



## Andrew Madoff looks ahead in wake of brother's suicide

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## New potash deal: Russian producers plan merger

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Agence France-Presse/Getty Images

A passenger is surrounded by luggage inside St Pancras International train station in London, Monday, as snow and ice caused travel chaos across Europe.

## Travelers are stranded by snow, ice

Harsh winter weather in parts of Europe continued to hamper passengers scrambling to get to their destinations before Christmas.

Europe's three busiest airports—London's Heathrow, Charles de Gaulle outside Paris and Frankfurt—operated just a fraction of their usual schedules Monday, the third day of delays and cancellations. Across Europe, about 10,000 flights were canceled between Friday and midday Monday, disrupting travel for about 800,000 passengers, according to the Association of European Airlines, a trade group based in Brussels.

The bad weather has also hit retailers in the run-up to Christmas.

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# Terror sweep: 12 arrests

By CASSELL BRYAN-LOW

LONDON—U.K. police arrested 12 men in a large-scale counterterrorism operation described as “absolutely necessary” for public safety, underscoring concerns that the threat of terrorist attacks across Europe is escalating.

The arrests represent one of the largest counterterrorism operations by U.K. authorities in recent years. Police declined to detail the nature of the suspected plot or give the suspects’ backgrounds.

Recent months have seen a number of terrorist-related arrests across the region, including in Belgium, Denmark and Norway. An attack by a suspected suicide bomber this month in Stockholm heightened fears that terror groups are targeting nontraditional sites.

At the same time, authorities in the U.K. and elsewhere in Europe have warned of the threat of a commando-style attack, such as the one conducted in Mumbai in 2008, where more than 160 people were killed.

Monday’s arrests, however, don’t appear to be in connection with any such an attack, a person familiar with the matter said, but added that the investigation is at an early stage. U.K. police also don’t believe the arrested suspects are connected to the incident in Sweden, people familiar with the matter said.

U.K. authorities said they arrested the suspects, ages 17 to 28, on suspicion of terrorism charges.

All of them were arrested in the early hours of Monday at or near their homes in Cardiff, Stoke-on-Trent and

London, with the exception of one man who was arrested in Birmingham.

The men haven’t been charged but are in police custody and property searches are continuing.

The investigation is at its “earliest stages,” but the “arrests were absolutely necessary to keep the public safe,” said Police Assistant Commissioner John Yates, who heads the U.K.’s counterterrorism policing effort, in comments to news media outside of the Metropolitan Police’s headquarters, known as Scotland Yard. Mr. Yates reiterated that the threat level in the U.K. remained at “severe,” meaning that “an attack is highly likely.”

Ramesh Patel, a councillor in Cardiff, said local police had informed him that at least the majority of the five

men arrested in the Welsh capital were from the city’s large Bangladeshi community.

Several of the U.K.’s security chiefs recently have warned about terrorist threats. Last month, the head of London’s Metropolitan Police, Sir Paul Stephenson, said in a speech that the U.K. now faces its most dangerous period in the fight against terrorism since two failed attacks in the summer of 2007.

The heads of both Britain’s domestic spy agency, known as MI5, and the foreign-intelligence service, MI6, have said in recent months that the U.K. faces potent threats from terrorism incubated in the Middle East, North Africa and Northern Ireland.

In October, the U.S. State Department advised Americans living or traveling to Europe to be wary, amid intelli-

gence suggesting that al Qaeda and affiliated groups continue to plan attacks. The department warned that terrorists could use a variety of methods and weapons.

In 2009, police arrested 12 individuals in relation to a suspected attack in Manchester, as part of an effort called “Operation Pathway.” The suspects were all released without charge, due to what U.K. prosecutors called insufficient evidence.

But earlier this year, U.S. federal prosecutors charged two of those men in relation to suspected terrorist activity. In July, U.K. police arrested one of the men, Abid Naseer, on the request of U.S. authorities. Mr. Naseer is awaiting a judgment in his extradition hearing. A lawyer for Mr. Naseer couldn’t be reached to comment.

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BaQa’—or is it humbug? Aliens attack a Christmas classic and take Scrooge to another planet. Page 29

### World Watch

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

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Are militant vegetarians like religious fundamentalists? Page 13



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## PAGE TWO

## Bankers are still there for bashing

## [ Agenda ]

BY PATIENCE WHEATCROFT



Europe's Big Freeze has driven banker-bashing temporarily off the agenda. The public in the region now has another target for its ire, the snow and ice that is grounding aircraft, disrupting trains and, in many areas, hitting distribution of this newspaper. (Thus underlining the efficient distribution mechanism that the Internet offers to publishers and their readers.) Transport ministers have, for the time being, taken over the hot seat, with Scotland's Stewart Stevenson being the first to be pushed into resignation by a snowdrift.

The weather also had a more direct impact on a potential bout of banker-bashing in the U.K., where a meeting between bank chiefs and the chancellor, George Osborne, scheduled for Monday had to be canceled. Mr Osborne, who has been in New York trying to reassure investment banks that London will remain a congenial environment for them, was unable to fly back to London in time.

Despite the message that he was endeavoring to spread in New York, the London meeting had seemed likely to be more confrontational. The U.K.'s coalition government remains concerned, and in some quarters, furious, about the level of remuneration in the sector. The imminent bonus round is being seen in Britain as possibly inflammatory, given that it comes against a background of unprecedented public-sector cuts. Even though bonus pools will be smaller than last year, the politicians are warning the banks that, if they don't exercise restraint, they could have restraint thrust upon them via yet more taxes.

Generally, private-sector remuneration shouldn't be an area in which governments have much



Scotland's transport minister, Stewart Stevenson, resigned on Monday.

of an involvement. It should be a matter for the owners to decide how they want to split the profits with those who run the business. But banks are not as other businesses, as has been amply demonstrated in recent years. While they remain effectively underwritten by taxpayers, then governments surely have a right to determine what is acceptable.

Earlier this month, Irish Finance Minister Brian Lenihan determined that it would be unacceptable for **Allied Irish Bank** to pay out bonuses of €40 million (\$52 million). Since the Irish government had already had to pump €3.5 billion into the bank because of its profligacy, and

### If banks don't exercise restraint, they could have restraint thrust upon them via yet more taxes.

much more will be needed to keep it alive, such a payout would have caused outrage in a country brought to its knees by reckless bankers.

That the directors could even contemplate making the payment, albeit it related to 2008 and was arguably, in some cases contractual, appeared to give credence to the widely held view of bankers, that they fail to

understand the public wrath against their industry and, in particular, its pay levels.

Regulators have belatedly responded to what they acknowledge was a remuneration system that encouraged dangerous risk-taking. The Committee of European Banking Supervisors produced a series of principles for remuneration in 2009 and on Dec. 10 this year published its final guidelines on the matter. These severely curtail the proportion of a bonus that can be paid in cash, insist on deferral periods and on retention times for noncash elements. They also provide for claw-backs of bonuses that turn out to have been unfounded.

The CEBS stresses that variable remuneration "should not pose detriment to the timely building up of capital base" nor, where applicable, to the timely exit from government support. Both points might seem obvious to nonbankers but one can see why CEBS felt it necessary to spell this out.

Gradually, the strictures on capital ratios laid down in Basel III will force the broadening of that capital base, at the expense of potential remuneration pools. In the meantime, however, it is the quantum of banker remuneration, as well as the structure, which remains a concern to politicians. No matter that footballers, rock stars and movie moguls may earn on similar

scales, that doesn't occasion the same anger among the public.

But this should be a concern to shareholders as much as governments. In the case of many financial institutions, the two are now synonymous. In the U.K., the government owns 83% of **Royal Bank of Scotland** and 41% of **Lloyds Banking Group**, holdings that should confer significant clout. With their organizations under threat of higher taxation as well as public opprobrium, other shareholders ought to be more exercised over the remuneration issue.

Private-sector investors have been a remarkably supine breed, sitting quietly while they were generally the losers, as the banks shared the spoils of apparent growth between employees and owners. Some remarkable research by our sister paper, *Financial News*, found that in a sample of eight of the biggest investment banks and investment banking divisions of universal banks, the compensation paid over the past five years amounted to 2.6 times the pretax profits earned.

Would the average pensioner whose savings were contributing to the bankers' bonanza be happy with that ratio? But their representatives, the investment professionals, knew little about remuneration structure beyond the boardroom and asked less. They did nothing as so-called rainmakers were awarded three-year guaranteed bonuses, a contradiction in terms.

Now shareholders should start to take their governance responsibilities seriously. In the U.K., ministers are pressing for banks to give more details of executive pay, listing those being paid in various bands. Some say the U.K. shouldn't move unilaterally, but CEBS in its new guidelines, which take effect from Jan. 1 for major banks, insists that shareholders should be given adequate information on which to judge remuneration policies. The banks shouldn't be shy if they can justify the numbers.

## What's News

■ **One of VimpelCom's** two major shareholders said it opposed a deal with Egyptian billionaire Naguib Sawiris, a setback that will almost certainly derail a plan to create the world's fifth-biggest mobile operator. 18, 32

■ **Belarus leader** Lukashenko declared that his former Soviet republic needed "no more hare-brained democracy" after rivals at home and governments in the West accused him of using fraud to secure re-election. 6

■ **Spain said** its regional governments are on track to meet their budget targets this year, its latest effort to quell investor fears. 4

■ **The Czech government** failed to secure support from a partner it needs to survive a vote of confidence. 4

■ **Gartmore shares fell** on news the fund manager is weighing a takeover proposal from Henderson at a discount to its recent share price. 23

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## ONLINE TODAY

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## Real Time Brussels

blogs.wsj.com/brussels

'There's a reason European farmers often take to the streets: It works.'

**John W. Miller** on how incomes on European farms have increased this year by 12.3% per worker.



## Continuing coverage

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15:20 Manchester	BA1286	Cancelled
15:25 Frankfurt	BA818	Cancelled
15:30 Munich	BA966	Cancelled
15:35 Montreal	B7198	Cancelled
15:35 Las Vegas	BA375	Cancelled
15:35 Zurich	LS543	Cancelled
15:45 Newark	BA189	Cancelled
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## Question of the day

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## Previous results

Q: Which Europe House of the Day is your favorite?

Tuscan Villa	34%
Irish Island Retreat	24%
London Townhouse	22%
Venice Canal Apartment	20%

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NEWS

# Snow, ice ground flights in Europe

By DANIEL MICHAELS

Travel remained snarled across Europe on Monday as major airports faced a third day of delays and cancellations that stranded almost one million passengers.

Europe's three busiest airports—London's Heathrow, Paris's Charles de Gaulle and Frankfurt—operated only a fraction of their normal schedule because of snow and ice. Brussels Airport faced the prospect of new delays Monday owing to a lack of deicing fluid, airlines said.

At Heathrow, the world's busiest international hub, many flights remained grounded on Monday, more than two days after the last big snowfall. Airport operator BAA Airports Ltd. and some airlines blamed the problem on unprecedented amounts of ice and the airport's outdated design, although some carriers complained that BAA wasn't sufficiently prepared.

"It's taking BAA too long to get the airport back in full operation," said a spokesman for German carrier **Deutsche Lufthansa AG** in London. "Airports across Europe face extraordinary situations, but other European hubs are recovering faster."

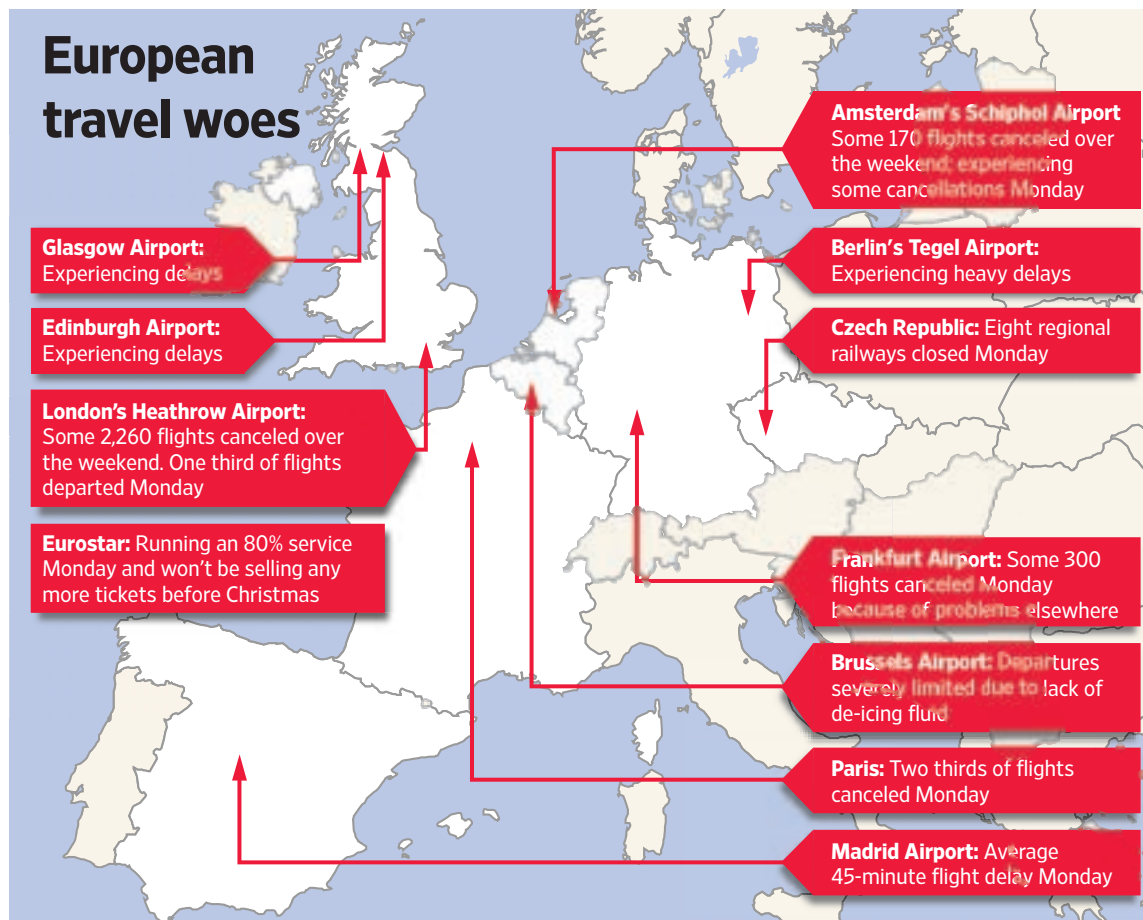
A BAA spokeswoman rejected the criticism, saying Heathrow had been overwhelmed by massive snowfall and temperature swings over the weekend. On Saturday, more than 12 centimeters of snow fell in roughly an hour, which then melted slightly and refroze, turning to ice, the spokeswoman said.

Ice is generally harder to clear than snow, especially when equipment such as movable jetways—also known as aerobridges—freezes, industry officials say.

"We invested a massive amount in preparation for snow and winter," the BAA spokeswoman said.

Problems worsened Monday afternoon as snow resumed in London and air traffic around Heathrow became "chaotic," according to Eurocontrol, an umbrella organization for air-traffic control across 38 countries, which imposed strict limits on flights to the airport.

**British Airways PLC**, which is



the biggest carrier at Heathrow and canceled hundreds of flights over the weekend, said only one of the airport's two runways was open as BAA continued to clear snow and ice. The airline said it would face more cancellations and delays.

Airlines and BAA said a fundamental problem at Heathrow is the layout of older terminals, where parking gates form dead ends that are hard to clear. Heathrow also operates at full capacity, meaning it has no slack to handle the backlog that develops when flights are delayed or canceled.

But others said recent shifts in weather patterns after several mild winters in the U.K. mean airports and their government regulators must prepare better. "We need to see a candid discussion about preparation, investment and accountability," said John Strickland, director

of JLS Consulting, an aviation advisory firm in London.

The travel chaos in Europe hasn't been confined to the skies.

At the **Eurostar** train terminal in London on Monday, passengers snaked around the block in the frigid weather hoping to make it across the English Channel to France. Snow has caused speed restrictions for trains on both sides of the Channel and doubled journey times between Paris and London, a spokesman for Eurostar said.

The train company is offering refunds or ticket exchanges to passengers agreeing not to travel.

Across Europe, roughly 10,000 flights were canceled from Friday to midday Monday, disrupting travel for around 800,000 passengers, according to the Association of European Airlines, a trade group based in Brussels.

Road conditions compounded flight problems as trucks carrying de-icing fluid in France were unable to reach Brussels Airport, according to affected airlines. An airport spokesman was unavailable to comment.

The problem is compounded by a lack of de-icing fluid amid the severe winter conditions across Europe, which came unusually early this year. "Conditions remain tight everywhere," said Gary Lydiate, chief executive of Kilfroast Ltd., a British company that supplies many airports world-wide, but not Brussels. Kilfroast has sufficient supplies, Mr. Lydiate said.

At other airports, conditions improved slightly. French airport operator **Aéroports de Paris SA** said Monday afternoon that conditions were improving at Charles de Gaulle and Orly airports but that delays

and flight cancellations would likely continue because of snowfall earlier in the day.

Lufthansa said Monday it expected to resume normal flight operations on Wednesday. Until then, Lufthansa will gradually lift restrictions it placed Saturday on its schedule, which slashed short-haul flights but maintained most of the carrier's international timetable.

**Fraport AG**, the operator of Frankfurt Airport, said about 300 flights were expected to be canceled out of the 1,300 flights scheduled Monday. About 900 of 2,700 scheduled flights were canceled Saturday and Sunday. Fraport had set up some 1,000 camp beds at the airport over the weekend so passengers could spend the night.

—Steve McGrath, Mimosa Spencer, Paul Sonne and Ruth Bender contributed to this article.

# Bleak midwinter hinders U.K. holiday sales

By PAUL SONNE

LONDON—A rare blast of snowy weather has hurt retailers in the U.K. ahead of Christmas, jeopardizing store traffic and sales during the crucial countdown to the holiday.

The harsh wintry conditions, unusual for most parts of the U.K., come as many British retailers hope for improved performance this season, after two years of recession-crimped holiday sales. The Met Office, the U.K. weather forecaster, has predicted more snow for parts of the country this week.

Scores of U.K. shoppers stayed home on Saturday and Sunday—the crucial last weekend before Christmas—due to the snowy weather. Retail traffic, or footfall, was down 24.3% on Saturday and 13.3% on Sunday, compared to the equivalent pre-Christmas weekend in 2009, according to research firm Synovate. Retail traffic was 18% lower this weekend than it was last weekend, Dec. 11-12.

"There's no doubt that it will have a negative impact," says Robert Gregory, research director in the London office of market-research firm Planet Retail.

Mr. Gregory said companies such as toy stores and music shops that rely heavily on seasonal sales in stores may end up particularly hard hit by the bad weather.

Retailers with robust online sales operations would prove more insulated to the weather, Mr. Gregory predicted. That said, deliveries to areas with heavy snow in the U.K. have been facing problems. **Global Freight Solutions Ltd.**, a U.K. company that routes and dispatches packages for retailers, said Monday that upward of three million packages were held up in a backlog, and that some wouldn't arrive before Christmas as planned. Supermarkets **Tesco PLC** and **Wal-Mart Stores Inc.**'s Asda have stopped guaranteeing delivery before Christmas for some areas and products.

Sales at **John Lewis**, a British

department store, were down 10% on Saturday compared to the same Saturday before Christmas last year; but sales at John Lewis for the week ended Saturday night were still up 7% on last year, at £120.3 million (\$186.50 million)

**Despite the snow, total spending in the U.K. retail sector this December will probably increase from '09.**

The bad weather comes as the British retail sector finds itself on thin ice. Shaky consumer confidence and unexpected bad weather earlier this month have already led to "a nail-biting end to the year for retailers" in the U.K., Stephen Robertson, director general of the British Retail Consortium, a trade group, said in a statement last week.

Verdict Research, the retail-anal-

ysis unit of Datamonitor, predicted that this year's holiday would be the best for U.K. retailers since 2007, with expected sales of £85.2 billion, up 1.9% from last year. But the predicted increase is modest, much of it stemming from high inflation in segments such as clothing.

A BRC spokesman forecasted that, despite the snow, total spending in the U.K. retail sector this December would probably increase compared to 2009. "But whether that actually beats the inflation figure and amounts to real growth is a big question," he said. "Clearly the bad weather won't help."

The spokesman said, however, that Britons wouldn't scrap their holiday shopping altogether on account of the weather. Instead, they will make up for lost time by coming out in force over the next few days. "They will be making big efforts to get those things, even if the timing of their shopping has to change," he said. If bad weather continues, though, the losses suf-

fered this weekend could prove hard to rectify.

When stripping out the effects of inflation, the U.K. retail sector has shown "virtually zero" growth from March through November, the BRC said. The trade group has warned that a threatened London metro strike on Dec. 26, the popular shopping holiday Boxing Day, would further damage the British retail sector during the crucial festive season.

The wintry weather also hit parts of France and continental Europe. Jerome Bedier, president of France's Federation of Retail and Distribution Companies, said on Monday that the biggest stores were seeing lighter sales than normal and that the big stores in Paris had fewer people than last year. He said some stores in the northern part of France were disappointed with customer turnout.

But Mr. Bedier remained confident. "The weather will become better now," he said. "We still have four days until Christmas."



## EUROPE NEWS



Spain's Prime Minister José Luis Rodríguez Zapatero, right, talking with Madrid Mayor Alberto Ruiz-Gallardón Friday.

# Spain says its regions are financially sound

BY THOMAS CATAN  
AND JONATHAN HOUSE

MADRID—Spain said its regional governments are on track to meet their budget targets this year, its latest effort to quell investor fears that it could be the next European country to need a financial bailout.

Facing intense market pressure, Spain for the first time opened its regions' books before year-end in a bid to address investor worries that the regions' deteriorating accounts could derail the government's austerity drive. The early peek showed regional spending to be largely under control, though some analysts cautioned that the biggest test of their finances still lies ahead.

The average deficit across the 17 regions was 1.24% of gross domestic product at the close of the third quarter, the Finance Ministry said—comfortably within the 2.4% target for the full year. Two regions have breached their deficit ceiling: Murcia and Castilla-La Mancha. But the two are relatively small regions, jointly accounting for about 6% of the national economy.

The figures show “substantial progress” at the regional as well as the central-government level, said Andrés Fuentes, an economist at the Paris-based Organization for Economic Cooperation and Development. “I think the country is on course to achieve its budgetary target this year and also next year.”

But some said that Spain wasn't out of the woods yet. The biggest spending items usually appear in the final quarter of the year, and tax revenues could drop further, imperiling the country's budget numbers.

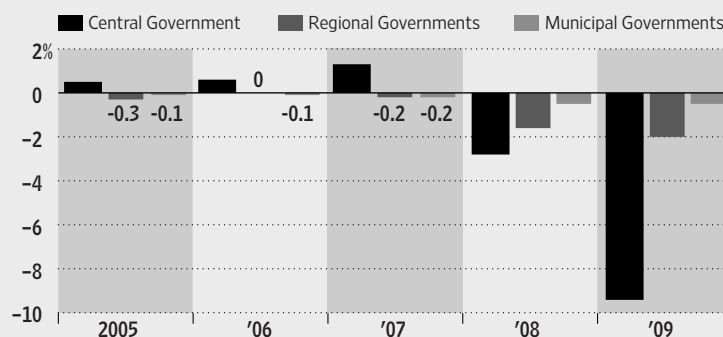
Spain's property prices are still falling after the bursting of a 15-year, credit-fueled property boom, and banks are facing growing bad debts. That, some fear, could force the government to aid the banks and hurt its own finances.

“This is somewhat reassuring, but it's unclear what lies under the hood of some of the banks,” said Nicholas Spiro, a London-based sov-

## Chronic deficits

Spain's regional and municipal governments often posted budget deficits even when the Spanish economy was booming.

Budget balances as percentage of GDP



Source: Spanish Finance Ministry

foreign-risk strategist.

To reassure investors on that front, Spain's central bank is bringing forward plans to open the books of regional savings banks, which were most exposed to the country's property bubble and are closely tied to regional governments. Spain's regions are central to the government's efforts to slash its budget deficit. While it isn't officially a federal country, Spain has one of the most devolved power structures in Europe. Its regions have broad autonomy and provide basic services.

Regional governments and town halls now account for around half all public spending in Spain, compared with just over 20% for the central government. Social-security spending accounts for the remainder.

Moody's Investors Service, the ratings agency, said last month that Spain's regions would find it “very challenging” to meet their budget targets for this year and next. It declined to comment Monday on the latest regional deficit figures.

Spanish regions have been largely shut out from international credit markets for much of the year as a debt crisis roiled the 16-nation bloc that uses the euro as currency. That has forced many to turn to more expensive and short-term

funding that could make their finances worse.

Catalonia, Spain's most economically powerful region, was recently forced to raise money from its own residents through “patriotic bonds.” Other regions, such as Valencia, are following its example.

Such local retail bonds have significant drawbacks, however. They are an expensive and short-term way for regions to fund themselves and compete with banks for residents' savings. That could end up hurting banks' efforts to rebuild their financial strength.

Investors fear that in a worst-case scenario the central government might have to bail out regional and municipal governments.

Some also fear that political considerations will limit how much pressure the government can exert on spendthrift regions.

Spain received some qualified support Monday for its efforts to shore up its ailing economy. In its annual report on the Spanish economy, the OECD said Spain's budget-deficit reduction plan “seems appropriate” but urged the country to push forward with an overhaul of rules governing regional-government spending and of its banking sector and labor laws.

# Confidence vote looms for Czechs

BY LEOS ROUSEK

PRAGUE—The fate of the Czech government hangs in the balance after it failed Monday to secure the support of a coalition partner it needs to survive a vote of confidence over a corruption scandal that has already claimed one member of the cabinet.

The three parties in the power-sharing arrangement held talks Monday evening, but they ended with the smallest coalition member, the Public Affairs party, or VV, walking away from the meeting.

The two larger parties, the conservative Civic Democrats, or ODS, and the centrist TOP 09, said their lawmakers would support the government during Tuesday's vote in parliament, but that still leaves the government seven seats short. Together ODS and TOP 09 hold 94 of 200 seats in the lower house. VV holds 24.

“The meeting of coalition leaders has ended and we can only speculate whether the talks will resume [Tuesday] morning,” government spokesman Jan Osuch said.

VV Chairman Radek John had earlier Monday told a televised news conference: “We will make ourselves heard on this after meeting with our coalition partners later today.”

Last week, Czech Environment Minister Pavel Drobil resigned amid allegations that he covered up corruption in his department, prompting opposition leaders to call for a no-confidence vote against the cabinet. Mr. Drobil has denied wrongdoing.

The alleged corruption was meant to provide funding for the Civic Democrats. Prime Minister Petr Necas is the party's chairman.

“Whether the government will hold together or not is hard to predict now,” Ivan Gabal, a political an-

alyst and sociologist.

The political uncertainty hasn't significantly dented the Czech currency, the koruna, so far, but it may spook investors who have been encouraged by the government's plans to cut spending and revamp the state-run pension system.

“Investors have bet on a sound fiscal outlook based on their beliefs in expenditure-slashing reforms to be put forward by the current cabinet,” said Jan Vejmelek, a currency strategist at Komerční Banka. “The pension reform is key because pension outlays now account for about a one-third of the [budget] expenditures.” The Czech Republic relies fully on current tax revenues to fund present pension outlays.

If the scandal, under police investigation, brings down the current government, the country may face a protracted period of political negotiations on holding early elections. In the interim the country would be governed by either a caretaker cabinet or the outgoing cabinet.

Last week, before the scandal broke, the cabinet won parliament's support for a 2011 budget that foresees deep spending cuts aimed at reducing the budget deficit, expected to be about 5% of gross domestic product this year.

The main opposition party, the left-of-center Social Democrats, or CSSD, holds 56 seats in the parliament and needs support from all 26 lawmakers of the far-left Communists, or KSCM, as well as at least 19 VV lawmakers to win the no-confidence vote against the cabinet.

Going into Sunday's talks, the VV, which campaigned on promises to clean up the central government, said it wanted assurances that the police will thoroughly investigate the corruption allegations. Some local media reported that the party also wants top Czech police officials to resign.

# Hungary lifts rates again, widens rift

BY GORDON FAIRCLOUGH  
AND MARGIT FEHER

BUDAPEST—Hungary's central bank raised interest rates for the second month in a row, deepening the rift between it and the country's government, which is trying to jump-start a flagging economy.

After announcing another quarter-point increase in the National Bank of Hungary's policy rate Monday, the central bank's governor, Andras Simor, said the step was necessary to keep inflation in check.

“Further tightening may not be necessary if future wage and price increases turn out to be moderate,” Mr. Simor said. But, he said, the bank will not “tolerate divergence” from its inflation target of 3%. Inflation was 4.2% last month.

The administration of Prime Minister Viktor Orban issued a sharply worded statement, saying the bank's rate decision “was hasty, hard to justify and could lead to a halt in Hungary's economic consolidation.”

The government has called on its

critics to give its policies time to work.

On Monday, a senior economy ministry official promised to unveil a new round of “reforms” in February designed to revamp education, health care, public-works programs and government administration.

The International Monetary Fund and the European Union, which bailed out the country two years ago, have urged Mr. Orban to adopt long-term spending cuts. Moody's Investors Service this month downgraded Hungary's sovereign-credit rating to just above junk levels, and the cost of insuring government bonds against default has risen.

Mr. Orban, who has pledged to avoid any new austerity measures, is moving to cut taxes on personal incomes as well as on small and mid-size enterprises.

In an interview last week, Mr. Simor said the government's measures risked discouraging bank lending and slowing the recovery and could also contribute to a worsening long-term debt outlook.





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## EUROPE NEWS

# Belarus leader rejects outcry on vote

MINSK, Belarus—President Alexander Lukashenko declared Monday that his former Soviet republic needed “no more hare-brained democracy” after rivals at home and governments in the West accused him of using fraud and violence to secure re-election.

By James Marson in Minsk, Belarus, and Richard Boudreaux in Moscow

The ruler’s comment, coupled with Sunday’s disputed election, signaled the end of his tentative diplomatic outreach to the U.S. and European Union, leaving Belarus fewer options to ease its longstanding economic dependence on Russia.

Mr. Lukashenko was officially declared the winner with 79.7% of the vote after hundreds of riot police stormed Independence Square in central Minsk late Sunday, dispersing an estimated 20,000 protesters outside the main government building.

Many were beaten and at least four of the nine rival presidential candidates were arrested, their aides said.

The president said police detained 639 people, and the Interior Ministry said some face up to 15 years in prison for “organizing mass disturbances.”

With its leaders jailed and some independent Internet media disrupted, the protest movement seemed to fizzle as quickly as it erupted. There was no sign Monday of renewed unrest in the capital.

But strong condemnation poured in from abroad.

The White House said it couldn’t accept the election results as legitimate. It added that the use of “disproportionate force” against political activists marked “a clear step backwards on issues central to our relationship with Belarus.”



Belarusian President Alexander Lukashenko spoke at a news conference in Minsk Monday after winning re-election.

The EU’s top diplomat, Catherine Ashton, urged Belarusian authorities to release the jailed opposition candidates at once. Poland and Lithuania, whose leaders were most eager to tug Belarus out of Russia’s orbit with economic aid if the vote was judged to be fair, reacted with dismay.

The Organization for Security and Cooperation in Europe, which monitored the vote, reported “bad or very bad” ballot counting, much of it conducted in silence, in half the country’s precincts.

It said results recorded at precinct stations were altered in some cases before arriving at regional

election headquarters. And it denounced the police action Sunday night as “heavy-handed.”

“This election failed to give Belarus the new start it needed,” said Tony Lloyd, head of the OSCE observer mission.

Mr. Lukashenko, who has ruled this country of 9.5 million people since 1994, responded angrily with a two-hour news conference on state television, punctuated by finger-wagging diatribes.

“We did everything they asked of us,” the 56-year-old ruler said of the OSCE. He said the organization’s criticism of the police was beyond its mandate. “The election was

over,” he said.

He accused the protesters of “barbarism” and “banditry,” and shut the door to compromise with political opponents who led the protests.

“That’s it,” he declared. “I warned you that if some commotion started, we’d have enough forces. Folks, you tangled with the wrong guy. I’m not going to hide in the basement. So let’s be done with it. There will be no more hare-brained democracy. We won’t allow the country to be torn to pieces.”

Before the president spoke, the wife of opposition candidate Vladimir Neklyayev described how

unknown men had nabbed him Sunday from a hospital bed where he was recovering from a beating on the head during the demonstration.

Olga Neklyayeva said the men locked her, screaming, in a separate hospital room. Her husband’s whereabouts were unknown, she said.

Mr. Lukashenko later said the 64-year-old candidate, a popular poet, had been detained and was being questioned by investigators.

Years of authoritarian rule by Mr. Lukashenko have limited Belarus’s political opposition. It failed to unite behind a single candidate, and Sunday’s protest gave way to internal bickering.

Jaroslav Romanchuk, a presidential candidate who wasn’t arrested, accused three other opposition candidates (not including Mr. Neklyayev) of provoking the violence by leading demonstrators to storm the government building. Police moved against the crowd after some protesters tried to break in.

“Revolutions only disrupt democratic processes,” Mr. Romanchuk said.

Belarus has enjoyed modest prosperity under Mr. Lukashenko thanks to oil- and gas-price subsidies from Russia. As those subsidies have dwindled in recent years, the Belarusian leader has courted the West to obtain loans from the International Monetary Fund and leverage with Moscow in bargaining over energy prices.

By giving rival candidates some freedom to campaign against him, Mr. Lukashenko appeared to signal a desire for closer cooperation with Europe. At the same time, he reached a deal with Russian President Dmitry Medvedev early this month that preserved at least \$1.5 billion in oil-price subsidies next year. Mr. Medvedev called Sunday’s election “an internal matter” for Belarus.

# Medvedev seeks to boost India arms sales

By Tom Wright

NEW DELHI—Russian President Dmitry Medvedev arrives Tuesday in India on a two-day trip aimed at solidifying Moscow’s role as New Delhi’s largest arms supplier in the face of increased competition from the U.S. and Europe.

Mr. Medvedev is the fifth and final leader of a member nation of the United Nations Security Council to visit India in 2010, underscoring New Delhi’s rising importance as a global political and economic power.

India’s fast-expanding economy and growing military budget offers Russia enormous potential to increase sales of military equipment. A U.S.-India nuclear deal in 2008, which paved the way for civilian nuclear exports to India, also has opened the door for Russia to sell civilian nuclear technology to New Delhi.

New Delhi, meanwhile, is hoping Moscow will allow Indian oil and gas companies a larger role in developing Russian energy assets. India is a net importer of crude oil.

Russia and India will sign agreements in defense, economic and space sectors during Mr. Medvedev’s visit, Indian officials said, without giving details.

India is one of Russia’s largest customers for military equipment,

accounting for a third of the sector’s exports—a legacy of the Cold War when New Delhi sided with Moscow against Beijing. About three-quarters of India’s current military hardware is of Russian origin.

But in recent years, India has begun courting other suppliers of military hardware from the U.S., France and the U.K., all of whose leaders have used visits here this year to clinch deals.

“Russia’s defense industry is not as capable as it used to be during the Cold War,” said Laxman Kumar Behera, an expert on India’s military at the New Delhi-based Institute for Defense Studies and Analyses. “India is trying to diversify its supply sources.”

The U.S., during a visit to India by President Barack Obama in November, announced a \$4 billion deal for Boeing Co. to supply the Indian air force with 10 C-17 Globemaster III military transport aircraft.

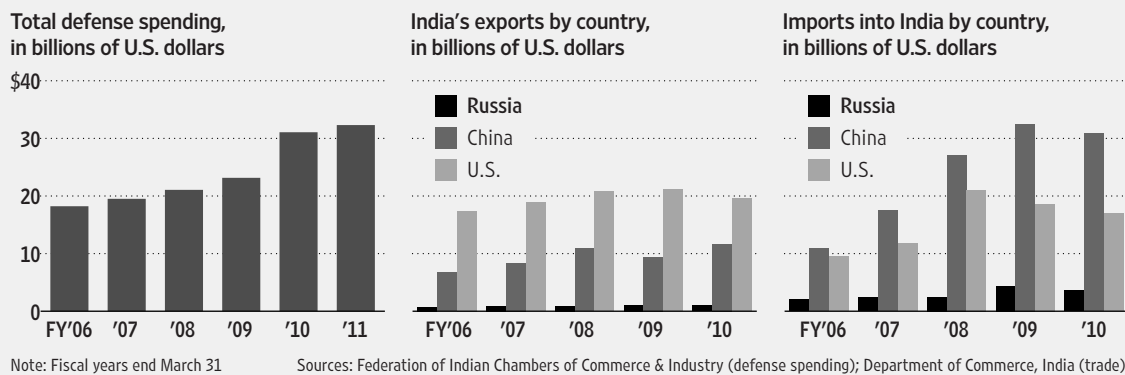
In July, U.K. Prime Minister David Cameron used a trip to the country to announce a \$1.1 billion deal to supply 57 Hawk trainer jets.

French President Nicolas Sarkozy visited India in December, during which the two nations signed a deal for France to supply two nuclear reactors valued at \$9 billion.

Mr. Sarkozy also lobbied for France to win an \$11 billion deal to

## Military Inc.

Even as Russia’s exports to India trail the fast growth experienced by the U.S. and China, Moscow hopes to cash in on India’s increased military spending.



supply 126 fourth-generation fighter jets to India’s air force. Moscow is competing for that deal, which New Delhi is scheduled to award next year.

Russia wants India to choose the MiG-35 fighter, made by RSK MiG, but has to compete against a number of other suppliers including U.S.’s Boeing and Lockheed Martin Corp., France’s Dassault Aviation, and a consortium of European bidders.

To boost its chances next year, Russia has been emphasizing how it is jointly developing military equip-

ment with India.

Both nations are planning to build a fifth-generation fighter aircraft, which could be valued at tens of billions of dollars, but is unlikely to enter production until 2020. Indian media have reported one of the deals likely to be signed this week could include details of this joint production.

“Russia and India have moved to a new level of cooperation in the military-technology area, from the relationship of buyer-seller to joint development and production of modern weapons,” Russian Defense

Minister Anatoly Serdyukov said in late 2009 after a regular meeting of an intergovernmental commission.

But Russia also has disappointed India on some orders. An aircraft carrier, due for delivery in 2008, has been delayed until 2012, while the cost has doubled to \$2 billion. Spare parts for Russian planes also have been hard to come by.

Russia—like the U.S., U.K. and France—also is keen to help India develop its civilian nuclear industry to meet growing power needs.

—Gregory L. White in Moscow contributed to this article.

## U.S. NEWS



Bloomberg News

John Dugan, shown in March, recently completed a five-year term at the Office of the Comptroller of the Currency.

## Ex-bank regulator to represent lenders

BY DAMIAN PALETTA

WASHINGTON—John Dugan, who until August was the top regulator for some of the U.S.'s biggest banks, is returning to law firm Covington & Burling LLP to lead the division representing such firms before regulators and Congress.

The path from bank regulator to bank lawyer is well worn for both Democrats and Republicans. But the appearance of a revolving door often draws scrutiny from critics who allege regulators are too cozy with the companies they oversee.

Mr. Dugan will quickly go from one of Washington's top bank regulators to one of Washington's top bank-regulation lawyers, sought out for his expertise on issues including the financial crisis, international bank regulation, mergers and acquisitions, litigation and implementation of the Dodd-Frank financial-overhaul law.

His team will include Edward Yingling, a top industry lobbyist who is joining Covington & Burling after stepping down as president of the American Bankers Association trade group.

Mr. Dugan, a Republican, was appointed in 2005 to a five-year term at the Office of the Comptroller of the Currency, which regulates roughly 1,500 national banks, including the bank divisions of **Bank of America Corp.**, **Citigroup Inc.** and **J.P. Morgan Chase & Co.**

He will be required by ethics rules to observe a one-year "cooling

off" period, which essentially bars him from representing groups before the Treasury Department or the OCC. He is permanently barred from representing anybody before the government on areas such as specific enforcement matters in which he was personally and substantially involved.

Mr. Dugan won plaudits from senior officials in the Bush and Obama administration for his tenure, in part because he was seen as a team player steeped in banking law. Liberal groups routinely criticized him and said he wasn't tough enough on big banks.

He clashed often, and sometimes publicly, with Federal Deposit Insurance Corp. Chairman Sheila Bair over a range of matters, including how the government should pressure large banks like Citigroup to change their ways during the crisis. The OCC during Mr. Dugan's tenure often applied pressure to banks in private, instead of issuing public enforcement actions. Community bankers complained that OCC examiners were some of the toughest in the country.

"I'm a bank regulatory lawyer, that's my trade," Mr. Dugan said in an interview. "I represent people. There's nothing wrong with that. Advising people on how to comply with the law is an honorable profession." Mr. Dugan said it hadn't yet been decided whether he would register to lobby Congress.

Mr. Dugan was head of the financial institutions group at Covington

& Burling in 2005 before he joined the OCC. He had government experience as both a Senate aide from 1985 to 1989 and a Treasury Department official from 1989 to 1993 before spending more than a decade at the law firm.

Law firms have bulked up their banking practices in the last year, both to influence the Dodd-Frank Act as it moved through Congress and now to deal with the hundreds of new rules that federal agencies, including the OCC, will write to implement the law. Mr. Dugan will likely represent banks affected by these rules, with issues ranging from derivatives rules to consumer-lending standards.

In his previous stint at Covington & Burling, Mr. Dugan represented banks both as a lawyer and a lobbyist, registering to lobby for the American Bankers Association, Bank One Corp. and **Freddie Mac**, among others. He joins a lengthy list of Democrats and Republicans who have left the spot as head of the OCC to earn a living advising banks as either a lawyer or consultant. The six previous comptrollers of the currency have left their government post to either advise financial companies or work directly for one, including John D. Hawke Jr., Eugene Ludwig and Robert Clarke.

The Obama administration hasn't nominated someone to succeed Mr. Dugan as head of the OCC. The agency is being run on a temporary basis by John Walsh, who was an adviser to Mr. Dugan.

## Tax accord helps Obama reclaim some independence

[ Capital Journal ]

By GERALD F. SEIB



In the second year of Ronald Reagan's presidency, the magazine *Conservative Digest* devoted an entire edition to portraying him as a man who had turned his back on conservative principles.

In his private diary, Mr. Reagan noted that the magazine labeled him a "turncoat" and said conservative activist Richard Viguerie sent him a copy of the magazine along with a letter. "He tried to write in sorrow, not anger about my betrayal of the conservative cause," the president noted with a tinge of sarcasm. "He used crocodile tears for ink."

To put it mildly, President Reagan—now considered a hero on the right—survived that criticism from his own supporters. That lesson might hearten President Barack Obama today as he is lacerated by liberals of his own party even as he enjoys his first real set of bipartisan legislative successes during Congress's current lame-duck session.

President Reagan's apostasy then, as is Mr. Obama's now, was to compromise with the opposition party on taxes, among the most ideologically charged of subjects. Mr. Reagan saw little choice but to do a tax deal to win concessions on other important items. He conceded not so much to Democrats as to political reality—which is pretty much what Mr. Obama did in his deal with Republicans to extend tax cuts in return for more unemployment benefits and a new economic-stimulus bill by another name.

As those experiences show, it's nice for a president to have a dedicated base of ideological followers—and it's also troublesome for a president to have a dedicated base of ideological followers. Those followers often expect the president to be the leader of them, not of the country.

In that sense, the most important movement Mr. Obama has made since the midterm election hasn't been toward the ideological center, or toward Republicans. It has been to move toward his own independence—or, more precisely, *back* toward his own independence.

The Barack Obama elected in 2008 presented himself as a kind of singular force, neither party man nor ideological figure but—in the campaign cliché—a postpartisan leader. Yes, he was probably more instinctively liberal than, say, Bill Clinton, but ideology wasn't the point. Making Washington work was the point.

David Axelrod, the president's political counselor, says the Obama candidacy actually was predicated on this pledge to "get past hyperpartisanship," adding: "It was that more than any particular issue that animated public support."

The problem with the president's first two years in office was that he often came to be seen as a traditional, off-the-rack Democrat, at once more liberal and more partisan than many voters assumed. He appeared less focused on finding common ground than in keeping his House Democratic caucus together and in winning that elusive 60th Senate vote always needed to break a filibuster.

Along the way, the least popular of national Democratic figures, House Speaker Nancy Pelosi, frequently was seen as the driver of Democratic strategy, rather than the postpartisan president who so appealed to independent voters not so very long ago.

In some cases, Mr. Obama had little choice in this approach. A president with a congressional majority is expected to use it, and an opposition party with no political control in Congress has no responsibility and therefore little incentive to give ground.

Which is why losing control of the House in November may not have been the worst thing for Mr. Obama. Even before the new Congress was seated, the Capitol's dynamics changed in this month's lame-duck session. Unable to count on a House majority, Mr. Obama was no longer obliged to defer to that majority. Republicans, no longer able to avoid it, accepted responsibility for a deal on taxes.

**Mr. Obama now will be accused of being more concerned with his own re-election than with the fate of his party.**

It's particularly instructive how Mr. Obama's tactics in the recent tax debate differed so conspicuously from those he pursued in the long and politically troublesome health-care discussion.

In the health debate, Mr. Obama never actually presented his own health plan, but, rather, waited for congressional Democrats to settle on one. Even as Republicans excoriated "Obama's health bill," there was no Obama health bill, only variations drawn by congressional Democrats. This time, there was an Obama tax bill.

Mr. Obama now will be accused of being more concerned with his own re-election than with the fate of his party.

There also are questions about why, having given ground on taxes, he didn't get more assurances of Republican support on ratification of the new strategic arms agreement with Russia, which hangs by a thread in the Senate.

And Mr. Obama will need his liberal friends in the battles of the next two years, as they will need him. But for now he's won some victories and reclaimed a measure of his own independence.

## Funding fight looms on health law

By JESSICA HOLZER AND JOSH MITCHELL

WASHINGTON—A Senate deal to fund the federal government until March 4 doesn't include money to launch new health-care and financial-industry regulations, setting up an early Republican victory in the battle over spending priorities.

The deal to fund the government until March 4 is expected to come to the Senate floor for a vote Tuesday. The estimated \$218 billion measure is expected to clear the Senate and House before a Tuesday, Dec. 21 deadline, when current government spending authority expires.

If the resolution passes without funding to ramp up President Ba-

rack Obama's health-care overhaul or beef up agencies that regulate Wall Street, the fate of those regulatory efforts will be decided after Republicans assume control of the House of Representatives and gain votes in the Senate.

"I think the odds shift towards Republicans," said Sen. Richard Shelby (R., Ala.).



## U.S. NEWS

# Tech revival lifts up Silicon Valley

By PUI-WING TAM

The revival of Silicon Valley is on display at the juncture of San Jose's North First Street and Highway 237, which for years was largely undeveloped. But this year, networking-technology firm **Brocade Communications Systems Inc.** moved into a new 525,000-square-foot corporate campus in the area as it hired 600 new employees, boosting its headcount to about 5,000. Retailer **Target Corp.** has opened a store a few doors down, and a hotel is set to open nearby next year.

"We grew in a tough time and added people in a really challenging environment," said Mike Klayko, Chief Executive of Brocade, which increased revenue 7% to \$2.1 billion in its fiscal year ended in late October. He added that Brocade currently has another 325 open jobs in Silicon Valley. "We're interviewing all the time," he said.

Silicon Valley is inching ahead of the rest of California, showing the best signs of life in the state's still-ailing \$1.9 trillion economy. Over the past six months, the unemployment rate in the technology-heavy Northern California region has eased more quickly than the rest of the state as local companies such as Brocade and **Juniper Networks Inc.** have ramped up hiring and expanded operations.

Economists say Silicon Valley's revival is likely to have some spillover effects into other parts of the state's economy. A decade ago during the late 1990s tech boom, Silicon Valley's growth fueled a construction boom around the region and beyond as people moved to homes in the area to commute into the Valley.

It remains unlikely that the entire state—which comprises many other sectors including agriculture—can ride Silicon Valley's tech wave to a full recovery. California's economic problems are too big. Earlier this month, governor-elect **Jerry Brown** gave a grim assessment of the state's prospects, warning the budget shortfall over 19 months could be larger than expected at \$28.1 billion instead of



Employees at Equilar, a compensation-research firm whose revenue surged this year, received iPads for Thanksgiving.

\$25.4 billion.

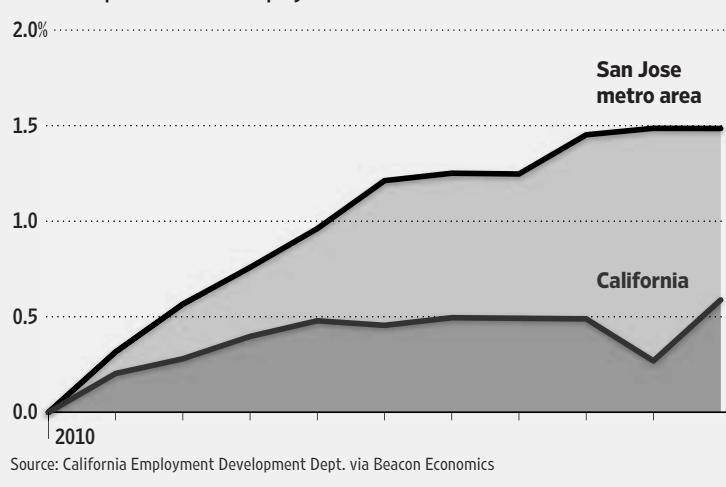
Amid these issues, greater San Jose "shows that there are portions of the economy that are doing well—and frankly these sectors will eventually pull the state out of this mess," said Christopher Thornberg, an economist at Beacon Economics.

Driving the area's recovery is continuing worldwide demand for tech products, much of which still originates in Silicon Valley. "There's an absolutely insatiable demand" for tech products spurred by trends such as smartphones, said Brocade's Mr. Klayko, adding that he doesn't expect demand to taper off "in our lifetimes."

In November, the unemployment rate in the greater San Jose metropolitan area—including key Silicon Valley towns such as Sunnyvale and Santa Clara—declined to 11% from 12.2% last December. California's unemployment rate remained virtually unchanged at around 12.4% over the same period, according to the state's Employment Development

## Leading the way

Growth in private-sector employment since December 2009



Department.

Private sector job growth is also coming back, up 1.6% in the San Jose area since a November 2009

trough, outstripping California's 0.6% growth, according to an analysis by Beacon.

Indeed, the Silicon Valley area is

already helping to spur the overall California economy. Since late 2009, the region has accounted for almost 12,000 of the 66,000 jobs—or about 18%—that California has added back, according to Beacon. The San Jose area is also one of two metro regions in California—the other being Orange County—that has recently shown sustained job growth, said Mr. Thornberg.

Silicon Valley's economy isn't back to pre-recession levels, however. The local unemployment rate remains far higher than the 4.9% in late 2007 and is above the national 9% unemployment rate. Some local companies have also recently had layoffs, with **Yahoo Inc.** last week saying it would eliminate 600 jobs, or about 4% of its workforce.

Still, "the pipeline of companies expanding looks pretty good," said San Jose Mayor Chuck Reed. Jobs in the city of San Jose grew by 7,100, up 56%, in the January through October period this year versus last year, according to the San Jose Office of Economic Development. The number of companies in the city is also up by 1,100 firms, or 5%, in the September to November period from a year earlier.

One firm that is growing is nano-technology start-up **Shocking Technologies Inc.**, which earlier this month opened a new 52,000-square-foot manufacturing facility in San Jose. The company is preparing to manufacture technology next year that helps protect gadgets from static electricity. As a result, Shocking has hired 15 people this year to grow to 40 employees and plans to add another 25 to 30 people next year, said CEO Lex Kosowsky.

In July, Shocking recruited Farhad Razavi, who was finishing up a doctorate in electrical engineering at the University of California in Los Angeles. While Mr. Razavi, 30 years old, wanted to stay in Southern California, he said Shocking moved quickly and wrapped up the hiring process in two months. "I was looking for a job for a long time and in a bad economy, things didn't look very hopeful," said Mr. Razavi. But in Silicon Valley, hiring is "much smoother and quicker."

# Dog breeders face new curbs as states tighten rules

By STEPHANIE SIMON

HEAVENER, Okla.—Bernadine Himes leans over her nursery—a row of blue laundry baskets, lined with heating pads—and picks up a squirming, week-old English bulldog. The puppy, half-bald and no bigger than a hamster, nuzzles into her cupped hands.

Ms. Himes and her husband, Terry, have been breeding dogs for decades on their ranch here in the wooded hills of southeast Oklahoma. They sell at least 150 pups a year—at an average price now of about \$800 apiece—to brokers who place them in pet shops.

It's been a profitable trade. But the business model may soon be obsolete.

Pushed by animal-rights activists, lawmakers in more than a dozen states have enacted restrictions on dog breeders in the past two years. The rules vary, but most require that dogs have space to stretch and time to exercise; some also regulate air quality, temperature and even noise

levels inside kennels.

This fall, the animal-rights movement scored its biggest victory yet, as the top puppy-producing states in the U.S., Missouri and Oklahoma, moved to enact some of the toughest standards anywhere. Critics are pushing to overturn the new rules in both states, but if they do take effect next year, all sides agree they could transform the industry.

Missouri breeders would be limited to 50 fertile adult dogs; some now have more than 200. Oklahoma breeders would have no such limit but would have to hire one full-time employee for every 25 adult dogs.

Both states would criminalize many common practices, such as impregnating dogs every time they come into heat, holding nursing mothers in small wire cages around the clock and keeping adult dogs penned in outdoor kennels between litters. Violations would be treated as misdemeanors.

Raising puppies "should not be done on an industrial scale," said Wayne Paccelle, president of The Hu-

mane Society of the United States, which backs the rules. Breeders "should be playing with the animals, walking them, properly socializing them," he said.

Oklahoma breeder Gary Phillips, who owns 200 dogs, from chihuahuas to mastiffs, said the regulations would bankrupt him. "They're asking for the impossible," he said.

The nearly 5,000 breeders in the U.S. who sell their puppies wholesale are licensed and inspected by the U.S. Department of Agriculture. But thousands more sell puppies directly to the public with no federal oversight. Among the unregulated: hundreds of breeders who market puppies online, from miniature dachshunds priced at \$280 to fluffy maltese at \$1,200 to blue-eyed great danes on sale for \$2,500.

The state laws are designed to set standards for those breeders. They also are meant to improve conditions at USDA-regulated facilities.

The federal government allows practices that animal activists find unacceptable, such as penning pup-

pies in wire-mesh kennels for weeks. And even minimal standards aren't always enforced, according to federal auditors.

A May audit by the USDA's Inspector General upbraided federal inspectors for failing to protect dogs living in filthy conditions.

One Oklahoma kennel with more than 200 dogs was cited repeatedly for violating standards, but no enforcement action was taken, even after an inspector found five dogs dead and others starving in November 2007. Before the breeder's license was revoked, 22 more dogs died, the audit found.

The Missouri standards were enacted in a November ballot measure that passed 52% to 48%. The two states produce half of all puppies sold in U.S. pet stores, according to the Humane Society.

Critics are planning challenges in both states.

Oklahoma state Rep. Brian Renegar, a veterinarian, initially supported tougher oversight, saying he was tired of treating sickly puppies

churned out by unethical breeders. But he now says the rules, which dictate everything from kennel humidity to ground cover, go too far.

"It's a dangerous precedent," Mr. Renegar said. "This year, it's dogs. In five or ten years, are they going to do this for horses or cattle?"

Breeder Terry Himes echoes that anger. "These dogs are doing just fine," he said as he strolled his outdoor kennels.

His dogs spend most of their lives in pens that are typically no bigger than 40 square feet, with concrete floors and a plastic shelter in one corner. They're not walked or let out to exercise, though the Himeses do stop now and then to pet a stocky head or coo baby talk at a yipping puppy.

Bernadine Himes says she can see how the operation might be "a shock to the system" for anyone used to thinking of dogs as family. But she and her husband say they are confident their dogs are content. Otherwise, they wouldn't produce the strong pups that make the kennel profitable.



WORLD NEWS

A year of living provocatively



Surviving sailors of the sunken navy ship Cheonan during the funeral ceremony



Kim Jong Eun at the 65th anniversary of the founding of the Workers' Party of Korea



South Korean villagers watch smoke rising from Yeonpyeong island near the border.

<b>Jan. 8</b> North Korea stages events in honor of the birthday of Kim Jong Eun, son and presumed heir of dictator Kim Jong Il.	<b>Jan. 27 - 28</b> North Korea fires hundreds of rounds of artillery during drills in the Yellow Sea near the inter-Korean maritime border.	<b>March 26</b> South Korean patrol ship Cheonan sinks near Baekryeong Island, the westernmost South Korea island in the Yellow Sea, killing 46 sailors.	<b>May 3 - 7</b> Kim Jong Il visits Dalian, China, and Beijing.	<b>May 20</b> South Korea blames North Korea for sinking the Cheonan, citing torpedo parts recovered at the site of the sinking.	<b>Aug. 26-30</b> Kim Jong Il visits Jilin province in China.	<b>Sept. 13</b> South Korea offers flood aid to North Korea.	<b>Sept. 27</b> Kim Jong Eun is named a four-star general, public confirmation that he will succeed Kim Jong Il.	<b>Oct. 29</b> North Korean soldiers fire two gunshots at a South Korean guard post in the demilitarized zone.	<b>Nov. 23</b> North Korea shells a South Korean marine outpost and village on Yeonpyeong Island. Two South Korean marines and two civilians are killed.	<b>Dec. 20</b> South Korea tests artillery from Yeonpyeong Island, defying North Korean threats of another attack.
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Sources: WSJ reporting; European Pressphoto Agency, Associated Press (2)

# North Korea holds fire against South

By EVAN RAMSTAD

SEOUL—North Korea stood pat as South Korea conducted an artillery drill Monday and said it wasn't going to strike back, significantly easing concerns of armed conflict and suggesting Pyongyang may again be using provocations to seek economic inducements.

South Korea's military went on high alert during the 94-minute drill on Yeonpyeong, a South Korean island in disputed waters that was the target of a North Korean artillery attack last month that killed four. Fighter jets patrolled the air and destroyers sailed in nearby waters ready to counter another attack.

But instead of carrying out its threats of new attacks, North Korea in a statement heaped more criticism on the South but said it "did not feel any need to retaliate."

South Korea's military continued to be on guard for further attacks, but for decades Pyongyang's power has been tied to its ability and willingness to surprise Seoul. Analysts say it is more likely to stage another provocation when the South's guard

goes down in the months ahead.

For now, the episode appeared to take its place in a long series of provocations South Koreans have gotten used to. President Lee Myung-bak, who had been criticized for responding weakly to the Nov. 23 attack, could get a political boost from going ahead with the drill in the face of Pyongyang's threats.

U.S. military officials said the U.S. was still closely watching the situation. "The situation is still more tense than in a long time. I haven't seen that tension ease," said a military official.

Earlier in the day the North made another conciliatory gesture—announced by New Mexico Gov. Bill Richardson, making an unofficial visit—to let the international nuclear inspectors it kicked out last year come back to the country.

North Korea's lack of actions follow a flurry of diplomatic activity over the weekend, with the U.S. and its allies backing the test even as China and Russia pressured South Korea to hold off. Beijing remains reluctant to criticize Pyongyang in public, but Chinese officials have

shown signs of increasing frustration with its recent belligerence.

Chinese officials have been working hard over the past few days to at least appear to be mediating in the crisis. Cui Tiankai, a vice foreign minister, called for restraint from all sides Monday. "No one has the right to cause bloodshed of the people on the peninsula," Mr. Cui said.

For longtime North Korea watchers, Pyongyang's statement and offer to Mr. Richardson showed that it continues to operate in a familiar pattern: heating things up with provocations that draw attention, and then cooling them down with peace-making gestures in hopes of winning favors.

"It is highly likely North Korea will try to use the tense situation that they have made to try to get economic and diplomatic opportunities," said Park Young-ho, an analyst at the Korea Institute of National Unification, a government-affiliated think tank in Seoul.

North Korea claims that waters around the island, into which South Korea has test-fired artillery since the mid-1970s, belong to it and that

any South Korean military test amounts to an attack on its territory. South Korean officials insisted on continuing the drill on the island to ensure that North Korea's attack wouldn't create a de facto change of its maritime border.

Pyongyang had warned of a "deadlier" attack than the one on Nov. 23 if Seoul proceeded with another artillery drill on the island.

North Korea's statements caused more alarm in other countries than in South Korea, where the North's rhetoric is part of the daily noise. Analysts in Seoul noted that Pyongyang's threats were issued by lower-level sources than the agencies affiliated with its dictator Kim Jong Il. As well, military officials said they saw no unusual preparations by the North over the weekend.

As a result, no special precautions were ordered on South Korea's mainland or in Seoul, just 30 miles from the border, and business proceeded as usual Monday.

For South Korean officials, there was little question of staging another drill, which involved multiple types of cannons firing into the wa-

ters southwest of the island and away from North Korean soil.

"It is a regular, fair and defensive exercise that has been happening for a long time," Kim Young-sun, a spokesman for South Korea's Foreign Ministry, said Monday. "We think that it is a matter of defending our sovereignty."

Mr. Richardson told a CNN crew that traveled with him that North Korea offered to International Atomic Energy Agency inspectors return to check activities at its nuclear-power plant in the town of Yongbyon. He also said North Korea would consider steps he suggested to improve communications with South Korea, such as restarting a hotline they cut off this year.

Analysts note a uranium program Pyongyang revealed last month is likely housed in multiple locations and easily hidden, making the inspections process less reliable as a means of holding North Korea to disarmament agreements.

—Jeremy Page in Beijing, Jaeyeon Woo in Seoul and Joe Lauria at the United Nations contributed to this article.

# Maliki presents cabinet lineup to Iraq Parliament

By SAM DAGHER AND HASSAN HAFIDH

BAGHDAD—Iraqi Prime Minister Nouri al-Maliki, who won a second term as premier last month as part of a U.S.-backed power-sharing deal, presented his cabinet lineup to Parliament Monday, the latest step toward ending a nearly 10-month political vacuum here.

"I am very happy," Mr. Maliki told reporters during a brief news conference with Osama al-Nujaifi, the parliamentary speaker. "We are in an accelerating effort that permits no turning back."

Mr. Nujaifi said Parliament will convene Tuesday to review and vote on Mr. Maliki's cabinet, which in ad-

dition to the premiership will include 41 portfolios, the most in Iraq's history.

Underscoring the rifts that continue to plague Iraq's sectarian and ethnic political factions, several posts—including the crucial defense and interior portfolios—will be filled by interim ministers amid lingering disagreements over who should get them, according to Mr. Maliki.

Mr. Maliki refused to release the names of his nominees when pressed by reporters, saying they would be posted Tuesday on the government's official website. But Mr. Maliki's supporters started leaking out names shortly after he made his statements to the media.

Abdul Kareem Luaiby, a current

senior oil official, is expected to be nominated to lead the powerful Ministry of Oil, according to several senior parliamentarians close to Mr. Maliki. Mr. Luaiby would succeed Hussein al-Shahristani, who is widely expected to be nominated for a new, more powerful role, as deputy prime minister for energy, they said.

Mr. Luaiby, 51 years old and a petroleum engineer, was appointed deputy oil minister for extraction in 2008. Mr. Luaiby helped Mr. Shahristani execute about a dozen recent deals with international companies aimed at revamping Iraq's oil industry.

Hoshyar Zebari, a member of the Kurdish bloc, was renominated as foreign minister, Rafie al-Issawi,

who currently is one of two deputy premiers, has been nominated to become finance minister.

The U.S.-allied Kurds, who played a major role in the deal bringing Mr. Maliki together with his rival for the premiership, Ayad Allawi, in a unity government, received a total of seven portfolios, plus a written pledge from Mr. Maliki that he would fulfill most of their demands on contentious issues between their semiautonomous northern region and the central government in Baghdad, according to politicians involved in the process. These include the sharing of oil revenues, funding for the region's military force and the resolution of a longstanding territorial dispute.

Mr. Allawi's bloc—the top vote-getter in March election—received 11 ministries plus the post of deputy premier. Mr. Allawi, who despite his electoral success failed to cobble together a governing coalition, has also been offered the chairmanship of a new, top policy body, as part of the power-sharing accord.

The movement of anti-American cleric Moqtada al-Sadr, which performed well in the March polls and helped tip the balance in Mr. Maliki's favor, was still pushing hard Monday for more concessions, according to several parliamentarians. Mr. Sadr's movement, which could ultimately get eight, mostly services-oriented ministries, also wants one deputy prime minister post, they said.



## WORLD NEWS

# India's Singh set to face a grilling

By **TRIPTI LAHIRI**

NEW DELHI—Indian Prime Minister Manmohan Singh offered to appear before a parliamentary committee in the government's latest bid to contain the fallout of a telecom scandal that potentially cost the government \$40 billion in lost revenue.

Mr. Singh and the ruling Congress party have been under fire by opposition politicians for what critics contend is a lax attitude toward corruption in the government. The criticism stems mainly from a public audit in November that found that a flawed process gave spectrum to telecom companies in 2008 at deeply discounted prices.

"I sincerely believe that, like Caesar's wife, the prime minister should be above suspicion," Mr. Singh said in an address Monday to a national meeting of the ruling Congress party. "And it is for this reason that I am prepared to appear before the Public Accounts Committee," a parliamentary body that oversees public spending.

Mr. Singh hasn't been accused of wrongdoing, and questioning him isn't expected to yield dramatic new revelations. But he has much at stake as the scandal unfolds. Mr. Singh is in danger of having his legacy tarnished from that of an economist who oversaw India's rapid economic growth to one of a technocrat who wasn't aggressive in rooting out corruption.

His appearance before the committee could potentially shine a light on the types of calculations Indian leaders have to make to protect their coalition's ruling majority. The former telecom minister under scrutiny from the probe, A. Raja, is a member of a southern Indian party that supports the Congress party in the United Progressive Alliance. Opposition lawmakers have said the government had to give the party the telecom portfolio as a reward for its support.

In the 2008 allotment of second-generation mobile telephone spectrum, the government used as a reference point a fee structure used in a much earlier allotment, in 2001, when India's telecom revolution was in its infancy.

By 2008, India had one of the world's largest, and fastest-growing, mobile telephone markets. Still, a government auditing agency found



Indian Prime Minister Manmohan Singh said he had nothing to hide as he offered to be quizzed by a parliamentary panel over a telecom scandal.

in a review of the allotment that a few companies had been favored with spectrum at deep discounts despite the changed industry landscape, depriving the government of revenue and marking the auction as one of the biggest financial scandals the country has faced.

The government audit didn't suggest a reason why the telecom firms received spectrum at discounted prices.

**The prime minister is in danger of having his legacy tarnished in the wake of a telecom scandal that potentially cost the government \$40 billion.**

The Central Bureau of Investigation, the country's leading criminal investigative agency, is probing many aspects of the allotment including possible corruption, tax evasion and money laundering. Mr. Raja, the telecom minister, resigned. He has denied any wrongdoing.

The CBI said Monday it has sum-

moned Mr. Raja for questioning but declined to provide further details. Mr. Raja said Monday, when asked about the summons, that he was cooperating with the CBI.

The opposition, led by the Bharatiya Janata Party, has demanded a joint parliamentary probe into the allotment, which the government has resisted, saying there already are several investigations under way.

Mr. Singh's government has increasingly been seen as ineffectual in dealing with allegations of corruption within its ranks in recent months. Almost no legislative business was conducted in the session of Parliament that concluded last week amid arguments over how corruption should be investigated that forced the legislative body to adjourn daily.

In addition to the telecom scandal, the Congress-led government has faced criticism this year for alleged financial mismanagement of the organization of the Commonwealth Games, held in New Delhi in October.

Separately, a state chief minister from the party was embroiled in controversy last month after news reports that he allowed apartments

in a Mumbai housing project intended for war heroes and widows to go to politicians, bureaucrats and their relatives, including some of his own kin.

Last month, the party took some steps to clean house. Mr. Raja stepped down on Nov. 14, and the state minister battered by the housing scandal resigned. A Congress politician involved in Games organization stepped down from an internal party post. All three maintain they are innocent and say they expect to be cleared by inquiries.

Nevertheless, the scandals have left the government paralyzed just a year after it won a second term in national elections, a victory described in the local press as a "landslide" that would pave the way for a smoother second term. The first term was plagued by squabbles with its left coalition allies over a nuclear-cooperation deal with the U.S.

This week, the Bharatiya Janata Party is expected to hold a nationwide demonstration against the government over corruption.

Ahead of that, the Congress party has been more explicit on its plans to combat graft. Last week, Mr. Singh called on corporations and on India as a whole to behave

more ethically. On Sunday, Congress party leader Sonia Gandhi laid out five ways the party could reduce corruption and public discontent.

"There is merit in instituting a new system of fast-tracking all cases that concern corruption by public servants, including politicians," said Mrs. Gandhi, according to a transcript of her remarks. "Such cases drag on interminably and undermine public confidence and trust."

But a political analyst said that he believed the opposition would manage to successfully sustain public outrage over corruption with its protests until those perceived to be corrupt faced trials or convictions.

"Corruption is now a highly publicized issue in the country," said Chintamani Mahapatra, a politics professor at Jawaharlal Nehru University in New Delhi. "Unless the culprits are punished, these protests will not stop."

One of the opposition party's main demands is a parliamentary inquiry by a committee made up of members of different parties, known as a joint parliamentary committee. The committee would have powers to, among other things, call government officials, including the prime minister, for questioning.

# Japan lawmaker again rejects ethics-panel hearing

By **TAKASHI NAKAMICHI**

TOKYO—Strife within Japan's ruling party escalated Monday after a party heavyweight rejected a request from Prime Minister Naoto Kan to appear before a parliamentary ethics panel, fanning worries about political stalemate.

Ichiro Ozawa, a former president of the ruling Democratic Party of Japan who has been mired in allegations of misuse of campaign funds, spurned a call from Mr. Kan to attend a hearing of the lower house of parliament's ethics council.

"I asked him to participate in a meeting of the ethics council, but Mr. Ozawa...said there was no need to attend," and that he wouldn't attend, Mr. Kan said after a meeting with Mr. Ozawa that lasted an hour and a half.

It was Mr. Ozawa's second such refusal since Friday, when he rejected a similar request from Secretary-General Katsuya Okada, the DPJ's No. 2 leader. Mr. Ozawa told Mr. Kan that even if the DPJ leadership votes at the ethics panel to summon him, he won't appear, Mr. Okada said at a news conference. The council—where the DPJ holds a majority—has no power to enforce its decisions.

The rift between Mr. Ozawa and the other party leaders is expected to widen, adding to speculation that Mr. Ozawa may leave the party, possibly taking dozens of loyalists with him. There also is speculation that if Mr. Ozawa continues to refuse to appear before the council, Mr. Kan and other party leaders might move first and order him to leave the DPJ.

Either way, the resulting loss of

parliamentary seats could undermine the ability of the DPJ and its coalition partners to govern. This would be troubling for a country that needs strong leadership to sustain economic recovery and eventually pull itself out of two decades of stagnation.

A succession of woes, such as slowing exports and a persistently strong yen, are expected to cause the economy to contract in the three months ending in December, decelerating sharply after strong 4.5% annualized growth in the third quarter.

Mr. Okada said the DPJ executives concluded Monday that they needed to discuss the Ozawa issue further among themselves, and didn't take up the debate on whether Mr. Ozawa should be pushed out of the party.



Japanese Prime Minister Naoto Kan, center, speaks to media with Democratic Party Secretary-General Katsuya Okada, right, after meeting with Ichiro Ozawa.