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# THE WALL STREET JOURNAL.

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EUROPE

Monday, December 20, 2010

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Reuters

Airline passengers on Sunday tried to get some rest on the floor of Terminal 3 at London's Heathrow Airport, which remained completely closed as snow and icy conditions that caused cancellations and delays persisted around Europe on one of the busiest travel weekends of the year.

## Harsh weather snarls travel around Europe

BY DANIEL MICHAELS

Snow and icy conditions caused havoc at airports across Europe on one of the busiest travel weekends of the year, stranding thousands of passengers and inconveniencing millions more.

Airports including London's Heathrow and Paris's Charles de Gaulle were almost completely immobilized for extended periods. Even as other airports, such as Amsterdam's Schiphol, resumed activity on Sunday, problems persisted because flights to and from many cities were cancelled or delayed.

On Sunday, more than 5% of the roughly 21,000 flights

normally expected to operate across Europe were cancelled, according to Eurocontrol, an umbrella organization for air-traffic control across 38 countries. The situation was improving late Sunday, with Heathrow the only significant airport still completely closed, said Eurocontrol's website.

Heathrow, the world's busiest international hub, was one of the worst affected. Operator **BAA Airports Ltd.** began curtailing operations on Saturday morning, and there were no arrivals through Sunday evening. **British Airways PLC**, the biggest airline at Heathrow, managed to run only three long-haul departures and four flights to Euro-

pean destinations on Sunday, a spokeswoman said.

In France, aviation authorities told airlines to cancel as many as 40% of flights, said a spokesman for **Aéroports de Paris SA**, operator of Charles de Gaulle and Orly Airport.

Parisian airports expected to resume normal operations Monday, although many flights would still be disrupted because of problems elsewhere.

Hundreds of flights were also cancelled across Germany.

Around London, rail services and road travelers continued to face disruption as a result of the snow Sunday, the Associated Press reported.

## Britain woos U.S. lenders as rules shift

BY JEAN EAGLESHAM

NEW YORK—George Osborne, the U.K. finance minister, insists he doesn't aim to boost London by soft-pedaling on U.K. regulation of banks in the wake of new U.S. rules.

"I'm not here looking to swoop on refugees from Dodd-Frank," Mr. Osborne, the British chancellor of the exchequer, said in an interview Friday during a visit to New York, referring to the financial industry overhaul legislation passed in the U.S. this summer.

"I'm not looking for regulatory advantage or arbitrage. If anything, I think we had too much of that in the run-up to the banking crisis," he said.

The chancellor, who met with the heads of Wall Street's biggest banks during his visit, declined to say whether the British government intends to force banks to make structural changes, as the U.S. is doing under the

Dodd-Frank Act.

Mr. Osborne said he didn't want to pre-empt an independent commission on the industry that will report next year. That commission is only advisory; ultimately, the British government will decide banks' regulatory fate.

Some U.S. lawmakers are concerned that there is no sign that Britain will replicate the rules in the Dodd-Frank law that restrict banks from carrying out proprietary trading, or trading with their own capital, and from owning hedge funds and private-equity funds.

Rep. Spencer Bachus (R., Ala.), a front-runner to chair the House Financial Services Committee, last month warned that this so-called Volcker rule constraining banks "may spark an exodus of clients from U.S. banks to banks based abroad." He asserted that a failure by the U.K. to adopt the same approach "would result in a sig-

nificant competitive disadvantage for firms located in the United States."

Mr. Osborne doesn't want to be seen to be fueling such concerns. But he acknowledges he used his trip to New York to impress the attractions of London on a swathe of senior bankers. His schedule included meetings with Jamie Dimon, chairman and chief executive of **J.P. Morgan Chase & Co.**, and James Gorman, chief executive of **Morgan Stanley**. Guests at a dinner for the British chancellor, hosted by New York Mayor Michael Bloomberg, included Lloyd C. Blankfein, chief executive of **Goldman Sachs Group Inc.**, Robert Kelly, chairman and chief executive of **Bank of New York Mellon Corp.** and Timothy Geithner, the U.S. Treasury secretary.

"I'm seeking to try and get

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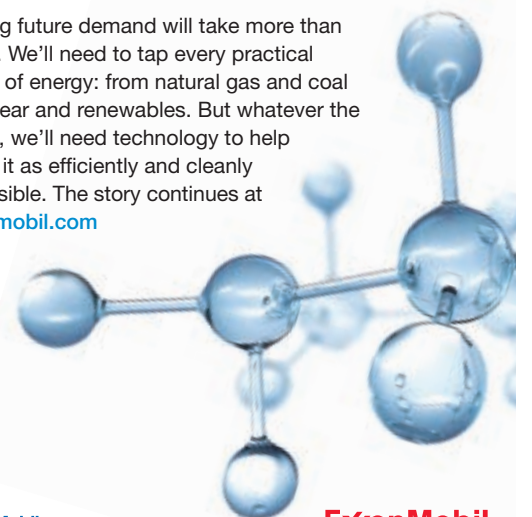
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Oil, gas, coal, biofuels, nuclear, wind, solar... to fuel the future we need them all.

Meeting future demand will take more than just oil. We'll need to tap every practical source of energy: from natural gas and coal to nuclear and renewables. But whatever the source, we'll need technology to help us use it as efficiently and cleanly as possible. The story continues at [exxonmobil.com](http://exxonmobil.com)



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## PAGE TWO

## Euro-zone song is an ode to indecision

## [ Agenda ]

BY IRWIN STELZER



"First you say you do, and then you don't,  
"And then you say you will and then you won't;/  
"You're undecided now, so what are you gonna do?"

That tune, "Undecided," written more than 60 years before the euro was launched, should be the theme song of the eurocracy. It certainly is a better description of the state of play than the official EU anthem, "Ode To Joy." For of joy there is very little in the euro zone, and of indecision there is a plenitude.

We know only this about next year. There will be a permanent bailout fund to replace the current rescue system when it expires in 2013, and creditors will be forced to take losses, although under what circumstances remains unspecified. But the structure of the fund, its size, how it will be administered and other "details" remain unknown. Indeed, first the euroland leaders say they will do anything to save the euro, then they say they won't expand the current bailout fund or tell us how they plan to get to 2013. And if there is anything markets abhor, right up there on its hate-scale with insolvency, is uncertainty. Which is what is generated by the collapse of a cartel.

Cartels often collapse for one of two reasons. Or both. Market forces intrude, and put irresistible pressure on the course of action agreed by the cartellists. Or the cartellists fall out over which members should bear the cost of maintaining the cartel. The cartel to maintain the euroland common currency is under pressure from both sources.

In order to maintain the euro, the euroland cartellists have to maintain the price charged their members for borrowing money, the interest rate, keeping it low enough to make money affordable



If euroland was OPEC then Angela Merkel's Germany would be Saudi Arabia.

to each member. If that price gets too high, members will peel off, and go their separate ways. So when Greece and Ireland couldn't raise money at a price they deemed bearable, their fellow-cartellists made funds available lest those troubled countries seek the exits, or take steps—default dared whisper its name—that would in the end bring down the entire cartel structure.

Germany and other more flush countries offered their stronger balance sheets as support for the needy cartel members, and a potentially central player in the cartel, the European Central Bank, bought up IOUs to maintain their prices, and thereby keep interest rates down. So far, so good.

**If there is anything markets abhor, right up there on its hate-scale with insolvency, is uncertainty.**

Enter the markets. Investors continue to bet that the cartel cannot turn the sow's ears that are the balance sheets of the PIGS into silk purses that investors will want to buy, as Spain found out last week when it had to pay 5.485% to unload €1.782 billion

(\$2.35 billion) in one-year bonds. That's 18% higher than it paid only one month ago. Investors know that there is not enough cash in the various bailout funds to prevent Spain from defaulting, that whatever happens in the future German Chancellor Angela Merkel will insist that investors get crew cuts, and that euro-zone countries will have to raise \$2 trillion in debt in the coming year.

At which point cartel enemy number two makes its presence felt. The members begin to squabble, just as members of the OPEC oil cartel occasionally squabble over production quotas or the prices to be set before bowing to the wishes of Saudi Arabia.

In this regard Germany is the Saudi Arabia of euroland. The Saudis win because they have the most oil; the Germans win because they have the most money. When almost all of the other countries in euroland opposed reopening the Lisbon Treaty to legitimize further bailout efforts, Germany said reopen it or we won't play. It will be reopened. Jean-Claude Juncker and Giulio Tremonti, respectively Luxembourg's prime minister and chairman of the euro-zone finance ministers, and Italy's finance minister, called for issuance of an E-bond so that the euro zone

could borrow on the strength of Germany's balance sheet and hand the proceeds over to whatever countries succeed Greece and Ireland as international financial pariahs. Cartelist-in-chief Ms. Merkel's "nein" counted for a lot more than Belgium's "oui," or "ja" or any other of the several languages that divide this tiny semi-nation, or Italy's or Spain's "si," or Portugal's "sim."

The squabbling has advanced from low-decibel sniping to high-decibel policy disputes. Olli Rehn, the EU's commissioner for economic and monetary affairs, finds the E-bond idea "intellectually attractive." Ms. Merkel does not, perhaps because mere talk of such a step has already raised Germany's borrowing costs and left portions of a recent offer of two-year bonds unbought, because it might violate the German constitution, and because it is, she says, "illegal" under the Lisbon Treaty. To which Mr. Juncker responds that Germany is "erecting taboo areas" and is "not even considering the ideas proposed by other people."

Not true, retorts German government spokesman Steffen Seibert. We studied Mr. Juncker's idea "with great care" before rejecting it. Ouch.

Two developments are making matters worse. Ms. Merkel is having difficulty explaining to voters just why German taxpayers, who for many years denied themselves real wage increases so as to increase their ability to compete in world markets, should finance partying cartel members.

Second, just when euro-zone governments will be trying to peddle \$2 trillion in sovereign bonds, their banks will be trying to refinance about \$1.4 trillion of debt by selling long-term bonds. All these IOUs to be sold to confused and nervous investors who want to know from policy makers, "What are you gonna do?"

—Irwin Stelzer is a director of economic-policy studies at the Hudson Institute.

## What's News

■ **Thousands rallied** in the capital of Belarus to protest the apparent re-election of President Lukashenko as exit polls gave the ruler more than 70% of the vote. Assaultants attacked opposition candidate Vladimir Neklyayev and some of his supporters. 4

■ **The U.N. chief rejected** an order by Ivory Coast's embattled President Gbagbo that all U.N. peacekeepers leave the country, after the U.N. repulsed Ivorian soldiers who opened fire on their base. 9

■ **Spanish authorities promised** to open the books of two groups of borrowers whose needs for cash are unnerving skittish investors. 6

■ **U.S. Sen. Dick Durbin said** he believed there were enough votes in the Senate to ratify a new nuclear-arms treaty with Russia. 7

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2. Best of the Golf Tour Twitterers
3. Bank of America To Block WikiLeaks
4. Joy Ride Ends for Cycling Backers
5. Seoul Test Spurs U.N. Session

## Most emailed in Europe

1. Your Apps Are Watching You
2. Skiing Slows Down in Italy
3. Retailers Fear Smartphone Shoppers
4. Bank of America To Block WikiLeaks
5. Turkey May Beat Hot-Money Risks

## The Source

blogs.wsj.com/source

'The days of cheap power are over. Stock up on candles and wood. Think about getting a horse.'



## Metropolis



How a billionaire does Christmas lights: 'It's like Disney World!' [blogs.wsj.com/metropolis](http://blogs.wsj.com/metropolis)

## Question of the day

**Vote and view:** Look through photo galleries of four European properties and vote for your favorite at [wsj.com/lifeandstyle](http://wsj.com/lifeandstyle)

## Previous results

Q: What kind of momentum does the U.S. recovery have?

Gaining

26%

Holding

45%

Slowing

29%

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NEWS

# 'Dr. Doom' offers some housing hope

By CRAIG KARMIN

Nouriel Roubini, the New York economist whose warnings of a housing collapse earned him the nickname "Dr. Doom," may be feeling better about the market these days. He just plunked down \$5.5 million for penthouse loft in the city's East Village, public records show.

Mr. Roubini's purchase price was down about 25% from the peak asking price in September 2008, according to StreetEasy.com.

The apartment was put up for sale in 2006, and the listing price was increased to \$7.35 million just days after Lehman Brothers' demise exacerbated the financial crisis.

Mr. Roubini, who teaches at New York University, warned in 2006 that overstretched borrowers defaulting on their mortgage loans would unleash a housing bust and deep recession.

His own credit status appears sound. Mr. Roubini took out a \$3 million mortgage for his new East Village property, and earlier this year he borrowed another \$600,000 against his Tribeca loft, according to public records.

Mr. Roubini declined to comment. The listing broker, Richard Orenstein of Halstead Property, also declined to comment.

Mr. Roubini's personal real-estate activity doesn't necessarily mean he thinks the U.S. economy is in the clear.

He recently told The Wall Street Journal that economic growth was



(Left) Halstead Property; (right) Bloomberg News



The three-bedroom triplex just purchased in the East Village by Nouriel Roubini features a cantilevered steel staircase, seen above in the rear.

close to "stall speed," too slow to keep unemployment from rising and housing prices from falling further. He put the chance of the U.S. slipping back into recession at 40%.

Still, real-estate people in New York were quick to seize on his purchase as a healthy sign for the local property market.

"Even the most bearish think our market has nowhere to go but up," said Frederick Peters, president of Warburg Realty Partners.

"Dr. Doom is a little late to catch the bottom, but there's still plenty of upside at this point."

Ever since much of his dire forecasting came true, Mr. Roubini has become one of the world's most recognizable economists. He has been in demand as a speaker and consultant, often shuttling around the globe to advise central bankers and finance ministers.

Born in Istanbul, he was raised in Iran and later lived in Israel. He re-

ceived his doctorate in economics from Harvard University.

It's not clear whether the purchase of his new apartment means he is planning to sell his loft on Leonard Street, though some brokers are already speculating about it.

Last year he told the Sunday Times of London that he thought the loft was worth \$2 million around the time of the market's top but about 10% to 20% less than that at the time of the interview.

The apartment was famous for Mr. Roubini's parties, which drew hedge-fund managers and models and occasional coverage in the gossip columns.

He'll have more room to host in the new property, which is about 3,600 square feet, according to StreetEasy.com.

The three-bedroom triplex has a cantilevered steel staircase, 13-foot ceilings on the second floor and a wrap terrace.

## U.A.E. hotel rethinks its Christmas tree

By NOUR MALAS

ABU DHABI—Emirates Palace, the swank hotel that last week decked out a Christmas tree with \$11 million worth of jewelry, expressed second thoughts Sunday over its tree-trimming exuberance.

It is unclear what triggered the backtracking, and attempts to reach the hotel management Sunday weren't successful.

In a statement carried by the government news agency here, the hotel suggested it had acted in bad taste. It said it regretted "attempts to overload the tradition" of decorating a tree for the holiday season. But the hotel appears to have stopped short of moving to take down the decorations.

After unveiling the tree—and saying the hotel was trying for a world record for most-expensively dressed tree—the story ricocheted around the world. Decorators used diamond sets, pearls and precious gems, altogether valued at \$11 million, from a local jeweler to decorate the artificial tree.

London-based Guinness World Records confirmed that Emirates Palace had applied for the record. Guinness hasn't yet verified the feat.

Abu Dhabi is the biggest and richest emirate of the United Arab Emirates, but leaders here have typically prided themselves on keeping a lower, more conservative profile than their glitzier neighbors in the emirate of Dubai, home to the world's tallest skyscraper and an indoor ski slope.



Associated Press

The tree has jewels worth \$11 million.

While a Muslim country, the U.A.E. also is a hub for international business and tourism, and publicly displayed Christmas trees aren't uncommon.

The hotel tried to reinforce that it wasn't taking Christmas for granted. Displaying a tree "is not a novelty, rather it is a tradition meant to share in celebrating occasions guests hold while they are away from their home countries and families," it said in the statement.

It also tried to distance itself from the tree in the first place, saying it had nothing to do with putting it up or decorating it, saying that all fell to the local jeweler, whose wares are hanging from the tree's boughs.

"The hotel is just a venue for exhibiting the tree," Emirates Palace said in its statement.

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## EUROPE NEWS

# More emerges in Assange case

BY JEANNE WHALEN  
AND PAUL SONNE

New details of the Swedish sexual-misconduct accusations against WikiLeaks founder Julian Assange shed light on the deepening and complex legal problems he faces over his conduct with two women during a short stretch in August.

Mr. Assange was released on bail last week following his Dec. 7 arrest on a European arrest warrant issued by Sweden. Now, the WikiLeaks founder finds himself in the middle of a multifront legal battle stemming from two seemingly disparate events: WikiLeaks' release of thousands of classified U.S. documents, which has angered U.S. officials and sparked a broad U.S. federal investigation; and the sexual-misconduct case in Sweden, where prosecutors want to extradite him to answer questions regarding accusations of rape and molestation by two women there.

Mr. Assange has denied the sex allegations, and his attorney, Mark Stephens, has suggested that the Swedish criminal case is a ruse to keep Mr. Assange in custody while U.S. prosecutors consider whether to bring a criminal case against him or WikiLeaks.

But as more details about Sweden's criminal case against Mr. Assange emerge, through interviews and the leaking of a Swedish police report to the U.K. newspaper the Guardian, the sexual-misconduct allegations have come into fuller view.

Mr. Assange arrived in Sweden in mid-August saying that WikiLeaks was considering setting up shop there and take advantage of the liberal whistle-blower protections afforded to the country's media outlets. Instead, the very liberal legal system he prized has tripped him up, in part because Sweden also has a wide definition of what constitutes a sex crime.

The episode began when Mr. Assange came to Stockholm at the invitation of Sweden's Christian Social Democrat party, which wanted him to give a speech about the role of information and reporting during



WikiLeaks founder Julian Assange waves outside a U.K. police station Sunday.

wars, Peter Weiderud, head of the party, said in an interview in Stockholm, adding that he personally issued the invitation to Mr. Assange.

During his trip to Sweden, Mr. Assange stayed for some time at the home of a young woman who helped coordinate the event, according to her lawyer, Claes Borgstrom.

Named "Miss A" in court documents, the woman alleges that on the night of Aug. 13, Mr. Assange sexually molested and coerced her. She alleges that the WikiLeaks founder held down her arms and

forcibly parted her legs, and had sex with her without a condom, despite knowing that she required one, a lawyer for Swedish prosecutors said in U.K. court this month.

The Guardian, citing the Swedish police report, said "Miss A" told police that Mr. Assange ripped off her clothes and snapped her necklace. Then, she said he held down her arms and legs and prevented her from grabbing a condom numerous times. Finally, after he let go and agreed to wear a condom, she claims he did something to the con-

dom to rip it, the Guardian reported.

Separately, "Miss A" also alleges that on Aug. 18 Mr. Assange molested her. Mr. Assange has disputed the account "Miss A" gave to the police, according to the Guardian, and said he didn't notice a torn condom.

Another woman, named "Miss W" in court documents, contacted "Miss A" before the speech to ask whether she could attend, says Mr. Borgstrom, who is also her lawyer. The women did not know each other before the speech, he said.

On Mon. Aug. 16, after several encounters with supporters, Mr. Assange went to "Miss W's" flat outside of Stockholm, where she alleges that he had sex with her while she was asleep, without using a condom, despite knowing that she required one, according to Swedish prosecutors.

Afterwards, "Miss W" was worried about the unprotected sex and wanted Mr. Assange to get tested for HIV, says Mr. Borgstrom, her lawyer. When she couldn't get hold of him, she thought perhaps "Miss A" would know how to reach him and contacted her, Mr. Borgstrom says.

"Miss A" asked why she needed to reach Mr. Assange; when "Miss W" explained, "Miss A" told her "the same thing happened to me," their attorney says. According to the Guardian, "Miss A" and "Miss W," either directly or through the Swedish coordinator for WikiLeaks, asked Mr. Assange to be tested for HIV, but he refused. Mr. Assange's lawyer, Mr. Stephens, says his client did undergo a test but he doesn't know when.

On Aug. 20, the women went to Stockholm police. "They wanted advice," Mr. Borgstrom says. "They wanted to be sure they were not infected by HIV." The women hadn't decided whether to report Mr. Assange's behavior as a crime, but the prosecutor on duty that night opened an investigation and issued an arrest warrant for Mr. Assange, Mr. Borgstrom says.

—Sven Grundberg  
contributed to this article.

## An architect of the euro dies at 70

[ Remembrances:  
Tommaso Padoa-Schioppa ]

By SABRINA COHEN

MILAN—An architect of the European monetary union and a former board member of the European Central Bank, Tommaso Padoa-Schioppa died late Saturday in Rome, according to several media reports early Sunday.

European Central Bank President Jean-Claude Trichet expressed "immense sadness" on behalf of the central bank.

"As a man of vision and strong European convictions, Tommaso Padoa-Schioppa was a powerful voice on the European monetary scene even before the creation of the euro," Mr. Trichet said in a statement.

News reports said Mr. Padoa-Schioppa, 70, was hospitalized late Saturday after a dinner with friends and died shortly after because of a heart attack.

Funeral arrangements weren't immediately announced.

Since July, Mr. Padoa-Schioppa chaired the board of trustees of the IFRS Foundation, which oversees the International Accounting Standards Board and helped promulgate the move toward a single set of accounting rules used world-wide. Sir David Tweedie, the IASB's chairman, said in a statement Sunday that Mr. Padoa-Schioppa "possessed a rare combination of intellect and vision, delivered with a wry smile. He was a friend and colleague and will be missed by many, many people."

In August, Mr. Padoa-Schioppa was named adviser of the Greek government for economy and debt management. Also a former Italian finance minister, Mr. Padoa-Schioppa was advising Greek Prime Minister George Papandreou on issues of policy planning that relate to the implementation of economic, fiscal and structural policy in the framework of the European support mechanism.

Last week, he was named board member of soon-to-be listed Fiat SpA unit Fiat Industrial.



European Pressphoto Agency

Tommaso Padoa-Schioppa

# Belarus election sparks protests

By JAMES MARSON

MINSK, Belarus—Thousands of Belarusians chanting "Freedom!" and "Belarus is alive!" rallied in the center of Minsk late Sunday to protest the apparent re-election of President Alexander Lukashenko as exit polls gave the ruler more than 70% of the vote.

Hundreds of riot police gathered on the edge of the crowd outside Parliament headquarters in Lenin Square but made no move against it. Police, however, attacked opposition candidate Vladimir Neklyayev and a group of his supporters as they headed toward the rally, leaving him badly beaten, said an aide to the candidate.

Mr. Neklyayev, a popular poet, and four other opposition candidates had demanded the election be rerun, claiming massive vote fraud.

An exit poll by the pro-government Ecom analytical center gave the president 79.1% of the vote. A poll taken by the state-owned ONT television network gave him 72.2%.

Mr. Lukashenko, who has run the

former Soviet republic since 1994, had been widely expected to win a majority of the vote in a field with nine rival candidates. But Western leaders, particularly in Europe, were watching Sunday's vote for signs of how fair the process was and how the president handled its aftermath.

Long a staunch ally of Russia, the 56-year-old Belarussian leader has turned to the West in recent years as subsidies from Moscow dwindled and relations became strained.

European officials have said Belarus can expect as much as \$3.5 billion in loans and credits if an observer mission from the Organization for Security and Cooperation in Europe judges the vote to be free and fair.

Mr. Lukashenko's domineering style of rule enjoys broad support among Belarus's population of 9.5 million. His promise of political and economic stability played well with many voters Sunday.

"This president has done so much good: Roads have been built, the city has started to look better," said Alina Gurinovich, a 37-year-old

accountant who voted for Mr. Lukashenko at a polling station in central Minsk. "I like Belarus the way it is—peaceful, quiet and stable."

Svetlana Vizgina, a 30-year-old foreign-language teacher, said she checked an option on the ballot marked "against all" candidates. "Conditions were not suitable for an election," she said.

Just after the polls closed, opponents of Mr. Lukashenko headed toward October Square for a preannounced protest against the expected results. Authorities had declared the planned gathering illegal and installed an ice-skating rink to limit space for demonstrators.

As the crowd swelled, it moved toward Lenin Square.

Vadim Zaitsev, head of the Belarussian security services, still known by the Soviet KGB acronym, said Saturday that the opposition had tried to buy a variety of weapons, including 3,000 metal rods. He said "adequate measures" would be used against any "provocation."

Opposition leaders denied arming their supporters and called on

them to remain peaceful.

As Mr. Neklyayev led about 250 supporters from his headquarters toward the rally, they were stopped by about 70 black-clad police who threw smoke and stun grenades, said Viktor Gorbachev, an aide to the candidate. He said Mr. Neklyayev was knocked unconscious briefly and hospitalized with head injuries.

The Interior Ministry said a fight erupted as the opposition activists tried to stop the police from searching two of their cars. It said police found truncheons in the cars.

The candidate had told reporters earlier, "These are fraudulent elections. A free vote is impossible under this dictatorship."

Belarussian authorities had allowed opposition candidates to register, speak on live television and campaign with less obstruction than in previous contests.

That was enough for Geert Ahrens, head of the OSCE observer mission, to declare Sunday that "these elections can be assessed better" than Mr. Lukashenko's ritual renewals of power in 2001 and 2006.

## NIGHTTIME FOR BES IN SÃO PAULO



## SUNRISE FOR BES IN LISBON



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## EUROPE NEWS

# Spain promises to open its books

By THOMAS CATAN  
AND JONATHAN HOUSE

MADRID—Facing growing pressure from the financial markets, Spanish authorities vowed to open the books of two groups of borrowers whose needs for cash are unnerving skittish investors.

Officials pledged to give investors an early peek into the finances of cash-strapped regional governments. Meanwhile, the country's central bank is speeding up plans to force regional savings banks to provide more information on their loans and the amounts they need to borrow. It hopes to quell rising investor fears that the banks might be facing a cash crunch or hiding real-estate losses.

Investors last week drove up Spain's cost of borrowing amid concerns that it could be the next country to need a bailout following Greece and Ireland, and possibly Portugal. In particular, they have worried that Spanish regions, which have a high degree of political autonomy, could derail the country's efforts to slash its budget deficit.

To address those fears, on Monday Spain will make public the finances of the country's regional governments for the first nine months of the year. It had planned to release those figures next year.

Last week, Moody's Investors Service warned it might lower Spain's debt rating because of the country's relatively high refinancing needs next year and the possibility that it might have to inject fresh capital into its banks.

On Friday, Moody's also delivered bad news to Ireland, downgrading the country to Baa1 from Aa2, keeping its negative outlook. The ratings firm said the government's financial strength could deteriorate.

Spain insists that it isn't in the same situation as Ireland or Greece. It is betting that investors will come around to its view once they can see the inner workings of its banks and regional governments.

In some ways, Spain is an unlikely candidate for a bailout: Its government doesn't have much debt. Even after a generous stimulus plan and an economic slump that blew a big hole in its accounts, Spain's central-government debt represented just 46% of its economic output at the end of last year. That compares with 65% for Ireland, 109% for Italy and 138% for Greece.

But Spain's government debt is

the tip of the iceberg. The country's regions, banks, businesses and households also borrowed heavily during the boom years—and history suggests the government could end up shouldering those debts. "Spain's problem isn't public debt—it's private debt," says Emilio Ontiveros, a private Spanish economist.

Another problem: Many of those Spanish borrowers will be refinancing their debts next year, at a time when investors are nervous about taking on any European risk. According to Moody's, Spain's central government must raise about €170 billion (\$225 billion) in 2011, on top of €30 billion by the country's regional governments.

Spanish banks, whose own ability to raise funds is closely linked to the fortunes of the Spanish government, must refinance about €90 billion of debt next year, it added. The government has also set up a special facility for banks to draw on if needed, with a lending capacity of up to €99 billion. That fund will likely have to issue more government-backed bonds next year.

Some investors worry that so many Spanish borrowers will crowd each other out of the market in ways that could hurt the government's ability to finance itself at reasonable rates. That, they say, raises the chance that Spain will have to turn to the European Union or International Monetary Fund for a bailout.

"We have a sword of Damocles hanging over our heads," said Juan José Toribio, an economist and former IMF official now at the IESE Business School.

Spain's predicament shows that the crisis in the euro zone isn't just due to profligate Southern European governments spending too much, as happened in Greece. Instead, the pain in Spain points toward a different culprit: the euro itself.

Adopting the common currency in 1999 sent rates tumbling on the fringe of the euro zone, as the risk of a currency devaluation was removed. In Spain, they fell below the rate of inflation—meaning they were negative in real terms—creating a big incentive to borrow.

Spanish households and companies borrowed with gusto. They poured their cheap money into building new houses, inflating a 15-year, credit-fueled construction bubble that has imploded with devastating effects.

—Art Patnaude  
contributed to this article.



Andrew Testa/Panos for the Wall Street Journal

Sophie Paddock, 16, relies on a free bus to get to school—a service parents will have to pay for under proposed cuts.

## U.K. cuts hit home

### [ Reporter's Journal ]

By ALISTAIR MACDONALD

NORWICH, England—In this eastern city, the drive to cut the U.K.'s massive budget deficit will soon boil down to some basics: streetlights going dark, cuts in care for the elderly, and ending subsidized diapers for new parents.

Like hundreds of local governments here, Norfolk County Council is drawing up plans for painful cuts that will end a decade of plenty for councils and change the face of public services across Britain.

In October, the Conservative Party-led coalition government announced cuts of £83 billion (\$131 billion) over four years, the most aggressive among major economies. Local councils were told to cut 28% from their budgets, well above the average of 19% the Treasury asked of other government departments.

"It's a different world for local councils. The decade of real term increases in spending is over," said Gerry Stoker, professor of governance at the University of Southampton.

Some councils are being dragged kicking and screaming to the cutting table. But some, like Norfolk's, are trying to look at it as a chance to change the way they operate.

"The changes will allow us to refocus the role of the state," said Derrick Murphy, the leader of the Conservative-dominated Norfolk council. Mr. Murphy said that after the next four years, "we will not revert to the status quo."

In making the cuts, councils such as Norfolk's could become a test for the "Big Society" philosophy that Prime Minister David Cameron has struggled to sell to the country. The goal of that philosophy is for individuals and groups to take over some state functions, engendering individual responsibility and community and saving money. In Norfolk, that could mean using



Andrew Testa/Panos for the Wall Street Journal  
Norfolk council leader Derrick Murphy says the cuts are a chance to refocus.

volunteer staff in places like libraries to supplement smaller professional staffs.

Like any business looking to trim fat, councils like Norfolk's are looking at merging back offices—in this case, with those of other councils—as well as outsourcing functions, trimming staff and selling buildings. Museums and libraries will cut opening hours; £126,000 could be saved from turning off some streetlights; and social services, such as a center for the hard of hearing and blind, may close.

In some places, local politicians from the Liberal Democrat party are taking to task the Tories—their partners in the coalition government.

"The Conservative proposals are slash and burn," said Diana Clarke, a Liberal Democrat councilor in Norfolk. She expects tough cuts to services in which the government intervenes in problems such as teenage pregnancy, drug addiction and antisocial behavior by young people.

Such cuts would scale back the political edifice erected by the Labour government that left office this year after 13 years in charge. Local government revenues from central-government grants, local

taxes and other measures more than doubled from 1997, when Labour won power, to the latest financial year.

Opposition politicians say the cuts are as much about a Tory ideological desire to shrink the size of the state as they are about deficit reduction. Mohammed Pervez, the Labour Party leader of Stoke on Trent City Council, remembers feeling shock when the local government cuts were announced and went even deeper than expected.

"The government says these cuts are going to be fair. They won't be fair on the people of Stoke on Trent," he said.

In Norfolk, the cuts dominate talk among older people in an area where around 21% of the population is age 65 and over, compared with 16% in England as a whole. Most days, 85-year-old Edith Pocock scours the local newspaper for news about the cuts. "A lot of us are frightened. Not all old people have something to fall back on," she said.

Norfolk is one of England's most rural regions. Public buses are expected to run less, and the council proposes that parents pay £784 a year for bus travel that currently is free.

Sophie Paddock, 16, takes a bus eight kilometers from her house on the edges of the Norfolk Broads to her high school.

Without a bus, she will rely on her mother, a single parent, she said. Once the school has closed at the end of the day, "I'll spend hours hanging round, nowhere to study," she said. "Hardly encouraging people to go to college."

Mr. Murphy insists the Norfolk council will still protect the vulnerable, such as the elderly and children in social care.

Even locals who support many local services sometimes questioned Labour-era largess. A few years back, a new library was built in the nearby town of Wymondham. Ms. Pocock wondered what was wrong with the old one. "We do like new things, but sometimes silly money is spent," she said.

### Spain's silver lining

Other European economies have a greater debt burden as a percentage of GDP than Spain.

Greece	126.8%
Italy	116
Euro zone	79.2
Portugal	76.1
Germany	73.4
Ireland	65.5
Spain	53.2

Note: 2009 data, general government debt

Source: Eurostat

## U.S. NEWS

# New rules loom as 'don't ask' ends

By NATHAN HODGE

On Saturday, the Senate passed a bill that begins the process of overturning the military's ban on gays serving openly in uniform. Putting the repeal into practice, however, appears likely to take months.

In a statement issued after the Senate voted to end the policy, known as "don't ask, don't tell," Secretary of Defense Robert Gates said he would "approach this process deliberately."

Once the change becomes law with President Barack Obama's signature, the military will need to revise policies and regulations that govern everything from leadership training to standards of conduct. And before the policy is officially ended, the president, the secretary of defense and the chairman of the Joint Chiefs of Staff must sign a letter certifying that the changes wouldn't affect military readiness.

Full repeal would take effect 60 days after that certification letter is transmitted to the congressional armed-services committees.

Mr. Gates has appointed Undersecretary of Defense for Personnel and Readiness Clifford Stanley, a retired Marine Corps general, to lead the Pentagon's planning effort.

A Pentagon report on the potential impact of repeal issued in late November said that successful implementation would hinge in large part upon leadership by commanders, who would be responsible for communicating a clear message to the



Retired Navy commander Zoe Dunning, center, celebrates the Senate vote to repeal the ban on gays serving openly in the military.

ranks about the changes in policy. It recommended against assigning separate living quarters or bathroom facilities for gay service members.

The military will still have to work through a raft of changes to personnel policy. In particular, it will have to make provisions for members who were discharged from the service under the policy to allow

them to be reinstated.

Michelle McCluer, executive director of the National Institute of Military Justice at American University Washington College of Law, said it was rare for a person to be involuntarily discharged from the military and then be allowed to rejoin. "Making it into a process that doesn't take months and months and months,

that's going to be a challenge," she said.

Some service members discharged under the policy said they planned to rejoin once the ban is fully lifted.

Anthony Bustos, an Army medic who was discharged under "don't ask" in early December, said he would seek to re-enter the military

after he completes graduate study. Saturday's vote, he said, had given him an "overwhelming sense of validation."

Mr. Bustos said he started contemplating coming out after two of his friends were killed in a roadside bomb attack during his first tour in Iraq. "They were two of my best friends and they didn't know that part of my life, and I didn't tell them about it," he said. "It was a big turning point to me."

Jason Knight, a Navy linguist, is currently seeking reinstatement in the military. He has a unique insight into serving openly: He was discharged in 2005 because of his sexual orientation, but due to a paperwork snafu, he was not processed out under "don't ask" regulations and was placed in inactive reserve. When he was subsequently recalled to duty a year later, he decided to serve openly. The experience, he said, was positive.

"It was completely different," he said. "I wasn't lying to my superiors. I wasn't evading or misleading my superiors. It was an incredible experience."

Mr. Knight was discharged a second time after the military newspaper Stars and Stripes wrote an article about him.

Openly gay service members may face skepticism within the ranks. A major Pentagon survey of attitudes within the military found a significant minority — around 30% overall — that expressed negative views about the impact of repeal.

## Senate at odds on START pact

By JESSICA HOLZER

WASHINGTON—Sen. Dick Durbin (D., Ill.) said Sunday he believed there were enough votes in the Senate to ratify a new nuclear-arms treaty with Russia, despite Republican concerns it could hamper U.S. efforts on missile defense.

"I think we need to bring this to a vote," Mr. Durbin, the second-ranking Senate Democrat, said on Fox News's Sunday talk show with Chris Wallace.

The Senate was scheduled to meet Sunday to discuss START behind closed doors. Democrats were hoping a ratification vote would come later this week.

Sen. Jon Kyl (R., Ariz.), who also appeared on the show, suggested the treaty wouldn't get the Republican support it needed to pass the Senate without changes to preserve U.S. options on missile defense.

The treaty needs support from two-thirds of the Senate to be rati-



Sen. Dick Durbin seeks Senate vote.

fied. "This treaty still needs to be fixed. We're not going to have time to deal with that," said Mr. Kyl, who

is the Senate's No. 2 Republican.

A Republican effort on Saturday to reopen the treaty failed.

The treaty is a priority for President Barack Obama. It would reduce the limit on each country's nuclear-warhead arsenal and restart a system of verification that lapsed when the prior START treaty expired.

Democrats are attempting to push a number of measures through Congress before the end of the year. They will hold less sway in the next legislative session that begins in January because Republicans will assume control of the House of Representatives.

Mr. Kyl said he wouldn't vote for the treaty—called the Strategic Arms Reduction Treaty, or START—unless there were changes made to the preamble. He said he doubted there was enough time to address Republican concerns with the treaty, given all the other measures Democrats were seeking to bring to the Senate floor.

## Dream Act fails to advance in Senate

By NAFTALI BENDAVID

WASHINGTON—The Senate on Saturday refused to advance a bill aimed at helping the children of illegal immigrants gain legal status, dealing the measure a likely death blow for the foreseeable future.

The Dream Act—which stands for Development, Relief and Education for Alien Minors—was aimed at helping people brought into the country illegally when they were 15 or younger. It would have let them

obtain citizenship if they attended two years of college or served for two years in the military. To qualify, they also would have had to live in the U.S. for five years and graduate from high school.

The bill failed on a 55-41 vote. It would have required 60 votes to overcome a filibuster.

The measure was a top priority of Senate Majority Leader Harry Reid, D. Nev., who won a tough re-election fight last November with the help of his state's large Hispanic

community, which strongly supports the bill.

Supporters said it was unfair to penalize children who had been brought into the U.S. by their parents when they had no control over the situation. About 65,000 undocumented aliens graduate from high school each year.

The bill's critics said the Dream Act would reward law breaking, and that Congress should secure the borders before awarding citizenship to any illegal immigrants.

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## WORLD NEWS



Agence France-Presse/Getty Images

Iranians refuel their motorcycles in Tehran. Iranian gasoline prices surged as the government began cutting subsidies.

## Iran abruptly reduces food, fuel subsidies

By FARNAZ FASSIHI

BEIRUT—Iran kicked off a much-anticipated economic-overhaul plan on Sunday, cutting food and fuel subsidies, and triggering a rush by drivers to fill up their tanks ahead of a fourfold increase in gasoline prices.

President Mahmoud Ahmadinejad announced in a television interview on Saturday night that cuts would begin at midnight, giving consumers just a few hours' notice. While the subsidy cuts have been long planned and discussed by the government, crucial details—such as when they would go into effect and the price details—hadn't been made clear.

Iranians rushed to fill their fuel tanks on the news, with long lines forming at gas stations ahead of the change. Eyewitnesses reported a heavy security presence throughout big cities, with several police cars and rows of anti-riot police stationed at each gas station.

The subsidy cuts are part of a phased, five-year economic overhaul aimed at saving the government an estimated \$100 billion a year. Mr. Ahmadinejad has battled the country's parliament for more than a

year to win approval for the cuts.

The subsidy cuts have been controversial for the president, who struggled with widespread political unrest much of last year following contested presidential elections. Iran, one of the world's largest oil exporters, once had been generous with subsidies, but the country has been hobbled by high inflation and unemployment, and by several rounds of tough international sanctions over Iran's nuclear program.

Many fear the steep subsidy cuts could stoke more economic discontent in households. "We feel dizzy from the new prices the government has announced. I fear it will get much worse in the next few months," said a 30-year-old man in Tehran, who has two small children and works as an energy consultant.

Investors, industrialists and business owners also are worried. They say they already are burdened by banking and shipping difficulties, because of the sanctions, that make it hard to import raw material to Iran. Now, a sharp increase in utility bills threatens to cripple small private businesses, and hurt bigger industries that relied heavily on subsidized energy prices.

Riots broke out in 2007 when

the government first rationed gasoline, and dozens of gas stations were set on fire. Iranians contacted Sunday by telephone said they were shocked at the sudden announcement and anxious about the inevitable inflation.

Drivers will continue to receive a monthly gasoline quota of 60 liters, but the price for that amount will rise from 1,000 rials, or about 10 cents, per liter to 4,000 rials. Additional gasoline above the quota will still be available at 7,000 rials per liter, according to official Iranian news agencies.

Tehran also announced it will phase out \$4 billion in bread subsidies. Instead, the government said it will pay each eligible citizen about \$40 per month of compensation. Such payouts have already begun.

The Ministry of Economy had predicted that household cooking-gas prices will rise more than fivefold, and electricity and water more than threefold, according to ILNA news agency.

A prominent economist, Fariborz Raees Dana, was arrested Saturday at his home after he commented about the subsidy cuts to BBC Persian. Analysts say his arrest was a message for critics to keep quiet.

## China's Wen strikes deals with Pakistan

By ZAHID HUSSAIN

ISLAMABAD, Pakistan—Chinese Premier Wen Jiabao on Sunday concluded a three-day visit to Pakistan aimed at expanding economic and defense ties, while at the same time assuaging concerns over Beijing's recent friendliness with New Delhi.

During Mr. Wen's visit, China signed commercial agreements with Pakistan's government and private companies worth \$30 billion, covering the railway, solar, wind and energy sectors, among others.

Unlike Western leaders, who have castigated Pakistan for failing to crack down adequately on Islamist militants operating from its soil, Mr. Wen praised Islamabad for its fight against terrorism.

"Pakistan has been in the forefront of the fight against global terrorism and the international community should recognize its sacrifices," Mr. Wen said in an address to the joint session of Pakistan's parliament Sunday.

China has long been a close ally of Pakistan, which it sees as a way of projecting its power into the South Asian region and balancing the U.S.'s increasingly close ties with New Delhi.

China also has been moving closer to India, Pakistan's rival. Before arriving in Pakistan, Mr. Wen spent three days in India, during which Indian and Chinese companies signed commercial deals worth \$16 billion. On Thursday, the two countries set a target for bilateral trade to reach \$100 billion annually by 2015.

But China's political ties with India remain strained over a series of issues, not least Beijing's support for Pakistan, including help with nuclear technology. China is helping Pakistan build two nuclear power plants.

Washington and other Western nations say that arrangement breaks Beijing's commitments under Nuclear Suppliers Group rules. Islamabad has declined U.S. requests for details on the nuclear cooperation with China, and both say cooperation is limited to civilian purposes.

On this trip, Mr. Wen was keen to underscore that Beijing's stronger commercial ties with India would not weaken its friendship with Pakistan. "Strengthening and promoting strategic, brotherly relations is our joint strategic choice and they are in the interests of the two countries and their people," Mr. Wen said.

A joint statement issued after Mr. Wen met this weekend with Pakistan Prime Minister Yousaf Raza Gilani said: "Chinese-Pakistan relations have gone beyond bilateral dimensions and acquired broader regional and international ramifications."

Mr. Wen was accompanied by dozens of corporate chief executives and 250 business leaders—many of whom were also present during the Chinese leader's visit to India last week.

Analysts said Pakistan has little to fear in China's growing economic ties with India because Islamabad has confidence in China's friendship and sees it as a factor for regional peace and security.



Agence France-Presse/Getty Images

Chinese Premier Wen Jiabao, waving, with Pakistani counterpart Yousaf Raza Gilani, left, and National Assembly speaker Fehmida Mirza in Islamabad.

## Iraqi cleric asks followers not to work for foreign oil

By SAM DAGHER AND MUNAF AMMAR

BAGHDAD—Even before rival Iraqi politicians finish haggling over how to divide cabinet posts to form a unity government here, anti-American firebrand cleric Moqtada al-Sadr is weighing in on the country's biggest economic issue: oil policy.

Mr. Sadr, whose militia waged pitched battles against American forces not long after they ousted Saddam Hussein, has banned his followers from accepting jobs with foreign oil companies working in

southern Iraq, his spokesman said Sunday.

The ban raises questions about how much political opposition the oil companies may face from the new government being assembled by Prime Minister Nouri al-Maliki. Representatives of rival political factions taking part in forming a unity government were continuing negotiations as of late Sunday night. Mr. al-Maliki had promised to announce at least a partial cabinet by Monday.

Salah al-Obeidi, a Sadr spokesman, said the ban—issued Thursday

on Mr. Sadr's official website in the form of a *fatwa*, or religious edict—could be lifted after verifying the "legitimacy" of a company's operations.

The *fatwa* came in the form of a response to a question from a follower, asking if it was permissible to accept work from a private, British oil company offering jobs in the southern province of Missan.

Mr. Sadr responds: "In the name of the Almighty, presently not, this is prohibited."

It isn't clear whether any specific company was being singled out.

Asim Jihad, spokesman for the Ministry of Oil declined to comment on the move. "The ministry does not get involved in the *fatwas* of clerics, and tries to stay away from these matters," he said.

Last year, Prime Minister al-Maliki's previous government forced through two oil auctions, welcoming a handful of foreign companies to rehabilitate some of Iraq's biggest oil fields. Political opposition to the contracts has been muted.

A senior parliamentary leader from Mr. Sadr's movement said the group is seeking nine portfolios in

Mr. Maliki's 41-member cabinet, including deputy prime minister.

It isn't clear whether the timing of the *fatwa* was meant to affect the intense jockeying for cabinet posts.

Mr. Sadr's followers performed well in March polls. Former Prime Minister Ayad Allawi's bloc won the most parliamentary seats in those elections, but he was forced to agree to a U.S.-backed power-sharing deal after failing to cobble a governing coalition.

Mr. Sadr threw his support behind Mr. Maliki, helping him clinch a mandate for a second term.



## WORLD NEWS

# Security council meets on Koreans

BY EVAN RAMSTAD

SEOUL—South Korea is pushing ahead with a U.S.-backed artillery test in a rare direct challenge in the face of North Korean threats, prompting an emergency session of the United Nations Security Council and calls for calm from Asian neighbors.

The test, which will likely happen Monday or Tuesday, is a pivotal moment in the fractious inter-Korean relationship. The Security Council was meeting in New York on Sunday at Russia's request, underscoring pressure on South Korea from both Moscow and Beijing to cancel the test.

The test will take place on the South Korean island of Yeonpyeong, which North Korean forces shelled last month in what appears to be an effort to effectively redefine border territory in the Yellow Sea off the countries' west coast. The shelling killed four South Koreans, two of them civilians.

With the test, South Korea is walking a tightrope by trying to defend waters it has controlled since the Korean War of the 1950s in a way that doesn't escalate into more fighting, which would threaten the safety of its 50 million people and the vibrancy of its economy, the world's 15th biggest.

On Sunday, South Korean defense officials called the planned test "usual and justifiable."

"We won't take into consideration North Korean threats and diplomatic situations before holding the live-fire drill. If weather permits, it will be held as scheduled," a spokesman for South Korea's Joint Chiefs of Staff said.

A text of the Russian draft statement, reviewed by The Wall Street Journal, calls on "all parties to exercise maximum restraint and to avoid any steps" that might further inflame the region. The reference appears to underscore Moscow's request to Seoul on Friday to call off the artillery tests.

The Russian draft calls on U.N. Secretary General Ban Ki-moon to "dispatch without delay" his special representative to both Koreas "to consult on urgent measures to settle peacefully the current crisis situation in the Korean peninsula."

The U.N. last sent an envoy to North Korea in February and it was unclear whether the U.S. and South Korea would back such a move.

Amid all the official statements and diplomatic maneuvering over



North Korean Ambassador to the United Nations Sin Son-ho declines to answer questions on Sunday at the U.N.

the weekend, there were few signs of tension in South Korea. Shopping malls were filled in preparation for the holidays and roads were clogged with people on weekend commutes to and from rural getaways.

There have been no signs of unusual troop movement or war preparations in North Korea, a person familiar with military surveillance of North Korea said. And, while North Korea since Friday has issued several threats of retaliation if a new test is conducted, all came from relatively low-level agencies and news publications rather than the offices associated with its dictator, Kim Jong Il.

According to South Korea's Yonhap news agency on Sunday, North Korea raised the military readiness of its artillery unit along the west coast.

U.S. officials said North Korea shouldn't view South Korea's coming drills as a threat. In Japan, government spokesman Noriyuki Shikata declined to comment on diplomatic discussions but said the test has Tokyo's backing.

China and Russia urged calm. "This situation directly affects the national security interests of the Russian Federation," Vitaly Churkin, Russia's ambassador to the U.N., said Saturday.

Chinese Foreign Minister Yang

Jiechi and his Russian counterpart, Sergei Lavrov, discussed the crisis by telephone Saturday, according to a statement on the Chinese foreign ministry's website, and both called for restraint. "China firmly opposes any actions to cause tension and worsen the situation," Mr. Yang said.

Also Saturday, Chinese Vice Foreign Minister Zhang Zhijun said China had made "unremitting efforts" to persuade North and South Korea to restrain themselves. China had "recently" summoned the ambassadors of North and South Korea, he said, without revealing when, according to another statement on the ministry website.

China doesn't want to do further damage to its relations with South Korea, an important trading partner, analysts say. Beijing recently launched a diplomatic drive to reassure countries that have been worried by Beijing's more forceful stance on territorial issues over the last year.

South Korea has controlled Yeonpyeong Island and the waters around it since before the Korean War and placed artillery positions after the war to defend water passages to the South Korean port city of Incheon.

North Korea has repeatedly said it fired on the island because the

South's artillery test on Nov. 23 lobbed shells into its territory. Initially, Seoul countered that it fired away from North Korean waters on that day. Later, Pyongyang claimed it controls all the waters around the island and said that any artillery testing from Yeonpyeong is an assault on its territory.

While South Korea is betting North Korea will do nothing in response to the drill, it has proceeded carefully. The South Korean military briefly planned to hold such a drill a week after the attack. Instead, it rebuilt the damaged marine post on the island and reinforced its artillery guns with multiple rocket launchers. On Thursday, the military said the drill would happen as soon as Saturday, but then pushed it to Monday, citing weather conditions.

The U.S.-led United Nations Command, responsible for overseeing the armistice agreement, will observe the drill, with about 20 Americans and a handful of soldiers from other countries on hand.

North Korea has disputed the Yellow Sea boundary for more than a decade with naval incursions and has repeatedly stated a desire to redraw the inter-Korean maritime border that was created in the armistice agreement that ended hostilities in 1953.

Its reasons for escalating the



Mudo: North Korea has artillery positions on Mudo and along its coast.

matter with the Nov. 23 attack are unknown. Analysts have speculated that Mr. Kim is trying to solidify support for a power transition to his son Kim Jong Eun and force Seoul to restart financial assistance that was cut off in 2008.

In many ways, the test-firing on Yeonpyeong presents a direct challenge to North Korea in a way Pyongyang hasn't dealt with since a tense episode with the U.S. in August 1976.

In that incident, North Korea killed two U.S. soldiers who tried to chop down a tree blocking a view of the North in the demilitarized zone, the inter-Korean land border that's heavily guarded on both sides. Amid more threats from Pyongyang, the U.S. several days later sent in more soldiers to finish the job, but it backed them up with an armed platoon, 27 helicopters and a number of B-52 bombers, a flexing of military muscle that caused North Korea to order citizens into bomb shelters.

Before announcing the new test on Yeonpyeong, South Korean defense officials said they will strike back at any further attacks by the North. They haven't disclosed plans for a counterattack if North Korea reacts to this week's test.

—Jeremy Page, Joe Lauria and Kana Inagaki contributed to this article.

## U.N. chief rebuffs Ivory Coast order to remove troops

BY JOE LAURIA

UNITED NATIONS—United Nations Secretary General Ban Ki-moon rejected Sunday an order by Ivory Coast's embattled President Laurent Gbagbo that all U.N. peacekeepers leave the country immediately, after the U.N. repulsed Ivorian soldiers who opened fire on their base, leading to the death of an Ivorian soldier.

In response to Saturday's request, Mr. Ban said the U.N. will "fulfill its mandate and will continue to monitor and document any human-rights violations, incitement to hatred and violence, or attacks on U.N. peacekeepers." He added: "There will be consequences for those who have perpetrated or or-

chestrated any such actions or do so in the future."

A disputed presidential election has thrown the west Africa nation into turmoil, pitting supporters of Mr. Gbagbo against his challenger, Alassane Ouattara. Mr. Gbagbo appears to retain the loyalty of Ivory Coast's security forces, but Mr. Ouattara is backed by former rebel leaders and their forces, many of whom fought in the 2002-2003 civil war.

The U.N. has certified Mr. Ouattara as the winner and protects the hotel where the challenger has been residing and working in the wake of the disputed Nov. 28 runoff. Mr. Gbagbo, who has ruled since 2000, has refused to step down. On Friday, Mr. Ban called on Mr. Gbagbo to leave the presidency without delay.

"The international community must send this message, loud and clear. Any other outcome would make a mockery of democracy and the rule of law," he said.

**Mr. Gbagbo's camp has complained that the U.N. hasn't remained neutral in the country's election.**

Mr. Gbagbo's camp has complained that the U.N. and its peacekeeping mission haven't remained neutral in the country's presidential elections.

The U.S., the European Union

and the African Union also all endorse Mr. Ouattara as the legitimate winner. The U.S. and the EU are considering sanctions against Mr. Gbagbo if he doesn't relinquish power.

The assault on the U.N. base has ratcheted up tensions. The firefight erupted at the U.N. mission headquarters in the Plateau area of the commercial capital, Abidjan, in the early hours of Saturday, said U.N. spokesman Farhan Haq.

Although the mandate for the United Nations Operation in Côte d'Ivoire, UNOCI, is set to expire Dec. 31, the U.N. Security Council would have to vote to withdraw the 9,000 U.N. troops. The council is set to discuss the matter on Monday.

The French government also

would have to make a decision on the fate of 900 French peacekeepers under French command in support of the U.N. mission. There was no immediate response from French officials to Mr. Gbagbo's demand.

The tensions have stoked fears of another civil war. Factions from the north and the south fought a civil war from 2002 to 2003, caused by a complex series of factors, especially ethnic tensions. Mr. Ouattara is from the north and Mr. Gbagbo from the south. On Thursday as many as 30 people were killed when Ouattara supporters tried to take over the state radio station. Fighting also occurred at the hotel where Mr. Ouattara is holed up with his supporters. About 800 U.N. peacekeepers are guarding the hotel.

## INTERVIEW

Nestlé CEO Paul Bulcke is investing \$509 million over 10 years in the Nestlé Institute of Health Science, which will carry out research into areas including genetics and DNA.



Bloomberg News

# Nestlé sees its future in the lab

[ Paul Bulcke ]

By JOHN REVILL

VEVEY, Switzerland—Sitting at his office at the Nestlé headquarters here, Chief Executive Paul Bulcke sips a cup of Nescafé and paints a futuristic picture of how food can change our lives.

“Nutrition, health and wellness has been our basic agenda over the last few years,” he says. “Now we are looking at deeper, scientific solutions to personalized nutritional problems and answers to chronic diseases.”

“The health-care costs of our society are going through the roof. The best health inducer is food. If you don’t do that right you will have health-care costs you can’t cope with.”

Nestlé is the world’s largest food company by sales and Mr. Bulcke wants to seize the opportunity that lies in the gap between food and pharmaceuticals. He believes this can help tackle the world’s health problems as well as becoming a key growth platform for the company.

Next month, Nestlé will launch **Nestlé Health Science SA**, a company based in Lausanne set up to develop a scientific base for personalized health science and nutrition. It will develop and launch specialist food-based products to help prevent and treat conditions such as Alzheimer’s disease, diabetes and heart disease. Swiss scientists say it will be possible for food-based products to reduce the symptoms of diseases and treat them, though some are skeptical conditions such as diabetes can be totally prevented.

Under the new company’s control will be the **Nestlé Institute of Health Sciences**. The institute will undertake biomedical research to improve understanding of disease processes. Ultimately this knowledge can be used to create specialist food products, says

Mr. Bulcke. Such products could be food-based or supplements. Some of the products already on the market include Clinutren, a range of supplements that can be added to soups, desserts or drinks, which can help cancer patients gain weight or prevent weight loss.

With a global aging population and rising health-care costs, Mr. Bulcke sees benefits for society from the road Nestlé is taking as well as creating a new growth platform for the company.

Nestlé’s existing Healthcare Nutrition business, which will be incorporated into Nestlé Health Science SA, a wholly owned subsidiary, had sales of \$1.63 billion in 2009 slightly down from a year earlier. Mr. Bulcke says the creation of new organizations is the best way to focus the company’s skills while enabling it to keep focus on its core food, beverage and nutrition business.

But he sees much more potential in his vision of a food company helping to bring about a healthier world and is investing \$509 million over 10 years in the institute, which will carry out deeper scientific research into areas including genetics and DNA. The research institute will take a long-term approach, while acquisitions will also take place via Nestlé Health Science.

“This has huge potential. It is going to be multi-billion,” he adds. “Our institute is not going to be there to invent everything, but to be the platform for building and bringing in what is out there.”

This is in addition to the company’s drive to improve the nutritional value of its products, he says.

Each time a new product is launched, it has to be better nutritionally than its predecessor by containing less sugar, salt or fat, for example, or more micronutrients, Mr. Bulcke says. Sometimes nutrients are added—for example, iodine to Nestlé’s Maggi stock cubes to help people in coun-

tries where there is an iodine shortage. Similarly, milk reinforced with extra iron can reduce anemia.

“This adds real and honest arguments to what food should be. Food should keep you alive; it should also be convenient and be pleasurable as well as being part of a healthy diet,” he says.

“Food which brings nutrition and helps health has more value for society at large. We want to be part of that.”

Meanwhile, Mr. Bulcke is keeping a firm eye on the drive for healthier profits. Investment will continue to refresh Nestlé’s brands, he says, and the company will also be spending heavily on production capability, particularly in developing markets, as well as acquisitions, he adds.

Nestlé, whose brands include Kit Kat chocolate and Perrier bottled water, is regularly linked with a string of targets in the food sector, the latest being French yoghurt maker Yoplait and Britain’s **Premier Foods’** Quorn brand.

He declined to comment on the speculation, saying the company doesn’t comment on rumors.

Belgian-born Mr. Bulcke became CEO of the Swiss conglomerate in April 2008 after 29 years moving through the ranks at the company he joined in 1979 as a marketing trainee. He spent the first half of his career in Latin America, working in marketing and sales, before returning to Europe as the head of the Portuguese market in 1996. Six years ago he became executive vice-president and four years later succeeded the flamboyant Peter Brabeck-Letmathe as CEO when the latter stepped down to concentrate on being the chairman.

Mr. Bulcke emits a more modest aura and insists his rise to the top of the organization was never an ultimate aim.

“I always tell people who ask me what they should do with their career, enjoy the journey. I worked every day because I liked

what I did. But then it [the opportunity] came, and I didn’t say no.”

Mr. Bulcke is well-liked in the food industry and is known as a good motivator with a fine attention to detail. He adds his own take: “Simplicity has many charms, I love that saying. Life is complex but I try to simplify things. That is what I enjoy the most; getting things done through people who are motivated.”

Asked if he expects a big sales upswing now a global economic recovery seems to be under way, he cites the company’s 5% organic sales growth target over the next 10 years—despite beating that in the first nine months of 2010 with a 6.1% increase from the year-earlier period.

“The 5% to 6% slope is the one we want to walk over time. It is not a straight line. If you say 5%-6%, that sounds easy with percentages,” but he points out that means adding \$6 billion to \$7 billion a year. “We are selling 1.2 billion products per day, so 6%-7% on top of that is quite a few million extra products.”

Mr. Bulcke says Nestlé is an “and” company, by which he means it does not limit its expansion to expansion to either emerging or mature markets. The size of the company, which since its origins in 1866 has grown to a concern with about 278,000 employees and 449 factories worldwide, means it can do both.

He expects emerging markets to grow faster, along with some products such as Nespresso, Nestlé’s premium coffee capsules, which had a global sales increase of 20% this year. Emerging markets are important not just because of population growth, but also because of increasing wealth, which creates new consumers, Mr. Bulcke adds.

One question Mr. Bulcke declines to answer: What’s his favorite product? “I don’t have any favorites. It’s a bit like asking a father or a mother who their favorite kid is. But I love a Nescafé.”