debt crisis has worsened markedly since Nov. 29. That was the date when the Eurogroup—the finance ministers of countries that use the single currency—introduced seniority for the European Stability Mechanism, which is the permanent successor to the European Financial Stability Facility, also known as Europe's "bailout funds."

In April and May of this year, euro-zone countries seemed to have made a different choice by not requiring that either their bilateral loans to Greece or their stability-fund credits had to be senior to other, private-sector claims. Germany thus had explicitly accepted that it might lose money in the event that Greece, or any recipient of European stability funds, could not service its debt.

This changed with the Eurogroup's statement on Nov. 29, whose importance observers too often underestimate when they're trying to divine why euro-zone borrowing costs remain elevated. In a turnaround from its previous decision, the Eurogroup stated explicitly that loans from the permanent stability fund would have senior standing over loans from private creditors, and would be subordinate only to IMF loans. Moreover, the Eurogroup also announced that the Greek loan package and other existing financial-stability packages would be rolled



Corbis

into the new permanent mechanism. In practice this means that even if Greece has restructured its debt by the time the permanent mechanism comes into force (scheduled for 2013), its official creditors would be repaid in full and private creditors would bear any losses.

Finance ministers are the ultimate insiders. If they decide that they need to protect their own lending via a seniority clause, they are sending a clear signal to financial markets: buyers beware! It should thus be no surprise that risk premiums in the euro zone have shot up in response.

After all, a country has, on the asset side of its balance sheet, a (limited) capacity to service debt. Changing the composition of the liability side by making some claims senior to others will not change the market value of their total

debt. The outcome is clear: If official credits are made senior, the average cost of debt for the debtor country concerned will not fall when it receives official financing, since there will be a corresponding increase in the cost of its private financing.

This fundamental consideration implies that it will be futile to tinker with the existing stability mechanisms by increasing their funding, or by allowing them to directly buy government bonds, or even by providing liquidity assistance without stringent austerity programs. As long as official creditors insist on making their "liquidity" assistance safe by making it senior to private claims, they are making private claims junior. This implies that more official financing can only make private claims more junior, and thus make private financing more costly.

The same consideration applies to the debate about various forms of European bonds that has resurfaced recently. The idea, again, would be to lower the borrowing costs of debtor countries. All the proposals floating around Europe's capitals right now share one element: They would allow countries to issue "European" bonds backed by all member countries up to a certain level—for instance, up to 40% of GDP, as in the latest proposal by Italian Finance Minister Giulio Tremonti and Luxembourg Premier Jean-Claude Juncker. However, implicit in all these proposals is that these European bonds would be senior to private claims. This approach would thus run into the same problem as the stability mechanisms: The more euro bonds are issued, the more value is shaved off the existing overhang of private debt, meaning debtor countries will experience no relief in their borrowing costs.

Europe's policy makers need to make a choice: Either they accept risk and lend on equal footing as the private sector, or they insist on being senior creditors. But if they choose the latter option, they need to be prepared for the private sector refusing to provide any further financing at reasonable terms. This scenario would keep the crisis festering on, and governments would require ever-increasing amounts of official financing, much of it guaranteed by European taxpayers. As any economist will tell you, there is no more free money than there are free lunches.

Mr. Gros is director of the Centre for European Policy Studies.

Terror: The U.K.'s New Christmas Export

By DOUGLAS MURRAY

It is that time of the year again. And alongside all the familiar old traditions of carols, tinsel and unwanted gifts, comes a new tradition: Somewhere in the world a Muslim radicalized in Britain will try to blow up innocent men, women and children in a suicide mission.

That appears to have been the case of Taimur Abdulwahab al-Abdaly. Authorities believe the Iraqi-born Swede gained his extremist views while at university in Luton, England, before he headed to Stockholm and allegedly detonated the bombs that killed himself and injured two Christmas shoppers last Saturday. Sound at all familiar?

On Dec. 22, 2001, a British man named Richard Reid tried to bring down a commercial flight from Paris to Miami with bombs placed in his shoes. On Christmas Day the year before, a British man of Pakistani origin, Bilal Ahmed, is believed to have rung in the festive season by killing himself and several others in Kashmir with a bomb. And last year, while most British families were eating their turkey, it was the turn of Omar Farouk Abdulmutallab, formerly of University College London, to allegedly try to blow up a plane over Detroit with an explosive device concealed in his underpants.

For those of us who have been warning for years about the radicalization of Britain's young Muslims, this is all becoming deeply repetitive as well as depressing. When you warn about a particularly bad problem, far worse than being proved wrong is being proved right.

In 2007, my think tank, the Center for Social Cohesion, commissioned an investigation into Muslim students' activities and opinions. We monitored a range of British universities, and found a scene notable for its Islamist hate-preachers, highly divisive literature, and discussion groups where religious worship is hijacked by radical politicking. Our poll found that almost one third of British Muslim students believed that killing in the name of their religion could be justified. At the time, the government's then Higher Education minister, Bill Rammell, dismissed the findings, as did the National Union of Students.

This year we published a comprehensive list of the extremist speakers who appear, unchallenged, every week at British universities. These speakers have advocated suicide bombings, the murder of soldiers and innocent civilians, and the persecution of religious and sexual minorities in Britain. One such speaker, Anwar al-Awlaki (now the subject of a "kill or capture" order from

U.S. President Obama) was until last year an invited favorite at British universities' Islamic Societies. Last month Roshana Choudhry, previously a student at Kings College London, was convicted of attempted murder after

Sweden may change after its first suicide bombing; more urgently, things need to change in Britain.

stabbing Labour Parliamentarian Stephen Timms, who voted for the war in Iraq. She had been inspired, she told police, by Islamic scripture and by internet videos of al-Awlaki's sermons.

And still it goes on. Just last week, across the road from Kings College, the Palestine Society at the London School of Economics (LSE) hosted Abdel Bari Atwan. A man with a long track-record of extreme statements, just three years ago he said that "If the Iranian missiles strike Israel—by Allah, I will go to Trafalgar Square and dance with delight." He reportedly used his platform at LSE last week to tell Jewish students that they had "bombed Gaza" and to warn of the "Jewish lobby." His audience could also look to the example of Omar Sheikh, the illustri-

ous LSE graduate who in 2002 murdered Daniel Pearl, a reporter for this newspaper.

You might have thought that these and other incidents, repeated time and again, would wake up the British authorities. But they do not. When the University College of London, where Abdulmutallab was president of the Islamic Society, faced criticism after last year's botched Christmas Day bombing, it commissioned an investigation. The inquiry found "no evidence to suggest either that Umar Farouk Abdulmutallab was radicalized while a student at UCL or that conditions at UCL during that time or subsequently are conducive to the radicalization of students."

The friends and family of the suspected Swedish bomber certainly seem to blame Britain and its institutions. "There is no doubt that Taimur changed when he went to Britain," a former friend of al-Abdaly tells London's Telegraph, adding: "He would drink beer with his friends and go to nightclubs. He didn't care about politics or religion. . . . But then he went to England to study in 2001 and everything changed. When he came back he had grown a beard and he was very serious. He talked about Afghanistan and religion and did not want to hang out with his friends."

It's a story that is becoming as

familiar as the traditional nativity: ordinary young man goes to Britain, most likely to study, and comes out an Islamic extremist. If you had told Britons 20 years ago that this sort of thing was going to become routine in the 21st century, they would have laughed at you. But Britain is no longer the country it was.

Luton, where al-Abdaly went to university, is a demonstration of a fractured society, a society that cannot work. It is the home of, among other radical groups, al-Muhajiroun. Though banned, they still operate under numerous other names, stirring up hatred among Muslims as well as distrust towards Muslims by others. It was this group that protested in Luton last year at a homecoming parade for British troops, enraging non-Muslim locals and stoking the ire of the English Defence League.

Sweden's first suicide bombing might change things in that country. But more urgently, things need to change in Britain. "Stockholm syndrome" may have taken on a new meaning in the last few days. But the old meaning—where people become in thrall to their captors—remains the most suitable definition of what has happened to our erstwhile civic and political leadership.

Mr. Murray is the director of London's Center for Social Cohesion.

THE BIG READ

'Temporary' U.S. tax code puts Americans in lasting bind

Level of uncertainty complicates planning and discourages hiring and investment, economists and executives say

WELCOME to the world of the temporary tax code. In the late 1990s, there were typically fewer than a dozen tax provisions that had just a limited lease on life and needed to be renewed every year or so. Today there are 141. Now Congress, taking up a deal worked out be-

Washington

By John D. McKinnon, Gary Fields and Laura Saunders

tween the Obama administration and Republican leaders, is poised to turn the whole personal income-tax system into something of a temporary structure.

The plan embraces a broad range of provisions—an extension of Bush-era rates, a new estate-tax formula—but for only two years. A payroll-tax cut in the bill is for a single year. This means that if the compromise passes largely intact, the U.S. will have no permanent regime governing levies on salaries, capital gains and dividends, the Social Security tax, as well as a slew of targeted breaks for families, students and other groups. This on top of dozens of corporate-tax provisions that already were subject to annual renewal.

The level of uncertainty, unusual for developed nations, complicates planning and discourages hiring and investment, many

economists and corporate executives say.

"I haven't seen anything like it, and it's hard historically to find anything like" the current and pending negotiations, says Mortimer Caplin, an Internal Revenue Service commissioner in the Kennedy administration who at 94 is just three years younger than the income tax itself. "This Congress has left an awful lot up in the air." A vote to pass the tax deal in the Senate was expected on Tuesday or Wednesday; prospects for swift approval in the House remained cloudy but party leaders seem increasingly resigned to the measure clearing Congress intact.

The two-year expiration of the bill's main provisions on individual rates would occur just after the next presidential election, and few in Washington envision a long-term solution being crafted at such a charged time.

At the same time, the possibility of a sweeping tax-system revamp can itself add to the uncertainty, what with politicians increasingly ready to talk about this. President Barack Obama has lately, as has the deficit-reduction panel he appointed, including Republican members such as Rep. Dave Camp, future chairman of the House Ways and Means Committee. The possibility of an overhaul that would put on the table long-established credits and deductions could further uproot predictability.

This year has been something of a test case for tax uncertainty, with concern about what would happen when provisions adopted in 2001 and 2003 expired at year-end.

Sales of certain kinds of life insurance rose as families wrestled with the possibility that estate taxes would jump in 2011. With no assurance the 15% rate on dividend income would last past 2010, Kraft Foods Inc., Exelon Corp. and Altria Group Inc. asked their shareholders to contact Congress in opposition to an increase. Stocks of utilities, which traditionally pay high dividends, appeared to factor in the possibility of a rise in the dividend tax rate in 2011, analysts said.

At **Incobrasa Industries Ltd.**, a producer of biodiesel in Gilman, Ill., sales manager Douglas Santos has been waiting to see what happens to an expired tax subsidy for his industry. He is running at 25% capacity, versus 100% in 2008. Mr. Santos wants Congress to make up its mind one way or the other. "Just do something," he says. The bill before Congress would restore the subsidy.

Economic research has shown businesses tend to be more reluctant to invest when they perceive high levels of uncertainty about various things, including over taxes. The pressure on policy makers to narrow the budget deficit, not merely sim-

plify the tax system, further muddies the waters now, says Massachusetts Institute of Technology tax economist James Poterba, who finds "the crystal ball...particularly unclear at the moment."

Some call the worries exaggerated. "I truly do believe the concerns expressed over tax uncertainty are truly overblown," says Martin Sullivan, an economist with Tax Analysts, a nonprofit tax publisher, who sees today's situation as quite manageable compared with the profound business uncertainty companies faced during the financial crisis.

"We're used to [uncertainty] in the tax world," he says. "What's changed in the last few years is the size of the temporary extensions."

Obama administration officials note that the tax code has been through gyrations before, for example in the 1980s, when Congress adopted accelerated depreciation in 1981, only to repeal it five years later. That threw real-estate markets into an uproar and added to problems that contributed to the savings-and-loan collapse.

The White House says the current confusion points to the need for a system that is more stable and simpler. "We've got to have a larger debate about...how is this country going to win the economic competition of the 21st century," President Obama said last week. "That's going to

Important 'extenders' | Provisions that need to be renewed regularly

- Protection from alternative minimum tax
- Enhanced charitable deductions for business
- Business research credit
- Ethanol subsidies
- Biodiesel incentives
- Faster depreciation for business investments
- Tax deferral of overseas financing income
- Expensing of 'brownfields' remediation
- Charitable donation of IRA assets



■ Deductibility of state and local sales taxes

Catherine McGraw, center, waits to check out at a J.C. Penney store in Mentor, Ohio.

THE BIG READ

mean looking at the tax code and saying, what's fair, what's efficient? And I don't think anybody thinks the tax code right now is fair or efficient."

Small business is often looked to as a source of job growth. But the latest monthly survey by the National Federation of Independent Business, a small-business advocacy group, found that 75% of owners felt it wasn't a good time to expand, and one in five said the main reason was doubt about policy environment, including taxes.

For smaller companies, tax uncertainty could be an incentive to expand overseas rather than in the U.S., according to Tom Duesterberg, president of the Manufacturers Alliance, a group representing medium-size firms. Companies "can't wait until all these [tax] questions are resolved," he says. "They are not going to wait until all that definitively happens. They have to deploy cash, please their shareholders and expand and grow."

Billy Hoffpauir, a developer in Lafayette, La., says he has been trying to sell some real estate because "with the current uncertainty, I am unable to quantify the risk to make long-term investment decisions." If he finds buyers, he says, he would be likely to plow the cash into "other interests, probably overseas," because some foreign countries have more favorable taxes and regulations. The tax situation is the overwhelming driver in his business decisions, Mr. Hoffpauir says.

Lea Bailes, president of **Guier Fence** in Blue Springs, Mo., says his plans for next year depend on how the tax debate turns out: "We're looking at acquiring a couple of smaller fence companies. The number we acquire, honestly, will depend on what we have to pay in tax."

The company, which employs about 70, would try to hire two to three new workers for each acquisition, possibly 10 in all. "If everybody our size can add 10 employees, we'd be a lot farther down the road in dealing with the unemployment," Mr. Bailes says.

Guier is in the process of acquiring another firm now, and while Mr. Bailes likes to take time to make such decisions, he

worries that concern over a possible rise in capital-gains rates might make the seller push to complete the sale this year. The bill in Congress would keep the current 15% top rate for two years.

One reason unsettled rules on individual income taxes affect planning at small businesses is that many don't pay corporate tax, but pass business income through to the owners for taxation on their personal returns.

Bill Wiygul, whose family owns four auto-repair businesses in northern Virginia, estimates he and his wife would pay at least \$20,000 more in various taxes in 2011 if Congress doesn't address parts of the code, including the Alternative Minimum Tax. The AMT snags a growing number of filers each year, and while Congress regularly limits the number affected—and likely will do so again this week or next—this has so far been an AMT "patch," never a permanent fix.

Mr. Wiygul says he would trade an increase in tax rates for greater certainty if the pain was shared by all. "We are petrified," he says. "We would be more actively pursuing expansion opportunities if we felt like the climate was more certain."

Large multinationals are only marginally affected directly by income-tax provisions on the table this year. Yet the stakes might be high for these companies. Executives worry about becoming a target for lawmakers seeking revenue to narrow deficits.

If a broad revision "is a true 'step back, let's take a fresh look,' we would not be frightened by that," says Ken Cohen, a vice president at Exxon Mobil Corp. But if it pits industry versus industry or becomes a hunt for revenue, "that's the process we would have much more apprehension about."

The reasons the tax code has acquired

an increasingly temporary cast have to do with deficits, a divided Congress and even the constitutional system.

Political division contributes because of the daunting task of mustering a filibuster-proof 60 votes in the Senate. Legislative shepherds of the Bush cuts resorted to passage under what is called "budget reconciliation," requiring only a majority vote. But a measure passed this way can't be for longer than the budget that authorizes it, in this case 10 years. Hence the provisions expire in 2010.

Such an outcome is less likely in countries with parliamentary systems because these leave the government less subject to having its will thwarted by a large minority. "Very few countries have tax provisions that expire unless legislative action is taken," says Jeffrey Owens, head of tax at the Organization for Economic Cooperation and Development in Paris. "Also, in most OECD countries, it's the government that initiates new legisla-

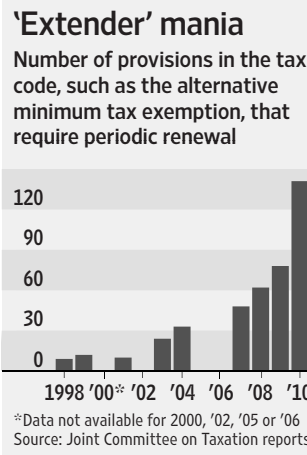
tion, and once proposed the legislation generally passes."

Deficits tempt legislators to give tax provisions a temporary term to disguise their cost. For proponents of a new tax provision, the strategy is to get a foot in the door by passing it for a year or two, at a seemingly affordable cost, intending to renew it regularly.

That is how the number of provisions up for yearly extension has ballooned. Though the provisions are often extended in a bundle, a given provision's inclusion in the bundle is never certain.

Perhaps nowhere has tax uncertainty been felt more intensely this year than in the estate tax, always a controversial matter.

A 2001 law lowered its rate and increased the exemption in steps, with the tax lapsing in 2010 and then, unless Con-



gress acts, returning in 2011 at a 55% top rate on estates of \$1 million or more. The unusual hiatus coupled with a far more costly tax as soon as 2010 ended gave "just an unbelievable Alice-in-Wonderland aspect" to planning for certain well-to-do families, says Bruce Stone, a Miami-area estate lawyer.

Sales of a life-insurance policy commonly used for estate planning rose 22% in the first nine months from a year earlier, and their death-benefit coverage was up 30%. Though the policies can also be used for other purposes, part of the jump seemed clearly to be for hedging against the possible estate-tax jump in 2011.

In a few cases, the uncertainty drove people to ponder extreme measures to avoid a tax hit for heirs.

David Drouhard, a Washington state farmer who is 56, received a diagnosis of advanced kidney cancer 14 months ago and faced a grim set of treatment choices. Most offered little chance of extending his life more than 18 months, although an immunity-boosting drug held out some hope. Mr. Drouhard says he worried that inaction on the estate tax would force his family to sell his wheat and alfalfa farm, now valued at about \$3 million, to pay taxes if he died in 2011.

After much deliberation, Mr. Drouhard decided to take the immunity-boosting drug, but with a caveat: "I said, 'If we don't see results from the first series [of treatments], I'm going to stop,'" he says. "I try to take care of my family, so why not go ahead and die instead of living another six months." He has responded well to the treatment, but adds: "I think it's wrong that you have to make that kind of decision."

The compromise Congress is weighing this week would set a top estate-tax rate at 35% and the exemption at \$5 million.

But this would be for just two years. Just as this year, a failure by Congress to act then would cause the tax to then revert to a top 55% rate and \$1 million exemption, in this case in 2013.

—Leslie Scism
contributed to this article.

The plan embraces a broad range of provisions, but for only two years. A payroll-tax cut in the bill is for a single year. This means that if the compromise passes intact, the U.S. will have no permanent regime governing levies on salaries, capital gains and dividends, the Social Security tax, as well as a targeted breaks for families, students and other groups.



Stacy Ressler, a teacher in Wernersville, Pa., organizes classroom supplies she purchased.

Associated Press

FORMU

A spectacular season with a fairy tale finale

Red Bull Racing and Germany's Vettel conquer their competitors after a stumbling start and assorted mishaps along the way

With the youngest ever world champion, an unprecedented four-way title fight at the final round and the largest ever audiences watching on television, Formula 1 delivered what many believe was its greatest ever season in 2010.

Six different drivers led the points standings at various stages of the 19-race campaign, and the eventual champion, Germany's 23-year-old Sebastian Vettel, only moved to the top of the order on the season's final day, in Abu Dhabi, Nov. 14.

Yet what is truly remarkable about 2010 being so exciting was that the title winner Red Bull Racing, based in Milton Keynes, in the U.K., had produced such a dominantly fast car. The Renault-powered RB6 was pretty much unbeatable in single-lap pace, with Mr. Vettel and his Australian teammate Mark Webber taking pole position in 15 of the 19 races, equaling records set by McLaren in 1988 and 1989, and Williams in 1992 and 1993.

What ignited the campaign was Red Bull Racing's rocky start and its inability to turn its qualifying form into hard race results — as all through the year a mixture of poor reliability and driver error hampered its quest toward the title.

Had the team matched its qualifying results in the race, it would have sealed the drivers' championship by the Belgian Grand Prix in August — a full six races before Mr. Vettel was eventually crowned winner in Abu Dhabi.

Red Bull Racing's stumbles began at the first races of the campaign in Bahrain and Australia. Mr. Vettel qualified on pole position at both events and led early on, but both times factors outside his control robbed him of the wins. In Bahrain, Ferrari's Fernando Alonso won after Mr.

Vettel was slowed with a faulty spark plug, while in Australia, Jenson Button triumphed after Mr. Vettel spun out the race when a wheel nut came loose.

In Malaysia, though, Red Bull Racing did produce what it had been threatening to do all along. Mr. Vettel led home Mr. Webber for a dominant one-two finish, before Mr. Button once again got it perfectly right in changeable conditions in China to take his second win of the season.

Red Bull Racing moved things up a gear at the start of the European season, as it delivered one-two results in the Spanish and Monaco Grands Prix. However, it was not Mr. Vettel who came out on top — Mr. Webber proved faultless to show that he was a genuine title threat.

Cracks in the chassis

Mr. Vettel appeared deeply frustrated at being outclassed on consecutive weekends and, following post-race investigations in Monaco, small cracks were discovered in his car's chassis. The handling problems caused by those faults went some way to explain why he struggled so much.

For the following race in Turkey, Mr. Vettel was given a different chassis and was left under no illusions that he had to overtake his teammate that weekend. But it was Mr. Webber who led the way in qualifying and seemed set for victory in the closing stages as he held a comfortable margin over Mr. Vettel.

Mr. Webber's fuel consumption in the early stages of the race had been high, though, and to ensure he had enough fuel to make the finish, he was asked to turn his engine down.

Mr. Vettel, who had driven more conservatively in the opening stages of the race, had another lap at full power — and



Red Bull Racing's winning performance moved up a gear at the start of the European season, as it delivered

realized this would offer him his best chance to take the lead.

He seized the opportunity to try and move past 18 laps from home, but Mr. Webber did not concede the position and the pair collided. Mr. Vettel crashed out on the spot while Mr. Webber recovered to finish third behind Mr. Hamilton and Mr. Button.

Red Bull Racing's troubles had only just started though, for worse than the lost win and points was the political fallout it caused. Team management initially blamed Mr. Webber for the crash, even though Mr. Vettel had steered into his teammate, causing uproar among fans and the media.

The affair brought about suggestions that Red Bull's senior management was privately favoring Mr. Vettel — and the controversy erupted publicly a few races later in Silverstone, in the U.K., when the team fitted a new, faster front-wing to Mr. Vettel's car, having taken it off Mr. Webber's shortly before qualifying.

A furious Mr. Webber spoke out against the team and in the race, with emotions

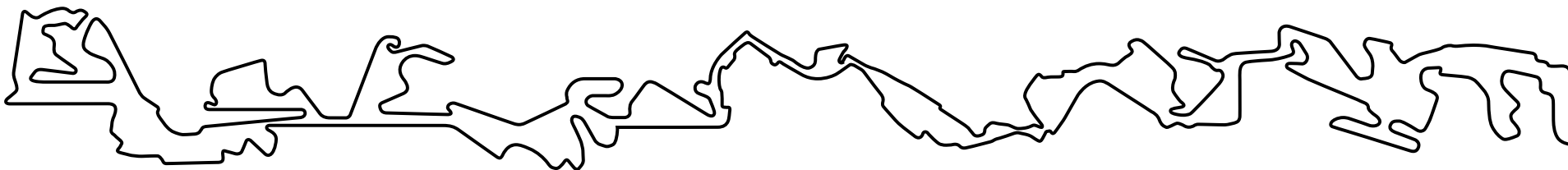
running high, he overtook his teammate on the run to the first corner as he blasted away for another win — as Mr. Vettel suffered a puncture following a minor collision with Mr. Hamilton and came home in seventh place. Afterward, Mr. Webber sarcastically told his team over the radio: "Not bad for a number 2."

Defiant Ferrari

Team favoritism was the major talking point of the paddock at the following race in Germany when Ferrari decided that the only way it was going to threaten Red Bull Racing in the title was to throw all its weight behind Fernando Alonso.

In the race, it controversially ordered Felipe Massa to sacrifice the race win for his teammate — breaking rules banning team orders and earning a \$100,000 (€75,000) fine in the process.

Ferrari was defiant about its actions, as the win had got Mr. Alonso back in the title fight. And, as Mr. Vettel faced further troubles in Hungary (earning a drive-through for breaking the safety car regulations),



Advertising Section

LA ONE



DIMITAR DILKOFF/AFP/Getty Images

one-two results in the Spanish and Monaco Grands Prix.

and Belgium (crashing into Mr. Button), Mr. Alonso soon hit a purple patch that hauled him to the front of the standings.

The Spaniard won in Italy and Singapore and, although no match for Red Bull Racing's dominant car in Japan, he appeared to have moved a major step closer to taking the crown in South Korea when Mr. Vettel retired from the lead with an engine failure in the late stages.

A podium finish in Brazil was enough for Mr. Alonso to hold the championship lead heading to the finale in Abu Dhabi, where the odds were heavily stacked in his favor to take the crown.

Yet his Ferrari team got it badly wrong — making an early stop for tires to try and not lose track position to Mr. Webber. In making that choice Mr. Alonso found himself trapped behind slower cars and he was unable to move up the order on a track where overtaking was almost impossible.

That Ferrari blunder left the way clear for Mr. Vettel to hold off a determined Mr. Hamilton to take a crucial win that handed him the title by just four points.

2010 Formula 1 World Championship standings

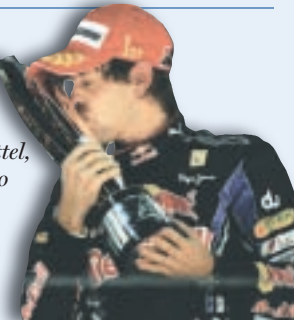
Drivers

Position	Driver	Points
1	Vettel	256
2	Alonso	252
3	Webber	242
4	Hamilton	240
5	Button	214
6	Massa	144
7	Rosberg	142
8	Kubica	136
9	Schumacher	72
10	Barrichello	47
11	Sutil	47
12	Kobayashi	32
13	Petrov	27
14	Hulkenberg	22
15	Liuzzi	21
16	Buemi	8
17	De la Rosa	6
18	Heidfeld	6
19	Alguersuari	5

Constructors

Position	Constructor	Points
1	Red Bull-Renault	498
2	McLaren-Mercedes	454
3	Ferrari	396
4	Mercedes	214
5	Renault	163
6	Williams-Cosworth	69
7	Force India-Mercedes	68
8	Sauber-Ferrari	44
9	Toro Rosso-Ferrari	13

This year's champion, Sebastian Vettel, only moved to the top of the order on the final day of the season.



FRED DUFOUR/AFP/Getty Images

Next year's campaign will be driven by new technology

Formula 1 is going to have a tough act to follow next year if it is to beat the excitement of its epic 2010 season, but there is little reason to believe that things will not be just as close when the cars hit the track again for the first race of the season in Bahrain on March 13.

The 61-year-old sport is filled with examples of how short-lived success can be — only eight drivers managed to successfully defend a title. So as Sebastian Vettel became the youngest ever champion, his Red Bull Racing team will be aware that there are no guarantees.

Rivals will be licking their wounds after seeing Red Bull Racing, based in Milton Keynes, in the U.K., secure pole position in 15 of the 19 races in 2010. In particular, its closest challengers McLaren and Ferrari will be focusing this winter on making amends for the mistakes they made either with their cars or strategy to come back even stronger in 2011.

For the teams so central to the championship battle, this winter is one of the rare ones when they are not having to get used to new drivers. That means that there will be much more time to knuckle down and sort out an action plan for the campaign ahead.

Instead, the biggest changes for 2011 will be on the technical front — with new aerodynamic regulations and all-new tires coming into play.

In a bid to boost overtaking, teams have agreed to introduce moveable rear wings for 2011. With fans and F1 drivers having expressed frustration at how difficult it is for a quicker car to overtake a slower rival, teams hope that the new designs will maximize opportunities to make more of a spectacle next year.

The designs and rules governing the wing's use will be tweaked over the winter, but the basic concept is that if a driver gets within a certain distance of the car ahead of him, he will be able to activate his moveable rear wing — which



GETTY IMAGES/Andrew Hone

One of the biggest changes for the teams will be the arrival of Pirelli as the new tire supplier.

will reduce drag and give him the straight line boost he needs to get past his rival.

To further increase the chances of overtaking, F1 is seeing the return of hybrid technology, with teams agreeing that they can run Kinetic Energy Recovery Systems (KERS) once again after they all decided not to race with them last year.

The KERS unit stores up previously wasted energy that is generated when a car brakes — and that electric power can then be used when the driver needs it for a straight-line speed boost further around a lap.

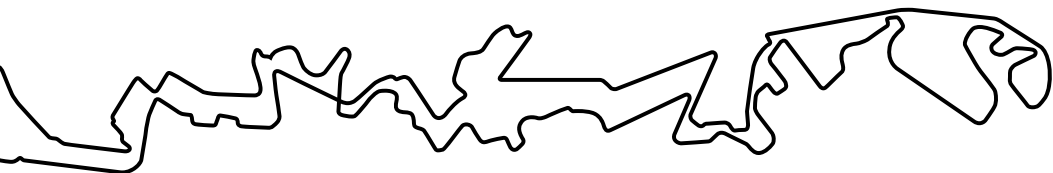
One of the biggest changes for the teams, though, will be the arrival of Pirelli as a new tire supplier, following the decision of Bridgestone to withdraw from the sport at the end of last year.

Pirelli has not been involved in F1 since the early 1990s, and it has promised to be aggressive in its tire choice so that drivers and teams face big challenges in looking after their rubber — which should help make the races more exciting.

F1 will also be breaking new ground next year when it holds its first Indian Grand Prix at a new track near New Delhi.

Interest in the region has been rising following the arrival of the Force India team at the start of the 2008 season.

The text of this Special Advertising Section was written by Jonathan Noble



The race is won. The race is *on*.

The moment the last chequered flag of the season falls, the next race begins.

The race to be ready for 2011.

The race to be better than 2010.

New rules, new tracks, new cars and many new faces.

This refusal to stand still is why we like Formula 1™. It's why we're in it.

It's why we look forward to 2011.

Until then...

We will not rest



ubs.com/f1

MARKETS LINEUP

Moving the markets

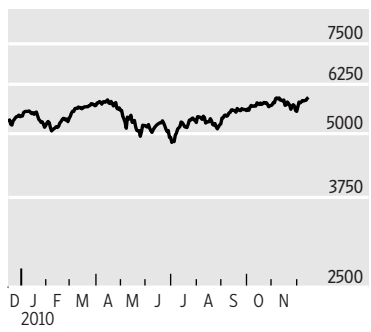
At right, Europe's benchmark stock indexes and stocks Tuesday. Below each index are its most actively traded stocks. The charts show the percentage change in each index's or stock's value, rather than the point change, for purposes of comparison. The index level or stock price is indicated on each axis. All indexes and stocks are shown in local currency terms.

European indexes...

FTSE 100

U.K. 5891.21
▲ 0.52% or 30.46

The index rose for a fourth straight session, reaching its highest closing level since June 2008, as it was buoyed by upbeat economic news from the U.S.

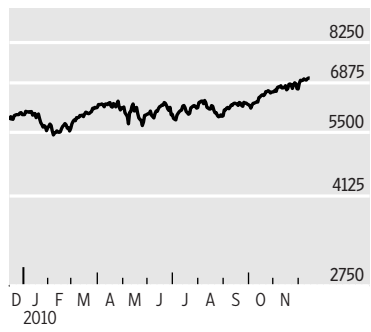


Stock	Volume in millions	Close In pence	Change Net	Change %
Lloyds Banking Grp	98.19	69.34	0.52	0.76
VodafoneGp	75.21	169.50	0.95	0.56
RoyalBnkofScot	65.45	41.34	-0.48	-1.15
BP	62.48	473.10	14.75	3.22
Barclays	34.18	272.00	-1.30	-0.48

DAX

Germany 7027.40
▼ 0.03% or 1.99

The market struggled to find direction as investors awaited news from a Federal Reserve meeting in the U.S. after the close. The loss followed two days of gains.

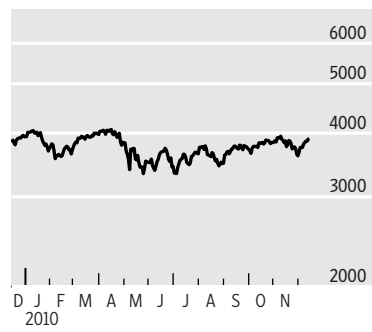


Stock	Volume in millions	Close In euro	Change Net	Change %
InfineonTch	13.63	7.04	-0.15	-2.03
DeutscheTel	11.36	9.88	0.04	0.38
E.ON	6.44	22.90	0.10	0.44
DeutscheBk	5.27	40.17	0.11	0.26
Commerzbank	4.22	5.90	-0.01	-0.17

CAC-40

France 3902.87
▲ 0.27% or 10.43

The index has risen five of the last six trading days. Suez Environnement was the best-performing stock, rising 3.2% after a brokerage upgrade.



Stock	Volume in millions	Close In euro	Change Net	Change %
Alcatel Lucent	15.66	2.286	-0.019	-0.82
AXA	8.49	12.825	-0.025	-0.19
ArcelorMittal	7.24	27.600	-0.330	-1.18
Total	6.46	40.090	0.325	0.82
FrTelecom	5.43	16.050	0.050	0.31

PSI-20

Portugal 7970.04
▼ 0.74% or 59.73

Doubts reemerged regarding fiscally weaker euro-zone countries' ability to handle their debts. Yield premiums on their debt widened over Germany for a second day.



Stock	Volume in millions	Close In euro	Change Net	Change %
BCP	12.07	0.632	0.003	0.48
EnerDePortugal	9.75	2.607	-0.073	-2.72
Portugal Telecom	3.04	10.155	unch.	...
Edp Renovaveis	1.78	4.355	-0.084	-1.89
BcoEspiritoSto	1.61	3.043	-0.016	-0.52

WSJ.com

Follow the markets throughout the day, with updated stock quotes, news and commentary at WSJ.com.

Also, receive emails that summarize the day's trading in Europe and Asia. To sign up, go to WSJ.com/Email.

European stocks in the news

Iliad

France €84.00
▲ 2.8% or €2.30

The provider of fixed-line phone service launched an offer that includes free calls to cell phones.



Price-to-earnings ratio	17
Earnings per share, past four quarters	5.08
Dividend yield	0.44%
PERCENTAGE CHANGE	
	Daily 1 wk 52 wks
Technology	0.2% 0.8% 8.6%
Iliad	2.8% 6.7% 4.1%

Suez Environ

France €15.35
▲ 3.2% or €0.47

Deutsche Bank upgraded the stock to "buy" from "hold."

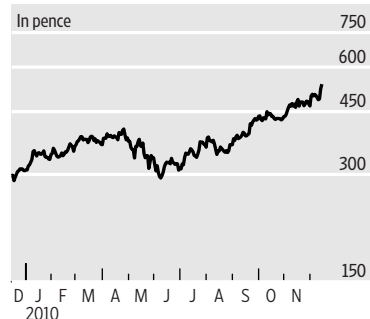


Price-to-earnings ratio	12
Earnings per share, past four quarters	1.26
Dividend yield	4.24%
PERCENTAGE CHANGE	
	Daily 1 wk 52 wks
Utilities	0.3% 2.7% -13.1%
Suez Environ	3.2% 9.3% -7.8%

John Wood Grp

United Kingdom 537.50 pence
▲ 3.2% or 16.50 pence

UBS raised its price target on John Wood after it agreed to buy oil-services firm PSN.



Price-to-earnings ratio	30
Earnings per share, past four quarters	17.93
Dividend yield	1.24%
PERCENTAGE CHANGE	
	Daily 1 wk 52 wks
Oil & Gas	1.0% 2.9% -1.7%
John Wood Grp	3.2% 7.5% 80.7%

BP

United Kingdom 473.10 pence
▲ 3.2% or 14.75 pence

The firm will sell energy assets in Pakistan. Credit Suisse raised its oil-price forecast.



Price-to-earnings ratio	None
Earnings per share, past four quarters	-16.87
Dividend yield	1.90%
PERCENTAGE CHANGE	
	Daily 1 wk 52 wks
Oil & Gas	1.0% 2.9% -1.7%
BP	3.2% 4.0% -18.3%

Mediaset

Italy €4.64
▲ 3.3% or €0.15

The firm is controlled by the family of Italy's prime minister, who won a no-confidence vote.



Price-to-earnings ratio	15
Earnings per share, past four quarters	0.30
Dividend yield	4.74%
PERCENTAGE CHANGE	
	Daily 1 wk 52 wks
Media	-0.2% 1.3% 8.2%
Mediaset	3.3% 4.7% -15.5%

ThyssenKrupp

Germany €31.16
▼ 1.5% or €0.48

Investors took profits. The stock had gained 29% from Oct. 1 through Monday's close.



Price-to-earnings ratio	18
Earnings per share, past four quarters	1.77
Dividend yield	1.44%
PERCENTAGE CHANGE	
	Daily 1 wk 52 wks
Indus Gds & Svcs	0.5% 0.8% 26.5%
ThyssenKrupp	-1.5% -1.3% 25.2%

Norsk Hydro ASA

Norway NOK39.41
▼ 1.8% or NOK0.74

The company said its purchase of aluminum assets from Brazil's Vale has been delayed.

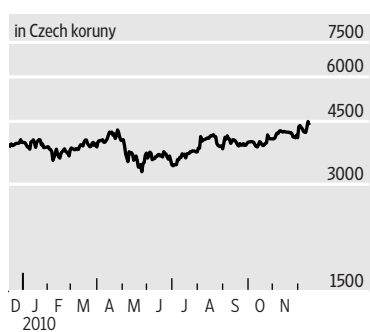


Price-to-earnings ratio	74
Earnings per share, past four quarters	0.53
Dividend yield	1.17%
PERCENTAGE CHANGE	
	Daily 1 wk 52 wks
Basic Resources	-0.6% 0.4% 21.2%
Norsk Hydro ASA	-1.8% 0.4% -8.3%

Komerční Banka

Czech Republic 4,396.00 Czech koruny
▼ 2.1% or 101.00 Czech koruny

The bank fell on concern about its exposure to euro-zone debt.



Price-to-earnings ratio	13
Earnings per share, past four quarters	329.68
Dividend yield	3.87%
PERCENTAGE CHANGE	
	Daily 1 wk 52 wks
Banks	0.4% 3.0% -13.6%
Komerční Banka	-2.1% 4.2% 15.7%

EDP-Energias de Portugal

Portugal €2.61
▼ 2.7% or €0.07

The Portuguese state holding company Parpublica said it will try again to sell part of the company.



Price-to-earnings ratio	9
Earnings per share, past four quarters	0.29
Dividend yield	6.14%
PERCENTAGE CHANGE	
	Daily 1 wk 52 wks
Utilities	0.3% 2.7% -13.1%
EDP-Energias de Portugal	-2.7% 2.0% -15.7%

Whitbread

United Kingdom 1,740.00 pence
▼ 2.8% or 50.00 pence

Panmure Gordon cut the hotel and restaurant firm to "hold" although it posted strong profit growth.



Price-to-earnings ratio	15
Earnings per share, past four quarters	116.34
Dividend yield	2.28%
PERCENTAGE CHANGE	
	Daily 1 wk 52 wks
Travel & Leisure	-0.5% -0.4% 12.9%
Whitbread	-2.8% -3.6% 25.5%



Qantas is confident Rolls-Royce can find fix for engine problem

BUSINESS & FINANCE 23

Goldman's bad gamble with the Betfair IPO

HEARD ON THE STREET 22

BUSINESS & FINANCE.

Wednesday, December 15, 2010

THE WALL STREET JOURNAL.

europe.WSJ.com

Investors weigh plan for Lehman

By JOSEPH CHECKLER

A group of investors including hedge-fund manager **Paulson & Co.** is weighing a competing reorganization plan for **Lehman Brothers Holdings Inc.** that would provide a better recovery to creditors of the original Lehman parent company while offering a smaller payout to some creditors of Lehman subsidiaries, according to a person familiar with the investors' thinking.

The plan, which counters the proposal put forth by Lehman, could be filed as early as this week in the U.S. Bankruptcy Court in Manhattan, the person said. It is possible the filing could come later or could be scrapped.

The group, which calls itself the ad hoc group of Lehman Brothers creditors, counts among its members bondholders such as hedge-fund managers Paulson, led by John Paulson, and **Perry Capital**, as well as pension funds including the **California Public Employees' Retirement System**.

Together, the group of 10 members is owed some \$9.5 billion from Lehman's holding company, plus \$3 billion from other Lehman entities, according to the person familiar with the matter. Lehman is distributing about \$57.5 billion in assets in its plan's current iteration.

Lehman's plan calls for senior bondholders to get about 17.4 cents on the dollar for their claims, while the creditors' plan would fetch them more. Foreign creditors and others would see a drop in their recoveries under the group's plan. The person familiar with the competing plan said this is a "fairer" plan. A Paulson spokesman declined to comment.

The group in June said in a bankruptcy-court filing that Lehman's plan to establish a "pot of assets" to pay back creditors was "seriously flawed," particularly in the way it handles intercompany claims between Lehman businesses. That plan, they said, could allow for double recovery, or a "double dip," for certain Lehman creditors.

In April, Lehman unveiled details of its plan to pay back creditors some of the estimated \$1 trillion in claims filed against the investment bank in the largest bankruptcy case in U.S. history. Lehman Chief Executive Bryan Marsal, head of restructuring firm Alvarez & Marsal, said in September that the company hopes to file an updated plan by year's end.

Mr. Marsal said in a statement emailed Tuesday, "We try to be thoughtful and listen to the position or concerns of each creditor constituency. In order to reduce the amount of in-court fighting among

Please turn to page 28

Google dealt a setback in France

By MAX COLCHESTER AND RUTH BENDER

PARIS—France's antitrust watchdog said it found that **Google Inc.** had a dominant position in the local Internet-search-advertising market, a result that could make Google vulnerable to lawsuits in France and adds to the Silicon Valley company's mounting problems in Europe.

The decision by Autorité de la Concurrence—which follows a request by the French government to investigate Google's position in the country's online-ad market—comes two weeks after the European Commission launched a separate antitrust inquiry into Google's advertising and search business.

Google disagreed with the watchdog's decision, saying that advertisers have various ways—not only online, but also in traditional spaces such as magazines or billboards—to make their products visible to consumers. "Advertisers can and do switch to other formats, both online and offline. That's the sign of a competitive and dynamic industry," Google said.

In its decision, the French antitrust watchdog said Internet-search ads target consumers in a way that no other advertising can and, therefore, should be considered a market in itself. It said Google dominates this market in France, with 90% of Internet searches in the country made using its search engine.

The watchdog made clear that Google hadn't abused its dominant



Hachette Livre's Arnaud Nourry, left, with Google's Dan Clancy, on Nov. 17 as the companies agreed to make books available online.

French connection | Google struck recent deals in France amid heightened scrutiny

Oct. 28

Google agreed to change its policy toward advertisers in order to settle charges from French company Navx that it was unfairly banned from Google's AdWords.

Nov. 17

Google reached a preliminary agreement with French publisher Hachette Livre to make thousands of out-of-print books available to Internet users, pictured above.

Nov. 25

Google's YouTube signed an agreement with three French royalty-collecting societies to pay artists when their works are shown on the video-sharing website.

position. However, it listed a number of potential problems stemming from Google's leading position.

The authority said it was wor-

ried that advertisers who buy key search words on Google may face restrictions in transferring their ads to other search engines. It also said

it was concerned that Google might lock content owners, such as libraries, into long-term contracts, effective-

Please turn to page 24

GM tries to curb its addiction to debt

By SHARON TERLEP

General Motors Co.'s finance chief is engineering a radical shift in the car maker's strategy—to pay off virtually all its borrowing in a few years and keep debt at close to nothing.

GM, like many industrial companies, long operated its business with billions of dollars in borrowed money. But its high debt was among the problems that landed the company in a U.S.-funded bankruptcy reorganization last year when car sales slumped.

Now, new managers from outside the industry are rethinking how GM operates, including its addiction to debt.

Chris Liddell, a former **Microsoft Corp.** chief financial officer who joined GM in January, surprised investors when pitching the company's initial public stock offering this fall by promising GM would pay off more than \$20 billion in debt and pension obligations. GM, he said, would hold only a token amount of debt—mainly to maintain a credit rating—for the long term.

That would be a dramatic depar-



Finance chief Chris Liddell, shown last month, aims to pay off \$20 billion.

ture for GM, which like its Detroit rivals has long carried a large debt load to help finance the business as the car industry goes through its periodic downturns. Debt also reaps certain tax benefits that GM's move will leave on the table.

Many companies and the analysts who follow them consider debt a valuable business tool. Leveraging a well-run company's high credit

rating by selling bonds is a long-established way to fund a business.

But GM is in a peculiar situation. Debt is what helped sink the company and now—as it has returned to the stock market—it needs to prove it is being run in a more prudent fashion.

"The new GM is trying to be the new GM," said Gimme Credit analyst Kimberly Noland. Over the long

term she foresees GM needing to return to borrowing.

In 2006, **Ford Motor Co.** borrowed close to \$25 billion to pay for its future operations. Ford looked smart after the economic crisis prompted banks to cut off funding to car companies. But now, Ford is faced with far more debt than GM and has been working to pay it down.

Meanwhile, a low-debt approach by **Toyota Motor Corp.** helped the Japanese company continue to pump money into vehicle development last year even as it faced its worst financial performance in history.

Still, GM's plan carries risks. Should the car market again falter, GM may not be able to keep funding new vehicles and other investments through current earnings alone.

Standard and Poor's credit analyst Robert Schulz said the goal of maintaining capital spending without debt is achievable as long as GM continues to generate cash in its key North American business. Mr. Schulz said it is "not unrealistic" that GM would meet its goal of nearly eliminating debt in the next few years.

Please turn to page 28

HEARD ON THE STREET

Email: heard@wsj.com

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Fed's medicine could worsen disease

"Am I part of the cure, or am I part of the disease?" Coldplay's lyrics might just as easily emerge from Ben Bernanke's lips these days.

Tuesday, as expected, the Federal Reserve reiterated its bond-buying pledge. That likely will keep investors drooling over the potential for strong growth and stock-market gains next year. Yet that very optimism threatens to undermine the central bank chairman's ability to reflate the economy.

The latest trouble is emanating from bond markets, whose forward-looking nature typically provides the economy with "automatic stabilizers." That is, when growth looks weaker, long Treasury yields fall. That, in turn, makes mortgages cheaper, underpinning house prices, encouraging refinancing and equity withdrawal, and helping to boost consumer spending.

Now, that positive feedback loop threatens to work in reverse. Sharply higher expectations for growth have

helped lift 10-year bond yields from about 2.4% to more than 3.4% in the past three months, causing mortgage rates to also jump. That comes right as the housing market, which remains the Achilles' heel of the U.S. economy, risks a second leg down with prices falling anew.

Sharply higher expectations for growth helped lift 10-year bond yields, causing mortgage rates to jump.

The circumstances that preceded this summer's economic "soft patch" now look eerily familiar. The stock market was on a steady winning streak, the yield on 10-year Treasury notes hit nearly 4% and onlookers were heckling the Fed to tighten monetary policy already, lest it risk an inflationary outbreak.

It isn't easy to draw a direct line between the cause and effect of what happened next. After all, Europe's sovereign-debt crisis spooked investors at the same time as things took a turn for the worse in the U.S.

Today, Europe's challenges, and a host of other worries, remain unresolved. Among the questions: Will the euro survive? Will bondholders be forced to take a haircut on bank or sovereign debt overseas or in the \$2.8 trillion municipal-bond market in the U.S.? Will real-estate weakness trigger a fresh round of losses? Spending by the Fed and government is helping to paper over some of these tensions. But the Fed's actions, \$900 billion total of quantitative easing and other purchases to replace mortgage-backed debt rolling off its balance sheet, also is sending interest rates higher. That could undercut efforts aimed at boosting the economy.

All this suggests the market looks vulnerable to another sudden rever-

Destabilizing

Yield on the 10-year Treasury note



Source: Ryan ALM via WSJ Market Data Group

sal. If the economy doesn't respond as hoped to Fed and government actions, or another crisis develops overseas, policy makers have limited firepower left at this point. No wonder Mr. Bernanke was sweating on "60 Minutes" the other night.

—Kelly Evans

ISS provides private equity a clean break

Five years ago, **Goldman Sachs Group** and **EQT Partners** literally took their investors to the cleaners.

The Wall Street bank's private-equity arm and the Swedish buyout firm acquired Danish cleaning-and-outsourcing company **ISS Holding** in May 2005 for \$5.4 billion, in what was then one of Europe's largest leveraged buyouts. Now, they are discussing a possible sale to **Apax Partners** for \$8.5 billion, a move that would double their money. But the biggest obstacle is likely to be whether Apax can find enough equity, rather than secure the debt for the deal.

ISS still carries a heavy debt load, up from about \$4 billion at the time of the original buyout to closer to \$5.5 billion, equivalent to 6.5 times 2009 earnings before interest, taxes, depreciation and amortization, or Ebitda. But since 2005, ISS has made more than 320 acquisitions, in the process doubling revenue and increasing Ebitda by 65%. That has boosted the value of Goldman and EQT's equity. Assuming a sale at \$8.5 billion, the deal will have delivered annualized returns of roughly 15%. That isn't bad, given the intervening financial crisis.

But ISS still is an attractive private-equity target. Its new owners should face little trouble refinancing the debt, given bondholders and banks already are comfortable with ISS's credit.

A sale to Apax isn't certain. In theory, Apax has the firepower. It still hasn't invested about 40% of its \$11.2 billion (\$15 billion) buyout fund, raised in 2007. But Apax faces restrictions on how much it can put into a single deal; historically, it has rarely exceeded a maximum investment of €800 million. That would leave a substantial shortfall, which it would have to make up either by joining with other firms, which it is reluctant to do, or by finding independent co-investors to provide a majority of the equity, which could raise governance issues.

—Renée Schultes

Betfair Group's post-IPO debacle

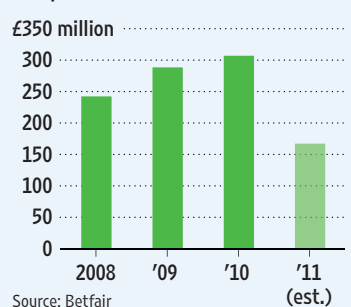
Goldman Sachs Group was determined **Betfair Group** wouldn't turn out to be another **Ocado Group**, the online supermarket whose shares tanked immediately after they were floated by the U.S. bank in London over the summer.

But just seven weeks after Goldman led the London listing of the U.K. online-betting group, its shares also have plummeted. The stock closed down 16% Tuesday, to 990 pence (\$15.70), as the group reported its maiden results as a public company, leaving it 24% below its issue price, an even worse post-IPO performance than Ocado's.

It was bad enough that Betfair missed analysts' estimates so soon after the float, which it largely blamed on costs associated with the IPO. But more alarming was news that Betfair is facing challenges in the core online betting-exchange business, including its first quarterly decline in horse-racing turnover, the

Against the odds

Betfair's core revenue for fiscal years to April 30



Source: Betfair

business which last year accounted for over one-third of core revenue.

After a strong first quarter buoyed by the World Cup soccer tournament, revenue from Betfair's core betting business rose just 1.6% in the second quarter. Betfair blames

the decline in horse racing on bettors switching to other sports. It also blames poor weather.

Meanwhile, Betfair's new Ogame poker platform isn't performing as well as anticipated. The number of active customers rose 9.8% in the second quarter, but it has failed to lure some of the highest rollers, leading to a 16% decline in revenue.

Worryingly, Betfair will have been aware of these trends even as it was marketing its shares to investors. Sure, Betfair's most ardent supporters are taking the long view that governments will liberalize gambling on favorable terms. And one quarter is a poor measure in a volatile business. But even after the latest share-price fall, Betfair still is valued at 25 times 2011 forecast earnings, based on Morgan Stanley estimates, a big premium to other online-gambling stocks. Goldman still could end up with plenty more egg on its face.

—Renée Schultes

OVERHEARD

For homeowners in the American states of Massachusetts, Rhode Island, New Jersey and California, it is the best of times and the worst of times.

Each of those states has many homes with negative equity, according to CoreLogic, a research firm based in Santa Ana, Calif. In other words, their values are well below the mortgage attached to them.

Yet the same states also are among those with the highest share of homes that have positive equity of more than 50%; that is, their value is more than 50% above the remaining mortgage.

Rhode Island was the most extreme example, CoreLogic says, ranking in the top 15 states for both negative equity and positive equity.

Talk about bipolar housing markets.

—overheard@wsj.com

wsj.com/foodandwine

Wine:
Lafite's head winemaker on
the world's most successful wine.

Read the full story this Friday in Weekend Journal

fashion | wine | travel | property | culture

THE WALL STREET JOURNAL

EUROPE

live in the know

BUSINESS & FINANCE

Runway slip-up raises questions

By ANDY PASZTOR

An incident in which an OAO Aeroflot Russian Airlines jet mistakenly took off from a taxiway at a Norwegian airport earlier this year has raised questions about ground hazards and gaps in pilot training to prevent such slip-ups.

Detailed in a report released recently by Norwegian investigators, the dangerous slip-up already has prompted an array of training and flight-procedure changes inside Aeroflot. They include specific guidance for captains and co-pilots to check air-traffic controller instructions with maps of airports, and for crews to “verbally agree on the assigned

runway and taxiway route.”

But the report highlights broader management shortcomings at Aeroflot that international aviation experts believe also may be hurting safety at many more carriers worldwide, including threats of punitive action against pilots that can chill voluntary reporting of incidents, thereby blocking data about close calls from being used to prevent future deadly accidents.

On the afternoon of Feb. 25, according to Norway's Accident Investigation Board, the pilots of the Aeroflot Airbus A320 lost track of their location while taxiing in good weather around Oslo's Gardermoen airport in preparation for taking off

for Moscow. Confused by airport signs—as well as an unusual sequence of controller instructions that gave them takeoff clearance when the jet was still relatively far from its designated runway—the crew ended up departing from a parallel taxiway.

Nobody was injured, the aircraft wasn't damaged and the Aeroflot pilots didn't realize the mistake until the plane was climbing away from the field and they were informed by the airport tower. The mix-up, however, prompted a major investigation, with Norwegian government experts concluding that the airport's layout and “insufficient monitoring” by air-traffic controllers contributed

to the serious incident.

Between 2005 and 2009 at the Oslo airport, investigators reported there were three similar incidents of pilots who became confused and departed from, or started to depart from, the same taxiway.

But inside Aeroflot, the incident set off louder alarm bells.

Upon landing in Moscow, according to the report, the crew “was met by the company's chief pilot and a Russian aviation official,” who in less than 30 minutes “started routine medical tests and taking blood samples.” The blood tests proved routine, but the report doesn't indicate whether the crew was punished.

In the end, Norwegian investigators cited “deficient procedures and insufficient alertness in the cockpit” as major factors in the incident.

Mistakenly using a taxiway to land or touch down is a rare event for commercial planes, but there have been a small number of incidents in recent years. Some have attracted a fair amount of media attention.

The Norwegian report, among other things, recommends widespread use of existing cockpit-warning systems, marketed by **Honeywell International Inc.**, which rely on a computer-generated voice to alert pilots if they are lined up on a taxiway.



Andrew Quilty for The Wall Street Journal

Qantas CEO Alan Joyce, in Sydney on Tuesday, criticized Rolls-Royce's communications regarding an engine failure.

Qantas still expects Rolls fix

By ROSS KELLY
AND ANDREW CRITCHLOW

SYDNEY—Qantas Airways Ltd. will see revenue from its lucrative long-haul North American route fall but expects engine maker **Rolls-Royce Group PLC** to fix the problem that forced a Qantas A380 jetliner to make an emergency landing last month, barely avoiding a catastrophic accident.

“Overnight we've lost 5% of our capacity across the international network, and that obviously has an impact on what we can carry,” said Qantas Chief Executive Alan Joyce, during an interview Tuesday in his 18th-floor office here. Mr. Joyce declined to estimate the size of the expected drop in revenue from the North American route.

Qantas grounded its fleet of six A380s for more than three weeks. It has now returned three of the jets to service between Australia and the U.K. after being satisfied that the planes meet technical requirements, Mr. Joyce said. The airline expects to put two new A380s into operation by Christmas, he added.

A key for Qantas is restoring the superjumbo jet, which can carry more than 450 people, to the Sydney-Los Angeles route. The 14-hour flight requires the Rolls-Royce Trent 900 jet engines that power the jets

to operate at a level of thrust that is within their capacity but higher than normal, Mr. Joyce said.

The airline is waiting for U.K.-based Rolls-Royce to resolve technical issues before the planes can resume that service. “We have no doubt that Rolls-Royce will be able to fix the issue,” said Mr. Joyce, 44 years old. “There's no reason why engines can't be designed to do this, and it just means they'll have to come up with what modifications are needed.”

Qantas has filed a statement of claim with Australia's Federal Court to ensure that it can pursue legal action against the engine manufacturer if a compensation settlement isn't reached. European investment bank **UBS AG** estimates that the grounding of the Qantas A380 fleet could cost the airline 207 million Australian dollars (US\$206 million) in lost revenue, including costs after the Nov. 4 incident.

The explosive failure of the No. 2 engine minutes after Flight QF32 left Singapore has put Rolls-Royce engines under scrutiny, as airlines that operate the A380 run a raft of safety tests.

Australian investigators believe an undetected oil leak, resulting from an improperly machined tube, ignited and led to internal failures that shattered a fast-spinning tur-

bine disk. At least three metal chunks flew out of the engine and through the left wing of the plane. According to investigators, the fragments caused a fuel leak, severed key electrical systems and set off dozens of computerized warnings in the cockpit.

“The one thing to say about Rolls is this type of failure is very rare for them,” said Mr. Joyce, who criticized the engine maker's communication concerning the incident.

“We think that a more proactive, open and transparent view is where you need to go on this, and you need to communicate that well. And that's been our view from day one,” he said.

A spokesman for Rolls-Royce in the U.K. declined to comment.

Qantas has 14 more A380s on order from Airbus, a unit of **European Aeronautic Defence & Space Co.**

Last financial year, Qantas reported A\$13.77 billion in revenue, down 5.7% from a year earlier.

It attributed the results to a volcanic ash cloud that disrupted operations into Europe, as well as the continued effects of the global financial crisis. The company's shares traded in Sydney have fallen about 10% to A\$2.70 since the Nov. 4 incident.

—Steve McGrath in London contributed to this article.

Interactive Brokers lends €EUROS at just

1.50%¹

While the Fed is lending money at almost zero interest rates, why not take advantage of it through IB?

Interactive Brokers will lend up to €566,000 for every €100,000 in a Portfolio Margin² Securities Trading account.

As of December 2, 2010, more than 540 US stocks had a dividend yield of 5% or more.

Please see Interactive Brokers' High Dividend Scanner on the IB Trader Workstation.

Trading on margin is only for sophisticated investors with high risk tolerance. Dividend yields can change and stocks may lose value, causing lower total returns or losses.

 **Interactive Brokers**
The Professional's Gateway to the World's Markets
www.interactivebrokers.com

Interactive Brokers (U.K.) Limited is authorised and regulated by the Financial Services Authority. FSA register entry number 208159. [1] Margin interest rate as of December 2, 2010 for a loan of Euros 566,000. IB calculates the interest charged on margin loans using the applicable rates for each interest rate tier in the interest and financing table on its website. For margin loan rates on other amounts, see www.interactivebrokers.com/interest. [2] Portfolio margin accounts are for experienced investors who meet certain financial eligibility requirements, including USD 100,000 (equivalent) minimum account equity. Trading on margin involves risk and is not suitable for all investors. The amount you may lose may be greater than your initial investment. Before using margin, determine whether it is right for your specific financial situation, investment objectives, experience, and risk tolerance. For more information regarding margin, read the FINRA margin disclosure statement. Copies are available from Interactive Brokers (U.K.), One Carey Lane, Fifth floor, London EC2 V8AE. Supporting documentation for any claims and statistical information will be provided upon request and additional information is available on the firm's website. This advertisement is not an offer to sell or a solicitation of an offer to buy any security. Interactive Brokers does not provide investment advice.

12IB10-350

BUSINESS & FINANCE

Pfizer's new CEO shuffles team

By JONATHAN D. ROCKOFF

New Pfizer Inc. chief Ian Read shuffled his executive team Tuesday, installing associates he has worked closely with at the pharmaceutical giant while keeping key leaders in their posts.

The moves come just a week after Mr. Read succeeded Jeffrey Kinder, who retired unexpectedly, citing fatigue. Although the moves changed Pfizer's executive ranks, they didn't involve the hiring of any outsiders and kept the research-and-development head and chief financial officer in their pivotal jobs.

Mr. Read didn't appoint anyone to take his old job overseeing sales and marketing of all the company's prescription drugs. Instead, he elevated to his executive team the officials who had been running the various businesses, and they will keep reporting directly to him. They include longtime lieutenants Olivier Brandicourt and David Simmons.

Mr. Brandicourt runs Pfizer's largest business, the unit that sells cholesterol fighter Lipitor, the company's leading product with more than \$11 billion in yearly sales, along with other drugs prescribed by primary-care doctors. Mr. Simmons took charge of the push into rapidly growing emerging markets like China, which the company is counting on for increasing revenue.

A Pfizer spokesman described the elevation of such business-unit heads as the elimination of a layer of management, as these officials were two levels below Mr. Kinder.



New York headquarters of drug company Pfizer, which has revamped its executive team under Ian Read, its new chief.

Among those whose jobs remain unchanged is R&D chief Mikael Dolsten. He is one of several officials who came to Pfizer as part of the \$68 billion takeover of rival Wyeth last year. One Wyeth transfer joining Mr. Read's leadership team is Geno Germano, who runs the business that sells cancer treatments and other medicines prescribed by specialists.

Mr. Read expanded the responsi-

bilities of several executives. Cavan Redmond, another ex-Wyeth official who had been running Pfizer's consumer and animal-health businesses, took over company strategy, while General Counsel Amy Schulman added to her portfolio the oversight of Pfizer's nutritional products, such as infant formula.

Chief Financial Officer Frank D'Amelio was also given control of manufacturing. The company's long-

time head of manufacturing, Natale Ricciardi, is retiring.

Mary McLeod, the head of human resources, left her job. Chuck Hill, a 23-year Pfizer veteran who had been running HR for Mr. Read's pharmaceutical sales and marketing operations, succeeded Ms. McLeod.

On Monday, Pfizer's board named longtime independent director George Lorch its new chairman, succeeding Mr. Kinder.

BP sells oil, gas assets in Pakistan

By JAMES HERRON

LONDON—BP PLC's total asset sales this year rose to almost \$22 billion as the company agreed to sell the oil and natural-gas fields it operates in Pakistan to **United Energy Group Ltd.** for \$775 million in cash. BP will use the proceeds of the sales to cover the estimated \$40 billion cost of the Gulf of Mexico oil spill.

"Today's agreement is further evidence of the rapid progress BP has made toward the divestment target we set out last summer," of \$25 billion to \$30 billion, BP Chief Executive Bob Dudley said in a written statement. "We are continuing to identify further assets that may be strategically more valuable to others than to BP as we complete the program."

The assets sold to UEG consist of nine producing and exploration blocks in Pakistan's Sindh province, which produce about 35,000 barrels equivalent a day of oil and gas, and four offshore exploration blocks in the Arabian Sea, BP said. Four offshore exploration blocks in Pakistan that BP shares with **Pakistan Exploration Ltd. or Oil & Gas Development Co.** aren't included in this asset sale.

"It looks to be more than a fair price," said ING analyst Jason Kenney, who expected the assets to fetch \$690 million. The transaction value of \$10.76 a barrel of proven and probable oil and gas reserves is "robust and indicative of the strong seller's market in place in the upstream oil and gas sector today," Mr. Kenney said.

UEG, listed in Hong Kong, is required to pay BP a cash deposit of \$100 million, with the balance due on completion of the sale.

UEG said the assets it is acquiring from BP provide access to a "balanced portfolio of production, development and exploration opportunities."

London-based BP has also previously agreed to sell gas fields in North America and Egypt; its 60% stake in Argentina-based **Pan American Energy LLC**; and its oil- or gas-producing assets in Colombia, Venezuela and Vietnam. The company is also considering the sale of about \$1 billion of gas fields in the southern sector of the U.K. North Sea, a person familiar with the matter told The Wall Street Journal last week.

The \$20 billion fund BP set up at the urging of the White House to compensate victims of the spill has so far paid out \$2.4 billion.

BP has written off almost \$40 billion in costs related to the oil spill. The figure doesn't include any potential fines or legal penalties.

Sanofi names new head of research, development

By STEN STOVALL

Sanofi-Aventis S.A. named a new head of research and development Tuesday, as the French drugs giant pushed ahead with plans to redesign its product portfolio to offset revenue that will be lost as patents expire.

The company, which will see patent issues take out a third of sales between 2008 and 2013, named Elias Zerhouni its new head

of global research and development for medicines and vaccines from Jan. 1, succeeding Marc Cluzel.

Mr. Zerhouni, a scientific adviser to Chief Executive Chris Viehbacher since February 2009, will report directly to the CEO. The company said Mr. Zerhouni has been instrumental in redesigning its R&D model and boosting innovation.

A native of Algeria, Mr. Zerhouni is currently a professor of radiology and biomedical engineering at Johns

Hopkins University and Hospital, and a senior adviser for Johns Hopkins Medicine. He has authored over 200 publications, holds eight patents and has founded or co-founded five startup companies, Sanofi said.

Mr. Viehbacher in a statement said: "I am delighted that a world renowned figure such as Elias is on board to lead and drive our R&D organization to ensure we make the maximum impact on health and deliver what patients need in the future."

Sanofi faces generic competition on most of its best-selling drugs by 2012. A generic version of its best seller Lovenox has received U.S. approval and its top-selling blood-thinning drug Plavix is expected to lose market exclusivity in 2012.

Mr. Viehbacher wants to buy U.S. based **Genzyme Corp.**, which makes drugs to treat rare diseases, for \$18.5 billion. However, he may be forced to pay more in the face of continued resistance from Genzyme.

French antitrust regulator deals setback to Google over Web advertising

Continued from page 21
tively making it harder for other search engines to sign similar deals. "The abusive exercise of such market power could be sanctioned," the antitrust watchdog said.

Google has said it was committed to making it easy for advertisers to export data from Google to other search engines.

Late Tuesday, a Google spokesman said the company was prepar-

ing a response to the concerns.

Google has faced an uphill battle in France over the past few years. Last December, French authorities clamped down on Google's effort to create a huge digital library by scanning millions of books. A court found the company guilty of copyright infringement after it scanned books belonging to several French publishers without their consent. Google has said it regretted the

court's decision and would appeal.

Separately, France's data protection authority, the Commission Nationale de l'Informatique et des Libertés, or CNIL, plans to decide in the coming months whether to fine Google for downloading private information from personal computers while collecting images for its Street View mapping application. Google said in August that it had collected the data by accident, and

that it has since stopped gathering that kind of information.

The French watchdog said it would watch the European Commission's investigation and follow-up on any areas it felt the commission didn't tackle.

"Google is a global player and the European Commission is better placed to investigate on such a large market," said Bruno Lasserre, president of Autorité de la Concurrence.

INDEX TO BUSINESSES

Businesses

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

Abercrombie & Fitch.....27	Blue Star Jets.....3	Deutsche Bank.....11	Hasbro.....27	Society.....25	Ocado Group.....22	Simon Property Group.....26
Aeroflot Russian Airlines.....23	BP.....9,24,27	EQT Partners.....22	HCP.....27	ISS Holding.....22	Oil & Gas Development.....24	Suez Environnement.....27
.....23	BP Solar International.....10	European Aeronautic.....23	HCR ManorCare.....27	J.C. Penney.....9	Outokumpu.....27	SunPower.....10
Allied Irish Banks.....25	California Public Employees' Retirement System.....21	Defence & Space.....23	HKR International Group.....11	Johnson & Johnson.....12	Pakistan Exploration.....24	Suntech Power Holdings.....10
Anadarko Petroleum.....12	Capital Shopping Centres Group.....26	ExxonMobil.....12	Honeywell International.....23	J.P. Morgan Chase.....3,28	Pan American Energy.....2410
Anglo Irish Bank.....25	Carlyle Group.....27	Finnair.....23	Holdings.....21	Lehman Brothers.....21	Paulson & Co.....21	Tata Power.....10
Apax Partners.....22	Caterpillar.....25	First Solar.....10	Magenta.....24	Holdings.....21	Peel Holdings.....26	Toyota Motor.....21
ArcelorMittal.....27	Cisco Systems.....12	Ford Motor.....21	Mapletree Logistics Trust.....11	Magenta.....24	Perry Capital.....21	Transocean.....9
Bank of America.....3	Citigroup.....3,25	General Motors.....21	McDonald's.....25	Mapletree Logistics Trust.....11	Pfizer.....24	Tullow Oil.....12
Barclays.....28	Delphi.....28	Genzyme.....24	Microsoft.....12,21	McDonald's.....25	Pfizer.....24	UBS.....23
Belk.....9	Delta Air Lines.....23	Goldman Sachs Group.....24	Morgan Stanley.....3,11	McDonald's.....25	Pfizer.....24	United Energy Group.....24
Best Buy.....9,27		Intel.....12	Moser Baer India.....10	Q-Cells.....10	Pfizer.....24	Veolia Environnement.....27
Betfair Group.....22		International Business Machines.....12		Q-Cells.....10	Pfizer.....24	Warburg Pincus.....12
Blackstone Group.....12		Guier Fence.....17		Rolls-Royce Group.....23	Pfizer.....24	YTL Corp.....11
				Sanofi-Aventis.....24		

BUSINESS & FINANCE

Offshore trading in yuan takes off

The currency's value remains tightly controlled by China, but that hasn't stopped a rush into buying and selling

China's currency, pent up inside the country's borders for decades, is emerging as a hot property in global foreign-exchange markets, just months after Beijing allowed the yuan to be bought and sold outside the mainland for the first time.

By Shai Oster in Hong Kong, Dinny McMahon in Beijing and Tom Lauricella in New York

Daily trading in the yuan has grown from zero to \$400 million in the past few months, as the currency of the world's second-biggest economy begins to flow around the globe. Global trading in yuan allows businesses to buy and sell the currency to finance trade, investment and borrowing. It is an important step for the yuan to play a role in global financial markets.

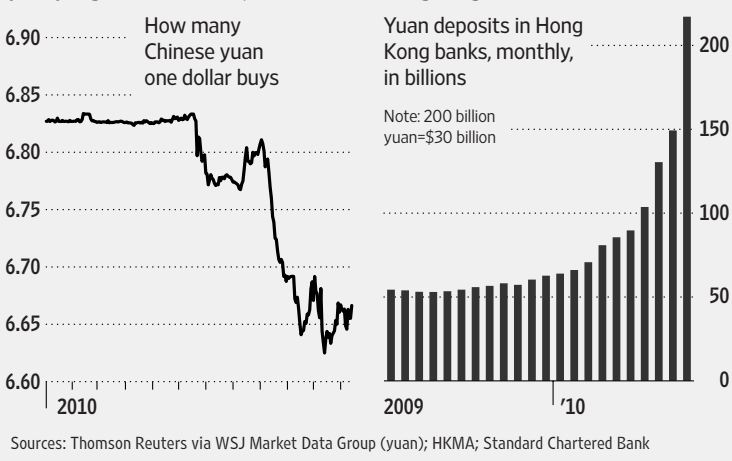
The value of the yuan remains tightly controlled by China, so its value won't rise and fall to the same extent as the dollar or euro, in spite of the new trading. Even so, foreign-exchange traders who are embracing the currency see demand for yuan rising sharply. Bankers in New York, London and Tokyo are rushing to set up new trading systems and back offices to trade in yuan.

"This is the beginning of a new era," said Norman Chan, head of Hong Kong's central bank. "This is a step moving to full convertibility of the yuan and is a major change of the international financial landscape."

The yuan makes up a sliver of the \$4 trillion daily trading in currency markets and is dwarfed by trading in the dollar, yen and euro. But traders are surprised at how quickly it is gaining critical mass. Chinese companies are placing yuan into accounts in Hong Kong, where

Global appeal

For the first time, the yuan can be traded outside of mainland China, prompting a flood of money to accounts in Hong Kong.



the offshore trading is allowed, and could have as much as 300 billion yuan (\$45 billion) there by the end of the year.

The yuan, which closed trading Tuesday at 6.6551 per dollar, has risen about 2.4% against the greenback since mid-June, when China loosened the currency's peg against the dollar and allowed the yuan greater flexibility to rise or fall in value.

The continued growth in yuan trading isn't a foregone conclusion. China could reverse itself and slow the growth of the market.

China's leaders fear that if too much currency builds up quickly overseas, they could lose control of inflation and interest rates, said Xiang Songzuo, deputy director of the Center for International Monetary Research at Remin University of China.

Nevertheless, the establishment of offshore trading in yuan is "game

changing," said David Mann, head of research in the Americas for Standard Chartered Bank. "It's arrived much faster than anyone expected."

In July, regulators opened the door by letting banks and individuals freely trade yuan outside of mainland China for the first time. Creating that infrastructure is a necessary step in allowing the yuan to float freely and have markets set its value. But for now, China will keep its tight rein on the value of the yuan even with the parallel market in Hong Kong.

On Dec. 6, Chinese regulators broadened the scope of the program, increasing the number of exporters that can use yuan to trade their goods from a few hundred to nearly 70,000. Some predict it will only be a few years before 20% to 30% of China's \$2.3 trillion of imports could be conducted in yuan rather than U.S. dollars. Today less than 1% is done in yuan, according

to Standard Chartered.

Mr. Mann said trading in yuan could match that of the Japanese yen before long as the third most actively traded currency behind the dollar and the euro.

Until now, investors who wanted to speculate on the yuan, or companies that needed to hedge against its fluctuations, could only do so indirectly, through contracts that tracked the currency's moves. Those contracts were useless for businesses that needed actual yuan to buy or sell goods.

To buy and sell yuan offshore, traders need an account in Hong Kong. Chinese companies can move money to offshore yuan accounts only for business purposes, such as exports or imports. And restrictions remain on repatriating that money. But as long as that money is in an offshore yuan account, the holder is free to trade with it in any way.

Already, banks such as Citigroup Inc. and HSBC Holdings PLC are offering investors yuan-priced options and interest-rate derivatives. Mutual funds dedicated to yuan-priced investments have been created.

The move has opened the doors to wider issuance of yuan-denominated bonds and other investments. McDonald's Corp. and Caterpillar Inc. recently became the first U.S. non-financial corporations to sell debt priced in yuan, in what is being nicknamed the "dim sum" bond market.

A big driver of the increase in yuan holdings offshore is emerging economies, major trading destinations for China. HSBC forecasts that at least half, or nearly \$2 trillion worth, of China's cross-border trade with emerging markets could be settled in yuan annually within three to five years.

For example, countries rich in

natural resources that export commodities to China could get paid in yuan and then use the yuan to buy finished goods and services from China—cutting out the cost and hassle of converting to dollars.

The moves come against a broader background of growing Chinese concern over the country's reliance on the dollar.

Long term, the offshore yuan market could decrease demand for the dollar and lower its value. That's in part because Chinese companies doing business with counterparts in other countries wouldn't need U.S. dollars to conduct that business as they do today.

In Hong Kong, where speculation is an obsession, individual investors quickly piled in to yuan, even though they are limited to converting only 20,000 yuan a day. On display by bank teller windows are interest rates for Hong Kong, U.S and now Chinese deposits.

For the yuan to become fully convertible, China would have to allow it to be exchangeable for other currencies at any time, something that's not possible under the new regulations.

The keen level of interest in the offshore yuan trading was evident last week in midtown Manhattan at the headquarters of HSBC. Some 80 traders from 20 banks came to hear a presentation organized by ICAP PLC on offshore yuan trading featuring Esmond Lee, an official from the Hong Kong Monetary Authority. Previous sessions in Hong Kong and London had been similarly packed.

"What makes it exciting is that this is a move by China in a direction that many have been waiting for," said Edward Brown, an executive vice president at ICAP, the world's largest broker of currency trades among banks.

Ireland to AIB: hold bonuses

BY QUENTIN FOTRELL

DUBLIN—Ireland's Finance Minister Brian Lenihan instructed Allied Irish Banks PLC to renege on nearly €40 million (\$53.6 million) of employee bonuses after a public outcry over the impending payments at the state-supported bank.

Mr. Lenihan also defended the government's €35 billion bailout from the European Union and the International Monetary Fund against criticism from Anglo Irish Bank Corp.'s Chairman Alan Dukes, a former Irish finance minister who said the bailout was too small.

"I'm sorry I have to disagree with him about that, but I think he really should look at what Patrick Honohan, governor of the central bank, has said about this," Mr. Lenihan said in an interview with state broadcaster RTE Radio.

Mr. Lenihan's instructions to AIB late Monday contradicted AIB's legal advice that it must pay the 2008 bonuses to 2,400 employees. Mr. Lenihan also cautioned that state support for AIB will be conditional on the bonuses being withheld.

"The situation of the bank has changed drastically since the period in which the bonuses were supposedly earned and, indeed, that the foundations of the bank's problems

were laid down in that and earlier periods," Mr. Lenihan wrote in a letter to AIB.

The issue of the unpaid bonuses arose when former employee John Foy won a High Court case seeking payment of his €160,000 bonus from 2008. Mr. Lenihan said he couldn't reverse the Foy decision.

AIB has received €3.5 billion in state recapitalization and must raise another €9.8 billion by the end of February. The government is expected to end up with a stake of more than 92% in AIB, from 18.6% earlier this year.

AIB Executive Chairman David Hodgkinson said in a statement that the board was "relieved" to be in a position not to pay the bonuses. "The board of AIB very much welcomes the actions of the minister," he said.

Legislating on the issue will be discussed by the government, Mr. Lenihan said. He will also introduce a 90% tax on bank bonuses that will be included in the government's finance bill due in January.

Mr. Lenihan said he has also asked Irish Nationwide Building Society to examine its "legal weaponry" on the return of a €1 million bonus received by Michael Fingleton, its former chief executive.

But opposition parties said the

U-turn was damage limitation by the Fianna Fail-led government in the run-up to an election early next year. Pat Rabbitte, justice spokesman for the opposition left-of-center Labour Party, said the government was "shamed" into intervening and forcing AIB to stand down on its decision to pay the retrospective bonuses. "The government is not exercising the degree of supervision of the banks that the present crisis requires," Mr. Rabbitte said.

Earlier this month, Mr. Lenihan outlined a painful budget for 2011, front-loading €6 billion in spending cuts and tax measures. The country is in the grip of an economic and financial crisis due to poor lending decisions made by banks.

Mr. Lenihan, on state radio Tuesday, cast doubt on some predictions by economists of a further crisis in mortgages.

"I don't accept the thesis by [economist] Morgan Kelly that we're now heading into a further mortgage meltdown," he said.


Mr. Lenihan said he is "happy" to trust the governor of Ireland's central bank, Mr. Honohan, who previously said the €25 billion contingency fund for Ireland's banks may not be used. Of the €35 billion from the aid package, €10 billion will be used immediately.

In association with
THE WALL STREET JOURNAL
EUROPE

Premier Cercle

France's Industry Worldwide Leadership


Political stakes, Strategic options industrial tactics



Eric Besson
Minister of Industry, Energy
and the Digital economy

WEDNESDAY DECEMBER 15th, 2010
MINISTRY OF THE ECONOMY, INDUSTRY AND EMPLOYMENT
PARIS
From 8.30am to 1.00pm

Programme and registration:
www.premiercercle.com/franceindustrielle


Strategy Consultants

THE PROPERTY REPORT

British tycoon's unwavering vision

By WILLIAM BOSTON
Special to the WSJ

John Whittaker, the billionaire who is on the verge of outmaneuvering mall king David Simon for **Capital Shopping Centres Group PLC**, doesn't let a thing like a financial crisis throw him off stride.

On a fair September morning two years ago, as Western economies were teetering, Mr. Whittaker stood on the deck of a chartered ferry and launched into a sales pitch to convince his guests, about 100 regional business leaders, to support his most audacious plan ever.

Mr. Whittaker, a hard-driving British tycoon who has built an empire out of visions others often considered pipe dreams, spent the length of the 50-mile cruise between Manchester and Liverpool explaining how he planned to transform the derelict docks and empty shores between the two northern cities into a thriving commerce center, creating 50,000 new jobs and 40,000 new homes. So convinced is he of the plan, Mr. Whittaker's closely held **Peel Holdings** says it will put up £50 billion (\$79.3 billion) to see the project through.

Now Mr. Whittaker, who is 68 years old, is about to take control of one of the U.K.'s largest retail landlords, which may help him turn his latest dream into reality. The deal,

Building the Peel empire

Tycoon John Whittaker creates major property force.

1971 - 1983

Foundation of Peel Holdings is laid when John Whittaker acquires textile businesses of Peel Mills and John Bright & Brothers.

1983

Peel acquires Bridgewater Estates, which has a portfolio of 12,000 acres in and around Manchester and Salford.

1987

Whittaker adds Manchester Ship Canal to Peel's portfolio.

1997

Peel creates an airports group with the acquisition of Liverpool Airport.

Sources: Peel Holdings, WSJ reporting

1998

The Trafford Centre opens after a long running planning process.

2004

Peel Holdings is taken private.

2005

Acquisition of the Mersey Docks and Harbour Company, making Peel Ports division the second largest ports group in the U.K.

2010

Through sale of Trafford Centre, Peel acquires 25% of Capital Shopping Centres Group PLC, making Whittaker the group's largest shareholder.

which is scheduled to be voted on by CSC shareholders on Dec. 20, would extend Mr. Whittaker's power beyond his established roost in northwestern England to become a truly national property tycoon. And access to CSC's national retail platform would likely give him even more clout in future dealings with retailers as he develops his Manchester-Liverpool revitalization

scheme, which Peel has named the Ocean Gateway project.

"They don't think short term," says Robert Woods, a property agent at CB Richard Ellis in Liverpool. "They are very good at identifying long-term opportunities with returns over 15, 20 or even 30 years."

To be sure, numerous stumbling blocks line his way. For starters,

CSC shareholders could vote against the deal in which Peel would sell its Manchester shopping mall Trafford Centre, in exchange for a 25% stake in CSC. **Simon Property Group Inc.**, which owns a 5.1% stake in CSC, has been lobbying hard against the deal. Also, the Ocean Gate project could easily turn into a nightmarish battle with public planning authorities.

But Mr. Whittaker has disproved his skeptics in the past. Since the 1970s, Mr. Whittaker has been scooping up derelict land and undervalued properties and transforming them into a personal fortune estimated to be worth more than £1 billion and increasing influence in the British property industry.

Today, Peel Holdings controls assets worth about £6 billion ranging in businesses from Liverpool's John Lennon Airport, the BBC's operations in Salford, ports, embryonic media holdings, environmental management, leisure, utilities and coal mining.

Even before Peel announced the Ocean Gateway project, the company has been heavily involved along the waterway. Indeed, arguably the transformative deal of Mr. Whittaker's career was the purchase in 1987 of the Manchester Ship Canal, with its miles of derelict harbor and 6,000 acres of empty land.

The Trafford Centre, one of Europe's largest retail centers, was

built on land acquired in the canal deal and opened to fanfare in 1998 after much initial opposition from local authorities. While Trafford Centre took just over two years to complete, the planning process lasted nearly a decade as Mr. Whittaker fought with local authorities and small shareholders until finally getting permission to build. Mr. Whittaker celebrated the opening by positioning a mock cruise ship in the spacious mall and, donning a white naval officer's uniform, rappelling from a rope strung from the ship's bridge.

Mr. Whittaker is now joined in the business by his three sons—James, Mark and John—who were trained in the property business through stints at real-estate-services group Cushman & Wakefield. They share their father's tendency to look for the long-term opportunity, say people who know the family.

That talent will certainly come in handy because Mr. Whittaker's vision for Manchester and Liverpool is expected to take 50 years to complete. Much of the development will be unlocking the value of land that many people considered worthless, but in which Mr. Whittaker saw a huge opportunity.

"He bought land for a tuppence at a time when no one else had the actual vision," says Mr. Woods.

BUSINESS REAL ESTATE

ANNOUNCEMENTS



The world's property market

Register by December 15th
and save €310

8 - 11 March 2011
Palais des Festivals
Cannes - France

BUILD CONNECTIONS

REAL ESTATE PROFESSIONALS
ATTEND MIPIM TO FIND:

- ▷ THE RIGHT PARTNERS
- ▷ THE RIGHT PROJECTS
- ▷ THE RIGHT INFORMATION
- ▷ THE RIGHT INVESTMENT

More information on www.mipim.com

INVESTMENT PROPERTIES

Boutique Hotel Project For Sale

Key Largo, FL.

€3.2M + €3M to complete

TarponBasinVillas.com

305-304-9034

UNITED STATES

UNBELIEVABLE

Unique tax situation enables owner to lease a prime location bldg in Midtown ATL for the unbelievable rate of \$5.50 per sq. ft. for an Absolute NNN 10 year lease for 350,000 sq ft class B+ building with a 3 story adjacent parking garage included. Building is available early 2011.

Interested parties contact:
alw.etal@verizon.net and put Unbelievable in the subject line.
Principles ONLY!



Hire Your Next Top Performer.

Careers Every Monday.
List Your Position Today.
Call +44 (0) 203 426 1204

THE WALL STREET JOURNAL
EUROPE

DOW JONES
A NEWS CORPORATION COMPANY



Notable Commercial Properties.

Commercial Listings Every Wednesday.

List Your Property Today.
Call +44 (0) 203 426 1204

THE WALL STREET JOURNAL
EUROPE

DOW JONES
A NEWS CORPORATION COMPANY

MARKETS

HCR in one of year's biggest property deals

By GREGORY ZUCKERMAN

HCR ManorCare Inc., one of the largest nursing-home and posthospital-care companies in the U.S., is selling its real-estate assets to HCP, a publicly traded real-estate investment trust focused on health care, for \$6.1 billion.

HCR, based in Toledo, Ohio, and controlled by private-equity firm Carlyle Group, will lease back the real estate in order to focus on providing nursing-home care. The sale is one of the largest private-equity deals this year, as well as one of the biggest real-estate transactions in 2010.

HCR focuses on skilled nursing, which includes rehabilitation and assisted living. Earnings before interest, taxes, debt and appreciation are up 31% since Carlyle bought the company three years ago, according to a Carlyle spokesman.

Part of the reason: Hospitals increasingly are turning to lower-cost nursing specialists like HCR to care for patients in need of rehabilitation.

HCP, of Long Beach, Calif., is one of the nation's largest and most diversified health-care REITs, with interests in 670 facilities including senior housing, life science, medical office and hospital facilities. It has a market value of \$10.5 billion.

The transaction will generate enough cash to help HCR eliminate nearly all of its debt.

Stoxx 600 makes it seven gains in a row

By MICHELE MAATOUK

The Stoxx Europe 600 index eked out a small gain, with the help of some upbeat U.S. economic data, to notch its seventh consecutive gain.

The euro fell against the dollar, while gold prices rose and oil prices weakened.

U.S. stock markets also rose, although they pulled back from highs set on the Federal Reserve's decision to stick to its policy of easy money. Officials gave no sign that they were considering any changes to their strategy of buying another \$600 billion in Treasury debt.

The Stoxx Europe 600 index edged up 0.2% to 2776.5, its highest close since Sept. 19, 2008. The U.K.'s FTSE 100 index rose 0.5% to 5891.21, the highest close since June 6, 2008, while France's CAC-40 index ended 0.3% higher at 3902.87 and a five-week high. Germany's DAX closed fractionally lower at 7027.40.

European oil and gas stocks rose, led by a 3.2% gain in BP after it announced plans to sell its exploration and production assets in Pakistan for \$775 million. Also, Credit Suisse said the company remains its top long-term pick and raised its 2011 oil price target and earnings forecasts for the sector.

Better-than-expected U.S. retail sales and business inventories data helped to underpin confidence in the world's largest economy and

boost European shares. Retail sales rose 0.8% last month, against expectations of a 0.5% increase, while business inventories rose 0.7% in October, versus estimates of a 1% rise.

The U.S. producer price index also rose more than expected.

The Dow Jones Industrial Average rose 47.98 points, or 0.4%, to 11476.54. Consumer stocks were boosted by the retail sales report. Hasbro gained 0.8% and Abercrombie & Fitch advanced 0.6%.

But Best Buy tumbled 15% after the company issued a dour report for the quarter ended Nov. 27, which included Black Friday. Best Buy's same-store sales fell 3.3% in the quarter and earnings came in well below analysts' estimates. The consumer-electronics retailer also cut its earnings view for the year.

The strong retail report and the Fed's announcement kept Treasuries under pressure. The benchmark 10-year note's yield touched 3.467%, the highest level since 3.5% on May 18. Prices were down 1 13/32 in late trading to yield 3.457%.

In the currency markets, the euro softened on the U.S. data. The euro traded at \$1.3380 late in the day, down from \$1.3392 late Monday in New York. Sterling dropped to \$1.5782, down from \$1.5859. The dollar was at 83.71 yen, up from 83.44 yen and at 0.9598 Swiss francs, down from 0.9680 francs.

FUND SCORECARD

EUR High Yield Bond

Funds that invest in higher yielding securities denominated/hedged in European currencies 40% of assets in securities with a credit quality equivalent to BB, or lower. Ranked on % total return (dividends reinvested) in U.S. dollars for one year ending December 14, 2010

Leading 10 Performers

Table with columns: FUND RATING, FUND NAME, FUND MGMT CO., LEGAL CURR BASE, % Return in \$US, YTD, 1-YR, 2-YR, 5-YR. Lists top performing funds like Aberdeen Global High Yield Bd D1, SICAV Cofibol, Pioneer Fds Euro High Yield E EUR ND, etc.

NOTE: Changes in currency rates will affect performance and rankings. KEY: ** 2YR and 5YR performance is annualized. NA-not available due to incomplete data; NS-fund not in existence for entire period. Source: Morningstar, Ltd. 1 Oliver's Yard, 55-71 City Road, London EC1Y 1HQ United Kingdom. www.morningstar.co.uk Email: mediaservice@morningstar.com Phone: +44 (0)203 107 0038 Fax: +44 (0)203 107 0001

Light, sweet crude for January delivery fell 33 cents, or 0.4%, to settle at \$88.28 on the New York Mercantile exchange.

Gold for December delivery gained \$6.30, or 0.5%, to \$1,403.60 per troy ounce, its highest settlement in a week, on the Comex division of Nymex.

In major market action: In

France, shares of Suez Environment and Veolia Environnement rose 3.2% and 1.4%, respectively. The two firms were upgraded to "buy" from "hold" by Deutsche Bank.

Stainless-steel producer Outokumpu dropped 5.4% in Helsinki on a profit warning, pulling down steel giant ArcelorMittal 1.2% in Amsterdam.

Advertisement

[INTERNATIONAL INVESTMENT FUNDS www.wsj.com/funddata]

Advertisement



Data as shown is for information purposes only. No offer is being made by Morningstar, Ltd. or this publication. Funds shown aren't registered with the U.S. Securities and Exchange Commission and aren't available for sale to United States citizens and/or residents except as noted. Prices are in local currencies. All performance figures are calculated using the most recent prices available.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists various fund performance metrics.



Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists Alliance Bernstein fund performance metrics.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists various international investment fund performance metrics.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists various international investment fund performance metrics.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists various international investment fund performance metrics.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists various international investment fund performance metrics.

Advertisement

[ALTERNATIVE INVESTMENT FUNDS www.wsj.com/funddata]

Advertisement

12-month and 2-year returns may be calculated over 11- and 23-month periods pending receipt and publication of the last month end price.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists alternative investment fund performance metrics.

ALEXANDRA INVESTMENT MANAGEMENT

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists Alexandra Investment Management fund performance metrics.

DAURIOL FUNDS WWW.DAURIOL.BIZ

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists Dauriol Funds performance metrics.

HERMITAGE CAPITAL MANAGEMENT LTD.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists Hermitage Capital Management fund performance metrics.

HORSEMAN CAPITAL MANAGEMENT LTD.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists Horseman Capital Management fund performance metrics.

HSBC ALTERNATIVE INVESTMENTS LIMITED

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists HSBC Alternative Investments fund performance metrics.

12-month and 2-year returns may be calculated over 11- and 23-month periods pending receipt and publication of the last month end price.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists alternative investment fund performance metrics.

HSBC ALTERNATIVE STRATEGY FUND

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists HSBC Alternative Strategy Fund performance metrics.

HSBC Portfolio Selection Fund

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists HSBC Portfolio Selection Fund performance metrics.

12-month and 2-year returns may be calculated over 11- and 23-month periods pending receipt and publication of the last month end price.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists alternative investment fund performance metrics.

HSBC Uni-folio

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists HSBC Uni-folio fund performance metrics.



Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists Meriden Group fund performance metrics.

INDICES

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists index performance metrics.

ARIX ABSOLUTE RETURN INVESTABLE INDEX

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists Arix Absolute Return Investable Index performance metrics.

OTHER FUNDS

For information about these funds, please contact us on Tel: +44 (0) 207 842 9694/9633

WINTON CAPITAL MANAGEMENT LTD

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Lists Winton Capital Management fund performance metrics.

For information about listing your funds, please contact: Justin Jones tel: +44 0203 426 1167; email: justin.jones@dowjones.com

MARKETS

Seoul warns banks over currency trade

By In-Soo Nam

SEOUL—The South Korean units of Barclays PLC and J.P. Morgan Chase & Co. have been warned by regulators for selling currency derivatives that broke local regulations and have been asked to punish the responsible officials.

According to the Financial Supervisory Service, J.P. Morgan's unit sold high-risk currency options in 2007 that cramped the ability of six companies to effectively hedge against currency volatility, while the Barclays unit sold currency derivatives to three exporting companies between June 2006 and November 2007 that resulted in them incurring losses.

A spokeswoman at J.P. Morgan's Seoul office said the company has noted "receipt of a minor caution from the FSS."

A Barclays official said the company wouldn't comment on the matter.

An FSS spokesman said the warnings won't necessarily lead to the investment banks being punished unless they continue to break local rules.

An official at the financial regulator's banking-service division said the moves are the result of regular investigations in 2009 into possible improprieties at banks.

In 2008, the government had to provide liquidity to small and mid-

size firms that incurred heavy losses from investments in so-called knock-in, knock-out options contracts. Commercial banks had sold the options contracts to corporate clients to help them hedge their currency risks.

The options, also known as KIKO, was designed to offer positive payoffs to the holder when the Korean won appreciated up to a certain predetermined rate. In exchange for these payoffs, the option holder would take losses if the won significantly depreciated.

The small and midsize companies, which had seen snowballing losses from such transactions, blamed banks for not having provided sufficient information on possible risks.

Losses related to the contracts forced some companies, including a maker of parts for flat-panel televisions, into bankruptcy.

The FSS official declined to say whether the latest warnings are related to the KIKO contracts.

Derivatives trading in South Korea is in the spotlight as financial regulators consider measures to protect investors from swings in the derivatives market.

The FSS and the Financial Services Commission said last week they will step up monitoring and supervision of the derivatives market and may limit investors' holding of stock options.

Creditors weigh competing plan for Lehman

Continued from page 21

creditors and maximize our prospects for final plan approval, we have chosen to give the various parties a chance to plead their position.

"Significant progress has been made on getting creditor consensus," he said.

Mr. Marsal said in September that the argument for both breaking Lehman up and consolidating it each had their "merits." While the argument that Lehman operated as one company is true, Mr. Marsal said Lehman had many subsidiaries and 30 comptrollers.

The original Lehman plan includes a number of intercompany settlements and actually constitutes 23 distinct Chapter 11 plans applying to each of the Lehman units in bankruptcy.

Allowed claims against a particular debtor will be paid from the assets of that debtor, with recoveries for unsecured creditors ranging from about 10 cents on the dollar to 44 cents.

That set-up is a problem, according to the bondholder group, which says creditors of the parent company stand to fare better if the Lehman units are treated as a single company, or substantively consolidated, for purposes of the Chapter 11 distribution.

Many of the creditors of the subsidiary companies are big banks, which would see lower recoveries under the ad-hoc plan.

GM aims to curb its appetite for debt

Continued from page 21

The fact GM can even consider a low-debt future is a byproduct of its bankruptcy. Before Chapter 11 GM had \$45 billion in debt. Last month, it had \$12 billion in debt and preferred shares, though it still owes its global pension funds \$23 billion.

Bankruptcy also slashed GM's cost of operations through union concessions and plant closings. That shrunk GM to the point it can make money even in this year's anemic car market.

"We are in a cyclical industry with high fixed costs," Mr. Liddell, a GM vice chairman, said in an interview. "Overlaying financial leverage on top of that makes no sense."

During GM's so-called road show to pitch the IPO, some potential investors questioned whether the company's aggressive debt-repayment plan would backfire by taking money away from investments in products and elsewhere. Mr. Liddell said some GM executives had the same question but ultimately decided that GM has ample resources to both adequately invest and pay off debt.

Under the new plan, GM will use some of its profit to pay down debt each quarter. The company plans to maintain an annual capital budget of \$7 billion and commit another \$7 billion to engineering costs, mainly employees to develop new products. Profit beyond that, for the most

part, would pay down debt and pension obligations, though about \$10 billion in underfunded non-U.S. pensions obligations will remain, Mr. Liddell said.

At the same time, GM expects to sell a stake in former parts arm Delphi Corp. acquired last year for \$1.7 billion and may offload shares in former finance arm GMAC, now called Ally Bank, once the bank returns to the public markets, said people familiar with the matter. GM also has \$3 billion to \$4 billion in noncore assets it could sell, the company has said. All these proceeds would go to debt reduction.

GM also would hold off paying dividends to its new stockholders for an unspecified time, Mr. Liddell said.

He said GM will be able stick to the debt-reduction goal in a depressed auto market as long as the seasonally adjusted annual sales rate doesn't fall below the current anemic 10 million vehicles and GM doesn't lose additional U.S. market share.

That would be a contrast to the recent economic crisis. In 2009, as vehicle sales plunged and revenue fell, the auto maker cut capital spending by nearly 30% from the year before to \$5.4 billion. That temporarily halted development of several critical new vehicles, including the next line of high-profit pickup trucks and sport-utility vehicles.

Advertisement

INTERNATIONAL INVESTMENT FUNDS www.wsj.com/funddata

Advertisement

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Includes funds like Andfs. Bors Global, Andfs. Emergents, Andfs. Espanya, etc.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Includes funds like Republikas square 2a, Riga, LV-1522, Latvia, Pictet-Asian Eq Excl-Jpn-USD, etc.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Includes funds like Polar Healthcare Class R USD, Hemisphere Management (Ireland) Limited, etc.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Includes funds like EurolandFinancialA, Gbl Emg Cty A, Gbl Emg, etc.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Includes funds like CHARTERED ASSET MANAGEMENT PTE LTD, DJE Real Estate P, etc.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Includes funds like PICTET & CIE, ROUTE DES ACACIAS 60, CH-1211 GENEVA 73, Pictet-Agriculture-P-EUR, etc.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Includes funds like PT CIPTADANA ASSET MANAGEMENT, Russell Investment Group, etc.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Includes funds like THE NATIONAL INVESTOR, PO Box 47435, Abu Dhabi, UAE, etc.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Includes funds like HSBC ALTERNATIVE INVESTMENTS LIMITED, Sel Emerg Mkt Debt, etc.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Includes funds like Pictet-EUR Liquidity-P, Pictet-EUR Liquidity-Pdy, etc.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Includes funds like SOCIETE GENERALE Gestion, SG ASSET MANAGEMENT, etc.

Table with columns: FUND NAME, GF, AT, LB, DATE, CR, NAV, YTD, 12-MO, 2-YR. Includes funds like YUKI INTERNATIONAL LIMITED, YMR-N Series, etc.

MP Asset Management Inc. logo and contact information: Tel: +386 1 587 47 77, MP-BALKANSI, MP-TURKEY.SI, PAREX ASSET MANAGEMENT IPAS.

POLAR CAPITAL PARTNERS LIMITED International Fund Managers (Ireland) Limited PH-3531 670 660 Fax-3531 670 1185, Global Technology, Japan Fund USD, Polar Healthcare Class I USD.

SOCIETE GENERALE Gestion logo and contact information: A company of Amundi Group, Bonds Con/Euro A, Bonds Eur Corp A, etc.

THE NATIONAL INVESTOR logo and contact information: PO Box 47435, Abu Dhabi, UAE Web: www.tnuae.com, MENA Real Estate Fund, etc.

C-SUITE: HEALTH

Silencing the persistent din in the ear

By MELINDA BECK

Some people hear a high-pitched buzzing sound. Others describe it as a ringing, roaring, hissing, chirping, whooshing or wheezing. It can be high or low, single or multi-toned, an occasional mild annoyance or a constant personal din.

Tinnitus—whose Latin root means “to jingle”—is defined as the perception of sound when no external sound is present.

It usually accompanies hearing loss, and while nobody knows for sure what causes it, many experts believe that when people lose the ability to hear in certain frequencies, the brain fills the void with imaginary or remembered noise—like phantom limb pain for sound.

“Those auditory centers are just craving input,” says Rebecca Price, an audiologist who treats tinnitus in North Carolina. Some 50 million Americans at least occasionally experience tinnitus. And 16 million U.S. adults had it frequently in the past year, according to a study by the Centers for Disease Control and Prevention. Some two million find it so disturbing that it interferes with sleep, work, concentration and relationships.

The incidence is rising along with the aging population and personal music players cranked up high. “Now we have 12-year-olds complaining of tinnitus. We never had that previously,” says Jennifer Born, a spokeswoman for the American Tinnitus Association, a nonprofit education and advocacy group. Tinnitus is also the No. 1 service-related disability among American veterans from Afghanistan and Iraq, due to brain injuries from explosive devices.

In Europe, too, tinnitus is on the rise. According to the Scientific Committee on Emerging and Newly Identified Health Risk in the European Union, around 10 million

people in Europe are in danger of developing tinnitus and hearing loss as a result of excessively loud personal music players.

In the U.K., figures from the Medical Research Council show that 10% of the population suffer from tinnitus. One of the sufferers is Ricky Young, a 37-year-old oil company worker in Aberdeen, Scotland, who was diagnosed with tinnitus three years ago. Mr. Young’s problem comes in the form of an electric hum. “I used to lie awake at night. It would be like a man was standing right next to me with a church bell. The sounds were overtaking my thoughts,” he says.

After a private referral, he decided to buy a £3,000 (\$4,750) hearing-aid device for his left ear, which succeeded in easing the symptoms. Mr. Young’s treatment is representative of the way the condition is approached in the U.K.

According to Deb Hall, an adviser to the British Tinnitus Association, treatment for tinnitus differs considerably across Europe. In the U.K., audiologists are the main health-care professionals who help people with tinnitus, she explains. “Often they would offer a hearing-aid device to a patient to help with the hearing loss and also to reduce the person’s awareness of the tinnitus,” Ms. Hall says. Audiologists also offer counseling to help patients overcome anxiety or depression as a result of their tinnitus.

In the rest of Europe, however, tinnitus is more the domain of the ear, nose and throat specialist (otolaryngologist) or a neurologist, she says. “They often prescribe some drug treatment like antidepressants to help with the associated symptoms,” Ms. Hall says.

While many sufferers are told there is no cure, treatment options are proliferating. And brain-imaging studies are shedding new light on how some peoples’ brains are wired with unusual connections



Tuning out

A gadget designed to help patients filter out tinnitus.

▲ This device from Neuromonics Inc. plays baroque and new-age music customized to provide auditory stimulation in patients’ lost frequencies as well as a ‘shower’ sound. Users listen to the program for two hours daily for two months, then the shower sound is withdrawn for four more months of treatment, gradually training the brain to filter out the internal noise, the company says.

to redirect abnormal connections.

The first step in treating tinnitus is usually to determine if a patient has hearing loss and to identify the cause, which can run the gamut from ear-wax buildup to infections, accidents, aging, medication side effects and noise exposure. “At least half of the time, if we can reduce the hearing loss, we can dramatically reduce the tinnitus or make it so that the patient doesn’t care,” says Sujana Chandrasekhar, an otolaryngologist in New York.

Surgery may be helpful in some cases. Frank Scalera, a 42-year-old pipefitter in New York, had tinnitus ever since a firecracker blew out his eardrum at age 15. Ten surgeries have helped restore his hearing and reduce the ringing he’s heard for years.

A variety of tinnitus treatments use sound therapy—soothing external sounds to drown out the ringing from within. Some people find relief by running a fan, a humidifier, a machine that mimics waves or waterfalls or even a radio tuned to static, especially at night when tinnitus is often most noticeable and frequently disrupts sleep.

Several brands of hearing aids also mix in soft “shhhssing” tones to mask tinnitus sounds and help users relax. Another variation is the Oasis device by Neuromonics Inc., which looks like an MP3 player but plays baroque and New Age music customized to provide more auditory stimulation in patients’ lost frequencies as well as a “shower” sound to relieve the tinnitus. Users listen to the program for two hours daily for two months, then the shower sound is withdrawn for four more months of treatment, gradually training the brain to filter out the internal noise, according to the company.

“You get used to hearing the music and then your brain fills in with sounds that aren’t as irritating,” explains Michael Gillespie, a

Duke University professor who found the device helpful after an ear infection left him with tinnitus. Cleared by the Food and Drug Administration in 2005, the Neuromonics device has been used by 4,500 patients in the U.S., Australia, New Zealand and Singapore. The cost is roughly \$4,500.

For some patients, it’s not the noise itself that’s so distressing, but the anxiety that comes along with it. Researchers long theorized—and have now seen on brain scans—that the limbic system, the brain’s primitive fight-or-flight response, is highly activated in some tinnitus sufferers.

Some patients find that antidepressants or anti-anxiety drugs can bring relief. Many find their tinnitus is worse during times of stress, so yoga, acupuncture, deep breathing, biofeedback or exercise—may also be helpful.

A new magnetic pulse treatment—called repetitive Transcranial Magnetic Stimulation—seeks to break the tinnitus cycle in a different way. Researchers first conduct scans of patients’ brains. In people with severe tinnitus, “we notice that communication between parts of the brain responsible for hearing and maintaining attention are abnormal,” says Dr. Piccirillo. A magnetic coil placed over the auditory cortex outside the head sends pulses through the skull and attempts to disrupt the faulty communications. “We hypothesize that given half a chance, the brain can establish more normal connections,” he says.

One of the most effective treatments is cognitive behavioral therapy, which treats patients’ emotional reactions to tinnitus, not the noise itself. “The goal is to make your tinnitus like your socks and shoes—you’re wearing them, but you’re not actively thinking about them,” says Dr. Chandrasekhar.

—Javier Espinoza contributed to this article.

between the auditory cortex that governs hearing and the centers for attention, emotion and executive function.

“We have always wondered why some people find tinnitus so distressing. Now we can see it,” says Jay Piccirillo, an otolaryngologist at Washington University in St. Louis who is studying a new treatment for tinnitus that targets magnetic pulses at patients’ brains

Studies question the benefit of heart treatments

By RON WINSLOW

Some strategies commonly used to treat cardiovascular disease turn out to have little benefit.

The findings from recent studies suggest doctors and patients

HEART BEAT

should consider alternatives to the strategies where they exist. They also reflect a persistent phenomenon in medicine where doctors and patients embrace new technology only to find that it may not be good medicine once exposed to rigorous testing.

One of the treatments—a procedure called a PFO closure in which a device is deployed to seal a tiny hole in the heart—is performed thousands of times a year in the U.S. in an effort to prevent recurrent strokes in patients who have previously suffered a stroke of unknown cause.

But a 900-patient randomized study found it performed no better than standard blood-thinning medicines in preventing such events and that it was associated with complications not seen with the drugs. (PFO stands for patent foramen ovale, a small hole in the wall that divides the heart into left and

right chambers.)

In another large study, asking patients with congestive heart failure to provide their daily weight and other symptoms over a telephone monitoring system failed in its goal to improve survival or reduce frequent hospital readmissions. Controlled clinical trials showed that doubling the dose of the popular blood thinner Plavix for patients who don’t respond adequately to the standard dose and a pill to protect kidneys from potential harm during heart x-ray exams also provided little benefit.

“There are so many situations where we assume benefit and it doesn’t pan out,” says Harlan Krumholz, a cardiologist at Yale University, Connecticut, and senior author of the paper evaluating tele-monitoring of heart failure patients. Curtailing routine use of widely adopted strategies shown to have little benefit, researchers say, would spare patients the burden of ineffective and potentially harmful treatments and avoid wasteful health-care spending.

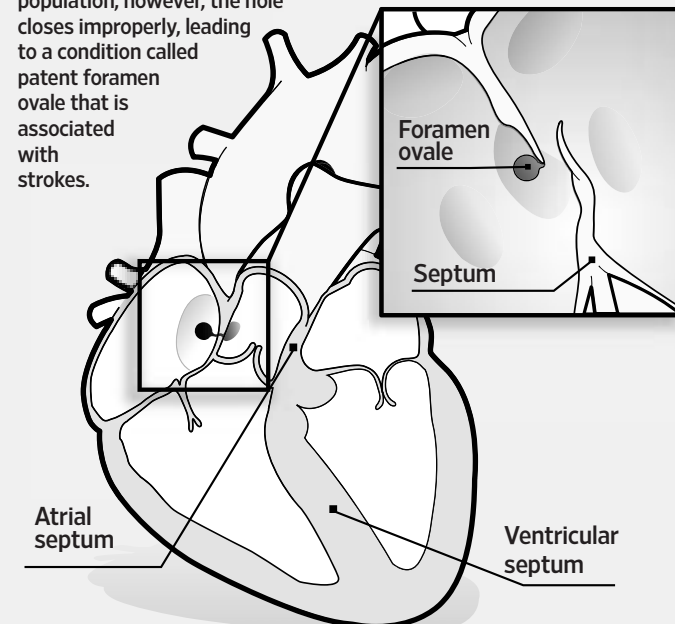
Hospitals are under growing pressure to reduce readmissions for congestive heart failure. Several small studies have found that

daily monitoring of weight and other symptoms can lead to quick adjustments to a patient’s diet or medication and prevent the need for hospital stays. But when Dr. Krumholz and his colleagues tested the idea in a 1,653-patient study, they found no significant reduction in readmissions or improvement in survival.

Meanwhile, several million patients undergo x-ray tests called coronary angiograms each year in the U.S. to check for arterial blockages that could lead to heart attacks. Contrast dye used to enhance the images can wreak havoc with kidneys. In 2000, the New England Journal of Medicine published a small study suggesting the generic drug acetylcysteine was especially effective in protecting kidneys against damage from the dye. Now, a 2,300-patient Brazilian study has shown no benefit. Brahmajee Nallamothu, a cardiologist at University of Michigan Health System, says while most patients who suffer ill effects from the dye recover, the findings underscore the need to use dye sparingly and make sure patients have adequate fluids when they undergo the procedure.

Whole heart

While in utero, a baby has a tiny hole in his heart that allows him to get oxygen directly from the mother. After the baby is born, the hole normally closes. In about 25% of the population, however, the hole closes improperly, leading to a condition called patent foramen ovale that is associated with strokes.



Source: Cleveland Clinic

SPORT

Battle of the bowling machines

England batsmen gain upper hand in the Ashes as Australia comes late to new technology

By JONATHAN CLEGG

When Australia's bowlers take the field in the third Test match of the Ashes series, which begins Thursday in Perth, England's batsmen will be licking their lips.

Through the first two games of this five-match series, English batters have scored two double-centuries, three hundreds and rung up a total of 1,397 runs, all for the loss of just 16 wickets. How did the English come to master Australia's once fearsome bowling attack?

With a little help from a robotic bowling simulator that delivers cricket balls exactly the way real-life bowlers do.

In one of the most surprising developments in the world of sports, a tradition-loving nation's most traditional sport is finally embracing technology. Back at England's National Cricket Performance Center in Loughborough, officials have installed the \$50,000 system which is capable of replicating the exact speed, spin, bounce and swing of any delivery from almost every bowler in international cricket.

Simply by pressing a keypad, England's batsmen can face Ben Hilfenhaus's 78-miles-per-hour out-swinger or a menacing 90-mph bouncer from Mitchell Johnson. "As long as we have the data, we can bowl any ball that has been bowled," said David Parsons, the English Cricket Board's performance director.

"It is as close as you can come to facing the real thing," said Steven Davies, an England wicketkeeper.

While this sort of technology may seem rudimentary to most professional sports—Major League Baseball has used digital pitching simulators for the best part of a decade—such advanced systems are relatively new to cricket. For reasons that range from cost to complexity, the nature of the sport and the game's hidebound traditions, cricket is usually seen as a sport for technophobes. For more than a century, this game's most sophisticated innovation was the introduction of the electronic scoreboard.

Even Tim Nielsen, the Australia coach, says he's still skeptical about the value of tech. "You can practice [with] that stuff as much as you like, but you can't replicate the feeling of success or failure and fear of failure or the crowd," Mr. Nielsen said.

One reason cricket has been slow to enter the digital age is that tracking matches that last for up to five days is an expensive business. Instant replay was introduced to assist umpires in 1992 and the digital video system Hawk-Eye, which records the path and velocity of every ball, is also now used to aid officials, but at a cost of about \$20,000 per game to install and operate, these systems are generally restricted to international matches.

Another problem: The dimensions of the cricket field makes capturing accurate video footage problematic. Unlike baseball, where filming can take place from behind the catcher, cricket's long boundaries mean it is difficult for cameras accurately to reproduce the batsman's perspective.

But lately, there are signs that cricket has quietly climbed aboard the tech revolution. "It's been a long time coming," said Marc Portus, sports science manager at Cricket



England's Kevin Pietersen leaps to celebrates hitting a century on day three of the second Test in Adelaide.

Australia's Center of Excellence.

England players spent the months before the Ashes series at their Loughborough headquarters using a spin-bowling machine powered by missile technology and a radar device made by a company from Copenhagen which measures the rotation the team's spinners impart on the ball.

The team's latest piece of gadgetry is Pro-Batter, the advanced bowling simulator that uses data from Hawk-Eye to allow batsmen to practice against the same Australian bowlers they are about to face. "We're trying to make batting more like it would be in a match," said Dene Hills, England's former batting coach.

The machine, which is manufactured by a Connecticut company and originally designed for baseball, places a batsman at the crease while a life-size video image of a bowler at the top of his run-up is projected on to a giant movie screen 22 yards away.

As the bowler begins his approach to the wicket, a cricket ball is queued up and at the precise moment of his release, the ball flies to-

wards the stumps from a small hole in the screen.

Unlike standard bowling machines, which typically consist of two fixed rubber wheels and fire out the same ball repeatedly so batsmen can concentrate on dealing with specific deliveries, Pro-Batter is equipped with discs that can be adjusted in any direction, allowing an operator to control the exact speed of a delivery and the degree that it swings through the air at speeds of up to 100 mph.

For batsmen, the variety can help hone timing and ball recognition.

"It's good because you get your visual cues—you can see the bowler running in rather than a coach putting a ball in a machine," said Mr. Davies, who opened the batting in England's second innings against Victoria last week. "There's more pressure than on a [normal] bowling machine."

So far, it appears to be working. England's top-order batsmen have made hay in the land Down Under, leading the country to a 1-0 lead after two games of the best-of-five-match Ashes series. Four of the top

six batters are averaging more than a hundred and England have scored successive totals of 500 or more for the first time since 2002.

In fact, the Australians are so convinced of the machine's benefits that a couple of weeks ago they installed their own version of the system England has been using for months. Mr. Portus said: "It's been a long time coming. England has said their machine has given them a great advantage in the Ashes series so we have neutralized that advantage."

Don't expect much of a difference right now, though: The Pro-Batter system has to be programed with actual footage of the bowlers before it can mimic their styles, and while Australia's players were filmed in the months before the series, England's bowlers weren't so obliging.

"The key is you're able to find the footage that is associated [with the bowler]," said Mr. Parsons, of the **England Cricket Performance Center**.

"But once they get used to it, I think they'll get a lot of benefit from it."

The Count



England's Ian Bell.

Tip of the day

England is in a commanding position ahead of the third Test match of the Ashes series, which begins Thursday at Perth's Waca ground in Western Australia. The tourists need to win just one of the three remaining Tests to take an unassailable lead in the five-match series that would ensure it retains the trophy.

History suggests England will struggle here. The country has recorded just one win and three draws from 11 visits here and has been convincingly beaten in each of its past five appearances at this ground. But this time around could be different.

Poor performances and injuries have combined to ensure the Australian side will again feature a number of changes. England coach Andy Flower will make one replacement of his own, with Chris Tremlett expected to replace the injured Stuart Broad, but his lineup is otherwise settled and more experienced.

England has also been the better team over the past two Tests and there is every reason to think it will continue its dominance at a venue where the home side has a poor recent record: Australia has lost two of its last three games at the Waca, so backing England at 13/8 on Betdaq is advised.

Looking at the individual performances, Ian Bell could shine here. He has scored 76 and a 68 not out in his two Test innings of the series so far. He also scored 87 on his last Test appearance at Perth so spread bettors would be encouraged to buy his runs with Sporting Index at 77.

6

Number of wins Gary Speed had recorded in his professional head-coaching career prior to his appointment as manager of the Wales national football team on Tuesday.

Source: Soccerway

THE QUIRK

Tour embraces ugly truth about town: It's a dump

In Charleroi, slag heaps + abandoned subway = tourist attractions

BY FRANCES ROBINSON
Charleroi, Belgium

NICOLAS Buissart leads an "Urban Safari" that includes climbing a slag heap, exploring never-used metro stations, walking down streets reputed to be the ugliest in this country, and visiting the house where the painter Magritte's mother lived—before she drowned herself in the canal. If this sounds like fun, hop into his van, which has no seats.

The first stop is a "ghost" metro station. Back in the 1960s, the city planned a 48-kilometer transit network with eight lines. In 1985, it ran out of money, leaving half-built lines and unused stations. "It's like a Japanese garden," says Mr. Buissart, who says he also works as an artist.

He started the tours 18 months ago, borrowed a friend's truck, set up a website to promote the outings, and started taking paying guests around this, his home town. "People don't come to the city," says the 30-year-old. "They should: Ugly things area fascinating."

The rundown industrial city of 200,000 in Belgium's French-speaking south is now best known for its no-frills airport—and other unpleasantness. Charleroi's 25.5% unemployment rate, for example, is more than double the national average. For the country's Dutch-speaking majority in more prosperous Flanders, it represents all that's wrong with Wallonia, the French-speaking south. Arguments over the welfare payments and subsidies directed to the south are the key reason Belgium hasn't had a government since June.

"That's why I bring people here, to show them what politicians do with their money," Mr. Buissart says, waving at the plastic casings that once covered copper wire since removed by thieves, as the rain enters the station horizontally. "And to impress girls."

Next stop is lunch on a converted river barge. Mr. Buissart has toted along a sack of baguettes and cardboard box containing some strong-smelling cheese, salami and American—a Belgian speciality made of raw ground beef and mayonnaise.

Lunch is interrupted by the boat's owner, who chases away the group, protesting that the Urban Safari leaves too much trash and pays him too little. With the visitors off the boat, he puts a 'PRIVE' sign on the gangplank.

"I've been on a tour of the favelas in Brazil and this is much, much more chaotic," says Howard Ryland, 29, a doctor from London. "At least they knew we were coming. And the van had seats."

The afternoon's attractions include a huge former steel works where rain drips down through cracks in the corrugated metal ceiling onto contemporary art installations ranging from giant metal sculptures of insects to a charred animal skeleton—probably a cat.

The art is displayed next to anvils, giant lifting hooks and other



A view of the industrial Belgian city Charleroi. At right: the Rue de Mons is a favorite of Mr. Buissart's Urban Safari tours of the town's 'ugly' streets.

reminders of the building's past. "There was glass, then steel and coal, the coke ovens," says the exhibit's organizer, Michael Saki, showing sepia photographs of the forges in their heyday. "Belgium was an economic force to be reckoned with, we had the second-biggest GDP in the world in the 19th century, and this was the heart of it."

The city doesn't shy away from its industrial past, with a museum commemorating a mining accident in 1956—which claimed 262 lives, a glass museum and one of Europe's largest photography museums.

"What's really missing from Charleroi is pride and a collective will to change things," says Antoine Tanzilli, the councilor responsible for promoting tourism at City Hall. "Like its American cousin and twin town, Pittsburgh, Charleroi was the industrial heartland."

But the excursions aren't all about industry. For those who put in special requests, there are trips to the house where the painter Magritte's mother lived prior to her suicide, and the home where serial killer Marc Dutroux imprisoned his victims. Mr. Buissart defends these by saying they're included only to satisfy the specific curiosity of some guests.

City authorities haven't taken kindly to the tour. They say the city has turned a corner.

"The cultural life of Charleroi is very rich," insists Mr. Tanzilli. "Although it's not a tourist town in the conventional sense, we get visitors due to the airport, and there are some architectural jewels."

New transport and business projects, he reckons, will reinvigorate the city center.

The tour has its detractors. "What's next?" asks one critic on its website. "Meet a townie in their traditional costume of track-suit and trainers." For Mr. Buissart, however, there's no looking back. Bookings for the €25 (\$34) tour, he says, are robust.

"People are coming from abroad and all over the country," he says. He's even started selling "I love Charleroi" T-shirts and bumper stickers—in Flemish and French.

The afternoon finale consists of

admiring Charleroi from one of its many slag heaps. In the fading daylight, Mr. Buissart offers swigs from a bottle of Red Label whisky to prepare for the climb. Scrambling up the black waste, Mr. Buissart shows off the boots he bought recently in Brooklyn.

He says: "I had 24 people last weekend. People from Charleroi can't believe people want to come and visit their town. But think about it, in a village in Spain, do people ever ask them if they want a bunch of Belgians and Brits and Dutch tourists coming over?"

WSJ.com

ONLINE TODAY: See photos of Charleroi at WSJ.com/World



THE WALL STREET JOURNAL.

EUROPE

THE/FUTURE LEADERSHIP INSTITUTE/

Bringing Universities and Businesses Together

Powered by EXECUTIVE LEARNING PARTNERSHIP



www.wsje-flp.com

The Wall Street Journal Europe Future Leadership Institute is a platform designed to bridge the gap between universities and industry. The Institute organizes an ongoing series of seminars and networking opportunities to bring together industry leaders and university students to exchange views and concerns on local and global issues and identify solutions.

Today, the WSJE Future Leadership Institute is widely recognized as a pioneering open business forum inviting potential readers, clients and partners to create content, seminars, conferences and networking platforms in a cloud-sharing environment.

For further information contact: gert.vanmol@dowjones.com

E/P Executive Learning Partnership - ELP: Strategy & Learning Architects: www.elpnetwork.com

WORLD WATCH

* * *
Euro-Zone Crisis

■ **European Central Bank** President Jean-Claude Trichet called on European Union governments to enhance the financial rescue vehicle they set up in the wake of the Greek debt crisis. The ECB has discussed the idea of a capital increase and may take a decision on the issue when its governing council meets Thursday, a Euro-system official said.

■ **Portuguese** Prime Minister Jose Socrates, who is readying a new debt issue for Wednesday, said his government's stark budget cuts are stabilizing public finances. Portugal has to sell €500 million (\$670 million) in three-month treasury bills in its last auction of the year.

■ **Standard and Poor's** lowered its ratings outlook on Belgium to negative from stable, saying if the country fails to form a government within six months it could possibly face a one-notch downgrade. The ratings agency also affirmed the country's AA+ rating, the second-highest level, on a better-than-expected 2010 government budget outcome.

* * *
WTO

■ **China's** commerce ministry said it would appeal a World Trade Organization ruling that upheld U.S. restrictions on imports of Chinese-made tires, despite doubts from experts on whether it could prevail in the next round of a high-profile trade dispute.

* * *
Europe

■ **A plan** for twelve nations from the 27-member European Union to create their own single patent would help inventors and end a stand-off over languages, the EU's executive arm said. Proposals for a single EU patent have been under discussion for over a decade, but member countries reached a stalemate over language rules.

■ **The euro-zone economy** looks set to achieve a healthy fourth quarter, with an ongoing strong performance in the core member states expected to limit the likely poorer outcome from the smaller, peripheral economies.

■ **Italy's Prime Minister** Silvio Berlusconi narrowly won a confidence vote in the lower house of the Italian Parliament, surviving a crucial political and personal challenge, but seeing his ability to govern hampered at a time when European leaders are facing major fiscal turmoil.

■ **Students** across Italy demonstrated against a bill to reform universities and slash funding. In Milan, some forced their way into Italy's stock exchange, strewing the building with leaflets that read "give us our money back" and unfurling banners that denounced the governing coalition as "shady businessmen, racists and thieves."

■ **German authorities** raided homes and religious schools connected to two radical Islamist groups with suspected terrorist links, the Interior Ministry said. The raids, in the western cities of Moenchengladbach, Braunschweig and Bremen, were aimed at

Salafist groups' "Invitation to Paradise and Islamic Culture Center Bremen," a ministry spokesman said in a statement.

■ **A U.K. judge** granted detained WikiLeaks founder Julian Assange bail as he fights sexual-misconduct accusations in Sweden, but he will remain in custody after Swedish prosecutors said they would challenge the decision.

■ **U.K. consumer-price** inflation unexpectedly accelerated in November to remain at least a percentage point above the Bank of England's 2.0% target for the 11th consecutive month.

■ **The European Central Bank** criticized Hungary for failing to observe central bank independence in several instances.

* * *
U.S.

■ **Federal Reserve officials** stuck to their easy-money policy of buying U.S. Treasury bonds and keep-

ing short-term interest rates near zero. The Fed was restrained in its assessment of the economy. The recovery is continuing, "though at a rate that has been insufficient to bring down unemployment," the central bank said in a statement at the end of the meeting.

■ **The Justice Department** on Wednesday is expected to seek to join civil lawsuits resulting from the Gulf of Mexico oil spill, the first major federal legal action in the probe of the disaster, according to people familiar with the matter.

■ **Richard Holbrooke**, the State Department's special representative for Afghanistan and Pakistan, died Monday, according to a senior Obama administration official. The 69-year-old suffered a torn aorta Friday and underwent more than 20 hours of surgery in recent days, but never recovered from the heart ailment.

■ **U.S. retail sales** increased by 0.8% last month, more than ex-

pected, as holiday shoppers streamed into stores and went online to buy sporting goods, clothes and other merchandise. Sales in October surged 1.7%, revised up from a previously estimated 1.2% increase.

■ **Democrats** in the House of Representatives introduced a bill to overturn the Pentagon's ban on gays serving openly in the military, adding momentum to an effort to repeal the policy before the end of a lame-duck session in Congress.

* * *
Americas

■ **Canada's military** began airlifting hundreds of motorists stranded for 24 hours on a stretch of highway in southwestern Ontario, after a blizzard snarled traffic and caused a key U.S.-Canada bridge to suspend commercial traffic into the province.

■ **Venezuela's opposition** denounced President Hugo Chávez's

request to be granted emergency powers to legislate by decree for 12 months.

* * *
Asia

■ **Japanese Prime Minister** Naoto Kan proposed cutting the nation's 40% corporate tax rate by five percentage points in the fiscal year beginning in April, ending weeks of debate among ministers over the scale of the cut as the government seeks to boost the country's sluggish growth.

■ **A Chinese official** said authorities were on their way to rescue a group of mentally-ill workers who state media reports said were enslaved in a factory and given dog food to eat. Reports have said 11 workers, including eight mentally-ill people, were sold to a building materials factory in the region of Xinjiang to work without pay.

■ **Indonesia's parliament** approved a long-awaited measure curbing fuel subsidies in Jakarta in a move that will ease government budget pressures but also likely quicken inflation at a time when rising costs are worrying economists across Asia.

■ **In Bangladesh**, a devastating blaze raced through a garment factory near the capital of Dhaka, killing at least 25 people and injuring more than 100, witnesses and news reports said. A fire official said the fire started in a 10-story factory owned by local business giant Hameem Group in the Ashulia industrial zone.

■ **India's inflation rate** decelerated to 7.48% in November from 8.58% in October, the government said. The central bank estimates inflation to ease to 5.5% by the end of the current fiscal year in March.

■ **Indian Prime Minister** Manmohan Singh called on corporate India to improve its ethics, as New Delhi continues to reel from the fallout of a telecom scandal and revelations from the leaked telephone conversations of a lobbyist.

* * *
Africa

■ **South Africa** eased exchange controls to make it easier for money from the country to be invested abroad. Limits on the amount of money institutional investors can invest offshore have been raised by five percentage points.

■ **Ghana** is set to become Africa's newest oil producer on Wednesday when one of the world's biggest recent oil-field discoveries comes online. The 1.5 billion-barrel Jubilee field has drawn interest from Western and Chinese oil multinational corporations as well as American venture capitalists.

■ **Alassane Ouattara**, the man whom most of the world recognizes as Ivory Coast's president, pressed ahead with plans to force his opponent to relinquish power, aiming to seize the state treasury and take control of government buildings.

Japanese prime minister pays respects to war dead on Iwo Jima



Prime Minister Naoto Kan prays by a recently discovered mass grave containing the remains of Japanese soldiers who died in one of World War II's fiercest battles. He is the second sitting prime minister to visit the remote Pacific island.

WSJ.com

To read more about these items, and for all the latest breaking news, go to WSJ.com/World

BUSINESS WATCH

Japanese car makers Nissan, Mitsubishi to increase cooperation



Nissan President Carlos Ghosn bows at a news conference with Mitsubishi President Osamu Masuko announcing the firms will supply more models to each other and explore joint development of vehicles. Reuters

* * *
Autos

■ **The U.K. government** said nine electric cars will initially be eligible for a grant that could reduce the cost of each vehicle by up to £5,000 (\$7,930) as it also announced that five new areas of the country have won funds to install electric car charging points.

■ **Audi Chief Financial Officer Axel Strotbek** expects the German luxury car maker to grow further in 2011, fueled by booming demand in China, but he dampened hope that this year's global sales target of 1.08 million vehicles could be exceeded significantly.

* * *
Aviation

■ **The trade union** that represents cabin crew at British Airways gave notice of its intention to ballot members for a strike action in the latest twist in a long-running dispute.

■ **International airlines** will likely beat earlier profit forecasts this year on revived passenger and cargo traffic, but the industry remains fragile and underlying profitability is weak, according to the latest industry forecast.

■ **Ryanair Holdings**, Europe's largest low-cost carrier, will cut more routes, planes and jobs in Germany in response to a planned tax increase on air travel due to come into effect in January.

■ **Qantas** will see revenue from its lucrative long-haul North American route fall but expects engine maker Rolls-Royce Group to fix the problem that forced one of its A380 jetliners to make an emergency landing last month.

* * *
Banks

■ **Ireland's Finance Minister Brian Lenihan** instructed Allied Irish Banks to renege on almost €40

million (\$53.6 million) of staff bonuses after public outcry over the impending payments at the state-supported bank.

■ **Sberbank Chief Executive German Gref** said the Russian government will probably sell more than 5% of the bank as global depositary receipts during Russia's latest wave of state asset sales, giving some investors access to the bank's equity for the first time.

■ **The South Korean units** of Barclays and JP Morgan Chase have been warned by regulators for selling currency derivatives that broke local regulations and have been asked to punish the responsible officials.

* * *
Chemicals

■ **Lanxess**, the German chemicals company, said it will acquire DSM Elastomers from Dutch company Royal DSM for €310 million (\$415 million).

* * *
Energy

■ **BP's total asset sales** this year rose to almost \$22 billion as the company agreed to sell its oil and gas assets in Pakistan to United Energy Group for \$775 million in cash. BP will use the proceeds of the sales to help cover the estimated \$40 billion cost of the Gulf of Mexico oil spill.

* * *
Entertainment

■ **Betfair**, the online betting exchange, reported a sharp slowdown in sales growth in the second quarter as the sheen of the soccer World Cup faded, exposing problems in its horse racing and poker products. First-half sales grew 27% to £213.3 million (\$338.3 million) including high rollers, which breaks down into first-quarter sales growth of 22% but second-quarter growth of just 1.6%.

* * *
Financial services

■ **A group of investors** including hedge-fund manager Paulson & Co. are weighing a competing reorganization plan for Lehman Brothers Holdings that would provide a better recovery to creditors of the original Lehman parent company while offering a smaller payout to some creditors of Lehman subsidiaries, according to a person familiar with the investors' thinking. The plan counters the one put forth by Lehman.

■ **Nilesh Shah**, deputy managing director of ICICI Prudential Asset Management, one of India's largest mutual-fund firms, has quit. ICICI Prudential, a joint venture between ICICI Bank and the U.K.'s Prudential, manages 700 billion rupees (\$15.5 billion) in mutual fund assets as of September 30.

* * *
Health

■ **HCR ManorCare**, one of the largest nursing-home and post-hospital-care companies in the U.S., is selling its real-estate assets to HCP, a publicly traded real-estate investment trust focused on health care, for \$6.1 billion.

* * *
Metals and mining

■ **India's steel ministry** has asked a joint venture of five state-run companies to consider bidding for Riversdale Mining, in what could further intensify a battle for the Australian coal miner. Riversdale said earlier this month it is in talks with Rio Tinto about a 3.55 billion Australian dollar (US\$3.53 billion) takeover, but Rio Tinto is yet to submit a formal offer.

* * *
Pharmaceuticals

■ **Sanofi-Aventis** named Elias Zerhouni as its new head of research and development, as the French drugs giant pushes ahead

with plans to redesign its product portfolio.

* * *
Retail

■ **Best Buy**, the biggest U.S. consumer-electronics retailer by sales, reported a 4.4% drop in fiscal-third-quarter profit to \$217 million on weak sales trends.

■ **Lotte Shopping**, the South Korean retail giant, is targeting China and Russia over the next eight years to boost its overseas sales to 30% of the total from just above 10% expected for this year.

* * *
Services

■ **India's Tata Consultancy Services** said it got a software implementation order worth more than \$50 million to transform the global banking system of Deutsche Bank, reflecting the sustaining rise in demand for outsourcing services.

* * *
Technology

■ **Nokia**, the world's biggest mobile phone maker, said it has delayed shipments of its new E7 smartphone to early 2011 from the fourth quarter of this year, meaning it will miss the peak end-of-year shopping season.

■ **France's antitrust watchdog** said Google has a dominant position in the French Internet search advertising market, a decision that could lead to further scrutiny of the U.S.-based web giant's business practices in the country.

■ **Samsung Electronics** bought a controlling stake in Medison, a South Korean medical-equipment company, the first step in a long-discussed plan to diversify from consumer electronics.

■ **Yahoo** is preparing to cut as many as 650 jobs, or almost 5% of its workforce, according to people

familiar with the situation. The cuts will be targeted at Yahoo's products group, which builds Web properties like the company's popular news, sports and finance pages, as well as its widely used email service.

* * *
Telecommunications

■ **Huawei Telecommunications (India)**, the local unit of China's Huawei Technologies, said it will invest about \$2 billion over the next five years to set up a new research and development center and expand its presence in the South Asian nation.

* * *
Travel

■ **TUI**, a holding company with assets in tourism and shipping, said its full-year net profit fell 40% to €101.8 million (\$136.3 million), but added strong growth in its TUI Travel unit should boost earnings in 2011. The company said the decline in profit was largely due to the sale in the previous year of a majority stake in its container-shiping unit, as well as air-traffic disruptions caused by the Icelandic volcanic-ash cloud earlier this year.

* * *
Utilities

■ **REpower Systems** said its U.S. unit has received a contract to deliver 51 megawatts of wind turbines to U.S.-based EverPower Wind Holdings. REpower USA will deliver 25 turbines in the summer of 2011 and commission them by the end of the year, the parent company said in a statement. The companies have also entered into a long-term service and maintenance agreement.

WSJ.com

To read more about these items, and for all the latest breaking news, go to WSJ.com/Business

barcap.com

WE LIVE BY ONE SIMPLE
MEASURE OF SUCCESS.
YOURS.



To achieve your vision of success, we focus on you. With Barclays Capital as your investment bank, you get a dedicated partner that delivers world-class integrated solutions. An approach that provides you access to strategic advisory capabilities, risk management expertise and a full spectrum of financial products and services at the most relevant times. Because your success is our benchmark for success.

Earn Success Every Day

 **BARCLAYS
CAPITAL**