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THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

U.K. censures Cable over 'war' remarks

By Alistair MacDonald And Dana Cimilluca

The U.K. government said Business Secretary Vince Cable would play no part in a key regulatory decision regarding Rupert Murdoch's **News Corp.** amid a political firestorm that erupted when he was caught on an undercover reporter's tape saying he had "declared war" on Mr. Murdoch.

The revelation set off a multifront firestorm in the U.K.'s business and political worlds, and has implications for both Britain's coalition government and for News Corp.'s £7.8 billion ($12.1 billion) bid to buy the 60.9% of broadcaster **British Sky Broadcasting Group** PLC it doesn't already own.

On Tuesday, European Union regulators, as expected, approved the BSkyB deal.

The chain of events is seen as a significant blow to the career of Mr. Cable, a key Liberal Democrat member of the government coalition led by Prime Minister David Cameron's Conservative Party. In addition to his remarks about Mr. Murdoch,

Mr. Cable also made critical comments about the coalition government, serving up an embarrassment for Mr. Cameron and raising questions about Mr. Cable's future in the cabinet.

Downing Street handed authority to decide on the BSkyB takeover—which Mr. Cable had been slated to oversee—to Jeremy Hunt, the Conservative secretary of state for culture, media and sport. Mr. Hunt is typically seen as being more sympathetic to Mr. Murdoch.

Mr. Cable was also forced to hand over to Mr. Hunt his responsibilities for competition and policy issues relating to media, broadcasting, digital and telecommunications, further diminishing the status of one of Britain's most high-profile politicians. Mr. Cameron described his business secretary's comments as "totally unacceptable and inappropriate."

The switch will have implications for Britain's wider competition policy, which under the influence of the Liberal Democrats had been moving away from the ultra-free-market philosophies typically voiced by Conservatives.

Mr. Cable apologized for the "embarrassment" he has caused the government.

The undercover tape, made by reporters at the Daily Telegraph posing as constituents concerned about cuts to welfare payments, makes it clear that Mr. Cable is no fan of the deal.

"I have blocked it using the powers that I have got and they are legal powers that

Please turn to page 6

Medvedev strikes deals during India visit

Associated Press

Russian President Dmitry Medvedev, right, is welcomed to India by women in traditional dress on Tuesday. The two countries agreed to share intelligence and work together to fight terrorism as they signed deals including plans to jointly develop a stealth fighter jet. **Article on page 11**

The Quirk

For the Jimmy Stewart Museum, a not-so-wonderful plight. **Page 29**

World Watch

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

Editorial & Opinion

The Vatican stands up for Catholics in China. **Page 13**

EU steps up its criticism as travel chaos continues

By Steve McGrath, Matthew Dalton and Kirsten Bienk

The European Commission criticized airport operators in Western Europe for being ill-prepared to cope with bad weather as snow, ice and freezing temperatures continued Tuesday to hamper road, rail and air networks for a fourth day, threatening Christmas plans for millions of travelers.

Amid growing criticism of how airports and other transport operators were handling the snow and ice, Siim Kallas, the commission's transport-policy chief, said the European Union's executive arm may draft new rules if airport operators don't voluntarily take action to plan better for severe weather. "I am extremely concerned about the level of disruption to travel across Europe caused by severe snow," Mr. Kallas said. "It is unacceptable and should not happen again." Mr. Kallas said he plans to meet with airport companies in coming days to discuss the situation.

The commission's intervention comes as Northern Europe's busiest airports continued to struggle with the weather conditions, with thousands more flights canceled. The Association of European Airlines, a Brussels-based trade group, said about 10,000 flights had been canceled from Friday to midday Monday, disrupting travel for about 800,000 passengers. It was unable to provide more up-to-date figures.

Further flights were canceled Tuesday at Europe's three busiest airports—London's Heathrow, Paris's Charles de Gaulle and Frankfurt—as well as at smaller airports across the U.K. and Germany. In Ireland, Dublin Airport said it was halting all flights until 5 p.m. local time due to ice on the runway.

Weather-related problems have already cost **Air France-KLM** as much as €35 million ($46 million) this winter, the airline said.

Frankfurt was worst hit

Please turn to page 3

PAGE TWO

Osborne's road map may suit U.S.—but it's a trickier route back home

[Agenda]

By Alen Mattich

George Osborne, Britain's finance minister, may have been feted in New York. But he's fated in London.

Fated, that is, to pushing through a grim and quite possibly doomed to fail fiscal program for 2011. And the consequences of this failure could well prove the undoing of Britain's carefully constructed and ever more apparently fragile coalition government.

Wall Street cheered Chancellor Osborne's austerity program of deep spending cuts and hefty tax rises during a flying visit he paid to New York last week. Faced with the U.K.'s biggest ever modern peacetime public-sector deficit, Mr. Osborne's plans entail cutting borrowing from 11.1% of gross domestic product hit during the 2009-10 fiscal year to under 2% by 2014-15. This represents the country's biggest fiscal retrenchment since at least World War II.

American conservatives regret not having an Osborne equivalent to lay out a similarly hard-headed path for the U.S. government. What they seem to be missing, and what anybody trying to get out of London this week could tell them for nothing, is that having a road map and actually getting to your destination are two very different things.

Take the U.K. public-sector borrowing figures published Tuesday. They showed that in November, the government shortfall hit £23.3 billion ($36 billion), an astonishing £6 billion wider than the year-earlier gap.

Although a stronger economy helped to improve government receipts a bit, this was more than offset by higher interest costs and other spending. So far this year, the government's cumulative deficit is more or less keeping pace with last year's record shortfall. Were the recent trend to continue, this year's deficit will come in at some £155 billion, some £7 billion worse than official projections, according to Jonathan Loynes at Capital Economics, a consultancy.


Reuters

Chancellor of the Exchequer George Osborne leaves a cabinet meeting Tuesday.

But even this bit of fiscal water treading has come amid considerable political friction. A near trebling of the ceiling on student tuition to £9,000 a year sparked a series of student riots and a rebellion by Conservative and Liberal Democrat members of Parliament, which cut the coalition's majority to 21 from 84.

There's plenty of strain between the generals, never mind the lower ranks of the two coalition parties.

The coalition's cohesiveness isn't likely to be improved when major welfare and other benefit cuts finally come into play next year. So far, for all the talk of austerity, there's been very little evidence of it in the U.K. economy. For instance, retail sales have been remarkably resilient during the past year. But as households really start to feel the squeeze, starting with January's 2.5 percentage point increase in the value-added tax to 20%, so too will politicians.

The two party leaders, Prime Minister David Cameron and Deputy Prime Minister Nick Clegg, get on famously well. But there's plenty of strain between the generals, never mind the lower ranks of the two coalition parties.

Take the Liberal Democrat Business Secretary Vince Cable's admission to a couple of undercover reporters that he would consider the "nuclear option" of quitting the government, and thus probably precipitating a collapse of the coalition, if pushed too far on policy by the Conservatives. He was embarrassed by the revelation, but it's no secret Mr. Cable is far less enthusiastic about austerity than Mr. Osborne.

The temptation to backslide on cuts and tax increases in order to save the government will be great. But, as the public-sector finances show, the scope to do so isn't there.

Mr. Osborne's Plan B has always been to get monetary policy to do more of the economy's heavy lifting. But the Bank of England is finding its hands tied by inflation, which has exceeded its 2% target for most of the past three years and is likely to do so for much of the next two. Indeed, consumer-price inflation hasn't dropped below 3% in 2010 and will probably climb close to 4% early in 2011.

The Bank of England has blamed the outruns on "temporary" factors. But even members of its policy-setting committee are beginning to admit these excuses are growing tired.

If Mr. Osborne's austerity program doesn't deliver the promised cuts, market interest rates could start to rise sharply as investors abandon gilts. That's a problem in an economy as heavily leveraged as the U.K.'s, with a hefty amount of that debt on floating rates.

Yes, the Bank of England could cap gilt yields by restarting its quantitative-easing program. But this would then threaten a run on the pound. One of the main reasons the bank has given for systematically underestimating inflation is that it underestimated the pass-through of a 25% sterling devaluation in 2007 to consumer prices. Which is likely to make it much more circumspect about causing yet more exchange rate related inflation.

Yet maybe the fact it's been happy enough to exceed its consumer-price target for years suggests the Bank of England will continue to allow inflation to be the economy's savior by eating away at the private sector's debt mountain.

■ U.K. public-sector borrowing soared to record in November 6

What's News

■ **Deutsche Bank agreed** to pay $553.6 million and admitted criminal wrongdoing in a long-running investigation over tax shelters that U.S. prosecutors claim generated billions in false tax losses. 19

■ **Spain's budget deficit** shrank by nearly half in the first 11 months of the year, further evidence that the nation's effort to close its funding gap is on track. 4

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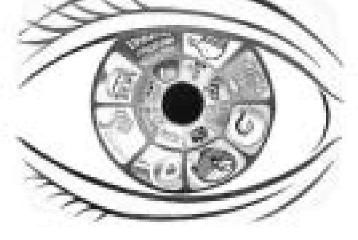

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'As 2010 draws to a close, hopes for an economic upturn in the euro zone have also proved of little comfort for the euro.'

Continuing coverage

Cold weather continues to hamper travel. Follow the latest at **europe.wsj.com**

Question of the day

Q: Should government impose 'net neutrality' on broadband providers?

Vote online at **wsj.com/polls**

Previous results

Q: Should apps tell you when they collect and send data about devices?

Yes, every time **67%**

Yes, when first installed **24%**

Only if sharing data **8%**

No, this doesn't bother me **1%**

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NEWS

European Pressphoto Agency (2); Reuters; Associated Press

Snow scenes: Planes and passengers alike wait to leave Heathrow Airport on Tuesday, as the London hub struggled to return service to normal levels after a Saturday snowstorm snarled Europe travel.

At snowy Heathrow, criticism piles up

By Paul Sonne

LONDON—Heathrow Airport, the world's busiest international air hub, faced a torrent of criticism Tuesday after it cancelled more than 700 takeoffs and landings, continuing snarls that began with a weekend snowstorm that arrived at the height of holiday travel season.

Heathrow's operational problems have frustrated travelers and airlines in part because there has been little significant additional snow since an official measurement of 9 centimeters (3.5 inches) at the airport Saturday. But that storm, and the cold and ice that followed, have crippled the airport since then and thwarted holiday plans for thousands of travelers.

With Christmas looming, Heathrow, privately owned and operated by **Ferrovial** SA's **BAA Airports** Ltd., attempted Tuesday to clear the snow and ice and cope with its backlog of cancelled flights. In a statement Tuesday, the airport said that until 6 a.m. on Dec. 23, it would be operating only one-third of its flight schedule.

Colin Matthews, chief executive of BAA, is now facing criticism that Heathrow bears as much blame as the snow for many travelers' ruined holidays. Some other U.K. airports, including Gatwick, have fared better since the storm hit the U.K.

On Tuesday, Heathrow cancelled 752 flights—389 arrivals and 363 departures—out of 1,300 flights that usually pass through airport on a busy day, a spokeswoman for the airport said. Gatwick cancelled 50 flights Tuesday out of 695 scheduled, according to a spokeswoman.

Since the snow began Saturday, Heathrow has cancelled about 3,200 flights, or more than 60% of its total flight schedule, whereas Gatwick has cancelled about 25% of its scheduled flights, according to statistics provided by the respective airports.

"I am really sorry," Mr. Matthews said in a BBC radio interview Tuesday. Asked why Heathrow was underperforming, he gave no specific answers. "We are going to crawl over every aspect of this last few days when we've got every passenger in the right place," he said.

Heathrow's troubles came amid growing criticism of how airports and other transport operators were handling the ice and freezing temperatures that hampered road, rail and air networks for a fourth day.

A rail mainline connecting London with Edinburgh was disrupted Tuesday after a power failure trapped hundreds of commuters on trains. The overhead power-line failure at 8 a.m. in Cambridgeshire, some 110 kilometers from the capital, also caused havoc for thousands of passengers trying to travel along Britain's East Coast mainline.

Some passengers trapped on eight trains used ladders to climb down from carriages before they were taken along a rail embankment to safety. A spokeswoman for East Coast mainline said it was investigating whether the cold weather gripping the country was to blame.

At Heathrow, part of the problem is that the airport operates at near full capacity, about 98%, a spokeswoman for the airport said. That leaves little time to clear the runway between flights and creates a particularly bad knock-on effect when there are cancellations.

When the temperature dropped suddenly Saturday, Heathrow was nearly at full capacity, leaving an airport full of planes that froze to their parking stands. It took both time and specialist equipment for those aircraft to be de-iced.

A spokeswoman for Heathrow said the airport had more than 100 contractors working on clearing the snow from the airfield and runway. But for most of the day Tuesday, Heathrow's second runway remained closed; it reopened Tuesday evening. A spokeswoman for Gatwick said the airport had 140 people working around the clock to clear the runways and taxiways.

How much snow has fallen at Heathrow is a matter of dispute. A spokeswoman for Heathrow said Tuesday that as much as 20 centimeters (7.9 inches) had fallen at some areas of the airport. But the Met Office, the U.K. national weather service, recorded 9 centimeters of snow on the ground at Heathrow on Saturday and 11 centimeters at Gatwick. On Tuesday morning the Met measured 4 centimeters of remaining snow on the ground at Heathrow.

The southern part of the U.K. is not accustomed to such wintry weather. U.K. Prime Minister David Cameron said Tuesday that the weather was extreme and the country was headed for its coldest December in a century.

Mr. Cameron said the disruption at Heathrow was understandable given the heavy snowfall. "But if it's understandable that Heathrow had to close briefly, I'm frustrated on behalf of all those affected that it's taking so long for the situation to improve," he said Tuesday.

Mr. Cameron said he had offered military assistance to Heathrow's owner to help get the airport moving. The airport declined, noting that it needed people who could operate specialist airfield equipment, such as de-icers, to return the operation to normal.

—Laurence Norman contributed to this article.

EU slams airport operators as delays continue

Continued from first page

Tuesday as heavy snowfall and freezing temperatures severely disrupted air traffic in Germany with some flights canceled or delayed for hours. Frankfurt Airport had to close for three hours in the early morning and airport operator **Fraport** AG said it expected about 340 of the scheduled 1,300 takeoffs and landings to be canceled. German airlines and airport operators said they were busy trying to keep runways clear of snow, were deicing aircraft and were supplying stranded passengers with drinks, snacks and accommodation.

Authorities were also trying to help relieve the situation, with the U.K. relaxing night-flight restrictions and Germany considering a similar move. The U.K. government also is offering Heathrow operator **BAA Airports** Ltd. help from the British Army.

However, transport operators in Western Europe were being asked why they struggled to keep networks running through sporadic snowstorms when Scandinavian countries can handle much longer periods of harsh winter weather.

Experts say the certain nature of Scandinavian winters means the countries there have invested more in equipment to keep transport networks running, and airports in the region are also less busy and have more time to spend on snow clearance between flights. They also point out that Western Europe has had a couple of decades of mild winters and the weather this December has been the worst since the early 1980s.

Politicians and airports are already reacting. U.K. Prime Minister David Cameron said the winter weather was extreme and the country looked to be heading for the coldest December for a century, but the government was working hard to clear roads and get planes flying.

On the problems faced by London's Heathrow Airport, he said even the harshest critics of airport operator BAA would concede that extensive disruption was understandable given the heavy snowfalls. "But if it is understandable that Heathrow had to close briefly, I'm frustrated on behalf of all those affected that it's taking so long for the situation to improve," he added.

Mr. Cameron said there had been "intensive discussions" between the transport minister and BAA about how to ensure that normal service at Heathrow resumes as soon as possible, and he expected the airport's second runway to be reopened later Tuesday.

U.K. Transport Secretary Philip Hammond on Monday asked the government's chief scientific adviser to research whether the country might expect more severe winters in coming years and whether the country should invest more in equipment to keep infrastructure running.

London's Gatwick Airport, which was badly hit by snow Saturday and has suffered delays and cancellations since, has said it will invest £8 million ($12.4 million) more on snow-clearing equipment, doubling its number of snow-clearing vehicles to 95 from 47. BAA has also pledged to spend more on snow-clearing equipment at Heathrow.

The continuing chaos was also affecting road and rail networks Tuesday. German rail operator **Deutsche Bahn** AG said it had to apply speed restrictions due to ice and its carriages were crammed as travelers unable to fly or drive to their destinations instead took the train. Train lines in the U.K. were also affected by icy conditions, and the **Eurostar** service between London and European cities including Brussels and Paris continued to suffer long delays.

—Hilde Messer contributed to this article.

EUROPE NEWS

Bloomberg News

New apartments are advertised at a stalled construction project outside Guadalajara, Spain. The country is dealing with the fallout from the collapse of a construction boom that pushed its public-sector accounts deep into the red.

Spain now on course to meet deficit target

By Jonathan House

MADRID—Spain's central government budget deficit shrank by nearly half in the first 11 months of the year, providing further evidence that the country's efforts to close one of the euro zone's biggest funding gaps is on track.

"We will meet our deficit targets for 2010," Carlos Ocaña, deputy finance minister for the budget, said Tuesday.

The central government deficit in the 11 months to November was €38.77 billion ($51 billion), or 3.7% of gross domestic product, down from €71.53 billion a year earlier, finance ministry data showed.

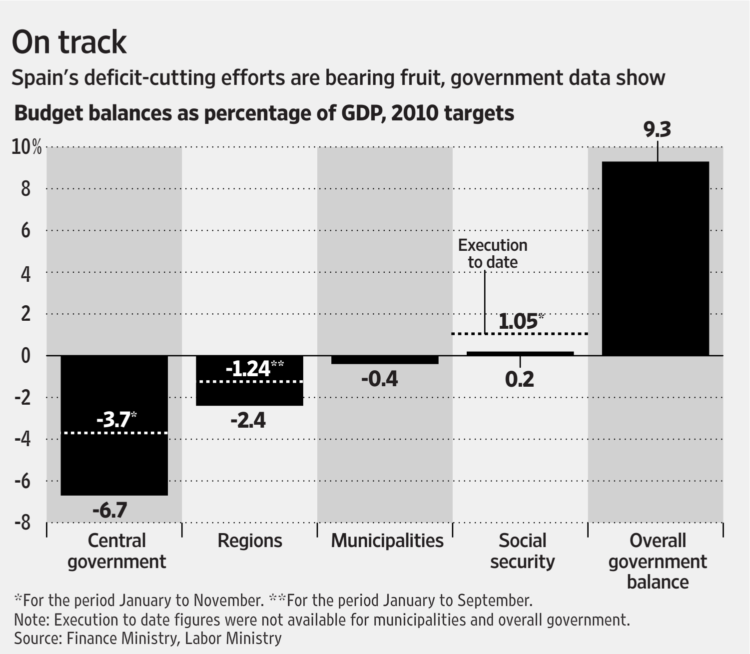
Mr. Ocaña acknowledged that December is traditionally the month the country makes its largest expenditures, but that the central government will "comfortably" meet its 6.7% of GDP deficit year-end target. He said it will likely be able to compensate for any budget overruns at other levels of the government.

On Monday, the ministry released information on the finances of Spain's regions ahead of the end of the year for the first time ever. The data showed that as of September, spending by regional governments—which control around one-third of the country's spending—was largely under control.

Spain is grappling with the collapse of a decadelong construction boom that has pushed its public-sector accounts deep into the red. It aims to cut its overall budget deficit to 9.3% of GDP in 2010 from 11.1% in 2009. The government has made a concerted effort to shore up investor confidence since Ireland applied for external support. Ireland's bailout fueled speculation that other fiscally stressed countries could do the same, and Spanish borrowing costs have risen since, hitting new euro-era highs in recent days.

In a sign the government's effort might be paying off, Spain's debt agency comfortably sold €3.88 billion in three and six-month treasury bills in its last auction of the year.

Separately, the Spanish Labor Ministry said the country's social security administration had a surplus equal to 1.05% of GDP at the end of November. Only Spain's municipalities have yet to provide clear visibility on their 2010 budget outcomes, though they control just around 10% of spending.



EU sets date for bailout bonds

By Riva Froymovich

BRUSSELS—The European Union and the euro zone will launch their first bonds to fund the bailout of Ireland in January, according to a statement.

The EU will issue a bond at the beginning of next month through its emergency lending facility, the €60 billion ($78.8 billion) European Financial Stability Mechanism. The euro-zone bailout fund, the European Financial Stability Facility, will follow in late January, the EFSF and the European Commission said in a joint statement.

The EU is planning four to five bonds in 2011, valued at between €3 billion and €5 billion each, at maturities of five, seven and 10 years. The goal is to raise up to €17.6 billion in 2011 and up to €4.9 billion in 2012. Three benchmark issues are scheduled for the first half of the year. The EU's bonds will only be denominated in euros.

Bonds issued by the euro zone's fund may be in currencies other than euros, but will also have maturities of five, seven and 10 years. The EFSF aims to raise up to €16.5 billion in 2011 and up to €10 billion in 2012.

The euro-zone plans three benchmark bonds in 2011, valued at between €3 billion and €5 billion each, with two issues in the first half of the year.

Portugal faces a downgrade, Moody's warns

Moody's Investors Service warned it may lower Portugal's credit rating by as much as two notches, dealing another blow to investor confidence in the euro zone.

*By **Arran Scott, Jonathan House** and **Alex MacDonald***

Tuesday's warning came less than a week after the ratings agency said it may downgrade its ratings on Spanish government debt.

It also came as Portuguese Prime Minister José Sócrates said he was "very satisfied" with the government's latest budget figures, which showed the central government deficit narrowing for the first time this year.

Moody's also said the euro zone "retains significant financial strength" and has the "resources, incentives, and political cohesion" needed to contain the sovereign-debt crisis. "We believe that policy makers have sufficient resources and will use them as necessary to restore financial stability," the ratings agency said in a report.

Moody's said all its euro-zone sovereign ratings with the exception of Greece are investment grade, reflecting its view that "the risk of a euro-zone sovereign default is very small."

But the ratings agency's statement on Portugal knocked the euro against major rivals. The common currency fell against the U.S. dollar and the yen early in European trading hours, having rallied in Asian trading after China expressed support for the euro zone's efforts to stabilize financial markets. The euro was later trading at $1.3117, down from the day's high of $1.3202.

The yield spread between Portuguese 10-year government bonds and the benchmark German bund edged slightly higher, to 3.538 percentage points.

In putting Portugal's A1 long-term and Prime-1 short-term government bond ratings on review, Moody's cited uncertainties over the longer-term health of the country's economy, which could suffer from the government's fiscal austerity plans. It also said it doubted Portugal's ability to access capital markets at a sustainable price.

"In Moody's opinion, Portugal's solvency is not in question," said Anthony Thomas, Moody's vice president and lead analyst for Portugal. "But the likely deterioration in debt affordability over the medium term and ongoing concerns about the economy's ability to withstand fiscal consolidation and private sector deleveraging mean its outlook may no longer be consistent with an A1 rating."

Portugal is paying "an elevated price" to borrow in the capital markets, "which if sustained will increase substantially its debt service costs over time," Mr. Thomas said.

Mr. Sócrates said the latest budget figures showed the government's regime of spending cuts was the right course of action. "These numbers will give confidence to the markets that we are on the right track" with the deficit-cutting plan, the prime minister said. "With these numbers, [we demonstrate that] we have the ability to ensure that the deficit will reach our target of 7.3%" of gross domestic product in 2010."

Portugal's budget deficit was equivalent to 9.3% of gross domestic product in 2009, more than three times the level set by European Union guidelines.

The country's finance ministry said Monday that the central government's budget deficit declined to €12.94 billion ($17 billion) in the first 11 months of 2010, down €100 million from the year-earlier period. It was the first time this year that the deficit narrowed, showing the government's efforts to lower expenses and raise revenue are working.

Portugal has implemented a series of austerity measures to rein in expenses, aiming to show wary bond investors that it can consolidate its budget despite worries about the country's low growth prospects, high deficit, and heavy reliance on international markets for financing.

Moody's said it was concerned that further government support for the banking sector could increase government debt. That support may be needed for the banks to regain access to private capital markets, the ratings agency said.

"The Portuguese banking sector is in better shape than in some other countries" and hasn't needed much support from the government so far, but Portuguese banks are currently "shut out of funding markets and rely on the [European Central Bank] for funding," said Moody's analyst Kathrin Muehlbronner. If Portugal required external support, "we don't necessarily consider [it] as negative to the rating," Ms. Muehlbronner said. She added that Moody's would analyze any conditions attached to assistance.

The Portuguese finance ministry said that the country's banking system remains "solid" and "resilient" in light of the sovereign-debt crisis. The ministry said the government "maintains maximum confidence that Portugal's banks will demonstrate, as they have until now, adequate capital levels" to confront the risks they face.

But Moody's said Portugal's failure to significantly reduce its budget deficit this year, excluding one-time measures, has added to the ratings agency's concerns. The rating review will look at the country's fiscal outlook and its deficit-reduction plans. Portugal has "ambitious targets for next year" and "progress has been disappointing," Ms. Muehlbronner said.

"Moody's concerns are legitimate to the extent that structural reforms would be needed to boost Portuguese growth," said Antonio Garcia Pascual, an economist at Barclays Capital, in a note.

"Unless additional growth-enhancing measures are put in place by the government and yields on government bonds compress...Portugal would benefit from an EU-IMF program and financial assistance at lower funding costs."

—Mark Brown contributed to this article.


EARLY AFTERNOON
FOR BES IN MIAMI
LATE EVENING
FOR BES IN LUANDA
FOR OVER 140 YEARS, CHANGING WITH THE WORLD
Some people say the world is getting smaller. Yet, in a world where borders are shrinking, there is room to expand. Banco Espírito Santo (BES) is a good example: the most international of Portuguese privately owned banks, present in 23 countries and 4 continents. BES international expansion strategy focuses on countries with cultural ties to Portugal, such as Spain, Brazil and Angola and on high growth potential markets. The bank chosen by 51% of Iberian companies and more than 60% of Portuguese companies in Angola. A bank that knows the multiple local cultures that comprise the world, knows how to seek out opportunities everywhere. And that is where we will be, as always, creating value for our clients and shareholders. Never stopping, in a constantly changing world.
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EUROPE NEWS

Belarus extends crackdown

By James Marson

MINSK, Belarus—Belarussian President Alexander Lukashenko extended his crackdown on opponents Tuesday, as authorities charged around 600 activists with taking part in an unsanctioned protest and threatened to disband political parties and organizations involved in Sunday's protest against his landslide re-election.

At least four opposition candidates remained in detention Tuesday as Mr. Lukashenko sought to stamp out any embers of dissent after around 20,000 people hit the streets Sunday to protest a vote Western observers said was deeply flawed.

The activists will be locked up for as long as 15 days, and the leaders of the protest face up to 15 years in prison for inciting violence, if convicted. Hundreds of riot police had violently dispersed the crowd and detained hundreds after a small group of protesters attacked the main government building.

Grigory Kostusyev, a rival candidate who was released from detention late Monday without charges, said the security service, still known as the KGB, had tried to pressure him into renouncing his opposition to the government. A KGB spokesman said he had no comment on Mr. Kostusyev's accusation.

The continued crackdown leaves the European Union with a dilemma on how to engage Belarus. The EU has sought warmer relations with the former Soviet state of 9.5 million on its eastern border with Russia.

Mr. Lukashenko, traditionally a staunch ally of Russia during his 16-year rule, has in recent years begun flirting with the West as crucial oil and gas subsidies from Moscow have dwindled and relations become strained.

The EU, as well as the U.S. government, criticized the vote and subsequent crackdown, but has little wiggle room given the failure of previous sanctions to bring about change and the desire to avoid pushing Belarus further into the arms of Russia.

Political analysts said the EU would continue to engage Mr. Lukashenko and the less hard-line members of his government, but that he was likely to continue to play his Eastern and Western neighbors off against each other in search of the biggest political and economic support.

"It depends how long he can keep all the balls in the air," said Andrew Wilson, a senior policy fellow at the European Council on Foreign Relations. "But past experience has shown him to be a pretty good juggler."

Mr. Wilson said that the level of violence employed by the authorities would make engagement harder, and that the measures taken showed that the security services had gained at least a temporary upper hand over more-pragmatic forces in the Belarussian government looking for closer ties with the EU.

Mr. Lukashenko did leave the door open for talks with some rivals, such as economist Jaroslav Romanchuk.

Other opposition figures dismissed this as an attempt to create an opposition under his control.

Alexander Milinkevich, an opposition leader who challenged Mr. Lukashenko in the 2006 presidential election but didn't compete this time, said the crackdown wasn't a total victory for the authoritarian ruler.

"You can't keep turning the screws indefinitely," he said.

Reuters

A woman reacts after looking through the list of detained opposition activists at a detention center in Minsk on Tuesday.

Britain's public borrowing surges

By Laurence Norman

LONDON—U.K. public-sector borrowing reached a record high in November, casting fresh doubt on the health of the economy for the current financial year.

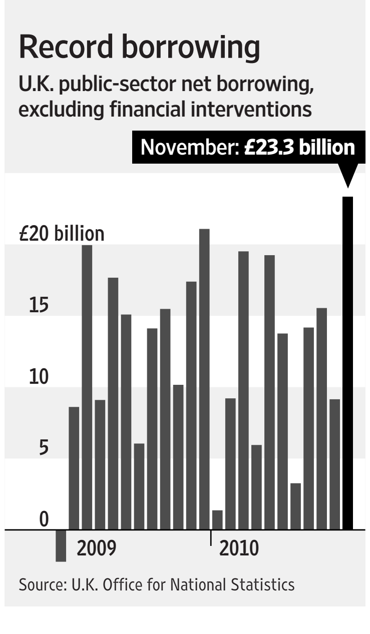
The Treasury said Tuesday it was still on course to meet official borrowing forecasts, and British Prime Minister David Cameron said the country was still on the "right track" going into 2011. But economists said the new figures made this now look a tougher call.

Hetal Mehta, U.K. economist at Daiwa Capital Market, said: "The fact that government borrowing in November was much higher than a year ago despite the economy recovering well in the past year is a worrying sign.

"Although tax revenues increased, the government is struggling to get a handle on spending."

With tax receipts lifting just 3.1% since last year—the lowest level since December 2009—the Office for National Statistics reported Tuesday that the public sector borrowed £23.3 billion ($36.14 billion) in November, compared with £17.4 billion a year earlier.

That easily surpassed economists' expectations of net borrowing of £16.8 billion for November and topped the previous record monthly borrowing of £21.1 billion in December last year. Monthly records begin in 1993.



Source: U.K. Office for National Statistics

November's dire borrowing data mean that in the financial year to date, which started in April, the public sector has borrowed £104.4 billion, versus £105.1 billion in the corresponding period last year.

Mr. Cameron said Tuesday that the economy was facing some challenging months ahead, but that the government was focused on driving growth and boosting employment.

"There will be difficult months ahead, but I'm clear that we are on the right track with the country in a far stronger position to deal with the economic risks ahead than we were this time last year," he said in a joint news conference with Deputy Prime Minister Nick Clegg.

The prime minister said the government's work since coming into office in May could be summed up as "a rescue mission," saying the country had been in a dangerous position and on a similar track as many heavily indebted southern European countries.

A spokesman for the U.K. Treasury said the November borrowing figures showed why the government has had to take decisive action to take the country out of the financial danger zone.

"These outturns are also in line with the Office of Budget Responsibility's latest forecast for borrowing to fall by almost £10 billion this year compared to last, and for tax receipts to increase by over 7% year-on-year," he said.

The Office for Budget Responsibility, the government's independent fiscal watchdog, expects full-year net borrowing of some £149 billion, excluding financial sector interventions.

Chancellor of the Exchequer George Osborne has announced a five-year deficit-reduction plan which seeks to tighten fiscal policy by £111 billion by 2015 through spending cuts and tax rises in a bid to swiftly restore the country's public finances.

The government argues the plan is necessary to stop the U.K. being roiled by the kind of euro-zone debt crisis that Greece suffered earlier this year and that Ireland is now facing.

The only relief in the latest data was that the ONS once again lowered its estimate for the previous month's borrowing. It said net borrowing in October turned out £1.2 billion less than originally reported at £9.2 billion.

The ONS said that central government noncapital expenditure rose 10.8% in November on an adjusted basis, with spending on defense, health and the U.K.'s European Union contributions pushing the figure higher. That's the largest increase since February. However, tax income was weak, with value-added tax receipts falling slightly on a yearly basis.

The public-sector net cash requirement was £16.8 billion in November compared with £14.8 billion a year ago.

Public-sector net debt stood at 58% of gross domestic product at the end of November, excluding the costs of bank rescues, a monthly record. Including those costs, it was 65.2% of GDP, also a monthly record.

—Nicholas Winning, Katie Martin and Mark Brown contributed to this article.

U.K. lessens Cable's role amid outcry over remarks

Continued from first page

I have got," he said, according to a tape on the newspaper's website late Tuesday. Mr. Murdoch's "whole empire is now under attack," he added.

The Daily Telegraph published Mr. Cable's critical remarks about Mr. Murdoch only after the rival **British Broadcasting** Corp. obtained a full recording of the exchange.

The Telegraph, which has been critical of the takeover and said in its Tuesday article that it is "among many rival media companies objecting to Mr. Murdoch's plans," may have in effect displaced a potential key ally in any attempt to stop the deal.

A spokeswoman for **Telegraph Media Group** Ltd. said the paper "will be publishing further comments in the forthcoming days" but didn't say why the newspaper didn't include Mr. Cable's comments about Mr. Murdoch in its initial story.

Many lawmakers from Mr. Cable's Liberal Democrat party have expressed a dislike for News Corp., given what they perceive as a bias against their party.

News Corp. is the publisher of The Wall Street Journal. It also owns several U.K. newspapers, including the Sun, the country's best-selling paper, and the Times and Sunday Times.

"News Corporation is shocked and dismayed by reports of Mr. Cable's comments," a spokeswoman for the company said before the government acted. "They raise serious questions about fairness and due process."

A spokeswoman for BSkyB and a spokesman for Ofcom, the U.K.'s telecommunications regulator, declined to comment.

On Dec. 31, Ofcom is due to issue a report on whether the takeover will affect media plurality and the government then has until Jan. 10 to decide on whether it should refer the merger to the Competition Commission.

The U.K.'s business minister, though, can intervene on issues of media plurality.

Nick Clegg, the deputy prime minister and the Liberal Democrats' most senior member of the cabinet, said at a news conference with Mr. Cable is "right to be embarrassed."

One Liberal Democrat minister said Mr. Cable's comments were "not helpful" to the party, and several Conservative lawmakers criticized their coalition partner.

Still, the route hasn't been cleared for Mr. Murdoch.

Analysts including Paul Gooden of Royal Bank of Scotland Group PLC predict that News Corp. will ultimately need to offer some concessions to win the backing of U.K. regulators, such as limiting its bundling of pay-TV services with newspaper content.

Assuming News Corp. can get over the regulatory hurdles, it will still need to find common ground with the panel of BSkyB independent directors tasked with negotiating a final price for the deal.

—Laurence Norman and Paul Sonne contributed to this article.

Nuclear pact nears passage

By Naftali Bendavid
And Jonathan Weisman

WASHINGTON—A new nuclear-arms treaty with Russia appeared headed for ratification after additional Republican senators announced their support Tuesday.

The treaty, one of President Barack Obama's top year-end priorities, has split the Senate GOP caucus, with two top Republicans opposing ratification. Now, as many as 10 Republican senators have said they would back it. If their votes hold, supporters will have the votes they need for passage.

The pact, known as New Start, would cap Russian and U.S. deployed strategic arsenals at 1,550 warheads apiece, about one-third less than current limits. It also would allow onsite inspections of U.S. and Russian nuclear-weapons facilities to resume after being suspended a year ago.

A key development came Tuesday as Sen. Lamar Alexander (R., Tenn.) announced his support for the Strategic Arms Reduction Treaty. As the Senate's No. 3 Republican, his decision could be seen as a green-light for others in the GOP to sign on.

Also Tuesday, Republican Sens. Lisa Murkowski of Alaska, Johnny Isakson of Georgia and Robert Bennett of Utah announced their support, following decisions Monday evening by Sens. Scott Brown of Massachusetts and Bob Corker of Tennessee. Four Republicans had previously signaled their support.

The pact cleared a procedural hurdle when the Senate voted 67-28 to end debate on the matter Tuesday afternoon, setting the stage for a ratification vote Wednesday.

Ratification would mark another victory for Mr. Obama just weeks after his party was soundly defeated in the midterm congressional elections, and in advance of a new Congress convening in which Republicans will hold a stronger hand.

Getty Images

The U.S. Senate's No. 3 Republican, Lamar Alexander of Tennessee, left, said Tuesday he would back the Start treaty.

In the current lame-duck session of Congress, Mr. Obama has secured passage of a major tax package, legislation to allow gays to serve openly in the military and a food-safety bill.

Ratification opponents say the treaty has been rushed through the Senate too quickly in the waning hours of the lame-duck session, and that changes are needed to make sure it doesn't limit U.S. plans for missile defense.

Republican senators have also secured an agreement from the Obama administration to spend tens of billions of dollars to modernize the U.S. nuclear arsenal.

Senate Minority Leader Mitch McConnell of Kentucky and the second-ranked leader, Jon Kyl of Arizona, are among those opposing ratification.

Supporters include top military officials and much of the Republican foreign-policy establishment.

Mr. Corker spoke in favor of the treaty on the Senate floor Tuesday and addressed some of the arguments of its critics.

"There is nothing in this treaty that limits our missile defense," he said, other than a prohibition on using certain long-range missile launchers in a missile-defense system. But he said that option was "something that our military leaders do not want to do" because of the expense.

White House officials on Tuesday credited a new attitude on both ends of Pennsylvania Avenue for bipartisanship on the New Start treaty and other legislative matters in recent weeks.

White House press secretary Robert Gibbs said that Mr. Obama had consulted far more with Republicans this month than in the opening year of his presidency.

"Senators have gotten the information that they needed, and we're pretty confident that more than two-thirds of them will vote to ratify something that's tremendously important for our national security," Mr. Gibbs said.

Fed steps in as lenders seek dollars in Europe

By Luca Di Leo
And David Wessel

The U.S. Federal Reserve extended the life of a program launched during the financial crisis that allows foreign central banks to tap the U.S. for needed dollars. The move came as new strains emerge among banks in Europe.

Foreign banks often borrow dollars to fund holdings of U.S. securities or to provide financing to companies in need of the U.S. currency. Those dollars have become harder to borrow, in part because of uncertainty about the health of European banks and fiscal stress across the Continent.

So the Fed on Tuesday said it will renew through Aug. 1, 2011, its agreements with the European Central Bank—as well as the central banks of England, Canada, Japan and Switzerland—to lend them dollars when needed. The agreements had been set to expire in January.

"It was premature to allow these arrangements to expire, particularly given the sovereign-debt situation in Europe," said Dana Saporta, economist at Credit Suisse.

European leaders last week failed to resolve disagreements over how to quell a debt crisis that has plagued the 16-country euro zone for more than a year.

The Fed began lending dollars to foreign central banks amid a scramble for dollars in Europe during the worst of the global financial crisis in 2008. By the end of December 2008, the Fed's loans of dollars to foreign central banks—known as swaps—amounted to $545 billion, about a quarter of all the credit the Fed put into the economy. One of every four dollars that the Fed lent then was going not to Bear Stearns or Bank of America Corp. but—through foreign central banks—to banks BNP Paribas SA in France or Commerzbank AG in Germany.

After allowing the program to expire, the Fed renewed it in May to "respond to the re-emergence of strains in short-term funding markets in Europe." Use of the program has been sparse recently, but bankers describe it as an important backstop. As of Dec. 15, the Fed had only $60 million in swaps with foreign central banks outstanding.

European financial institutions that need dollars in thin year-end trading have been forced to pay an unusually large premium to swap euros into dollars for three months. That premium mirrors levels not seen since May.

Under the Fed program, the U.S. central bank, for a fee, lends dollars to foreign central banks, which in turn lend them on to commercial banks locally. Because the foreign central banks are responsible if the loans aren't paid back, the Fed considers the program to be low risk.

Fed lending to overseas central banks occasionally draws criticism from Capitol Hill. The Fed discloses the details of its swaps.

Tuesday's announcement comes days after the Bank of England agreed to provide the ECB with a £10 billion ($15.5 billion) swap line.

—Geoffrey T. Smith in Frankfurt contributed to this article.

End-of-life decisions gain clarity

By Sara Murray

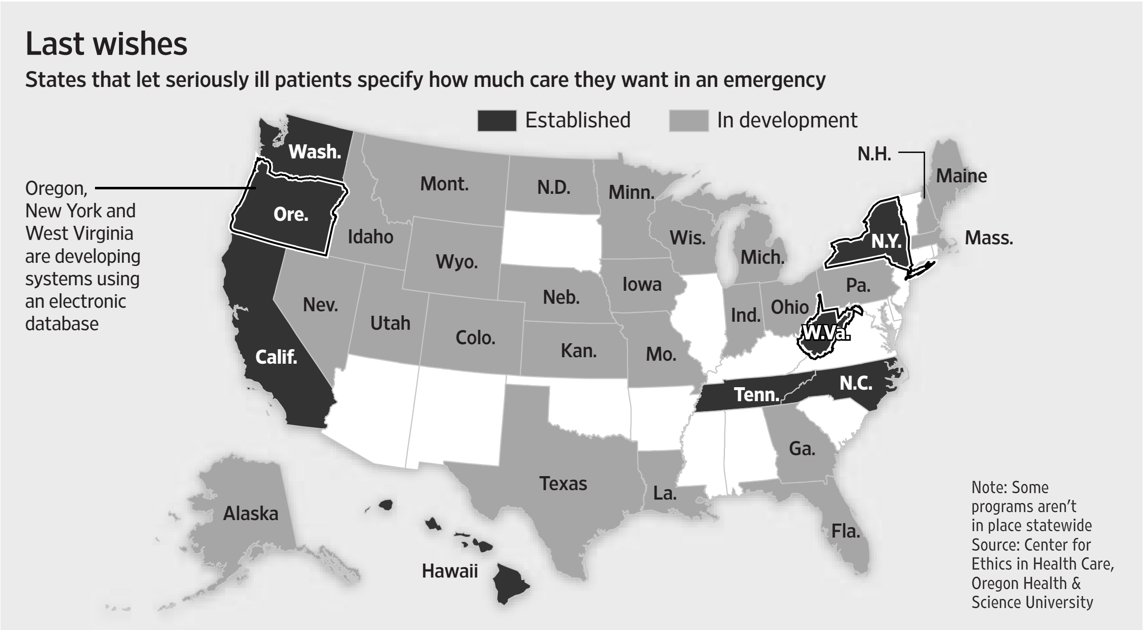
Oregon is making it easier for the seriously ill to voluntarily make their wishes known about end-of-life care by creating an electronic database that first responders can quickly check during an emergency.

At least two other states—West Virginia and New York—are developing similar systems, which are an outgrowth of signed paper forms. Known as physician orders for life-sustaining treatment, or Polst, the forms are supposed to direct all health-care providers about the type of care a patient wants to receive.

Paper-based systems are in use or in development in 33 states. Many people put the papers on their refrigerators or some other prominent location in their homes.

But paper forms are sometimes overlooked or lost. The electronic systems aim to make the information in these forms—such as whether a patient wants a feeding tube or even to be taken to a hospital at all—more readily available to an emergency worker, through a phone call or the Internet.

Whatever form they take, end-of-life care directives are controversial. Some critics argue that elderly or sick patients could be persuaded to choose less care in order to save money, even if that isn't their wish.



Some opponents liken it to physician-assisted suicide.

Another concern has been ensuring patient privacy while making information available to health professionals who need it. The systems also must be completely accurate.

Some 42,000 people have registered for Oregon's system since it was rolled out a year ago. Patients complete the form in consultation with their doctor, and the document is stored in a database accessible by staff at Oregon's emergency communication center, which coordinates statewide medical emergencies. Health-care providers can call the center, confirm the patient's identity, and get instructions from the patient's Polst form.

Before the electronic registry, if emergency personnel couldn't find a form, they would provide any life-saving measures possible.

Polst forms usually offer three primary options: comfort care, limited intervention and full treatment. Comfort care includes administering medicine and oxygen, but no hospitalization. Limited intervention includes intravenous fluids and hospitalization. It excludes mechanical ventilation and intensive care.

U.S. NEWS

GOP-leaning states gain in census

By Patrick O'Connor

WASHINGTON—Republican-leaning states in the South and Southwest will add congressional seats in the next election, which could give the GOP a big advantage in its bid to retain control of the U.S. House.

The population count released Tuesday by the U.S. Census Bureau showed the total U.S. population was 308,745,538 and confirmed long-held assumptions that the balance of power in the country is titling away from Democratic strongholds in the Northeast and Midwest to warmer states in the Sunbelt, from Florida to Arizona, where Republicans hold sway.

The decennial census results dictate each state's representation in the House for the next decade. The big winner in 2012 and beyond is Texas, which will add four seats. Elsewhere in the South, Florida will add two seats, and Georgia and South Carolina will each add one. In the Southwest, Arizona, Nevada and Utah will each add one seat.

The biggest losers are in the Northeast and Midwest. Ohio and New York both lose two seats. Illinois, Iowa, Massachusetts, Michigan, Missouri and New Jersey all lose a seat.

Louisiana was the only Southern state to lose representation, the result of a steep population decline that followed Hurricane Katrina.

California won't add a new House seat for the first time since 1920.

Reuters

U.S. Census Director Robert Groves discusses the data, which showed a 9.7% rise in the U.S. population in the past decade.

Democrats dominate the state's 53-member congressional delegation, which remains the country's largest.

This shift from North to South bodes well for the GOP because state legislatures draw the congressional maps for much of the country. Republican governors preside over Republican-controlled statehouses in six of the eight states that will add seats in 2012.

The new figures also underscore the importance of Republican statehouse gains in the last election, when the GOP picked up 12 new governorships and won sole control over 11 additional state legislatures.

But GOP gains in congressional elections may temper the number of seats the party picks up through redistricting. In New York, where Democrats control the State Assembly in Albany, Republicans could lose two of the six seats they won in November. And in Ohio, GOP legislators will face pressure to get rid of one of their own seats in conjunction with one currently represented by a Democrat, even though a Republican ousted the Democratic governor and the party now controls both chambers of the statehouse.

Even in Texas, where Republicans control the governor's mansion and the legislature, the party's gains could be limited by their aggressive redistricting push after the last census and the Voting Rights Act, which requires certain minority representation in Congress.

The impact of these new numbers is less clear on the coming presidential election because the shift doesn't affect the Electoral College in a meaningful enough way to undercut President Barack Obama's prospects for re-election.

The Republicans' biggest gains could come in states that won't add or subtract seats in the next election. In North Carolina, Republicans control the statehouse for the first time since 1898, and party leaders could add as many as three new seats while shoring up a fourth.

The shift is bound to spark legal struggles as state legislatures redraw the maps and turf fights between sitting members of Congress from the same party as incumbents struggle to preserve their seats in the House.

Illinois elected five new Republicans to Congress in November. The Democratic legislature in Springfield will surely send one packing after the next election by merging his district with that of a colleague.

FCC to govern Web traffic

By Amy Schatz

Telecommunications regulators approved new rules Tuesday that would for the first time give the federal government formal authority to regulate Internet traffic, although how much and for how long remained unclear.

A divided Federal Communications Commission approved a proposal by Chairman Julius Genachowski to give the FCC power to prevent broadband service providers from selectively blocking Web traffic.

The rules will go into effect early next year, but legal challenges or action by Congress could block the FCC's action. Senate Minority Leader Mitch McConnell (R., Ky.) on Tuesday called the FCC's action "flawed" and said lawmakers would "have an opportunity in the new Congress to push back against new rules and regulations."

The new FCC rules, for example, would prevent a broadband provider, such as **Comcast** Corp., **AT&T** Inc. or **Verizon Communications** Inc., from hobbling access to an online video service, such as Netflix, that competes with its own video services. Broadly, the rules would prohibit Internet providers from "unreasonably discriminating" against rivals' Internet traffic or services on wired networks. They would also require Internet providers to give subscribers more information on Internet speeds and service.

The rules would allow phone and cable companies to offer faster, priority delivery services to Internet companies willing to pay extra. But the FCC proposal contains language suggesting the agency would try to discourage the creation of such high-speed toll lanes.

Phone companies wouldn't be able to block legal websites from consumers. They also couldn't block mobile voice or video-conferencing applications. Wireless providers would be allowed to block other applications, however, that they say could take up too much bandwidth on wireless networks.

The five-member FCC board approved the new rules in a 3-2 vote, with the agency's two Republican members rejecting them.

The U.S. could stop broadband providers from selectively blocking Web traffic if the rules survive.

"For the first time, we'll have enforceable rules of the road to preserve Internet freedom and openness," Mr. Genachowski said Tuesday morning. He said the rules offered "a strong and sensible framework—one that protects Internet freedom and openness and promotes robust innovation and investment."

Republicans at the FCC and on Capitol Hill blasted the new rules, saying they could stifle new investment in broadband networks and are unnecessary since there have been few complaints about Internet providers blocking or slowing Web traffic.

The FCC's action "is not motivated by a tangible competitive harm or market failure," said Commissioner Meredith Attwell Baker, a Republican, who said the agency was intervening to regulate the Internet "because it wants to, not because it needs to."

Advocates of strong rules for "net neutrality"—the principle that Internet service providers shouldn't be allowed to deliberately block or slow Web traffic—complained that Mr. Genachowski's proposal didn't go far enough, a sentiment echoed Tuesday by the agency's other two Democrats. The two wanted the same rules to apply to both wireless and wireline broadband networks. They agreed to approve the rules anyway, saying they were better than nothing.

"In my book, today's action could, and should, have gone further," said Democratic Commissioner Michael Copps.

Big phone and cable companies have expressed qualified support for the compromise, but they have said there was no real need for government regulation of Web traffic.

Although this is the first time the FCC has passed formal rules on net neutrality, it isn't the first time it has tried to act as an Internet traffic cop. In 2007 the agency sanctioned Comcast for deliberately slowing the Web traffic of some subscribers who were downloading large files over peer-to-peer networks. Comcast sued, and in April a federal appeals court sided with the cable giant, saying the FCC didn't have clear authority to enforce net neutrality.

The rules passed Tuesday are also likely to be legally challenged, and it isn't clear whether they will be upheld. Congress has never given the FCC explicit authority to regulate Internet lines, so the agency is using older rules to justify its authority.

Health premiums to get U.S. scrutiny

By Janet Adamy

Health insurers that raise premiums 10% or more next year will face new regulatory scrutiny under the health overhaul, the Obama administration said Tuesday.

The newly released guidelines, which are preliminary, are aimed at pushing back against sharply rising premiums for individuals and small businesses. If approved, they would mark the first time that the federal government has oversight in some states to deny what it considers unreasonable premium hikes.

Starting July 1, states would automatically review any insurance-rate hike that is 10% or higher to determine whether it is reasonable. In states that don't have their own effective review process, the federal government would step in and determine whether the increase is fair.

Most states already have the power to block insurance-rate increases their regulators deem unjustified. The Obama administration says this provision bolsters that existing power, in part by requiring data justifying the increase to be posted online. The provision is part of $250 million in funding from the law to help states tighten their health insurance-rate review process.

The Department of Health and Human Services says 43 states already have their own rate-review process which, if deemed adequate, would continue overseeing the fairness of premium hikes. That potentially leaves just a handful of states where the federal government would need to step in.

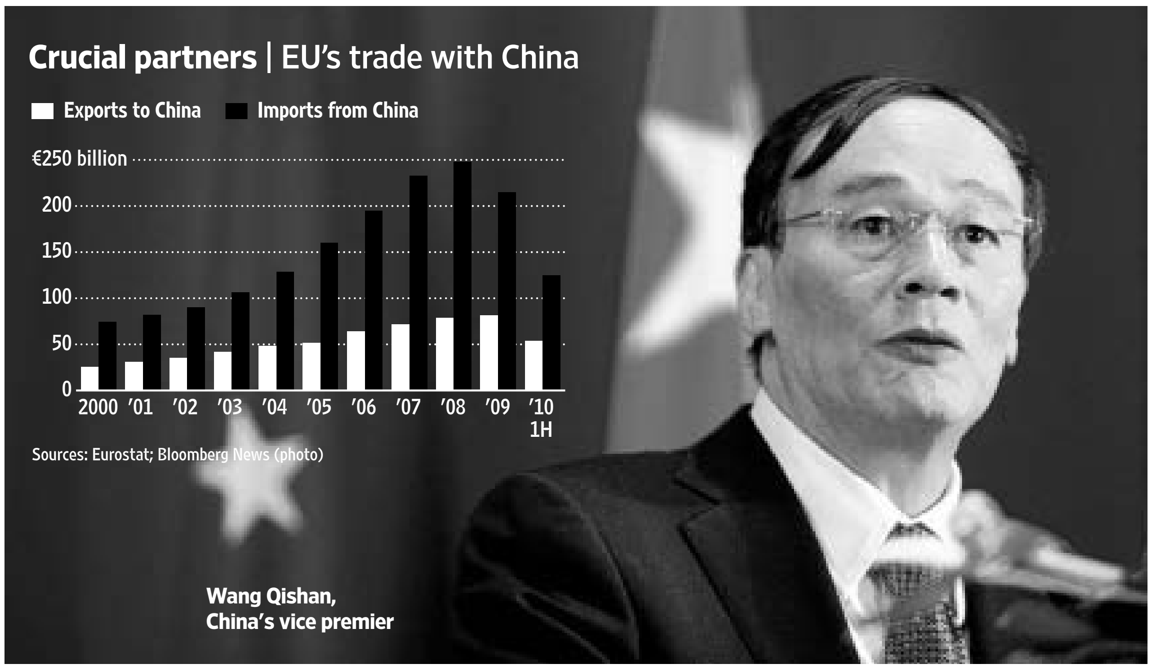
Insurers worry the rules could create an administrative burden, but they didn't immediately raise significant complaints about the rules Tuesday. The provision appears to leave most of the regulation in state hands, which the industry views as more favorable.

The regulation excludes large employers from the premium reviews, which was expected, and doesn't apply to "grandfathered" health insurance plans that have been unchanged since before President Barack Obama signed the health-overhaul law in March.

Most insurance-rate rises for individuals have exceeded 10% for the past three years, according to the handful of U.S. states that currently release their rate increases.

For individuals and small businesses, the new rate review process could put the majority of plans under a harsher spotlight. Most insurance-rate increases for individuals have exceeded 10% for the past three years, according to the handful of states that currently release their rate increases.

Eventually, the secretary of Health and Human Services will replace the 10% threshold with state-specific triggers for rate reviews, the administration said.



Sources: Eurostat; Bloomberg News (photo)

Wang Qishan, China's vice premier

China voices support for European bailouts

By Owen Fletcher And Aaron Back

BEIJING—Chinese Vice Premier Wang Qishan said China supports the measures taken by the European Union and International Monetary Fund to bail out certain European countries and stabilize the financial markets.

Speaking at the third EU-China High Level Economic and Trade Dialogue on Tuesday, Mr. Wang said China hopes the effects of the EU's measures to address the euro-zone debt crisis become apparent quickly.

The comments gave the euro positive momentum in currency markets during the Asia day, though the currency later fell after ratings firm Moody's Investors Service warned of a possible debt downgrade to Portugal.

But Chinese Commerce Minister Chen Deming sounded a note of caution, saying China is closely observing the actions that Europe is taking and whether they will be effective.

"We are paying close attention to whether Europe's debt crisis can be controlled, and especially what will happen in the first quarter next year," Mr. Chen said at a briefing after the EU-China meeting. He added that China will pay attention to "whether Europe's consensus on sovereign debt and risk prevention can be turned into practical action."

Olli Rehn, European commissioner for economic and monetary affairs, said at a separate news briefing Europe welcomes China's support for its measures. He added that Europe's economic situation is improving even as market conditions remain volatile.

"The economic recovery has taken hold in the EU and it is progressing and also spreading from export growth to domestic demand," Mr. Rehn said.

Last week, EU leaders agreed to replace the region's emergency rescue fund, which expires in 2013, with a permanent crisis-finance program, in the latest move to rescue euro-zone countries facing sovereign-debt crises.

Chinese leaders have on many occasions over the past year voiced strong support for the EU and the measures taken to contain the euro-zone debt crisis.

During a visit to Greece in October, Premier Wen Jiabao said he supported the assistance package to the country by the EU and the IMF, according to a report by the state-run Xinhua news agency, and added China hopes to "be of some help in your endeavor to tide over difficulties at an early date."

On the same trip, Mr. Wen said China won't reduce its holdings of European sovereign bonds, according to the Xinhua report.

While sides lauded the benefits of closer economic cooperation Tuesday, they also aired complaints about each other's trade practices.

Mr. Chen said there has been an "obvious" rise in EU trade remedy actions against China this year. Some Chinese companies have suffered considerable losses from such actions, which aren't beneficial to economic ties, he said.

Meanwhile, EU Trade Commissioner Karel De Gucht said he had emphasized to Chinese officials the importance of access to rare earths.

"On rare earths, I made the point very strongly that this is a major concern to European business, and that any disruption to supply itself would be not to anyone's benefit," he said.

In response, Chinese officials said the supply of such rare earths will be sustained, Mr. De Gucht added.

In their public comments, EU officials largely refrained from pressuring China to allow faster appreciation of the yuan.

Joaquín Almunia, the European Commission vice president in charge of competition policy, said Europe's exports to China have been rising recently due to fast economic growth in China, not recent weakness in the euro exchange rate.

Mr. Chen singled out one particular European trade case for criticism, saying he hopes an EU investigation into Chinese-made wireless modems can be terminated as soon as possible.

He also repeated a longstanding demand that China be granted market economy status by the EU, which would give the country more favorable treatment in some trade cases. However, Mr. Chen acknowledged China still faces a problem in enforcing intellectual property.

Australia's rains threaten growth

Australia's economy is riding high on the mining boom, but severe weather could be an unforeseen drag on growth, as the worst floods in 20 years ravage crops and disrupt mining across the country.

*By **Rebecca Thurlow** in Sydney and **Ray Brindal** in Canberra*

Authorities have declared natural-disaster zones in more than 100 regions across five states, as flooding over the past three weeks has brought a dramatic end to a decade-long drought in some areas. The territory hardest hit is prime agricultural land in the Murray-Darling basin, which spans parts of Queensland, New South Wales and Victoria states, covering an area bigger than Germany.

Rain damage will result in about half of Australia's estimated 24-million-metric-ton wheat crop being classified as suitable for livestock feed or downgraded this year, at a cost of nearly US$1 billion, National Australia Bank Ltd. estimates. Australia is a major global supplier of wheat with domestic consumption of only about seven million tons, leaving the remainder typically available for exports.

The heavy rains also have disrupted the sugarcane harvest, driving raw sugar output down 20%, according to government estimates. Australia is the third-largest exporter of sugar after Brazil and Thailand.

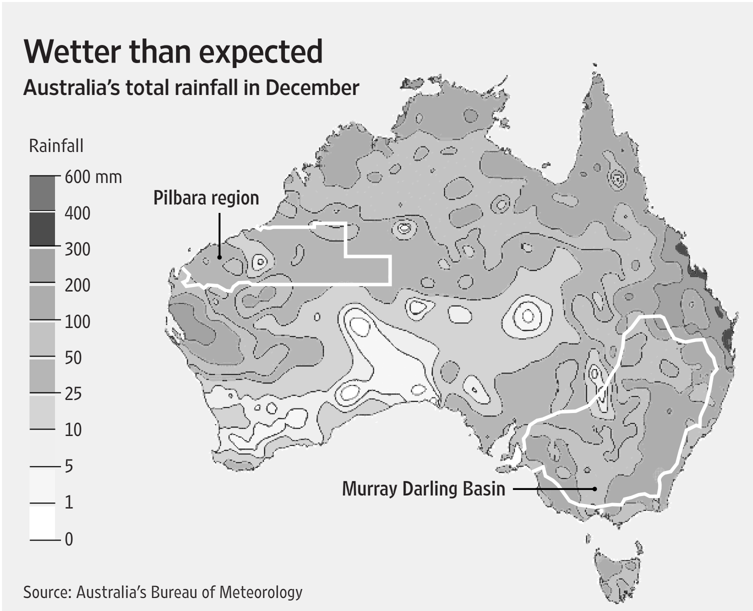
The September-to-November period was the wettest ever recorded, and above-average rainfall has continued into December, according to the Bureau of Meteorology. The rainfall is associated with the weather pattern in the Pacific Basin known as La Niña that is conversely helping create a drought hitting farmers in parts of New Zealand.

Weather woes such as the current disturbance in Australia continue to present a risk to the global food supply. The past year has been one of extremes for agriculture markets, roiled by droughts, floods and unexpected weather patterns playing havoc with crop seasons. The hottest summer in 130 years plunged Russia's grains sector into turmoil and saw the country ban exports for the year in a bid to curb food inflation as prices soared. A similar picture was seen in neighboring Ukraine, with the effect of reduced supplies from two of the world's largest grains exporters propelling prices higher and hurting trade flows around the world.

The rains are "certainly going to have an effect on a range of industries," said Julie Toth, a senior industry economist at Australia & New Zealand Banking Group Ltd., who said she fears the nation's economic growth could be crimped by flooding in the December quarter.

The flooding is affecting coal mining in central Queensland. Several miners in the region have called *force majeure*—or unavoidable failure to meet an obligation—on deliveries because of floods, and the inability of miners to produce coal is depleting stockpiles, according to Greg Smith, general manager, operations, at Dalrymple Bay Coal Terminal, one of the biggest coal ports in the world. Coal prices have been driven higher.

—David Fickling in Sydney contributed to this article.



Source: Australia's Bureau of Meteorology

Iran is preventing fuel from reaching Afghanistan

By Maria Abi-Habib

KABUL—Iran is preventing nearly 2,000 fuel tanker trucks from crossing into Afghanistan, claiming their load would supply U.S.-led coalition forces, Afghan officials say.

The unannounced border blockade, which has entered its third week, threatens to push up fuel prices ahead of Afghanistan's severe winter, depriving the Kabul government of millions of dollars in customs revenue, these officials say.

About 30% of Afghanistan's fuel imports come through its western border with Iran, according to the country's commerce ministry. The Afghan government says all of these imports are for civilian use.

Asked whether some of its fuel comes through the Iranian border, the U.S.-led coalition said it "does not discuss which supply routes [are] used and the status of logistical operations for security reasons." The bulk of the coalition's fuel is shipped from the former Soviet republics in Central Asia, Western officials in Afghanistan say.

While Iran has generally good relations with Afghan President Hamid Karzai, whose office says it receives a regular cash subsidy from Tehran, the Iranian regime opposes the presence of American troops in the country. American officials have repeatedly said Iran helps fund and arm some insurgent groups operating in Afghanistan.

Afghan officials say the stranded fuel, which includes Iranian imports and supplies transiting via Iran from Iraq and Saudi Arabia, is used to heat ordinary Afghans' homes, run businesses and fly civilian aircraft.

"This is going to hurt all of Afghanistan. We're a landlocked country, and our businesses and people rely on fuel from Iran," said Walid Tamim, the vice chairman of Dawi Oil, which imports civil aviation fuel into Afghanistan.

About 600 fuel tankers are stuck on the Iranian border with Afghanistan's southwestern Nimroz province, said Nimroz customs chief Ilhamuddin Mazhar, and similar-size backlogs have built up on the borders of the western Herat and Farah provinces.

Afghanistan, which said it contacted the Iranian government at the start of the blockade, hasn't yet received an official response on when fuel imports would resume, said Sharif Shairifi, Afghanistan's deputy minister of commerce.

The Iranian Embassy in Kabul declined to comment.