

Dozens of asylum seekers dead in Christmas Island shipwreck

WORLD NEWS 10

Novartis purchases rest of Alcon for \$12.9 billion

BUSINESS & FINANCE 17

THE WALL STREET JOURNAL.

VOL. XXVIII NO. 225

EUROPE

Thursday, December 16, 2010

DOW JONES
A NEWS CORPORATION COMPANY

europe.WSJ.com

Obama seeks executives' input on growth



Reuters

U.S. President Obama walks to the White House after meeting with CEOs about boosting the economy. A new WSJ/NBC poll shows most Americans say Mr. Obama has gotten the message from the midterm election 'shellacking,' while his approval rating was steady at 45%. **Articles on page 7**

Spain auction of new bonds to test market

Spain faces a key test Thursday of investor confidence in its economic survival plan as it seeks to raise money from bond markets a day after ratings firm Moody's Investors Service rekindled worries about the country's ability to service its debt.

By Thomas Catan in Madrid and Bernd Radowitz in Berlin

Spain is regarded as an essential barrier to the spread of financial contagion in the 16-nation euro zone after a year of financial turmoil in which bailout packages have been mounted to rescue the much-smaller economies of Greece and Ireland.

The success of Spain's €3 billion (\$4 billion) bond auction is being seen as a litmus test of market confidence on a day in which European Union leaders convene in Brussels to discuss a perma-

nent bailout fund for weak euro-zone economies.

Moody's said Wednesday that it was concerned about the size of Spain's refinancing needs next year and the possibility that it might have to inject fresh capital into its banks, which have been hurt by a property bust. After lowering Spain's debt rating a notch in September, it placed the rating on review for a further possible downgrade within three months.

The agency expressed skepticism about the ability of the Spanish government to implement an austerity plan to cut its budget deficit, given the fact that its regions control so much public spending. Even so, Moody's said it thought Spain would still be able to pay its debts without its own EU bailout.

Spain's central government must raise around €170 billion in 2011, Moody's said, on top of €30 billion by the country's regional governments. It

added that Spanish banks, whose funding capacity partly depends on the fortunes of the Spanish government, must refinance about €90 billion of debt next year.

Finance Minister Elena Salgado noted that Moody's hadn't placed the country's solvency in doubt. The agency, she suggested, had merely said that "we should accelerate the reforms, which we're doing, and control the deficit in the regions."

Spain's auction on Thursday of 10- and 15-year bonds comes after neighboring Portugal, whose heavy financing needs are also in investors' sights, was forced to pay substantially higher interest rates to raise money. The Lisbon

Please turn to page 4

- European employment data expose gap 4
- Violence erupts during Greek strike 5
- Ratings firms add to pressure on Europe 32

£1.50
 Bahrain BD 1.50 - Egypt \$1.75 (CV)
 Jordan JD 2 - Kuwait KD 1 - Oman OR 2
 Qatar QR14 - Saudi Arabia SR 14
 THE WALL STREET JOURNAL.
 5.0
 9 779219 986948

The Quirk



Maternal mystery: a billionaire's triplets bring joy, and legal questions, in Hong Kong. Page 29

World Watch

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

Editorial & Opinion

How not to save the euro. Page 12

Fears about extremism widen to Scandinavia

BY CASSELL BRYAN-LOW

Sweden's recent suicide bombing underscores a growing reality in the terror world: The threat of attacks is spreading beyond locations traditionally considered targets for Islamic extremists.

Scandinavia is emerging as one such new frontier, with a number of arrests and other incidents over recent months in the region, including in Norway and Denmark.

That notion was punctuated Wednesday when the Swedish Security Service, SAPO, issued a report saying that a number of Islamist extremist networks are operating in the country. The groups

embrace violence, mostly focused against foreign troops in Muslim countries, according to the government-commissioned report into radicalization. SAPO has identified close to 200 individuals domiciled in Sweden, mostly males of varying ages and backgrounds, who it says are involved in the groups.

"The most serious potential threat to Sweden is the long-term effects of people from Sweden choosing to travel abroad to join violence-promoting Islamist extremist groups," the report said. "This type of travel has seen an increase lately and there are currently no signs of falling interest in joining foreign

groups."

The comments come as Swedish authorities continue to investigate the country's first serious attempt by Islamic extremists at targeting civilians. Police are looking for possible accomplices to the man who died in the suicide bombing Saturday afternoon in Stockholm, near streets frequented by Christmas shoppers, injuring two others.

Western authorities' focus has traditionally been on the vulnerability of European countries such as the U.K. and Germany. But in recent years, other countries have proved to be potential targets for those with extremist ideas.

Please turn to page 3

Fastest Ever Database Performance

	Sun SPARC	30 Million
	IBM P7	10 M
	HP Superdome	4M

tpmC Transactions/Minute

ORACLE®

Source: Transaction Processing Performance Council, www.tpc.org as of 12/2/10. Oracle SPARC SuperCluster with T3-4 Servers, 30,249,688 tpmC, \$1.01/tpmC, available 6/1/11. IBM Power 780 Server, 10,366,254 tpmC, \$1.38/tpmC, available 10/13/10. HP Integrity Superdome-Itanium2, 4,092,799 tpmC, \$2.93/tpmC, available 8/6/07. More at oracle.com/sunoracelfaster. Copyright © 2010, Oracle and/or its affiliates. All rights reserved.

PAGE TWO

An insult to those paying the RBS bill

[Agenda]

BY PATIENCE WHEATCROFT



Royal Bank of Scotland was once a proud and prudent Scottish institution. It turned into a financial fool, apparently throwing money at almost anyone who came through its doors offering a dire private-equity deal or a third-rate property scheme. With seemingly boundless bravado, it led the disastrous €71 billion (\$94 billion) consortium bid for **ABN Amro** in 2007, just a year before the financial crisis.

In short, RBS turned from careful to catastrophic, requiring a government rescue that has left British taxpayers owning 84% of the bank. Yet in the words of the U.K.'s financial regulator, "we did not identify any instances of fraud or dishonest activity by RBS senior individuals or a failure of governance on the part of the board."

Clearly, the Financial Services Authority failed to spot that anything was going wrong, as Sir Fred Goodwin, the then-chief executive, and his gang were squandering the bank's heritage and its shareholders' cash. However, that the FSA should reach this conclusion after a 19-month investigation was a cause of widespread amazement when the verdict was announced this month.

How could the RBS debacle not constitute a failure of governance? Those who were puzzled by this question were intrigued to read the FSA's report to see how its extensive investigation had led to such a conclusion. There has, therefore, been much criticism of the FSA's original contention that it wouldn't be publishing its report. The issue was one of confidentiality, the organization explained.

Yet an investigation that takes 19 months to work out that "a series of bad decisions" had been



The London headquarters of the Royal Bank of Scotland.

made, but then keeps the details a secret just between the regulator and those it investigated is an insult to those who are paying the bill for RBS's failings. A rigorous examination of what went wrong should hold lessons for other financiers, regulators, investors and legislators.

The FSA's chairman, Adair Turner, maintained that, if he were free to do so, he would publish the report. He might then have been damned, since readers would have noted that there was no criticism of the FSA's role in the affair. That, apparently, is

The solution now proposed is not entirely satisfactory either and is unlikely to placate critics.

because "supervisory investigations" look solely at the institution under the spotlight and not those who were supposed to be watching them.

But, in a wonderful Alice-in-Wonderland way, the FSA's decision not to proceed with any enforcement action against RBS or those who led it to disaster meant that the report had to remain confidential unless those involved consented to publication.

RBS has not been prepared to consent. "Extremely unsatisfactory" is how Lord

Turner described the situation, responding to a letter from the chairman of the House of Commons Treasury Committee.

The solution now proposed is not entirely satisfactory either and is unlikely to placate critics. The FSA is proposing to compile a new report, based on its investigation but also looking at any failings in the FSA's approach. (In a pre-emptive strike, Lord Turner points out this approach "we have now radically changed.")

But the new report won't contain all of the information that was in the confidential one and RBS, it seems, will continue to have a right of veto over what is included. Readers will be left wondering what has been redacted, not least because of recent revelations from WikiLeaks that indicate that the current RBS chairman, Sir Philip Hampton, has a rather less-flattering view of his predecessors than does the FSA. He is quoted in cables as having lambasted the bank's purchase of ABN Amro as having been done without proper due diligence and amounting to a failure of the board in its fiduciary duties.

Lord Oakeshott, the Liberal Democrat's Treasury spokesman, has written to Sir Philip asking him to confirm that these are his views. The former directors, led by Sir Tom McKillop, the chemist who mistakenly swapped the chief executive's role at **Astra Zeneca** to become chairman of RBS, will, no doubt, be keen to learn of his

response. It cannot deprive them, though, of the relief they must have felt when the FSA concluded that it had not failed in its governance of RBS.

Jobless and hopeless

A new report from the Organization for Economic Cooperation and Development points to the real victims of the crash: the growing number of young unemployed people.

The report calculates that since the start of the global economic crisis, almost 3.5 million more have joined the ranks of those between 15/16 and 24 who are unemployed. Youth unemployment hit 18.5% in the third quarter, more than double the overall jobless rate.

These young people run the risk of being permanently scarred by their lack of work. Research by OECD shows that those who are unemployed at this stage in their lives may be disadvantaged even if they do eventually find work, since their earnings can remain below the average for many years. Even worse, many become disillusioned and simply stop looking for work.

Few governments are responding effectively to this problem, argues the OECD. Its proposed remedies generally require investment, whether it be the provision of effective help in job-searching or temporary subsidies for those firms that take on low-skill youths. But there is a growing realization that apprenticeships offer an opportunity to youngsters while building a skilled work force. Companies should enthusiastically embrace them.

Uniformly dull

Jeans and T-shirts might not be appropriate dress for a retail banker wishing to make clients feel their financial affairs were in safe hands. **UBS**, however, has drawn up a dress code more appropriate for zombies. Can one feel confident in the judgment of any banker who needs to be told what underwear is acceptable?

What's News

■ **Spanish construction firm ACS** raised its hostile bid for Germany's Hochtief by 12.5%, hours after its initial offer was rejected, increasing the stakes in the closely watched takeover battle. 19, 32

■ **Governments from major industrial countries** are getting close to an agreement on subsidies for exports of commercial airplanes. 17

■ **A Russian judge delayed** the reading of the verdict in the second trial of oil tycoon Mikhail Khodorkovsky until Dec. 27, in the latest twist in the case. 6

■ **The U.S. unit of Danone** agreed to settle investigations into alleged false advertising about the health benefits of its Activia yogurt and DanActive dairy drinks. 17

■ **A European investigator** called for a probe into allegations that former Kosovo guerrilla fighters killed prisoners to sell their organs on the black market in 1999. 5

Inside



When a loved one explodes: how to cope with it. 27



How Penguins' Sid the Kid makes ice hockey look easy. 28

ONLINE TODAY

Most read in Europe



1. UBS to Staff: Dress to Impress
2. Venice Canal Apartment
3. Moody's May Cut Spain Debt
4. Don't Forget 1990 EU Lessons
5. Berlusconi Narrowly Survives

Most emailed in Europe

1. UBS to Staff: Dress to Impress
2. 'Ugly' City Gets Its Due
3. What Makes Kids Creative
4. Novartis Buys Rest of Alcon
5. Turn Off the Ringing Sound

New Europe

blogs.wsj.com/new-europe

'The trial has been watched in Brussels as a test of Sofia's efforts to clamp down on corruption.'

The case of **Valentin Dimitrov** highlights the work ahead in Bulgaria



Continuing coverage



Follow developments from the two-day summit in Brussels at wsj.com.

Question of the day

Should the EU do more to address the euro zone's debt problems?

Vote online at wsj.com/polls

Previous results

Q: Should Google be allowed to place its own enterprises first in the site's search results?

Yes

58%

No

42%

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 NV. 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 Telesampa 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 Basinevi.

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

Manga artists balk at sex censorship

By MARIKO SANCHANTA

TOKYO—A battle has erupted between the normally placid manga community and Tokyo's conservative governor over a new law that heavily restricts sales in the city of manga comic books with what the ordinance calls "extreme" depictions of sex.

The brouhaha has become so big that even Prime Minister Naoto Kan is attempting to bridge the divide between the industry, producer of one of Japan's most cherished cultural exports, and Tokyo's metropolitan government. A group of manga artists and publishers has said it will boycott Tokyo's massive International Anime Fair in March.

That threat could hobble sales of the country's beloved comic books. As Japan's economic star continues to be eclipsed by China, cultural exports remain one of Japan's few globally robust sectors.

People around the world know of Japan partly through its vivid, fantasy-world array of manga characters: cats with magical powers, humans who morph into robots, boys who slay dragons and girls with superpowers.

"Upbringing of youth is an important matter. But at the same time, it's also important to present Japan's anime to the world," Mr. Kan wrote on his blog Monday. "I would like people concerned to make an effort so Tokyo won't need to step down as the host of the International Anime Fair."



A new law in Tokyo gives the metropolitan government broader power to restrict the sometimes racy comic books.

The Tokyo Metropolitan Assembly on Wednesday enacted an ordinance that vastly expands a law meant to restrict people younger than 18 from purchasing or flipping through manga depicting rape, sex crimes, incest and "sexually explicit acts and graphic images that are not acceptable morally." By making previous rules broader and more clear, the Tokyo government will have the authority to deem more manga as

"unwholesome books," which restrict where and how they can be sold.

A group of 10 major Japanese publishers, including **Kodansha Ltd.**, **Shueisha Inc.** and **Kadokawa Group Publishing Co.**, said they will refuse to take part in the anime fair, which this year attracted more than 100,000 people, a record. The publishers said that the Tokyo government, led by Gov. Shintaro Ishihara,

didn't discuss the ordinance in advance with publishers and artists. Artists said the rules will stifle freedom of expression and creativity.

"We cannot help but say it is a vicious act that [the Tokyo metropolitan assembly] enacted the ordinance without full-fledged discussions," said the group, which includes the Japan Magazine Publishers Association.

Nobuhiro Komiya, an official in

the department in charge of the ordinance revision, said the government held talks with publishers twice and tried to hold a third meeting that the publishers refused to attend. "It's really regrettable that they say such a thing. That's not true," Mr. Komiya said.

The vast majority of manga in Japan aren't pornographic, with internationally known titles such as "Dragon Ball," "Naruto" and "Sailor Moon" attracting global readers of all ages.

But what sets Japan apart from much of the West is that here it is considered socially acceptable to read manga depicting sexually explicit acts. It is common to sit next to a suit-wearing Japanese commuter who is nonchalantly paging through cartoon sex scenes. Pornographic magazines with women dressed as Japanese schoolgirls on the cover are available at convenience stores around Tokyo, without anything obscuring the cover.

The only concession is that such publications are labeled "adult-only" and sealed shut, preventing browsers from peeking inside.

The Tokyo government monthly sends officials to bookstores to pick up 120-130 publications, 80% of which are comics that look pornographic but aren't labeled as such. The government then has a special committee discuss whether the publications should be labeled as unwholesome.

—Miho Inada
contributed to this article.

Fears over extremism widen to Scandinavia

Continued from first page

"The Nordic countries are not different from the rest of Europe," said Göran Larsson, an associate professor at the University of Gothenburg, Sweden, who focuses on Islam. While millions of Muslims live in Germany and the U.K., Muslims account for a share of Scandinavian countries' populations that is as large, if not larger. Sweden's estimated 350,000 to 400,000 Muslims constitute about 4% of the population, says Mr. Larsson, a percentage that is higher than in Germany or the U.K.

The move by Danish newspaper Jyllands-Posten in September 2005 to publish cartoons depicting Prophet Muhammad sparked protests by Muslim communities around the world, with demonstrators setting fire to Scandinavian embassies abroad. Under Islamic tradition, images of the Prophet are banned. Further controversy was caused when in 2007 a Swedish newspaper published a drawing by local artist Lars Vilks also depicting the Prophet.

This summer, Norwegian police arrested and charged three alleged al Qaeda members suspected of having links with those suspected of plotting to bomb U.K. targets and the New York subway system. Police have named the suspects as 39-year-old Mikael Davud, a Uighur who became a Norwegian citizen in 2007; Shawan Sadek Saeed Bujak, a 37-year-old Iraqi Kurd; and Uzbek national David Jakobsen, 32 years old.

Norwegian police allege that from August 2009, the men had been

gathering hydrogen peroxide and other material intended for bomb-making and that their targets included Danish newspaper Jyllands-Posten and the Chinese Embassy in Oslo.

Norwegian police have charged the men with planning a terror attack and handling explosive materials. Messrs. Davud and Bujak remain in police custody. Mr. Jakobsen has been released but still faces charges. The investigation is continuing.

Arild Humlen, a lawyer representing Mr. Davud, said his client has admitted to planning an attack, but that it was against the Chinese Embassy to protest the treatment of the Uighur people and wasn't motivated by Islamic extremism. Lawyers for the other two couldn't be reached.

Norwegian police have said radicalization continues to occur in the country, with the main task being to collect money and transfer it to extremist organizations abroad. "Some individuals in Norway provide active support to extreme Islamist players abroad who have a local or regional agenda," Norwegian police said in a 2010 threat assessment.

In September, Danish police arrested and charged 34-year-old Chechen man, Lors Doukaev, with detonating a bomb in a Copenhagen hotel. Danish police said they believed Mr. Doukaev had been plotting to blow up Jyllands-Posten, the Danish paper, but that something went wrong. Mr. Doukaev, who was injured in the blast, is in police custody. His lawyer couldn't be reached to comment.

Cartier

CALIBRE DE CARTIER
FLYING TOURBILLON 9452 MC

18K WHITE GOLD 45 MM CASE, BLACK ALLIGATOR STRAP. MECHANICAL MOVEMENT WITH MANUAL WINDING, CARTIER CALIBRE 9452 MC (10 AND 3/4 LINES, 19 JEWELS, 21,600 VIBRATIONS PER HOUR). SECONDS INDICATED BY THE C-SHAPED TOURBILLON CAGE. MANUFACTURE MOVEMENT IN ACCORDANCE WITH THE GENEVA HALLMARK TRADITION: PIECES WITH POLISHED ANGLES AND FILE STROKES, POLISHED SCREW HEADS AND JEWELS, BEVELLED GEARTRAIN WHEELS ON BOTH SIDES, POLISHED PINION SHANKS AND FACES.

EUROPE NEWS

Europe's job data expose gap

LONDON—Employment failed to grow across the 16 countries that use the euro in the third quarter, with the divergence between the larger core nations and struggling peripheral ones becoming more apparent as the year progressed, official data showed Wednesday.

By Ilona Billington,
Ainsley Thomson
and Laurence Norman

The euro zone's third-quarter employment growth rate was zero compared with the second quarter after a 0.1% increase in the second quarter from the first, the figures from European statistical agency Eurostat showed.

In annual terms, the number of people employed declined again, although at a slower rate, falling at a pace of 0.2% after a 0.6% decline in the second quarter from the year-earlier period.

In Greece, employment contracted again, falling 0.7% compared with the second quarter, the same decline reported in the second quarter compared with the first.

In Spain, the number of employed people fell 0.7% in the third quarter after a 0.1% decline in the second.

Third-quarter details for Ireland were unavailable.

By contrast, in Germany more people were employed between July and September this year, with employment growing 0.3%, although that was a slight slowdown from the 0.4% quarterly increase reported for the second quarter.

In France, the employment growth rate was 0.2% in the third quarter from the second, the same pace of growth reported from April to June, Eurostat said.

The divergence between the larger core member states of the euro zone and the weaker peripheral ones has continued to widen this year, as many peripheral members are struggling with growing budget deficits.

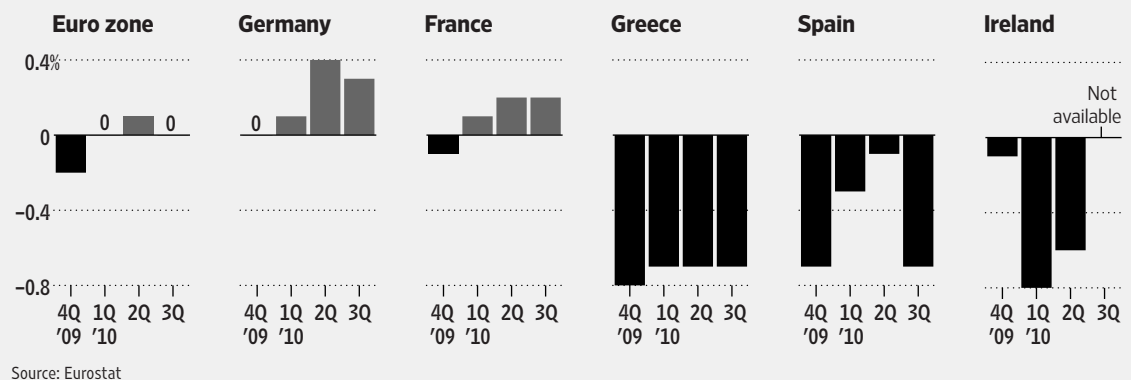
Other details of the Eurostat employment index show that the services and business sectors helped to keep the overall employment rate from falling into negative territory in the third quarter.

The rate of employment growth in financial services and business was 0.3% on a quarter-to-quarter basis from July to September. It was



People line up outside a government job center in Madrid this month. New data reveal no job growth in the euro zone.

Two-speed Europe | Employment-growth rate, compared with previous quarter



0.2% in other services and 0.1% over the period in the trade, transport and communications sector.

Construction staff fared less well, with employment falling at a rate of 1.1% in the third quarter compared with the second, while there was a 0.4% decline for total industry across the euro zone over the period.

Eurostat estimates that, in 2010's third quarter, 144.5 million people were employed in the euro area.

Within the 27-member European Union, the employment growth rate

was zero in quarterly terms, while year-to-year employment fell 0.2% in the quarter.

Separate data released in the U.K. showed unemployment in Britain rose for the first time in six months in the three months to October, raising fears of a jobless recovery as the country heads into a prolonged period of austerity.

The Office of National Statistics said the official international measure of unemployment, formerly known as the International Labor Organization measure, rose by

35,000 in the three months to the end of October to total 2.5 million—the biggest rise since the three months to March 2010. That pushed the unemployment rate to 7.9%, the ONS said.

By comparison, the measure fell by 9,000 in the three months to September, with the unemployment rate at 7.7%.

U.K. Prime Minister David Cameron said he was "concerned" by the rise in unemployment recorded in the latest data but said the economy is enjoying a recovery.

Spain to test sentiment with auction of its bonds

Continued from first page
government sold €500 million of three-month treasury bills at an average yield of 3.403%, up from 1.818% at the previous sale.

In a sign of the difficulties governments face imposing austerity programs, protesters clashed in Athens with riot police on Wednesday during a 24-hour general strike, the seventh this year opposing budget cuts.

Greek police fought running street battles with hundreds of anarchist youths as tens of thousands of workers marched through central Athens to protest government austerity measures and draconian labor-market changes.

The strike grounded flights, closed factories, disrupted hospitals and shut down trains, ferries and buses across the country.

With the euro falling Wednesday amid these concerns, EU leaders beginning a two-day meeting in Brussels are expected to duck calls for major short-term changes to calm jittery markets and instead focus on a bailout fund that would come into effect in mid-2013.

To do this, they will propose changes of EU treaties that will need to be agreed to by legislatures in all 27 EU countries.

Game-changing steps aimed at staving off investors' near-term concerns will be slow to come, say EU diplomats.

Proposals such as expanding current EU bailout funding or helping out weak economies by raising money through pan-European bonds—both staunchly opposed by Germany—aren't on the agenda.

German Chancellor Angela Merkel repeated her opposition Wednesday to common euro-zone bonds, which would take the currency bloc closer to a fiscal union like the U.S.

Issuing such bonds would raise the cost of Germany's own borrowing, analysts say. They would also make it hard to impose tough economic conditions on economies with big budget deficits, reducing leverage that now exists in bailout packages that involve the International Monetary Fund.

Turning risks of one country into common European risks, is "absolutely no solution," Ms. Merkel told German lawmakers.

In recent days, the proposals for a common euro bond, backed by figures such as Luxembourg's Prime Minister Jean-Claude Juncker and Italian Finance Minister Giulio Tremonti, have garnered political support inside Germany, even though opinion polls suggest most Germans oppose the idea.

The opposition Social Democratic Party, accusing Ms. Merkel of turning her back on Europe, has backed the bonds.

In an opinion piece in Tuesday's edition of the business daily Handelsblatt, SPD chief Sigmar Gabriel argued that by endorsing euro bonds, Germany could prove its commitment to Europe to skeptical investors.

—Riva Froyimovich in Brussels,
Matthew Karnitschnig in Berlin
and Jonathan House in Madrid
contributed to this article.

Irish lawmakers vote yes to bailout

By JASON DOUGLAS
AND QUENTIN FOTRELL

DUBLIN—Irish lawmakers voted to accept €67.5 billion (\$90.4 billion) in loans from the European Union and International Monetary Fund as part of an €85 billion package to shore up Ireland's stricken banks and public finances.

The acceptance of the package is an important victory for Prime Minister Brian Cowen's ruling coalition, though it is expected to lose power in a general election early next year amid widespread dissatisfaction with the government's role in Ireland's financial crisis.

The government won by a six-vote margin. The EU and IMF money will be used to stabilize Ireland's banks and provide the exchequer with funds while sky-high borrowing

costs keep Ireland locked out of capital markets.

Ireland is contributing an additional €17.5 billion of its own resources to the rescue package and has agreed to bilateral loans from the U.K. and other nations.

"The program provides the necessary financial assistance to get us through the difficulties we face. We will emerge from our current difficulties as a stronger, fitter economy," said Finance Minister Brian Lenihan, adding that the program is also necessary to ensure stability in the euro zone.

The EU welcomed the vote. "This vote in the Irish Parliament confirms Ireland's strong commitment to the program and the policies involved, as confirmed...by recent parliamentary passing of the first implementation laws of the 2011 budget stipulating

the fiscal-consolidation path and important reform measures involved in the program," said Amadeu Altafaj Tardio, spokesman for European Commissioner for Economic and Monetary Affairs Olli Rehn.

Opposition parties Fine Gael, Labour and Sinn Fein voted against accepting the loans from the EU and IMF, saying they represented a bad deal for the Irish people.

The center-right Fine Gael, which is expected to lead Ireland in coalition with the left-of-center Labour Party after the general election, vowed to renegotiate the terms of the loans if it wins power.

During a debate preceding the vote in the Dail, Ireland's lower house, Fine Gael leader Enda Kenny blamed Ireland's inability to raise funds on the government's 2008 guarantee of banks' debts.

"This policy of writing blank checks for banks has destroyed this country's creditworthiness," Mr. Kenny said.

Ireland is the second euro-zone country to receive international aid after Greece.

Mr. Cowen's government has embarked on an unpopular austerity drive that aims to reduce Ireland's budget deficit to under 3% of gross domestic product by 2014.

Tax increases, cuts to the minimum wage and further reductions on handouts to the poor and the blind have stoked public anger.

Voters are scheduled to go to the polls once the final pieces of the government's 2011 budget legislation—which sets out €6 billion of a total of €15 billion of tax increases and spending cuts over four years—have been passed by the Parliament.

EUROPE NEWS

Violence erupts during Greek strike

BY ALKMAN GRANITSAS
AND NICK SKREKAS

ATHENS—Greek police fought running street battles with hundreds of anarchist youths Wednesday as tens of thousands of workers marched through central Athens to protest against government austerity measures and draconian labor-market changes.

Hooded youths attacked police with Molotov cocktails and flares, and a former conservative minister, Kostis Hatzidakis, was attacked by demonstrators as he was leaving the Parliament building.

Mr. Hatzidakis was left with a bloodied face after protesters threw rocks at him, then chased him and beat him with sticks. He eventually escaped the demonstrators, fleeing to a nearby building.

A witness said more than 150 protesters were involved in the attack on the minister. The witness said they shouted: "Thieves, thieves, shame!" but that the anger was directed at the whole of Parliament rather than Mr. Hatzidakis directly.

The clashes caused minor property damage around Athens's central Syntagma Square, close to the Parliament, with protesters using paving stones and other objects to hurl at police.

Protesters then rampaged through the city center, setting fires and damaging shop fronts around the central business district. At least three cars were damaged by the protesters.

In Syntagma Square, police motorcycle squads charged protesters and detained several people.

"We have unfortunately had violent incidents," police spokesman Panagiotis Papapetropoulos said. "Protesters threw Molotov cocktails at police and some injuries have been reported that are fortunately not serious. We have resorted to using tear gas and have made several



Demonstrators threw Molotov cocktails at police in Athens on Wednesday as tens of thousands of people protested.

detentions, but we don't have the total numbers yet because the operations at several hot spots in the city are ongoing."

Dimitrios Boubas, a spokesman in Mr. Hatzidakis's political office, said in a statement: "He tried to leave the Parliament and take a short walk to return to his nearby office but he was surrounded and attacked by a screaming crowd.

"He was injured in the attack but not very heavily. His bodyguard tried to protect him and a few people that were around also tried to prevent the crowd from harming him further.

"After he escaped, he was taken to hospital for preliminary tests and for observation but was released after one hour. He has recovered since then and is well now."

The violence marred an otherwise peaceful protest by tens of thousands of workers and coincided with a nationwide general strike, Greece's seventh this year.

The strike crippled transport around the country as hundreds of flights were canceled due to a strike by air-traffic controllers, while ferry and rail services were also suspended, and public-transport workers stopped work in the capital.

Government ministries, local government services, courts and schools were also shut, while hospitals were operating on skeleton staff. Dentists, pharmacists and taxi drivers also joined in with various work stoppages, while a strike by journalists led to the cancellation of news programming.

"We have seen universal partici-

pation in the strike and we are pleased with the good turnout," said Stathis Anestis, spokesman and executive board member of private-sector umbrella union GSEE.

"We will continue our protests with the intention of overturning these measures," he added.

The union, along with its public-sector counterpart ADEDY, is holding a joint protest rally, in addition to two other rallies organized by the communist-backed PAME union and an independent nonunion protest march by left-wing activists.

Independent estimates of the turnout put the number of protesters at about 20,000. They marched through the center of Athens chanting slogans such as "They speak about profit and loss, we speak about human costs." They were also

carrying banners stating "The Plutocracy should pay for the crisis."

In May, Greece narrowly avoided default with the help of a €110 billion (\$147 billion) bailout from the European Union and the International Monetary Fund in exchange for a series of austerity measures to narrow its budget deficit and other economic changes.

Early Wednesday, Greece's socialist government passed a controversial omnibus law that calls for steep cuts in labor costs at state-owned enterprises while also liberalizing the country's labor market.

The bill, which was passed under expedited parliamentary procedures, was denounced by Greece's opposition political parties and also drew ire from socialist party backbenchers, with one socialist deputy breaking ranks and abstaining from the vote.

"Public transport is a public good," said Athanasios Karamitropoulos, a 35-year-old mechanic at the Athens trolley company. "These companies may have deficits, but that is the fault of the management, whereas workers are suffering all of the burden."

Due to a series of austerity measures this year, as well as the law passed on Wednesday, public-transport workers have seen their take-home pay reduced by as much as half.

Next week, Parliament will also vote on Greece's 2011 budget, which aims to reduce the government deficit to 7.4% of gross domestic product next year from a projected 9.4% of GDP this year.

Few expect the changes to be reversed, as they are seen as a precondition for Greece to receive the fourth tranche of its €110 billion loan in the spring.

However, the unions have vowed to continue their protests with a further public-transport strike scheduled for Thursday.

Europe seeks Kosovo inquiry

BY GORDON FAIRCLOUGH

A human-rights investigator for the Council of Europe is calling for an international probe into allegations that former Kosovo guerrilla fighters killed some prisoners in order to sell their internal organs on the black market as chaos engulfed the southern Balkans in 1999.

There is "compelling evidence" that Kosovo Liberation Army members held captives at detention centers in neighboring Albania before singling out "a small, select group" for execution so that their kidneys could be sold, according to a draft report for the council's legislature.

The current Kosovo government, which includes former guerrilla leaders, denied the allegations. Bajram Rexhepi, Kosovo's interior minister, said the accusations were "unrealistic and stupid." A spokeswoman for Albania's prime minister declined to comment.

"These allegations should not be left unanswered. They have to be either confirmed or refuted through proper criminal investigation," Thorbjorn Jagland, secretary-general of the 47-nation Council of Europe, said Wednesday.

The draft report, which expands on allegations made by former war-crimes prosecutor Carla Del Ponte, of Switzerland, in a book published



Swiss lawmaker Dick Marty, seen in Bern Wednesday, prepared the report.

in 2008, was prepared by Swiss prosecutor-turned-politician Dick Marty, who also investigated for the council the existence of secret prisons in Europe run by the U.S. Central Intelligence Agency.

Mr. Marty's findings—which are to be discussed Thursday by the human-rights committee of the council's Parliamentary Assembly—could cause trouble for Kosovo, a newly independent country that is preparing for negotiations next year with its former political master, Serbia.

Mr. Marty alleges a range of misdeeds, including detainee abuse and score-settling among Kosovo's Al-

banian factions. He says alleged victims include ethnic Albanians and ethnic Serbs. In his report, Mr. Marty alleges that some Kosovo politicians, including Prime Minister Hashim Thaci, whose Democratic Party of Kosovo finished first in parliamentary elections Sunday, have links to organized crime. Kosovo's government dismissed that allegation as "slandorous."

Renewed international attention to the organ-trafficking allegations "could damage Kosovo's image among international stakeholders," said a diplomat based in Kosovo's capital, Pristina.

Serbian politicians in Belgrade could decide to use the allegations in the report as a reason not to engage in talks with Pristina. Serbia agreed to take part in talks under pressure from the European Union. Serbia's foreign minister, Vuk Jeremic, cited Mr. Marty's report during a visit to Moscow on Wednesday and said he has "no kind of plans to meet" Mr. Thaci.

Kosovo's interim president, Jakup Krasniqi, said in a statement Wednesday that the council report "is clearly biased" and "represents the efforts of certain circles to compare the just and heroic struggle of the people of Kosovo...with the massacres of the Serbian regime of" Slobodan Milosevic.

Italy pushes to change EU statistics governance

BY CHRISTOPHER EMSDEN

ROME—European Union statistics agencies should be free of government influence and given automatic funding, according to Enrico Giovannini, head of Italy's Istat national statistics agency.

Statistics are a force for "public good" and should be subject to better governance and regulation, Mr. Giovannini said.

"The Greek crisis has notably broadened the number of influential people who think statistics institutes should be treated as independent authorities," he told a conference in Rome on Wednesday.

Greece's fiscal crisis was temporarily obfuscated by misleading reports from the Greek national statistics institute that slipped by auditors at Eurostat, the EU statistics agency.

"Eurostat should become an autonomous institute, while national statistical institutes should have the same status as national central banks," Mr. Giovannini said.

He added that Eurostat should be modeled along the lines of the European Central Bank and be given "regulatory powers" over how statistics are compiled and presented.

Istat doesn't answer to the Italian government, but is treated as an independent authority like the anti-trust regulator.

Mr. Giovannini, former chief statistician of the Organization for Economic Cooperation and Development, said changes in governance were needed because statistics were effectively a matter of common interest rather than a governmental function.

He also urged that private research outfits comply with disciplinary standards set by official EU agencies.

Unemployment figures are often a source of controversy, in part because the accounting for workers on indefinite furloughs or subsidy programs differs among nations. Likewise, different welfare programs may have an impact on the number of people who leave the work force altogether even though they would like to find a job.

Statistical information remains fragmented in the EU. This is one reason Eurostat has never been able to produce a uniform housing-price index. Such an index might have alerted policy makers to inflationary pressures during the real-estate booms in several euro-zone nations.

EUROPE NEWS

Judge postpones reading of Khodorkovsky verdict

By GREGORY L. WHITE

MOSCOW—A Russian judge on Wednesday delayed the reading of the verdict in the second trial of oil tycoon Mikhail Khodorkovsky, the latest twist in a case that has become a defining element of the rule of Vladimir Putin.

The Khamovnichesky Court said Judge Viktor Danilkin didn't give any explanation for delaying the reading until Dec. 27. Lawyers say the reading of the verdict could take as long as two weeks, since Russian law requires the full text to be read aloud.

Some observers said the delay might be aimed at reducing the in-

ternational attention the ruling gets by moving it closer to the New Year's holiday.

Mr. Khodorkovsky was Russia's richest man and the main shareholder and CEO of its largest oil company, OAO Yukos, when he was arrested and jailed in October 2003 on charges of fraud and tax evasion. The prosecution was widely seen as a Kremlin effort to scotch his political ambitions and strip him of his assets. Authorities have denied that.

Yukos was hit with the equivalent of tens of billions of dollars in back-tax claims and was broken up and sold, mostly to the state oil company. Mr. Khodorkovsky was convicted in 2005 on the fraud and

tax-evasion charges and sentenced to eight years in jail. The case shocked investors and business leaders and was followed by a major increase in state control over the economy.

By the time of Mr. Khodorkovsky's first conviction, prosecutors were already working on the second case, which charges him with embezzling nearly all of the oil Yukos produced from 1998 to 2003 and laundering the proceeds. The defendants deny the charges.

The trial on this second set of charges began in early 2009 and included dozens of witnesses, including top officials. Many witnesses ridiculed the charges as absurd, appearing to confirm the position of the defense.

Prosecutors are seeking 14-year sentences for Mr. Khodorkovsky and his co-defendant and former associate, Platon Lebedev.

If convicted, the men could remain in jail until 2017. Their current sentences run out next year, just before parliamentary and presidential elections in Russia.

Mr. Putin, who was president when the Yukos case began and is now prime minister, has hardened his public position on Mr. Khodorkovsky in recent years, publicly accusing him of complicity in murders of business rivals. Mr. Khodorkovsky has never been charged in those cases and has denied the allegations.

Now 47 years old, Mr. Khodorkovsky has sought to cast himself as a political prisoner, writing articles and giving interviews from prison about the need for democratic reforms in Russia.

Several challenges to the Yukos-related cases are pending in international courts, including the European Court of Human Rights in Strasbourg, where Mr. Khodorkovsky and his colleagues have sought to have the Russian cases against them ruled politically motivated. Courts in Switzerland, the United Kingdom and Netherlands, among others, have made similar determinations in Yukos-related cases.

EU budget to rise slightly next year

BRUSSELS—European institutions agreed on increasing next year's budget for the European Union by 2.91%, as the European Parliament on Wednesday backed a deal struck with representatives of national governments following months of wrangling.

The new budget "will enable the whole of Europe to address next year's burning issues with more strength," Janusz Lewandowski, the European Union's budget commissioner, said.

The parliament assembly on Wednesday backed the deal in a plenary vote in Strasbourg, France. Lawmakers originally had demanded a 6.2% increase, but under the compromise, the budget for payments—the actual cash spent over the year—will rise 2.91% to €126.5 billion (\$169.3 billion) in 2011.



European Pressphoto Agency

Protesters in Moscow Wednesday with images of Lebedev and Khodorkovsky.

*During the worst
global recession in living memory,
the men and women who work
in the factories, fields, laboratories, mines,
warehouses, stores, offices and boardrooms of*

AMERICA'S 500 LARGEST COMPANIES

*produced revenues of \$9.76 trillion as well as
the second-largest profit increase since 1955.*

This is their story.



FORTUNE. *Because business is good.*

U.S. NEWS

Support for Obama's move to center

BY JONATHAN WEISMAN
AND DANNY YADRON

President Barack Obama has public opinion and the Democratic grass roots with him as he tacks to the political center in the wake of his party's historic defeats in last month's midterm elections, a new Wall Street Journal/NBC News poll finds.

The poll also finds that most Americans say the president has gotten the message from the election, although only a plurality—35%—say he is making the necessary adjustments.

Overall, the survey indicates that, for all the criticism the president is taking in Washington from Democratic leaders and liberal activists, he appears to be shifting in a direction that the public supports and that many Democrats endorse. In all, 63% of Democrats polled said they wanted to see Democratic leaders in Washington make compromises to gain consensus on legislation, about the same as the percentage of independents expressing that view. Just 29% of Democrats said they'd rather see their elected leaders stick to their positions, even if that means not reaching any consensus.

The survey of 1,000 adults, conducted by Republican Bill McInturff and Democrat Peter Hart, gives a snapshot of the president at the halfway point of his term. Both pollsters say Mr. Obama retains a strong reservoir of good will, considering the string of bad news that has buffeted his White House: 9.8% unemployment, the worst congressional losses for his party in midterm elections since 1946, continuing discontent with his signature health-care law, even the Gulf of Mexico oil spill.

Fully 72% of Americans say they like the president personally, a reading well above those of Bill Clinton, George W. Bush and Ronald Reagan at this point in their presidencies.

While Mr. Obama's job-approval rating remains at a mediocre 45%, it has stayed steady for a year, even after the "shellacking," as he put it, that his party took at the polls last



European Pressphoto Agency

President Barack Obama leaves after a press conference on taxes and his meeting with business leaders.

month. And while only 35% of independents approve of the job Mr. Obama is doing, 57% of that group say they are reserving judgment on whether his presidency will succeed or fail.

Arthur Bullock, 53, who sells office equipment in Silver Spring, Md., said November's historic electoral loss has made Mr. Obama go "outside the box and go outside the Democratic line."

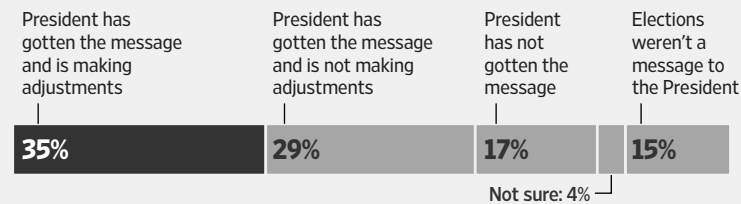
"I know you can't please everyone all the time," Mr. Bullock said. "But you've got to find that middle ground. Great presidents do that."

In contrast, Republicans are evenly split on whether their leaders should compromise, with 47% saying they want their leaders to compromise and 47% saying their leaders should stick to their positions.

"I don't think conservatives should bend and waver," said Eric

Getting the message

Q: Some people say that in the November elections Americans were sending a message to President Obama that he needs to change some of his programs and policies. Which statement comes closest to your point of view?



WSJ/NBC News telephone poll of 1,000 adults conducted Dec. 9-13; margin of error: +/-3.1 percentage points

Church, 54, an automotive engineer in Westfield, Ind., about 20 miles north of Indianapolis. "That's pretty much why they were put there on Nov. 2. There was a huge swing back to the right. I myself would probably feel betrayed by my congressmen anyway if they decide to compromise back to the center, at least too far to the center."

The tax accord moving through

Congress has taken fire from both liberal and conservative activists, but 59% of the public approve of the agreement, compared with 36% who disapprove. Sixty-one percent say the deal is a fair compromise on both sides, versus 23% who say Mr. Obama gave up too much and 10% who say GOP leaders sacrificed too much.

Discontent within the parties is

substantial. Forty percent of liberal Democrats say the president sacrificed too much to get the deal, while 20% of Republicans saw their side giving up too much.

The public appears ready for action on the White House's agenda for 2011, especially on pursuing the recommendations of Mr. Obama's bipartisan debt-reduction commission.

A majority of 53% favors the commission's plan to reduce deficits by \$4 trillion over the next decade through tax increases and spending cuts. Americans seem open to some of the commission's toughest proposals. Sixty percent found it totally or mostly acceptable to eliminate the tax deduction for mortgage interest on second homes, home equity loans and any portion of a mortgage over \$500,000.

An increase in capital-gains taxes was acceptable to 54%, while 48% said raising the Social Security retirement age to 69 by 2075 was acceptable, although 50% found that unacceptable.

In contrast, solid majorities said that unacceptable ways to cut the deficit included cutting defense spending, gradually eliminating the tax break employers get for providing health insurance or raising the federal gas tax by 15 cents a gallon.

The strongest support comes for freezing federal salaries, as Mr. Obama has proposed, reducing federal spending to 2008 levels, eliminating so-called earmarks—special projects inserted into bills by lawmakers—and eliminating most tax deductions in return for lower tax rates.

On the political front, Mr. Obama faces a mixed picture as he considers his re-election.

Only 42% said they'd probably vote for the president if he runs again; 39% said they'd probably vote for a Republican.

But putting a name beside the generic Republican slot changes the picture. Mr. Obama leads former Massachusetts Gov. Mitt Romney by seven percentage points, former Alaska Gov. Sarah Palin by 22 points, and Sen. John Thune of South Dakota by 20 points.

CPI muted; factory output up

BY SUDEEP REDDY

Inflation remained extremely low in November, despite signs of a strengthening economic recovery, while industrial production saw its largest gain in four months.

The consumer price index rose 0.1% for the month, putting it up just 1.1% from a year earlier, the Labor Department said. The "core" measure of consumer prices, excluding volatile food and energy costs, also increased just 0.1% and was up a scant 0.8% from a year ago.

The slow price increases reflect the immense slack across the economy. The figures should support the Federal Reserve's decision this week to leave its \$600 billion bond-buying program unchanged, in part because underlying inflation has been running under its target of just below 2%. The Fed said progress toward its goals of price stability and full employment "has been disappointingly slow."

Unemployment at 9.8% is limiting wage gains for workers while many merchants avoid raising prices amid still-weak demand. But the economic

recovery has shown signs of gathering steam. That could relieve some of the downward pressure on consumer prices.

"We're probably at the trough right now" for underlying inflation, said UBS economist Samuel Coffin. "The general recovery and broader growth should take away this [downward] inflationary pressure."

Some key components of the consumer price index, such as rents, are showing signs of turning around after years of flat or declining prices. UBS economists expect slow rent increases to help push the year-over-year underlying inflation rate up gradually to 1.4% by the end of next year.

Energy prices rose 0.2% from a month earlier, marking the slowest increase in five months. Food prices also increased 0.2%, the latest sign that rising commodity costs aren't translating into substantially higher retail prices. Education, apparel and transportation prices also rose while prices for recreation and communications products were flat.

Meanwhile, gains in manufactur-

ing and utility output pushed industrial production up 0.4% during November, the Federal Reserve said.

Utilities output rose 1.9% due to cold weather. Manufacturing increased 0.3% from gains in production of electronics, appliances and industrial equipment, offsetting a sharp drop in auto production.

But industrial firms are still facing huge excess capacity. Capacity utilization increased to 75.2%, up 0.3 percentage point from October, putting it at the highest level since late 2008—but still well below its average of 80.6% from 1972 to 2009.

Separately, the National Association of Home Builders said its index of builder confidence remained flat at an extremely weak 16 in December. The measure, based on a survey of builders, gauges perceptions of current and expected home sales.

The index stood at 22 in May before the market stumbled after the expiration of a home-buyer tax credit. The measure was frequently above 60 in the first half of the decade before the housing market peaked.

Economy on the menu at lunch with president

BY JARED A. FAVOLE

WASHINGTON—President Barack Obama emerged from a meeting with corporate chieftains saying they told him they were optimistic the two sides can work together to unleash private-sector cash and quicken the tepid recovery.

Mr. Obama said during the meeting with executives such as Kenneth Chenault of **American Express Co.**, Eric Schmidt of **Google Inc.**, Jeffrey Immelt of **General Electric Co.** and John Lechleiter of **Eli Lilly & Co.** they focused on discussing jobs.

The unemployment rate is stuck near 10% and many believe the key to getting the economy growing more quickly is to get the private sector to unleash some \$2 trillion of cash it is sitting on.

The meeting was a chance for the two sides to exchange ideas on how to move the country forward. Mr. Obama, in a statement, said the meeting is the start of what will be

a continuing dialogue about how to keep America competitive. Among the topics discussed were tax overhaul, regulation and ways to encourage investment in the U.S. Mr. Obama said he is committed to fiscal discipline.

Motorola Inc. CEO Greg Brown told Bloomberg News the talks were "substantive." He said the economy is at a critical juncture and needs to grow faster. He said the country has a lot of venture-capital money sitting on the sideline that needs to be unleashed.

Mr. Obama has had an at times rocky relationship with the business community, though a recent free-trade agreement with South Korea and tax deal with Republicans appear to be easing relations. Mr. Obama said he knows the private sector is key. "The primary engine of America's economic success is not government, it's the ingenuity of America's entrepreneurs; it's the dynamism of our markets," he said.

U.S. NEWS

Tax deal is shaping 2012 GOP campaign

BY NEIL KING JR.

WASHINGTON—The tax deal before Congress has kicked off the first real debate of the 2012 Republican presidential campaign, with several prospective candidates heralding the package as a victory for taxpayers and others criticizing it as a costly stimulus bill in disguise.

Former Alaska Gov. Sarah Palin and former Massachusetts Gov. Mitt Romney have both come out sharply against the measure, which President Barack Obama hammered out last week with Senate Republican leaders. Both cite the deal's price tag, with Mr. Romney saying it will heap billions more onto the nation's debt load.

Supporting the package are former Arkansas Gov. Mike Huckabee, Minnesota Gov. Tim Pawlenty and former House Speaker Newt Gingrich, all of whom praise the deal as good for the economy and the only way to spare Americans the jolt of a sudden tax increase that otherwise would take effect Jan. 1.

The debate suggests an early line of cleavage among the potential 2012 Republican aspirants on the key issues of taxes and government spending.

The tax package won final passage in the Senate Wednesday, in an 81-19 vote, and heads to the House next.

In opposing the deal, Ms. Palin and Mr. Romney are aligning themselves with several large tea-party groups that see the tax deal as a betrayal of the Republican Party's pledge during the last election to slash spending and attack the deficit. By opposing their party's own leaders in Congress, who negotiated the package with Mr. Obama, the two also appear intent on shoring up their outsider, anti-Washington credentials.

Those supporting the deal reflect a wider Republican sentiment: that any tax cut is good and should be embraced, even if it is part of a bill that causes heartburn on other fronts. Mr. Gingrich, for example, is calling the package "a major breakthrough" and a dividend of the GOP victories in November.

Differences between the two camps were on display on the Senate floor Tuesday.

South Dakota Sen. John Thune, another potential 2012 GOP contender, took a shot at critics in a speech, saying it was "politically ex-

pedient" for them to undermine the proposal. But "advocating against this tax proposal is to advocate for a tax increase," Mr. Thune said.

He didn't mention Mr. Romney by name but appeared to be responding to a newspaper op-ed by the former Massachusetts governor published Tuesday.

Other potential 2012 candidates have been more hesitant in their praise for a deal that will extend the Bush-era tax breaks for two years, extend an array of expired tax credits and give most workers a one-year cut in the payroll tax. The deal, which will also extend jobless benefits to the long-term unemployed, is projected to cost \$858 billion over the next 10 years.

Messrs. Huckabee and Pawlenty have portrayed the compromise as the best that one could expect from a Democratic-controlled, lame-duck Congress. They said the deal is crucial to avoid the jolt of a tax increase and the risk of a double-dip recession. "It's better than leaving businesses in complete limbo over the tax rates, and it's good news for those who were wondering what the tax code was actually going to be," Mr. Huckabee said Tuesday in an email.

Critics of the deal have highlighted its cost and the sense that the compromise cuts against the GOP's election promises to slash spending.

Ms. Palin expressed her opposition to the bill in a series of Twitter messages that warned Republicans against the perils of compromising with Mr. Obama.

The divisions within the potential 2012 field mirror a similar fissure among Republicans in Congress. A sizable majority of GOP lawmakers appears ready to support the deal. But a faction of congressional conservatives and tea-party groups have blasted it as a betrayal of the limited-government message that helped catapult Republicans to victory in last month's election.

Democratic pollsters say the tax compromise is helping Mr. Obama win back independent voters, a key part of his strategy to win re-election in 2012.

The package has stirred anger in tea-party circles, where many groups are on guard for any hint that Republicans may be shifting away from the austerity pledges the party made during the 2010 campaign.



Associated Press

Sens. Russ Feingold (D., Wis.) and Lindsey Graham (R., S.C.) meet near the Senate floor during Wednesday's tax vote.

Tax bill clears Senate, awaits House approval

BY COREY BOLES
AND MARTIN VAUGHAN

WASHINGTON—Senate lawmakers on Wednesday approved an \$858 billion bill extending the Bush-era tax cuts for two years, turning the spotlight on House lawmakers to pass the sweeping legislation.

The Senate voted 81-19 to approve the measure.

The action now moves to the House, where the Democratic leadership is trying to craft a way to allow liberal members of the party to voice their opposition to aspects of the deal—particularly its estate-tax provision—and still ensure it is ultimately approved. Fourteen Democratic lawmakers and five Republicans voted against the bill.

Many House Democrats have been opposed to the Obama administration's agreement to renew the estate tax at a lower rate and with a higher exclusion than was planned. The tax expired at the end of 2009 and, according to the legislation approved by the Senate, would from January impose a 35% tax on estates worth more than \$5 million for individuals and \$10 million for couples.

Under current law, the inheritance tax would be reinstated from 2011 at a rate of 55% on estates worth more than \$1 million, levels supported by many Democrats.

It is unclear how the Democratic leadership will structure votes on the House floor, which are likely to occur Thursday, according to aides.

The legislation would extend Bush-era tax cuts for an additional two years for people of all income levels. It would cut payroll taxes for workers in 2011 and extend a range of expired business-tax breaks like the research-and-development credit. In a further attempt to kick-start economic growth, the legislation reduces federal payroll taxes for most American workers for one year by two percentage points to 4.2% from 6.2%.

The bill extends jobless benefits for 13 months as well as tax benefits Mr. Obama championed for low-income families as part of 2009 economic-stimulus legislation.

The unemployment-benefit extension wouldn't affect people who have already exhausted the maximum combined state and federal assistance of 99 weeks. It would make

sure that long-term unemployed people in states hardest hit by the economic downturn would be able to receive as many as 99 weeks, rather than the 26 weeks normally available.

The bill also allows businesses to write off 100% of equipment purchases made after Sept. 8, 2010, but before Jan. 1, 2012. It shields most taxpayers from the alternative minimum tax in 2010 and 2011. And it renews a host of expired tax breaks for businesses, including a tax break on banks' overseas income, quicker depreciation for restaurant improvements and the 45-cent tax credit for ethanol blenders.

Before the Senate vote on final passage of the legislation, lawmakers rejected an attempt by conservative Republicans to extend all the tax cuts and the estate tax permanently.

They also voted down a move to divert other federal-government funds to pay for the \$56.5 billion cost of extending jobless benefits.

And they defeated an attempt by liberal Democrats to allow tax rates for wealthier Americans to expire and use the money to pay for other federal programs.

SEC hurt by budget impasse

BY JEAN EAGLESHAM
AND VICTORIA MCGRANE

The Securities and Exchange Commission is slowing the pace of some investigations and routine inspections as part of a belt-tightening caused by the budget impasse in Congress.

Agency officials recently postponed gathering testimony from witnesses in a number of probes into potential wrongdoing, according to people familiar with the situation. And some previously scheduled audits of financial firms outside Washington have been put

on hold because the SEC won't pay travel costs for investigators until an agreement is reached on the agency's funding for the current fiscal year.

At least some of the cutbacks in enforcement-related spending at the nation's top regulator of financial markets and investing began shortly after the midterm elections in November. Republican gains in both houses of Congress have increased speculation that the 12% budget increase proposed for the SEC by President Barack Obama won't be approved.

In the meantime, the SEC is op-

erating under the "continuing resolution" that temporarily extended last year's \$1.1 billion budget at the agency. But even that spending level is stretching SEC officials as they continue revving up a broad crackdown on wrongdoing during the financial crisis and deal with a bigger workload triggered by the Dodd-Frank financial-overhaul law.

"We are taking our usual steps just like any other government agency under a continuing resolution, which include restrictions on nonessential travel, hiring and contracts," said John Nester, an SEC spokesman.



Getty Images (2)

Sarah Palin and Mitt Romney have come out against the tax deal.

WORLD NEWS

Wen touts trade ties on trip to India

By TOM WRIGHT

NEW DELHI—Chinese Premier Wen Jiabao, on his first trip here in five years, announced \$16 billion in deals between Chinese and Indian companies as China hopes to supplant the U.S. and other Western countries as a major driver of India's growth.

Mr. Wen, speaking to Indian and Chinese business executives Wednesday in the first public engagement of his visit, sought to draw attention to the burgeoning trade ties between the two countries—rather than a recently fractious diplomatic relationship—with deals in sectors ranging from telecoms to power and commodities.

In November, U.S. President Barack Obama, on a trip to India, announced \$10 billion in deals for U.S. companies to export to India. British Prime Minister David Cameron in July announced a defense deal worth \$1.1 billion.

While the number of \$16 billion announced by Mr. Wen wasn't directly comparable with deals announced by the U.S. and others, and there was some confusion about whether some deals were indeed new, Mr. Wen's comments underlined China's ambitions and desire to make its mark on the economic landscape of its neighbor.

"The 21st century is the Asian century," Mr. Wen said. "It's also the century in which China and India can make great achievements." Anand Sharma, India's minister for

Big bucks | Trade deals between India and China have eclipsed others deals this year

VISIT: July 28-29



British Prime Minister David Cameron, seen above with Hindustan Aeronautics Chairman Ashok Nayak, visits New Delhi and Bangalore.

Nov. 6-9



U.S. President Barack Obama visits New Delhi and Mumbai. Mr. Obama stands with Bhupendra Kansagra of SpiceJet.

Dec. 4-7



French President Nicolas Sarkozy visits Bangalore, Agra, New Delhi and Mumbai. Above, with Indian Prime Minister Manmohan Singh.

Dec. 15-17



Chinese Premier Wen Jiabao visits New Delhi.

DEALS

\$1.1 billion Indian aircraft deal between BAE Systems, Rolls-Royce and Indian aerospace company Hindustan Aeronautics to supply 57 Hawk trainer aircraft to India.

Deals worth \$10 billion including two deals with General Electric for engines and gas turbines, with a total value of \$1.6 billion and an aircraft deal worth \$2.7 billion between U.S. Boeing and SpiceJet, India's leading private airline.

Nuclear deal valued at \$9.4 billion with French state-owned nuclear company Areva to sell two reactors for a project in India's western state of Maharashtra.

Possible deals worth \$16 billion in power, telecom, steel, chemicals, food and marine products sectors.

Source: WSJ research

Photos from left: Associated Press (2); Agence France-Presse/Getty Images; European Pressphoto Agency

commerce and industry, struck a similar tone: "We have strengths, which are synergies."

As India's economy grows, both China and the U.S. are hoping to increase ties here. China is already India's largest trading partner, with trade worth \$42.4 billion in the fiscal year ended March 31, according to Indian government statistics. Indian and Chinese officials say this

will jump to \$60 billion in the current fiscal year. Total trade between the U.S. and India was worth \$36.5 billion in the same period.

But until now, the U.S. has been a much larger investor in India than China. In the past decade, foreign direct investment flows into India from the U.S. totaled \$9 billion, according to India's government.

In the same period, China in-

vested \$52 million in India, reflecting the poor state of political relations in recent years, in which China and India have clashed over their borders, visas and China's support for Pakistan.

India earlier this year temporarily restricted imports of telecommunication equipment from China over security concerns and Beijing complained about New Delhi's tight-

ening of work visa standards.

Wednesday, Mr. Wen made a plea for an improvement in relations based on trade.

"Some media have described China and India as adversaries. I don't agree with such a view," Mr. Wen said. "There's enough space in the world for both China and India. We both stand to gain from economic cooperation and trade."

Mr. Wen laid out a vision in which India's and China's economic strengths complement one another: China in engineering and infrastructure; India in information technology and pharmaceuticals.

Noting that the value of total Chinese investment in India and vice versa now only amounts to around \$700 million, he said China stands ready to help boost India's rickety infrastructure with funding and expertise. Indian officials say they indeed want greater Chinese help as they embark on a plan to spend \$1 trillion in coming years to build roads, ports and bridges.

Massive infrastructure investments is an option the U.S., which runs a large trade deficit with India, is unlikely to follow given slower growth in its domestic economy. Mr. Obama's recent visit focused on ways of boosting exports to India and creating jobs at home in the U.S.

The \$10 billion in deals Mr. Obama announced were largely for companies like General Electric and Boeing to export engines and turbines to India.

South Korea boosts civil-defense drills

By EVAN RAMSTAD AND JAEYEON WOO

SEOUL—South Korea, still reeling from the North Korean attack on one of its islands last month, on Wednesday staged what it billed as its biggest civil-defense drill in years, drawing participation from about 20% of the country's 50 million people, officials said.

Authorities promoted the country's monthly defense drill with extra vigor and deployed 250,000 government workers and civil-defense volunteers to direct people on how to take shelter against an attack—a significant escalation of activity compared with the country's typical monthly drills, in which sirens are tested and traffic halts for 15 minutes.

On Wednesday, police ordered people to get off the streets and schoolchildren to hustle out of their buildings and into subway stations or the basements of nearby buildings. In some suburbs near the inter-Korean border, residents of apartment buildings practiced putting on masks to protect themselves from a chemical attack.

South Korea's National Emergency Management Agency said the nationwide exercise was the country's largest since such drills began in 1975.

"We think roughly 11 million people participated, though we are still checking the number," said Kim Kwang-hui, manager of the civil-defense team at the National Emergency Management Agency. "Some

people did not take it seriously since it was just a drill, but we think it is a good start."

The majority of South Koreans, however, did little or nothing during the drill. Over the years, South Koreans have become inured to the threat posed by North Korea, in part because previous Seoul governments played it down to win acceptance for providing economic assistance to the North.

But the Nov. 23 attack on Yeonpyeong Island, which killed four South Koreans, marked the North's first assault on South Korean land since the Korean War of the 1950s and sparked outrage among South Koreans.

"The government has let its guard down and suddenly did this due to public criticism," Lee Mi-sook, a housewife in her late 40s, said as she waited out the drill in a fast-food restaurant in downtown Seoul. "People lowered their guard, too. We don't normally think about how belligerent North Korea can be. Even with the Yeonpyeong Island attack, the threat hasn't really sunk in."

South Korean officials have announced plans to spend about \$45 million next year on building new bomb shelters and improving others on Yeonpyeong and four other islands near the maritime border in the Yellow Sea that North Korea disputes. It will spend about \$11 million on new bomb shelters on the mainland.

—Kyong-ae Choi contributed to this article.

NORMAN ROCKWELL'S AMERICA

15 DEC 2010 — 27 MAR 2011

DULWICH PICTURE GALLERY 1811 2011

www.dulwichpicturegallery.org.uk follow us @dulwichgallery

THE SATURDAY EVENING POST

virgin atlantic

AMERICAN FRIENDS OF DULWICH PICTURE GALLERY

WORLD NEWS

How the iPhone 'distorts' trade data

BY ANDREW BATSON

BEIJING—One widely touted solution for current U.S. economic woes is for America to come up with more of the high-tech gadgets that the rest of the world craves.

Yet two academic researchers have found that Apple Inc.'s iPhone—one of the most iconic U.S. technology products—actually added \$1.9 billion to the U.S. trade deficit with China last year.

How is this possible? The researchers say traditional ways of measuring global trade produce the number but fail to reflect the complexities of global commerce where the design, manufacturing and assembly of products often involve several countries. "A distorted picture" is the result, they say, one that exaggerates trade imbalances between nations.

Though the iPhone is entirely designed and owned by a U.S. company, and is made largely of parts produced in other countries, it is physically assembled in China. Both countries' trade statistics therefore consider the iPhone a Chinese export to the U.S. So a U.S. consumer who buys what is often considered an American product will add to the U.S. trade deficit with China.

The result is that according to official statistics, "even high-tech products invented by U.S. companies will not increase U.S. exports," as two researchers at the Asian Development Bank Institute in Tokyo, Yuqing Xing and Neal Detert, write in a recent report.

This isn't a problem with high-tech products, but with how exports and imports are measured, they say.

The research adds to a growing technical debate about traditional trade statistics that could have big real-world consequences. Conventional trade figures are the basis for political battles waging in Washington and Brussels over what to do about China's currency policies and its allegedly unfair trading practices.

"What we call 'Made in China' is indeed assembled in China, but what makes up the commercial value of the product comes from the numerous countries that preceded its assembly in China in the global value chain," Pascal Lamy, the director-general of the World Trade Organization, said in a speech in October. "The concept of country of origin for manufactured goods has gradually become obsolete."

Mr. Lamy said that if trade statistics were adjusted to reflect the

actual value contributed to a product by different countries, the size of the U.S. trade deficit with China—\$226.88 billion, according to U.S. figures—would be cut in half. That means, he argued, that political tensions over trade deficits are probably larger than they should be.

"The statistical bias created by attributing the full commercial value to the last country of origin can pervert the political debate on the origin of the imbalances and lead to misguided, and hence counterproductive, decisions," Mr. Lamy said in his speech to the French Senate.

To correct for that bias is difficult because it requires detailed knowledge of how products are put together. The Asian Development Bank Institute researchers estimate that the assembly of the iPhone in China—done by local employees of a Taiwanese company, Hon Hai Precision Industry Co.—accounts for 3.6% of the wholesale cost of an iPhone, or \$6.50 of an estimated \$179. Yet for the purposes of calculating trade, China is credited with producing the entire value of each iPhone.

A spokeswoman for Apple said the company declined to comment on the research.

If the yuan rose by 20% against the U.S. dollar, the dollar cost of producing the iPhone in China would, of course, also go up by 20%. But according to the ADBI researchers, that would mean that the assembly cost rises to just \$7.80 from \$6.50, adding just 0.7% to the total manufacturing cost. That is unlikely to be enough to alter the overall trade flows between the U.S. and China.

Based on U.S. sales of 11.3 million iPhones last year, the researchers estimate Chinese iPhone exports at \$2.02 billion. After deducting \$121.5 million in Chinese imports for iPhone parts produced by U.S.-based companies, they arrive at the figure of the \$1.9 billion Chinese trade surplus—and U.S. trade deficit—in iPhones.

If China was credited with producing only its portion of the value of an iPhone, its exports to the U.S. for the same amount of iPhones would be just \$73.5 million, the researchers estimate. And once the parts the U.S. contributes are accounted for, the result would be a U.S. trade surplus, and Chinese trade deficit, of \$48.1 million in iPhones.

—Loretta Chao
contributed to this article.



Reuters

The iPhone is designed by a U.S. firm and made of international parts in China.



Network 7/Reuters

A still image taken from video Wednesday shows a refugee-laden boat that was driven into rocks on Christmas Island.

Asylum seekers' boat sinks, killing dozens

BY REBECCA THURLOW
AND JAMES GLYNN

SYDNEY, Australia—At least 27 asylum seekers were killed and dozens wounded after their boat was dashed against rocks in heavy seas off the coast of Australia's Christmas Island, in a tragedy that is likely to turn the political spotlight on Australia's border control and immigration policy.

Australian Customs and Border Protection confirmed that 41 people were recovered from the water and another person made it to shore. The rescue operation continued in "extremely difficult and dangerous conditions," the agency said. Officials gave no word on the nationality of the victims.

Prime Minister Julia Gillard was returning from leave late Wednesday to oversee response to the incident. With a narrow grip on power, Ms. Gillard faces a political challenge in confronting the hot-button issue of immigration while holding her fragile coalition together.

Around 360 kilometers south of Java, Christmas Island is a front line for Australia's border protection. The island's population is composed predominantly of asylum seekers, with about 2,000 refugees and detention-center staff living there. The island, surrounded by steep cliffs and a hazardous reef, has been excised from Australia's migration zone so asylum seekers traveling by boat are taken to Christmas Island rather than to mainland Australia.

Ms. Gillard's minority Labor government has advocated setting up an overseas processing center in East Timor in the hope of deterring asylum seekers from making the dangerous journey to Australia. Last month, the government announced plans to overhaul the point system used to determine whether to admit a migrant, favoring workers needed to continue the economic boom fueled by Chinese demand for Aus-



tralia's natural resources.

Still, the landing of asylum seekers often stirs populist rhetoric and has been used as a platform by some politicians to push for curbs on migration more generally. The conservative Liberal-National Coalition leader Tony Abbott had promised in his campaign to "turn back the boats," and has repeatedly accused the government of being soft on border control.

The increasingly influential Greens party, meanwhile, is pushing for an end to mandatory detention of asylum seekers and an end to offshore processing of refugees. Ms. Gillard's government depends on the support of the left-of-center Greens and a handful of independents to stay in power.

Shadow Minister for Immigration Scott Morrison said he didn't want to make the incident a policy issue. "Today is a matter of sadness and a day when our worst fears are realized. This is what clearly can occur," he told reporters. "These cliffs are particularly treacherous. The fact that anyone was able to mount any rescue effort is Herculean."

The Australian Federal Police and customs were coordinating the rescue. The incident occurred near Fly-

ing Fish Cove at the northeast tip of the island amid fierce winds with a cyclone expected to form in coming days.

Christmas Island councilor Kamar Ismail said he saw the wooden vessel being smashed against sharp limestone rocks as he drove to work in the morning.

He said he and other people on the cliff threw life jackets to men, women and children on the boat, who were screaming for help. "That's all we could do," he said.

He described the ocean conditions as "very rough," saying the vessel was ripped apart after being hit by two or three waves.

The Royal Flying Doctor Service, an emergency health organization, reported 33 "walking wounded" aboard Australian customs' rescue ships.

The Christmas Island detention center has come under increasing pressure following protests over its cramped facilities. Last month, 10 Iraqi, Iranian and Kurdish asylum seekers at the center sewed their lips together in protest, sparking a wave of condemnation of the government's immigration detention policies.

Andrew Beswick, campaigns director for Amnesty International Australia, said Wednesday's incident is a distressing reminder of the heavy price refugees can sometimes pay in their search for protection.

"Nobody wants to see asylum seekers risking their lives by undertaking dangerous boat journeys in search of safety," he said. "However, in reality, the only way of preventing asylum seekers from attempting such journeys is to provide them with viable alternatives. This includes increasing the capacity and willingness of countries across the Asia Pacific to protect refugees."

—Gavin Lower in Melbourne
and Geoff Rogow
and Cynthia Koons in Sydney
contributed to this article.