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Russia moves to woo investors

RIA Novosti/Reuters

Russian Prime Minister Vladimir Putin, center, visits a new Moscow office of Russian bank VTB with Chief Executive Andrei Kostin, left.

By Alexander Kolyandr

MOSCOW—Russian Prime Minister Vladimir Putin promised Tuesday to loosen restrictions on foreign investment in some sectors next year, hours after President Dmitry Medvedev reiterated his calls to improve what he called Russia's "bad" investment climate.

The leaders' unusually frank assessment and olive branch to foreign investors comes at a time when investors and business leaders have dismissed government efforts to stimulate private investment as little more than talk. The big increase in state ownership and regulation over the last few years is stifling growth and holding back vital investment, they say.

The latest high-profile criticism of the Kremlin's stance on business came from Vladimir Potanin, owner of the **Interros** metals, media and banking holding company and one of Russia's wealthiest businessmen. "There is less and less space for independent business," Mr. Potanin said in a recent interview. "To do business, you need a powerful partner—either a large company or the authorities."

"They make the right declarations," Mr. Potanin continued, speaking of Kremlin pledges to improve the investment climate, which have been a hallmark of Mr. Medvedev's two-year-old presidency. "But I'd like to see deeds follow those words."

Mr. Potanin spoke last week, before a Moscow court on Monday declared former oil tycoon Mikhail Khodorkovsky guilty of embezzling billions of dollars in oil from his OAO Yukos company and laundering the proceeds.

Authorities' seven-year prosecution of Mr. Khodorkovsky, and the break-up and partial renationalization of Yukos, have for many investors come to symbolize the Kremlin's turn away from private business. Defense lawyers and many observers say the cases are politically motivated, an allegation the Kremlin denies.

The Russian government further increased its control over the economy during the financial crisis, bailing out companies and banks and providing billions in subsidies to support struggling companies.

Heavily dependent on raw materials exports and cheap foreign credit, Russia's economy suffered a 7.9% contraction in 2009 as the global financial crisis hit. With commodity prices still well below their pre-crisis highs and international capital less plentiful, growth over the next few years is expected around 4%, far below the levels seen before the crisis and

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Housing weighs on U.S.

The U.S. housing market, which appeared poised for a recovery earlier in the year, now could be heading for a second downward shift—even as the rest of the economy shows signs of recovery.

In closely watched Standard & Poor's/Case-Shiller data released Tuesday, all 20 cities in the index posted month-over-month declines in October.

Only four areas of the U.S.—Los Angeles, San Diego, San Francisco and Washington— posted year-over-year gains. Six markets, including Atlanta and Miami, hit their lowest since prices started falling four years ago, pushing prices in those areas below the lows seen in most regions in spring 2009. Overall, the home price index fell 1.3% in October from September.

Wells Fargo projects prices will drop 8% more by mid-2011 given high supply. "Right now, demand is still dead in the water," said economist Sam Bullard. Home prices also face several other major hurdles: rising mortgage rates, the expiration of a federal tax credit for buyers, more foreclosures and underwater homeowners ready to walk away as home values dip further.

The dark housing clouds come as economic data out this month provided hope that the economy is on the cusp of strong growth. For starters, retail sales returned to levels seen just before the recession started in 2007. Manufacturing continues to expand and U.S. exports have recovered back to levels from just before the financial crisis. Optimism among heads of small businesses and large corporations is also back to pre-recession levels.

But housing—and the continued jobs slump—remain trouble spots. Worries about joblessness are pushing consumer confidence lower, despite strength in holiday sales and a rising stock market. The Conference Board, a business research group, said Tuesday that its confidence index fell to 52.5 from 54.3 last month as consumers' views about job availability worsened.

The labor market has added a million jobs in the past year, but that pace is far too slow to offset an unemployment rate that climbed to 9.8% last month.

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- City-by-city guide to trends in U.S. housing prices at WSJ.com/Economics

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Euroland moves from tragedy to farce

[Agenda]

By Irwin Stelzer

What a euroyear it has been. The show opened with a Greek tragedy and is closing with, well, a eurofarce. Greece found out it can't pay its creditors, Ireland thought it could but it couldn't, Portugal and Spain think they can, but they can't. And the Eurocracy responded with a farcical promise to set up an unspecified structure to raise an unspecified sum to pay an unspecified portion of those bills. Germany permitting.

The interesting thing about the year that is now coming to a close is that the turmoil in the currency markets proved the Euroskeptics right—monetary union without fiscal union is not tenable in the long run—and was nevertheless a victory for those who have always seen the creation of the euro as merely an essential first step on the road to political union.

The year saw the markets awaken to the fact that there are enduring differences between southern and northern Europe. No longer would countries running huge budget deficits be able to borrow on the same terms as Germany. No longer would income transfers to Spain be able to paper over that country's dependence on an unsustainable property boom, fueled by cajas ready to lend on the skimpiest proof that the loans would be repaid. And no longer would Portugal be able to persuade lenders to make credit available on reasonable terms despite the inability of its economy to eke out any discernible growth. In short, the party's over.

But a new one was launched, this one with the Eurocracy and Germany serving as co-hosts, the former providing the meeting room, the latter the money. First came the hors d'oeuvres, bailouts for Greece and Ireland when international markets became effectively closed to them. Then came the main course: establishment of bailout mechanisms to assure lenders they need not fear default by any nation that had been invited to the europarty. Finally, the dessert, a delectable confection that promised one and all that never again would a crisis like this emerge because all of the club members are now prepared to follow the path taken by the United States some 200 years ago. As the Founding Fathers put it when they affixed their signatures to the Declaration of Independence, "We mutually pledge to each other our Lives, our Fortunes, and our sacred Honor"—with the emphasis in this case on "Fortunes."

Associated Press

Chancellor Merkel has no choice but to demand control in return for cash.

All of this absorption with internal matters has reduced EU importance in international affairs.

All else that happened in euroland in 2010 pales into insignificance when compared with the decision to set up mechanisms for replacing—some say supplementing, some say monitoring—national decision-making on fiscal policy with control by the Brussels-based Eurocracy, amending the Lisbon Treaty to make that possible. This is the step that the founders of the euro always knew would some day be necessary. That day has now arrived, and they are delighted.

Or almost. For the price of this "more perfect union" (to borrow again from American experience, in this case the language of the Constitution) is allowing Germany to become a lot more than *primus inter pares*. Germany is the paymaster, and the price for the use of its stellar credit rating, and the strength of its still-expanding economy, is deference to the wishes of Chancellor Angela Merkel. After all, with about half her electorate aching for a return of the Deutsche mark, and an even larger portion unhappy about picking up the check for the partying Greeks, she has no choice but to demand control in return for cash. As Peter Zeihan of Stratfor Global Intelligence puts it, "Germany is attempting to trade beneficial benefits for the right to make policy adjustments that normally would be handled by a political union. It's a pretty slick plan."

So here's how the euroyear ends. Greece, Ireland, Portugal and Spain will have to restructure their sovereign obligations, with investors on notice from Germany that they will face haircuts as part of the process of neatening national balance sheets. When these indebted countries restructure, not only their own banks but those in Germany and other countries will have to write down some of the sovereign and company debt on their balance sheets, just at a time when they will have to raise capital to meet new regulatory requirements. That will reduce their ability to lend to fund growth just when austerity is biting because of conditions imposed by the International Monetary Fund, the European Central Bank and the Brussels bureaucracy, the latter speaking on behalf of Ms. Merkel. Meanwhile, the ECB is doing its bit: last week it almost doubled its purchases of government bonds to prevent interest rates from rising.

Here's the farce. All of this absorption with internal matters has reduced the importance of the EU in international affairs, exactly the opposite effect the Europhiles had anticipated closer union would produce. An internal EU report notes, "Europe is no longer the main strategic pre-occupation of U.S. foreign policy....The U.S. is increasingly looking to new partners to address old and new problems." Worse still, as the year ended the players in this farce squeezed in one more meeting, this one in Beijing.

China has been pouring money into Africa and other developing nations in order to buy resources and, more important, influence. Now, says Wang Qishan, a Chinese vice premier, his country will use its new wealth to support the euro zone. "We appreciate the support of China," responded Olli Rehn, Europe's commissioner for economic and monetary affairs. As do his counterparts in the developing world.

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

What's News

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'The frugal Czech public worries if its government is frugal enough.'

Leos Rousek on the Czech public's fear of state debt despite being one of the thriftiest governments in Europe.

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NEWS

Moscow airport breakdowns probed

BY WILLIAM MAULDIN
AND OLGA PADORINA

MOSCOW—Russian President Dmitry Medvedev ordered the country's top prosecutor to investigate what industry experts are calling the worst meltdown in Russian air travel in years, after a Moscow ice storm all but paralyzed the country's two biggest airports.

An estimated 20,000 tourists faced delays already reaching up to two days and counting during the busiest winter travel period ahead of the New Year's holiday. Passengers crowded into Russia's busiest airport, Domodedovo, faced power outages and a smell of sewage, while shortages of deicing fluid delayed hundreds of flights at Sheremetyevo—home of OAO **Aeroflot**, Russia's biggest airline and a member of the SkyTeam international alliance—leading to scuffles between passengers and airline employees.

The prosecutor general will investigate possible crimes committed by the private company that owns Domodedovo and the quasi-state company that controls Sheremetyevo. Late Tuesday, Russia's top consumer-rights watchdog said 14 cases of alleged legal violations had been opened at Domodedovo and a full probe of Sheremetyevo's response to the distruption is under way, Interfax reported.

Transportation Minister Igor Levitin publicly apologized for the aviation snafus and said he had summoned Domodedovo's owners back to Moscow.

The airport's chief executive, Vyacheslav Nekrasov, on Monday sent a desperate plea to federal authorities as passengers grew discontent amid a power failure that started in the early hours of Sunday morning. Meanwhile, at Sheremetyevo a lack of deicing fluid contributed to 70 canceled flights at Aeroflot alone.

Domodedovo's takeoff and landing equipment and electronics worked normally, but the emergency generators that officials set up weren't sufficient to power the airport fully. The facility wouldn't be able to handle expected passenger flows another day without further support from authorities, Mr. Nekrasov said Monday.

Airline and airport officials reported that conditions were improving Tuesday, but thousands of delayed passengers continued to crowd the terminals. At Domodedovo, Nadezhda Shishakova waited a third day with a friend and three children for a St. Petersburg flight.

"It's more or less warm," she said, as the children lounged against a radiator, cushioned by a mink coat. She says she worries she won't arrive in time to spend New Year's, Russia's biggest holiday, with her relatives, and says she can't take the train from Moscow because the airline won't return her baggage.

The group arrived from Yuzhno-Sakhalinsk in the Far East early Sunday to find the airport plunged into darkness by the blackout. Ms. Shishakova and her friend led the children through the dark corridors with lights from their cellphones Sunday and had spent two nights sleeping on chairs and the radiator.

Her airline, **Transaero**, says it has made hotel rooms and food available to 7,000 passengers.

At Sheremetyevo, Aeroflot employees were "beaten" by angry passengers, spokeswoman Irina Danenberg said. A duty officer at the Sheremetyevo police station said there had been no violence and no complaints filed.

Domodedovo denied reports of widespread disturbance, and Roman Genis, a spokesman for Sheremetyevo, said there were no fights but that bereft passengers "raised their voices." Aeroflot blamed scuffles at Sheremetyevo on the poor response of security personnel.

Both airports handled flights on Tuesday, but at less than half the normal capacity. Sheremetyevo is looking to boost the amount of deicing fluid kept on hand, Mr. Levitin said, and the problems at Domodedovo should be resolved by New Year's Eve, assuming normal weather.

However, official Moscow forecasts for Wednesday pointed to heavy snow, falling temperatures and increasing wind.

"For this big of a collapse, we cannot blame only the weather," said Maya Lomidze, executive director at the Russian Association of Tour Operators, adding it was the worst air shutdown she had seen in her 15 years of experience in Russia.

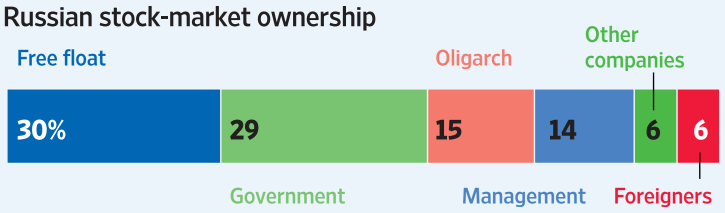
Reuters

A passenger rests by a counter at Moscow's Domodedovo airport Tuesday.

Heavy hand

The Russian government is one of the biggest owners on the stock market.

Russian stock-market ownership



Note: Free float is the stake traded at the exchanges; management means that in many cases the management of a company owns a share of it.

Source: Troika Dialog

Putin pledges to loosen curbs on foreign investment

Continued from first page
those in big developing countries like Brazil, India and China.

Mr. Potanin welcomed the government's adoption this fall of a three-year, $32 billion privatization program but called for the plans to be made even more ambitious: "The state's need to own assets is a sign of its weakness, not strength."

Analysts say the Kremlin now has little choice but to warm the chilly investment climate, because prices for oil, Russia's main export, aren't high enough to generate the hundreds of billions of dollars in capital needed to overhaul the country's creaking industry and infrastructure. The government also is raising taxes to cover increases in pensions and other benefits.

At a meeting with economic aides Tuesday, Mr. Medvedev said the government needs to work more to stimulate investment.

"Unfortunately, the investment climate in our country, to put it mildly, leaves something to be desired," he said. "It's bad."

Speaking at a separate event later in the day, Mr. Putin, who is widely viewed as the more powerful member of Russia's ruling tandem, promised to loosen restrictions on foreign investment in some sectors, including food, medical equipment and banking and natural resources.

Also Tuesday, Russia's Natural Resources and Ecology Ministry suggested increasing to 25%, from 10%, the stake a foreign shareholder is allowed to hold in companies developing strategic oil resources.

Mr. Putin, chairing a meeting of a government panel on foreign investment, noted that foreign direct investment this year will total about $40 billion, up from $15.9 billion in 2009. The body on Tuesday approved one of the largest foreign investments in Russia in recent years, **PepsiCo** Inc.'s $5.4 billion takeover of OAO **Wimm-Bill-Dann**, a major dairy and juice producer.

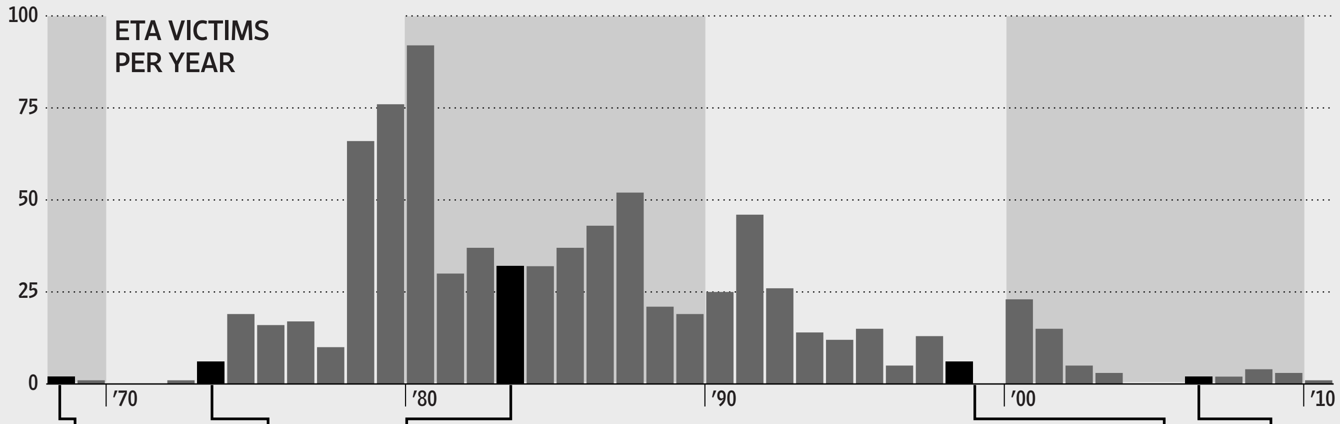
EUROPE NEWS

ETA | A history of the terrorist group

Associated Press (2)

Arnaldo Otegi, the now-jailed leader of ETA's banned political wing, speaks at a rally in Elgoibar in 2008.

Source: Spain's Interior Ministry



1968
ETA (Euskadi ta Askatasuna, or Basque Country and Freedom), which formed 10 years earlier, kills Spanish traffic policeman José Pardines, the first recorded ETA kill.

1973
ETA cell carries out the car-bomb assassination of Prime Minister Luis Carrero Blanco, a close associate of Generalisimo Franco, in the group's most daring action.

1983
After the Basque Country is given autonomous status by the new Spanish democratic government, a large percentage of ETA activists accept government terms and lay down weapons.

1998–1999
First long-term ETA cease-fire, allowing for brief negotiations with Spain's government, which are soon broken off.

2006
Latest talks with Madrid canceled after **ETA bomb at Madrid's airport (left)** kills two.

Spain says ETA is near a cease-fire

By Jonathan House

MADRID—The Spanish government believes ETA is close to surrendering its arms but will treat any new promises of peace from the Basque terrorist group with extreme caution, said Interior Minister Alfredo Pérez Rubalcaba in an interview Tuesday with Radio Euskadi.

"We have to be reasonably distrustful of those who don't deserve our trust," Mr. Rubalcaba said.

ETA declared a cease-fire in September, and there is wide speculation the group will announce in coming days a commitment to lay down its arms for good. Arnaldo Otegi, the jailed leader of ETA's political wing, told The Wall Street Journal in an interview that the group is ready to give up violence and pursue a peaceful strategy to create an independent Basque state.

Mr. Rubalcaba said he has heard similar comments from other political leaders close to ETA in recent weeks and that "decades of tremendous acts, of murders, can't be closed with these statements." He said it is time for the group to move from statements to acts, and he again ruled out any possibility of negotiating with ETA.

The group has announced several cease-fires in the past only to return to violence when its demands have not been met. The collapse of the latest peace process in December 2006 was a blow to the government of José Luis Rodríguez Zapatero, who had staked much of his political capital on an ETA peace deal.

"We no longer believe in that game," Mr. Rubalcaba said, regarding the possibility of negotiating with ETA. He also said the government has no interest in involving international mediators in resolving the Basque conflict, as some politicians close to ETA have called for.

Since the latest peace talks broke down four years ago, Spain's center-left Socialist Party government has been using a carrot-and-stick approach in an effort to get ETA to lay down its arms. With the aid of French security forces, Spain has cracked down on ETA members and their political allies, arresting more than 400 suspects.

However, the Spanish government has quietly granted benefits to ETA prisoners who break ranks with the group, moving some to jails nearer home. Surveys show support in Basque society for the group is at historic lows.

"I'm convinced that we are at the beginning of the end of the violence," Mr. Rubalcaba said. ETA has killed 829 people during a four-decade campaign for an independent Basque homeland in northern Spain and southwestern France.

Inside ETA's political struggle

[Analysis]

By Thomas Catan

ETA, Europe's last major homegrown terrorist group, is expected to issue a communiqué shortly in which it could lay down its arms for good. Will it mark the end of a bloody, 42-year conflict, or just another false dawn?

The answer will hinge on a crucial question: Who has the upper hand today in the Basque separatist movement?

In an interview with The Wall Street Journal published Tuesday, the leader of ETA's banned political wing, Arnaldo Otegi, said the group was ready to give up violence and pursue a peaceful strategy to create an independent Basque state.

Mr. Otegi doesn't necessarily call the shots. For most of its existence, ETA's gunmen have largely given the group's political supporters their marching orders. But that may be changing. ETA's political allies have been largely sidelined by a 2003 law that outlawed their parties and barred them from running for office. As a result, many of ETA's political allies have been sitting on their hands or languishing in jail.

In recent years, many of them have come to the view that ETA's violence is hindering, not helping, their campaign for Basque independence. They have been putting pressure on ETA to give them a chance to re-enter the political sphere.

ETA's gunmen gave them a chance to negotiate a settlement with the Spanish government in 2006. But they quickly ran out of patience with the process, planting a huge bomb at Madrid airport that killed two people and ended the talks.

Has anything changed since then? For one thing, ETA's gunmen have been captured in droves. French and Spanish security services have arrested more than 400 suspected ETA members in the past four years.

That included several of the group's alleged leaders, leaving the group largely rudderless and in the hands of young and inexperienced recruits.

At the same time, political support for ETA has been eroded in the Basque Country because of the widespread perception that the collapse of the peace process was its fault—not the Spanish government's. The result is that Mr. Otegi—in jail for trying to reconstitute the outlawed political arm—now appears to believe he has the upper hand. In a recent interview with El Pais newspaper, Mr. Otegi said his movement had undergone a bout of "profound self-criticism" following the end of the 2006 peace process. He said he had spent recent years trying to nudge ETA back into peace talks and wanted the group to declare a "unilateral, permanent and verifiable cease-fire."

Those three adjectives will most likely form the basis of ETA's latest communiqué, which many security analysts believe is imminent. If so, it's unlikely to be enough. Spain Interior Minister Alfredo Pérez Rubalcaba has said the government isn't interested in any word games this time around.

"The problem isn't in the adjectives, but in the substance," he said on Tuesday. The only words the government would accept was "that they trade in those three letters, E-T-A, for another three, E-N-D," he said.

In the Journal interview, Mr. Otegi appeared to realize that ETA must eschew its usual incremental approach if it is to have credibility after breaking its "permanent cease-fire" of 2006. It seems unlikely that Mr. Otegi could get ETA's gunmen to go that far. Either way, the tenor of the statement will also give a insight into whether ETA still has sway over its political arm or vice versa.

—More at blogs.wsj.com/source

Bombs linked to Italian, Greek anarchist groups

By Nathania Zevi
And Liam Moloney

ROME—Italian investigators confirmed links between Italian and Greek anarchists in the latest bombing campaign in Rome, and said that the level of alert remains high, although they added that they don't expect the violent campaign to intensify.

Police said the Italian anarchists acted at the request of their jailed Greek comrades.

"We certainly don't expect an escalation," Col. Maurizio Mezzavilla, of Italy's Carabinieri force, said Tuesday.

On Monday, a Carabinieri bomb-disposal team defused a parcel bomb sent to the Greek Embassy. Last week, a bomb exploded at the Swiss Embassy as Rome's streets were filled with shoppers ahead of the Christmas holiday, injuring one staff member at the embassy. Another explosion a few hours later at the Chilean Embassy injured a worker there as well.

An anarchist group, known under its Italian acronym of FAI, or Informal Anarchist Federation, claimed responsibility for last week's attacks.

Col. Mezzavilla said the group also was behind Monday's parcel bomb at the Greek Embassy. The investigation is continuing, said Col. Mezzavilla, who declined to disclose further details.

The Associated Press reported that police said the Italian anarchists acted in solidarity with jailed Greek anarchists, who had asked their comrades to organize and coordinate a "revolutionary war" world-wide.

"We're striking again, and we do so in response to the appeal launched by our Greek companions," the Italian group wrote to claim responsibility for the Greek Embassy bomb in communications released by police, according to the wire service.

The bomb had arrived at the Greek Embassy on Friday but was only opened Monday. The trigger mechanism didn't work.

Athens police officials said Monday their police and antiterrorism units are working with their Italian counterparts on the investigation.

In November, Greece suspended mail deliveries abroad for two days to limit a series of parcel bombs sent to European leaders and other targets. Greek police arrested two men they said were linked to an shadowy, far-left urban guerrilla group, Conspiracy of Fire Nuclei.

EUROPE NEWS

Vive le funding for Europe's Arte TV

By Max Colchester

Sony Pictures Classics/Everett Collection

Arte TV co-funded 'The Lives of Others,' which won the Oscar for best foreign-language movie in 2007. Actress Martina Gedeck stars in the film.

PARIS—The French government is trying to find ways to cut public spending amid Europe's deepening economic crisis, but a state television channel has been spared the knife.

Indeed, the channel, Arte—continental Europe's TV equivalent of National Public Radio—will be getting even more money next year. Not everyone here is happy.

Since its creation by the French and German governments two decades ago, Arte has received critical acclaim for airing smart and thorough programs ranging from profiles of Elvis Presley to Bach concertos and Hitchcock films in 3-D. Arte co-funded the German spy movie "The Lives of Others," which won an Oscar for best foreign-language film in 2007. The channel is funded by both countries and airs simultaneously in French and German.

In France, the channel's audience is falling, leading some to ask whether the Franco-German taxpayers should continue paying €400 million ($524.7 million). In 2005, 3.5% of French TV viewing time was spent watching Arte. By last year, this number had slipped to 2.5%, according to the French TV audience measurement company Mediametrie. In Germany, viewing time edged up, but to 0.7% from 0.5% during the same period.

Arte "has ghettoized culture on a channel that nobody watches," says Dominique Wolton, a sociologist and research director at France's National Center for Scientific Research. "It gives other state channels an excuse to avoid broadcasting these types of shows altogether."

Arte is funded almost entirely by TV license fees paid in virtually equal amounts in France and Germany, and both countries have guaranteed a minimum level of funding until the end of 2011 and 2012, respectively. For 2011, the French government will increase its funds by 4.5%, a higher increase than it had originally stipulated. The German government will keep its funding unchanged.

"Do I worry about the temptation to say 'the money we spend on Arte, let's put it into military budgets, housing for the poor, or whatever else'?" says Bernard-Henri Lévy, a philosopher and the president of Arte France's board. "Of course. This kind of idiotic reasoning can always spawn in the minds of skeptics."

Expenditure on state TV is under scrutiny in many European countries. Earlier this year The British government announced it would freeze TV license fees until 2017 and encourage the publicly funded **British Broadcasting Corp.** to shoulder more of the costs of running the service. The French government itself has delayed plans to remove ads from state TV because it would cost the taxpayer €400 million to make up the shortfall in revenue.

Still, the decision to increase Arte's funding in France next year is emblematic of the country's longstanding promotion of national culture. France subsidizes its film industry, for example, and allowed publishers to fix minimum prices for books, giving a boost to authors.

Though costly, these measures are generally popular with French people, says François Godard, a media analyst at the British research company Enders Analysis. In viewer polls, French people regularly state that Arte is their favorite TV channel even though they rarely watch it, Mr. Godard says. "It's part of the French cultural myth," he says. "French people say they like culture but rarely indulge in it themselves."

Jean Rozat, Arte France's managing director, says the channel is trying to spruce up its offerings to make it more attractive to younger audiences.

"We struggle because there is a tendency to create TV which is aimed at making people laugh, relax and empty their minds."

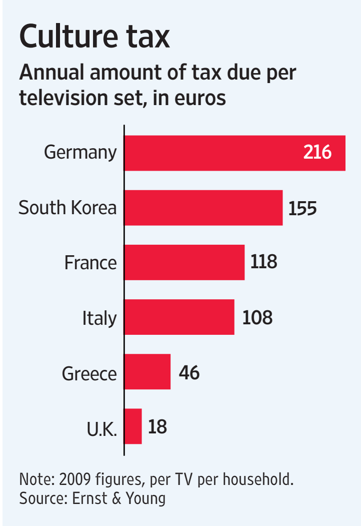
Mr. Rozat says that Arte will no longer air films and documentaries based on abstract topics such as "the banana" or "the color blue." In their place, more edgy series such as AMC's "Breaking Bad"—about a terminally ill high-school chemistry teacher who deals drugs—are now being aired. The channel has negotiated with **Google** Inc.'s YouTube to put some of its content on the video-sharing Web site, an Arte spokeswoman says.

"You don't need to replace Bach with the Beatles," says Mr. Rozat. "You just have to approach it from a different way."

Overall Arte is good value for the money spent, argues Mr. Rozat. Last year, the channel cost the French taxpayer €242 million. In comparison the National Opera of Paris received €108 million of government subsidies and had a total audience of 800,000 people.

It's unclear whether Arte has fulfilled an even loftier mission that Paris and Berlin had set for the channel when they founded it in 1991: bringing German and French culture closer together. "Twenty years on and the two cultures are just as far apart," Mr. Rozat says.

—Laura Stevens contributed to this article.



Sweet dreams: gelato school gives students taste of new life

By Aaron Maines

Carpigiani

A student learning to make gelato at Carpigiani Gelato University.

ANZOLA DELL'EMILIA, Italy—The gelato is going global.

The renowned Italian ice cream has its very own "university" that is attracting thousands of would-be gelatieri from around the world drawn by the allure of serving a product that people love to eat.

One of them is Leonardo Scacchetti, who dreams of turning his café to outside management so he can open a gelato store in Singapore. Then there is Jose Manuel Serrano, who has put his job as a boat designer in Alicante, Spain, on hold to learn the tricks of making and selling soft yogurt ice cream. And six months after receiving a degree in communications, 25-year-old Vanessa Zorio, has turned her back on Italy's stagnant job market to open a gelateria in Mexico.

They were among the 30 people who enrolled for a weeklong course last month at Carpigiani Gelato University, a school for aspiring ice-cream makers founded in 2003. More than half of the November students came from outside Italy, some from as far as South America. There are courses nearly every week and up to 40 students will usually attend three courses in a row.

With a renewed interest in organic, locally produced and healthy food, Italian gelato seems to strike many people as something of a culinary panacea: It's cheap to make, tastes great and comes with fewer calories than the competition—mass-produced ice cream that generally includes ingredients to promote a longer shelf life.

The gelatieri boast their product is handmade. Fresh ingredients, such as strawberries, walnuts and chocolate chunks, have to be mixed and measured by hand and then stirred and blended by machine. The temperature is monitored and the product has to be tested for taste.

While the costs connected with opening a gelateria vary depending on location and local market conditions, the price of equipment ranges from €30,000 ($39,400) for a pair of basic pasteurization and mixing machines to more than €70,000 for top-of-the-line products.

The icing on the ice cream cake, however, is the profit a gelateria can generate. A single kilo of gelato costs about €3.20 to make and sells for an average €14.50 in Europe, according to Andrea Cocchi, chief executive of **Carpigiani** SpA.

And with so much money in such cones, it's no wonder the ice cream university is proving such a draw. "All things considered, factoring in costs for location, raw ingredients and personnel, an average gelato store can earn profits of up to 70% on its investment," says Mr. Cocchi.

Some students study in their home countries, attending courses held in one of Carpigiani's branches. But many make the trip to Anzola dell'Emilia, 15 minutes' drive from the center of Bologna, to learn the trade directly at the teaching facilities the company has set up in its headquarters, where there are up to three full-time resident lecturers and up to 20 part-time. A basic weeklong course, excluding accommodation, costs €800.

Since the global economic crisis broke three years ago, Carpigiani's gelato training, which opened in 2003, has experienced a boom in enrollment, moving from 4,000 students from across the globe to more than 9,000 for 2009-10, with an average age of 35.

Carpigiani has a vested interest in creating more gelato stores and makers—it controls just over half of the global gelato maker market and has more than three-quarters of the Italian market—but the company says it wants everyone to eat gelato and its courses concentrate on how to make the product.

"We don't make any money from our school," says Mr. Cocchi. "At best we break even. Of course we hope that our graduates will buy Carpigiani machines, but they're under no obligation. The important thing is that they provide people around the world with real, truly delicious Italian gelato."

EUROPE NEWS

U.K. bribes law has firms in a sweat

By Dionne Searcey

Multinational companies have spent millions of dollars beefing up their compliance programs amid a U.S. crackdown on foreign bribery. Now, they are facing a new British law they fear will force them to rethink their compliance strategies and upend their business practices.

The new law, called the Bribery Act, takes effect in April. It resembles the U.S. Foreign Corrupt Practices Act, which bars companies that trade on U.S. exchanges from bribing foreign government officials to gain a business advantage.

The British law, however, is more sweeping than its American counterpart, and corporate legal advisers are uncertain how extensive the fallout might be.

"There are a lot of people saying this is the FCPA on steroids," says Mark Mendelsohn, a Washington lawyer who oversaw FCPA prosecutions at the U.S. Justice Department from 2005 until earlier this year. Mr. Mendelsohn is now a partner at corporate-defense firm **Paul, Weiss, Rifkind, Wharton & Garrison** LLP.

Legal experts say it isn't clear how vigorously the law will be enforced or what resources Britain will commit to investigating or prosecuting suspected violations. But that point has done little to reduce worries among corporate counsels.

The Bribery Act covers any company that conducts business in Britain, regardless of where the company is based. It goes beyond the FCPA by not just prohibiting illicit payments to foreign officials, but also bribes between private businessmen. It applies even if the individual who makes the payment doesn't realize the transaction was a bribe, legal experts say.

Several lawyers who specialize in corporate-bribery issues say some clients have expressed concerns that treating business contacts to an expensive dinner or sporting event could be considered bribery under the new law. For now, these lawyers say, it's best for companies to be careful and wait for more guidance, which British authorities say could come next month.

Richard Alderman, head of Britain's Serious Fraud Office, the law's enforcer, recently told the Sunday Telegraph newspaper that "sensible and proportionate expenditure on hospitality will remain perfectly lawful."

Mr. Alderman has called the new law "a model of clarity," and said that it was carefully reviewed during the legislative process.

An SFO spokesman said Mr. Alderman was overseas for the holidays and couldn't be reached for comment.

SFO officials have publicly mentioned the pharmaceutical industry as a potential target of the law, citing U.S. Justice Department investigations into bribery allegations against drug and medical-device makers, but other industries that operate in regions where corruption is rampant will also face scrutiny.

The Bribery Act comes as more nations are taking a tougher stance against corruption. China, which some antibribery groups rank high on the corruption scale, has prosecuted corporate-bribery cases recently, and many European nations have bolstered anticorruption laws.

The moves follow tighter enforcement of the FCPA in recent years by the U.S. Justice Department and Securities and Exchange Commission. So far this year, the Justice Department alone has prosecuted 22 FCPA cases and collected hundreds of millions of dollars in fines.

Most multinational companies have put elaborate programs in place to avoid running afoul of the FCPA. These programs typically establish a channel through which employees can report suspected bribery and companies can investigate the complaints internally. Some companies also are hiring compliance consultants or offering books and seminars to help prepare employees for the ethical minefields they might face in some countries.

In the past few months, however, companies have started to worry that their compliance programs could be undermined by a U.S. law that entitles whistle-blowers to share in money collected by the SEC in fraud and corruption cases. They fear the measure gives employees little incentive to report suspected bribery internally when they could ultimately reap a windfall by taking their complaints directly to the SEC.

The Bribery Act is expected to further complicate compliance.

The law allows companies under scrutiny to avoid trouble by having an adequate compliance program. But British authorities haven't defined what constitutes an adequate program.

"The people who run compliance at all the major U.S. public companies have a lot more on their plate," says George Terwilliger III, a partner at **White & Case** LLP in Washington who works on FCPA cases. "It is sort of a double whammy."

The Bribery Act, which replaces a jumble of British bribery laws and rulings, boosts the maximum penalty for bribery to 10 years in prison from seven, and sets no limits on fines. The law's scope is murky, legal experts say, leaving some companies to fear they may fall under its jurisdiction if they merely sell products in Britain. It says that a company can be liable if anyone associated with it pays a bribe. But it isn't clear whether that applies to agents, consultants, vendors, joint ventures and the like, attorneys say.

The law prohibits facilitation payments, or "grease payments," small bribes common in some countries to get mail service, phone hook-ups or other services that otherwise would be significantly delayed. Those types of payments are legal under the FCPA as long as they are recorded. The U.S. Chamber of Commerce has called the British law's criminalization of them "troubling."

"Lots of clients are very worried, confused, uncertain," said Tim Coleman, a Washington-based global investigations partner at **Freshfields Bruckhaus Deringer LLP.** "Some are in denial."

Bloomberg News

Richard Alderman, director of Britain's Serious Fraud Office, called the law 'a model of clarity.'

The British version

Highlights of the Bribery Act:

- Applies to all companies that do business in Britain.
- Prohibits bribes to foreign officials, private businessmen.
- Bars small bribes, or 'grease payments,' that are common in some countries to expedite phone hook-ups, mail, or other services.
- Boosts Britain's maximum penalty for bribery to 10 years in prison from seven years.

German effort to ban radical groups draws scrutiny

By David Crawford

Germany's stepped-up efforts to ban some Islamic groups for promoting radical views have sparked a national debate over whether the government is violating the free-speech protections of the constitution it says it is aiming to protect.

The German government's latest move to crack down on groups that promote extremist Muslim teaching came earlier this month as police raided homes, offices and religious schools in Bremen, Braunschweig and Mönchengladbach. The security forces were seeking evidence that could lead to the banning of two organizations that officials say are calling for imposing Islamic law in place of German law.

Interior ministry officials allege the groups, Invitation to Paradise and the Islamic Culture Center Bremen, seek to undermine Germany's parliamentary democracy by supporting the establishment of an Islamic theocracy within the country.

Sven Lau, deputy chairman of Invitation to Paradise, rejected the allegations, saying his group hadn't done anything illegal and that it calls on its members living in Germany to abide by German law.

A spokesman for the Islamic Cultural Center Bremen said the allegations against his group are "unfounded."

The raids come months after Hamburg officials in August closed the Taiba Mosque, which achieved notoriety in 2001 as the religious home for several members of the terrorist cell that led the Sept. 11, 2001, attacks in the U.S. City officials said they ordered the closure because the mosque allegedly continued to serve as a meeting place for jihadists.

But the latest investigation marks a departure from previous crackdowns. German security officials are pursuing a ban of these two Islamic groups primarily because of the principles they espouse, rather than a suspicion of a link to terrorism.

An intelligence official said the outcome of the current investigation is unclear because neither Invitation to Paradise nor the Islamic Cultural Center Bremen has been linked to terrorism. Nor is the investigation into the groups related to the government's warning of a possible terrorist attack in November, the Interior Ministry said.

The investigation has spurred questions over whether the effort could run afoul of German free-speech protections and further alienate pockets of Germany's Muslim population.

The debate underscores the difficulty that Europe's democracies face in trying to curtail Islamic extremism without violating their own constitutional principles.

"It is difficult to see the legal justification for a ban of the two organizations," said Christian Busold, a legal adviser to Green party members who are representatives in Germany's parliament. Mr. Busold said that public rejection of the constitution is still protected under German free-speech law and that such a ban made on that basis would likely be contested in German court.

An Interior Ministry spokesman said German law requires the ministry to investigate suspicions organizations may be violating the constitution. The searches are a "suitable method" of obtaining evidence in an organization-ban investigation. No decision has been made on whether to ban the groups, he said.

Germany's constitution, written after World War II, makes allowances for restricting some forms of speech considered hostile to the country's democratic order. German statutes, for instance, ban symbols such as Nazi swastikas as a violation of the constitution.

Such laws have mainly been used to curtail neo-Nazi activism. German authorities will "need to consider whether those restrictions apply" in the case of the Islamic groups under investigation, said Manfred Gnjidic, a lawyer who has raised German constitutional-law challenges to defend terrorism suspects.

In announcing the raids, Germany's Interior Ministry said "a democracy shouldn't wait until faced with a violent form of holy war before it takes action against organizations that oppose the German constitution."

Amid the current investigation, both Invitation to Paradise and the Islamic Cultural Center Bremen continue to operate.

Associated Press

Members of Invitation to Paradise, one of the organizations being investigated, are shown praying in downtown Mönchengladbach, Germany, in September.

U.S. NEWS

Ariel Zambelich for The Wall Street Journal

In Sacramento, Steve and Tasha McLaughlin, with Quinn, far left, and Ryan, said they may default on their mortgage.

Tumbling home prices pose threat to recovery

By S. Mitra Kalita And Sudeep Reddy

A new wave of falling home prices threatened to hamper the economic recovery, just as consumers and the overall economy showed signs of vigor.

Home prices across 20 major metropolitan areas fell 1.3% in October from the previous year—the third straight monthly decline, according to the S&P/Case-Shiller home-price index released Tuesday. The decline was expected to continue into at least the spring, erasing most of the gains made since prices bottomed out in early 2009.

"This looks like a double-dip is pretty much on the way, if not already here," said David Blitzer, chairman of the Standard & Poor's index committee. "Somebody who thought last year that it's going to be straight up from here was wrong."

Several developments in recent weeks offered hope that the economy was poised for strong, sustainable growth: Retail sales returned to levels seen just before the recession started in 2007. Manufacturing continued to expand, and U.S. exports surged to levels from just before the financial crisis. Optimism among heads of small businesses and large corporations returned to pre-recession levels. Meanwhile, a federal tax-cut package— featuring a payroll-tax cut for workers—further helped boost prospects for economic growth.

But jobs and housing remain trouble spots.

The labor market has added a million jobs in the past year. But that pace is far too slow to offset an unemployment rate that climbed last month to 9.8%..

Worries about joblessness are pushing consumer confidence lower, despite strength in holiday sales and a rising stock market. The Conference Board, a business research group, said Tuesday that its confidence index fell to 52.5 from 54.3 last month as consumers' views about job availability worsened.

In the Case-Shiller housing data, all 20 cities in the index posted month-over-month declines in October.

Four areas of the U.S.— Los Angeles, San Diego, San Francisco and Washington, D.C.— posted year-over-year gains. But six markets hit their lowest levels since prices started falling four years ago: Atlanta, Charlotte, Miami, Portland, Seattle and Tampa. Prices in those areas slipped below the lows seen in most regions in spring 2009.

The closely watched housing index, which reflects average prices in August, September and October, was dragged by a number of factors, including slumping demand in part driven by the expiration of a federal tax credit for buyers.

Prices were also depressed by the huge inventory of foreclosed homes, which tend to sell at sharply discounted prices. In recent months, sales of foreclosures and other distressed sales have represented over 30% of all home sales, according to the National Association of Realtors. In some states, such as Nevada, foreclosures represent more than 50% of all sales.

Wells Fargo projects prices will drop 8% more by mid-2011 given high supply. "Right now, demand is still dead in the water," said economist Sam Bullard. Home prices also face other major hurdles: rising mortgage rates; more foreclosures; and underwater homeowners ready to walk away as home values continue to plunge.

They included Tasha McLaughlin, a 33-year-old mother of two in Sacramento's South Natomas neighborhood. She and her husband, Steve, bought their two-bedroom house in 2004 for $256,000, intending to stay about five years. After 11 months of trying to sell it, the family took it off the market.

Now, with a similar home down the block listed for $80,000, the McLaughlins were accepting that they won't recoup their losses anytime soon. Their interest-only loan will increase their current $1,400 monthly payment to $2,200 in 2017. If they were to default on their mortgage and walk away, they calculated about the same amount of time would pass—seven years—before their credit scores would stabilize enough to allow them to buy again elsewhere.

"I am just going to swallow my pride and walk out. I have to," said Mrs. McLaughlin. "The market for homes is not going up."

Indeed, housing analysts agreed that markets such as Sacramento, Las Vegas and parts of Arizona and Florida remained at risk of even steeper declines.

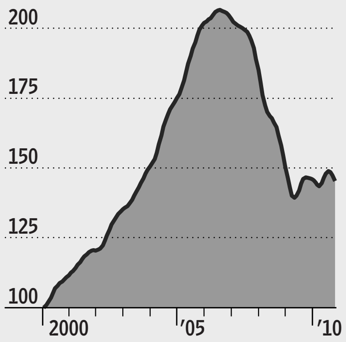
"These places relied so heavily on mortgages and real estate for their economy that we're going to see a two-tiered recovery," said Chris Mayer, the Paul Milstein professor of real estate at Columbia Business School. "Luxury spending is not going on across the country. It's happening among highly skilled consumers who live in the places that have seen some recovery."

Some business owners were bracing for only slow growth in the economy as long as housing remains a drag.

"People feel poorer when their houses are going down in value," said Jack Fitzgerald, CEO of Fitzgerald Auto Mall, which has a dozen locations along the East Coast. "And people's houses are still going down in value."

Double trouble?

The S&P/Case-Shiller Home Price Index for 20 U.S. cities fell for a third straight month in October.



Source: Standard & Poor's and FiServ

For tough Fed decision, even hindsight isn't 20-20

[The Outlook]

By Jon Hilsenrath

The world has changed since the Federal Reserve decided in November to purchase an additional $600 billion of U.S. Treasury bonds to give the economy a lift.

The U.S. economy looks stronger. The government is unexpectedly cutting taxes. The Fed is facing stiff political criticism at home and abroad. In part as a result of these developments, the very long-term interest rates the Fed was trying to keep down are rising.

Does this change the Fed's conviction about the "quantitative easing" program, also known as QE2? The answer, in short: If the Fed had known in November what it knows now, it would have made a tough decision even harder, but there's a good chance it would have proceeded, anyway. And it's unlikely to change course now unless there is a much bigger improvement in the economic outlook or uptick in inflation.

Several Fed officials believe that—even with brighter growth prospects and the tax cuts—the economy still needs help. The Fed forecasts it will take five years or more for inflation and unemployment to reach its objectives.

QE2 still looks justified "unless you thought the economy was on a very strong growth trajectory and inflation soon would be on an uptrend," said Donald Kohn, a Brookings Institution scholar who retired from the Fed in September.

Fed Chairman Ben Bernanke has described his decision to embark on QE2 as a trade-off between benefits and costs. Today, the costs look a bit higher and the benefits more ambiguous, but the trade-offs haven't shifted enough to change the Fed's stance.

On the benefit side, Mr. Bernanke said the purchases would drive up the price of long-term government bonds and push their yields and other long-term interest rates lower. It also was meant to drive investors into stocks and corporate bonds —pushing up their prices, easing financial conditions and boosting investment and spending. And although the Fed downplays it, the central bank expected the dollar to fall and help exports.

Long-term Treasury yields did fall by 0.6 percentage point between early August, when hints of the new policy first emerged, and early October. That led to a surge of refinancing by homeowners and corporations that gave them more spending power. But long-term rates have risen about a percentage point since, despite the push for lower rates. The dollar is higher, thanks in part to Europe's woes.

Stock prices are up 9% since early August. Long-term government-bond yields are up and mortgage rates have rebounded, but the cost of corporate borrowing in the junk-bond market has fallen from an average of 8.3% to 7.6%.

"The Fed wanted to push people out of safe assets and into risky assets," said Mohamed El-Erian, chief executive of Pacific Investment Management Co. In that narrow sense, he said, the Fed succeeded. Stocks did well. But he argues the benefits are small at best and aren't addressing underlying problems, such as the heavy debt loads carried by households and banks.

Mr. El-Erian isn't the only skeptic. "You certainly don't have any evidence that it is working," said John Taylor, a Stanford University economist.

Fed officials were jolted by the snapback in Treasury rates but pleased by the stock gains. Many believe that without the program, financial conditions would be tighter and the economic outlook darker. Mr. Bernanke deems the costs manageable. A big cost is the risk that the public will expect a surge in inflation. Inflation expectations have risen, but not dramatically. The Fed's key task is to convince the public that the central bank is willing and able to reverse the policy when needed, Mr. Kohn said, adding, "It may not be easy from an economic and political perspective, but I think they will do it."

One unexpected cost is political. Mr. Bernanke spent the first half of 2010 defending the Fed from critics who wanted to rein it in, a response to the extraordinary steps the Fed took to stabilize the banking system during the financial crisis.

QE2 has given the Fed's adversaries something new to attack. Some U.S. lawmakers want to rewrite the Fed's mandate so it aims only at low inflation—not at both low inflation and low unemployment. The backlash adds a political dimension the Fed would rather avoid.

Fed officials, former and present, point out that the reason for having an independent central bank is so it can make economic decisions even when unpopular.

"If the Fed's political independence from day-to-day politics has any meaning, in a situation like this you have to do the right thing for the economy, without thinking too much about the political consequences," said Alfred Broaddus, former president of the Federal Reserve Bank of Richmond. Mr. Broaddus said the main benefit of the Fed's program is that it has reduced the odds of a Japan-like drift into deflation.

The Trade-off

- Stocks Rising: Dow Jones Industrials up 9% since August
- Economy Improving: Growth could top 4% in 2011
- Deflation Fears Receding: 1.4% inflation seen in two years
- Political Backlash: 16% of Americans want Fed abolished
- Expected Inflation Rising: 3% inflation seen in five years
- Unwieldy Balance Sheet: Fed assets top $2.4 trillion

U.S. NEWS

Gun store comes under heavy fire

By Joe Barrett

MILWAUKEE—From 2007 to 2009, six police officers from this industrial city were shot with guns that share a troubling history: All were purchased at a single gun shop just across the city line.

Local police have long known that Badger Guns, Badger Outdoors and related businesses at the same location in West Milwaukee have ranked in the top 10 nationally among shops that sell guns that wind up being used in a crime.

Now four of the six officers wounded in shootings are filing civil suits seeking monetary damages against the gun shop for lax handling of transactions.

"We're not trying to shut Badger Guns down," said Daniel Vice, senior attorney at the Brady Center to Prevent Gun Violence, a Washington-based nonprofit that helped bring the lawsuits. The suits aim to have the business declared a public nuisance and to force it to change its practices by court order.

Adam J. Allan, the owner of Badger Guns, declined to comment for this article. In the past, he has said the shop's proximity to Milwaukee, where gun shops are illegal, and its high sales volume are largely responsible for the store's high level of sales of guns that end up in criminals' hands.

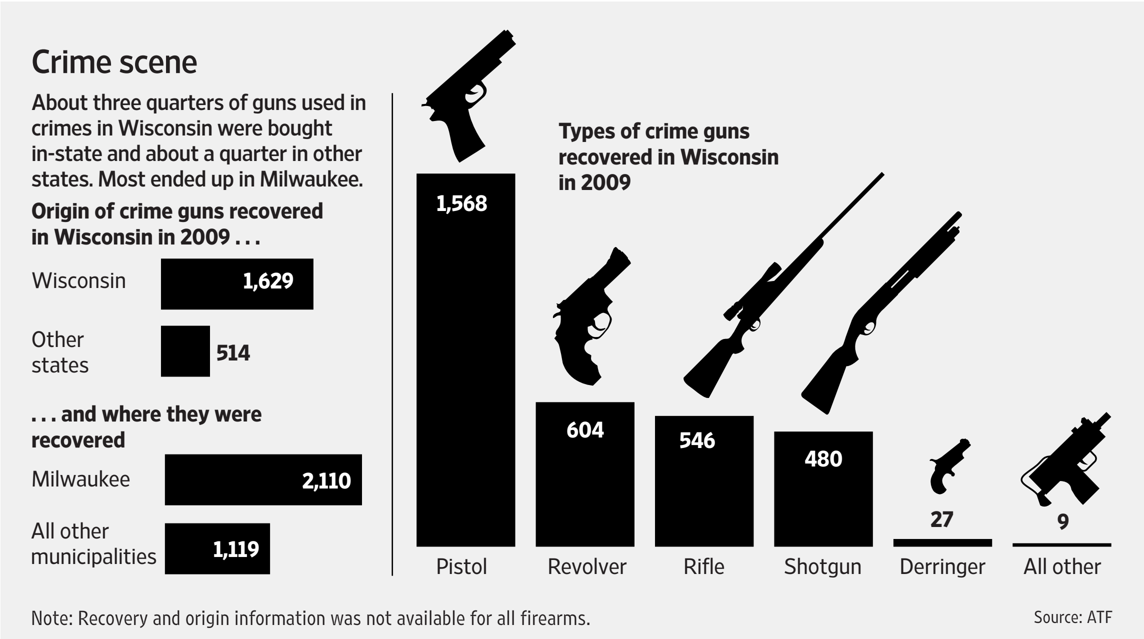
One of the lawsuits, filed in December on behalf of Officers Bryan Norberg and Graham Kunisch, describes how in June 2009, the officers were sitting in their patrol car when they noticed a young man riding his bicycle on the sidewalk. They ordered him to stop. Instead, he sped away.

When the officers caught up to 18-year-old Julius Burton, he pulled out a Taurus PT140 Pro .40-caliber handgun and started firing. Seven bullets hit the officers, including shots to the neck, shoulder and mouth. Both are back on duty but were left with long-term injuries.

Mr. Burton pleaded guilty to attempted homicide, and court papers showed how he had purchased the weapon. According to the papers, Mr. Burton arranged to pay Jacob D. Collins $40 to buy Mr. Burton a gun because he was too young to legally buy one himself. The pair entered Badger Guns on May 2, 2009, and Mr. Burton pointed to the gun he wanted, according to the documents. Mr. Collins then told a Badger employee he wanted to purchase the gun for himself and began filling out paperwork. In one spot, the form asked if he was the actual buyer of the gun and he answered no, which would make the sale illegal under federal law.

Darren Hauck for The Wall Street Journal

Badger Guns is situated just outside the city of Milwaukee, where gun shops are illegal.



The Badger Guns employee pointed out the answer and asked him if he wanted to change it. Mr. Collins changed his answer to say he was buying it for himself. The lawsuit says the transaction had all the markings of a "straw sale"—the purchase of a gun for someone who can't legally own one—and that the Badger Guns employee shouldn't have allowed it. Mr. Collins was convicted of violating federal gun laws and is currently in prison.

The other suit was filed in October on behalf of Officers Alejandro Arce and Jose Lopez III. The officers were shot on Nov. 6, 2007, by a 15-year-old gang member using a gun purchased from Badger 13 days earlier by a fellow gang member. Both officers survived but still have pain from the shootings, the lawsuit alleges. The 15-year-old pleaded guilty to reckless injury.

As recently as 2005, Badger Outdoors sold 537 guns used in crimes, making it the No. 1 seller of guns used in crimes nationally, according to the lawsuits, which quoted another case brought by the federal bureau of Alcohol, Tobacco, Firearms and Explosives. Since 2003, the bureau has been prohibited by Congress from spending any money to make the list public.

Milwaukee Police Chief Edward A. Flynn has called the Badger business "a cancerous lesion." Police have staked out the shop in the hope of catching "straw buyers" in the act, observed felons using the shop's shooting range and arrested felons possessing guns after they left the store.

But while prosecuting buyers involved in a straw sale is relatively straightforward, it's difficult to prosecute the gun shop under criminal law because the government must prove the owner intended to participate in the straw sale.

"Current law makes it difficult to hold them accountable," Police Chief Flynn said.

According to the lawsuits, the ATF recommended in 2006 that Badger Outdoors' firearms license be revoked because of multiple violations of federal gun laws, including failure to report the sale of armor-piercing ammunition. The ATF declined to comment.

In 2007, according to the lawsuits, Mr. Allan filed for a new license for a company called Badger Guns. His father and another man transferred ownership of the business to him. After Badger Outdoors relinquished its license, Badger Guns opened with a clean federal record.

The action against the business are the first such suits in Wisconsin, but the Brady Center has sued gun shops in about a dozen other states for either illegally or negligently selling guns to criminals.

Several ended with court orders or agreements requiring the shops to tighten their sales protocols; three cases ended in publicly reported settlements totaling $4.3 million; and others resulted in private settlements. One case was lost and a few others were dismissed when states passed immunity laws protecting the gun dealers.

Earlier this month, around lunchtime, three employees at Badger sat behind glass cases containing dozens of pistols. Military-style weapons dominated part of a wall, while others displayed hunting rifles and other firearms. A clerk said the guns ranged in price from a few hundred to several thousand dollars.

"It's a good place to come and enjoy," said Robert Vanselow, a retiree who for years has been coming to the shop for target practice with friends. "It's just like golf."

Cities hit nonprofits with fees

By Ianthe Jeanne Dugan

Facing budget gaps and an aversion to new debt and taxes, states and local governments are slapping residents with an array of new fees—and some are applying them to nonprofits.

That marks a sharp departure from longstanding tax exemptions mandated by state law or adopted on the theory that churches, schools and charitable organizations work alongside governments to provide services to the community.

The issue is on display in Houston, where some flood-prone roads are in such disrepair that signs warn drivers, "Turn around, don't drown." Houston's taxpayers in November narrowly voted to adopt a "drainage fee" to raise at least $125 million a year toward the cost of improving roads and storm-water systems. The city will charge fees to property owners, and it won't grant exceptions to churches, schools and charities.

The city has been tightening its budget. "We're cutting up the city's credit cards," says Mayor Annise Parker. "Everyone who contributes to drainage issues has to share in the cost of correcting those issues."

A number of groups—including schools, businesses, churches and senior citizens—are demanding exemptions. "We'll defeat this," says David Welch, of the Houston Area Pastor's Council, who plans to lobby state legislators in January. "This is really a tax. It is the first time that churches would not be exempt from property taxes," he says.

At a group called the National Council of Nonprofits, Tim Delaney, chief executive, says, "Governments are taking their public burdens and putting them on the backs of nonprofits, at a time when the demand for our services is skyrocketing."

Some cities are charging religious groups property taxes on buildings no longer used for worship. Other localities are soliciting voluntary contributions. Albany, N.Y., recently passed an ordinance asking schools, hospitals and other nonprofits to contribute to city services. In Minneapolis, residents recently began paying a street-light fee that also applies to nonprofits, which in some places pay fees for elevator safety and fire inspection.

Drainage fees that apply to nonprofits have been adopted by cities that include Richmond, Va.; Lafayette, Ind.; and Verona, Wis. Such fees are emerging now because the federal government has been cracking down on how cities handle the rain that rolls off roofs, parking lots, and other impervious surfaces, sometimes causing floods and ripping up roads. The runoff can collect debris, oil and other pollutants and drag it all into the nation's waterways.

The federal Environmental Protection Agency recently issued strict storm-water rules for real-estate developments and stepped up enforcement of run-off rules for municipalities. In 2010, municipalities accused of violations paid $5.3 billion in repairs, a nearly four-fold increase from 2009. Those settlements ranged from Kansas City, Mo., with $2.5 billion in fixes, to Revere, Mass., which agreed to spend $50 million on repairs.

The American Society of Civil Engineers estimates that cities and towns need to spend more than $250 billion over the next five years fixing crumbling storm systems.

As municipalities try to bridge budget gaps with fees that also hit nonprofits, some residents are kicking up a storm. Chicago and Dade City, Fla., scrapped proposals for drainage fees after protests from these groups. Cleveland suspended its proposal after community groups and businesses sued.

Civil functions

Fixing waste-water systems that handle storm water and drinking water is among the biggest expenses facing communities.

Estimated costs over five years in billions

$930	Roads and bridges
$265	Transit
$255	Waste water*
$160	Schools
$87	Aviation
$85	Public parks and recreation
$77	Hazardous and solid waste
$75	Energy
$63	Rail
$50	Inland waterways
$50	Levees
$12.5	Dams

$2.1 trillion total

*Includes drinking water

Source: American Society of Civil Engineers

U.S. NEWS

Gusting winds hamper blizzard-cleanup efforts

By Susan Carey

Gusting winds set back efforts to get air travel back on schedule Tuesday, three days after a fierce blizzard forced the New York area's three largest airports to close.

John F. Kennedy International, Newark Liberty International and LaGuardia airports reopened Monday evening after their operator, the Port Authority of New York and New Jersey, threw 1,000 workers and 200 pieces of snow-clearing equipment at the runways.

Airport and airline officials hoped traffic would start moving again Tuesday, but winds gusting to 33 miles per hour complicated snow-removal efforts, leaving many runways still unplowed.

The Federal Aviation Administration took cautionary steps that caused lengthy delays and forced hundreds more canceled flights. An FAA spokesman said the agency had placed planes on "ground hold" at departing airports nationwide, slowing the flow of traffic into JFK and Newark. That created arrival delays of more than five hours into Kennedy and eight hours into Newark, the spokesman said.

The delayed arrivals pushed back the time when the planes could depart again with fresh loads of stranded passengers.

With so many planes already on the ground at JFK and others trying to get in, a shortage of gate space developed Tuesday morning. Virgin America, the San Francisco-based discounter, had to divert a JFK-bound flight to Washington's Dulles International Airport, a spokeswoman said. The plane made it to JFK later in the morning, but another Virgin America flight, also bound for JFK, had to shift course and return to Los Angeles because no gate was going to be available when it landed, she said.

Airlines have canceled more than 5,000 flights since the storm barreled up the East Coast Saturday and Sunday, and they were forced to scrub more trips Tuesday. That was sure to frustrate thousands of customers still waiting to reach their destinations.

Henri Vermeulen was finishing dinner with his family on Sunday when he found out his Monday flight from New York to the Netherlands had been canceled. The 45-year-old vice president of a paper company said he had to cancel a meeting and he thought he, his wife and two young children would be stuck in New York until at least Wednesday.

On Tuesday, however, Mr. Vermeulen and his family were confirmed on a 10 p.m. flight the same day to Dusseldorf, Germany, out of Newark. Mr. Vermeulen said he had no trouble extending his stay at the Marriott Marquis in Times Square. "Although the situation was difficult, everyone was very cooperative," he said.

With the heavily traveled New Year's weekend ahead, flights later this week were already packed, leaving few seats for passengers waiting in New York and elsewhere in the Northeast.

One bit of good news: Winds were forecast to ease on Wednesday, the FAA spokesman said. That should ease safety concerns about gusts and help keep snow from blowing back onto plowed runways.

Delta Air Lines Inc. said Tuesday it canceled 300 of its mainline and regional flights, out of a total of about 5,000, because of "runway issues" at JFK and Newark.

The Atlanta-based carrier, whose troubles began Christmas Day when the same weather system dropped rare snow on Atlanta and the Gulf Coast states, said it was running a full schedule at LaGuardia on Tuesday and hoped to return to normal flight volume at the two other New York-area airports by Wednesday.

Delta also said it was operating 30 extra flights in the Northeast Tuesday to help some passengers whose earlier flights had been canceled.

JetBlue Airways Corp., whose main hub is at JFK, canceled 140 flights Tuesday after scrubbing all of its inbound and outbound New York flights on Modnay. The idea then was to position aircraft and crews for Tuesday's recovery.

But according to a spokeswoman, only one of JFK's four runways was open on Tuesday morning and taxiways and gate areas were still packed with snow. She said about 1,000 JetBlue customers were at the carrier's JFK terminal waiting to leave. Slow subways, packed buses and a nonfunctioning airport train were making it tough for travelers to get to JFK to catch flights that could depart, she added.

Steve Coleman, a Port Authority spokesman, said both runways at LaGuardia were open Tuesday morning, but only one of two at Newark. He noted that plowing the gate areas is the responsibility of the airlines or terminal operators.

Mr. Coleman said an estimated 200 passengers were waiting to depart at LaGuardia and 350 at Newark, not including travelers in Continental Airline's terminal there. Continental, the biggest operator at Newark, didn't immediately have a passenger count. The Port Authority estimated more than 2,000 travelers were camping out at JFK, primarily in JetBlue's terminal and the international terminal, Mr. Coleman said.

Agence France-Presse/Getty Images

A front-end loader is used to remove snow in New York's Times Square.

Collision warnings draw FAA scrutiny

By Andy Pasztor

Federal aviation regulators are proposing fixes to midair-collision warning devices installed on nearly 9,000 U.S airliners and business aircraft, after uncovering a safety problem during a test flight.

The Federal Aviation Administration's proposed directive, made public Monday, seeks to mandate software upgrades to widely used devices manufactured by a unit of **L-3 Communications Holdings** Inc.

During a flight test over a busy airport's airspace, according to the FAA, airborne collision-warning systems manufactured by the unit, Aviation Communication & Surveillance Systems LLC, failed to properly keep track of all nearby planes. The agency said one aircraft disappeared for at least 40 seconds from cockpit displays, which "could lead to possible loss of separation of air traffic and possible mid-air collisions."

Despite the proposal's broad sweep, regulators apparently concluded the problem doesn't pose an imminent safety threat because they want to give airlines and operators of business aircraft up to four years to complete the upgrades.

New York-based L-3 Communications previously issued service bulletins dealing with the issue. On Tuesday, a spokeswoman for the L-3 said, "ACSS is committed to aviation safety, and the performance and integrity of its products are of utmost importance. ACSS is actively working with and supporting the FAA on this matter."

An FAA spokeswoman said the company's TCAS devices are installed on more than 7,000 U.S. airliners and more than 1,800 business aircraft registered in this country.

Fewer than 100 U.S. military aircraft also use the affected TCAS devices, which provide pilots with computer-generated alerts and emergency instructions to avoid nearby aircraft. TCAS stands for Traffic Alert and Collision Avoidance Systems.

Other U.S. and European companies manufacture similar systems, but those aren't affected by the FAA's proposed rule.

The agency's move comes amid heightened scrutiny of airborne near-misses around the U.S.

Prompted by a spate of dangerous midair incidents in the past year, the FAA months ago began a nationwide review of air-traffic control procedures and safeguards. More recently, there has been a focus on controller errors leading to a surge in midair incidents in the skies over Washington, D.C.

And earlier this year, the FAA, the air-traffic controllers union and United Airlines pilots agreed to set up the first U.S. program to jointly collect and analyze voluntary reports about near-collisions in midair.

Controllers feel that the current drive to expand voluntary reporting programs and data-sharing initiatives has contributed to the recent spike in reports of hazardous midair incidents. Those who report incidents are shielded from punishment.

Maliki: U.S. troops to leave in 2011

By Sam Dagher

BAGHDAD—Prime Minister Nouri al-Maliki has ruled out the presence of any U.S. troops in Iraq after the end of 2011, saying his new government and the country's security forces were capable of confronting any remaining threats to Iraq's security and sovereignty.

Mr. Maliki spoke with The Wall Street Journal in a two-hour interview, his first since Iraq ended nine months of stalemate and seated a new government after an inconclusive election, allowing Mr. Maliki to begin a second term as premier.

A majority of Iraqis—and some Iraqi and U.S. officials—have assumed the U.S. troop presence would eventually be extended, especially after the long government limbo. But Mr. Maliki was eager to draw a line in his most definitive remarks on the subject. "The last American soldier will leave Iraq as agreed," he said, speaking at his office in Baghdad's protected Green Zone. "This agreement is not subject to extension, not subject to alteration. It is sealed."

Max Becherer for The Wall Street Journal

Iraq Prime Minister Nouri al-Maliki, pictured sitting, works in his office in the International Zone this month.

He also said that even as Iraq bids farewell to U.S. troops, he wouldn't allow his nation to be pulled into alignment with Iran, despite voices supporting such an alliance within his government. "For Iraq to be dragged into an axis or an orbit, that's impossible, and we reject it whether this comes from Iran, Turkey or the Arabs," he said.

He added that a kind of "paranoia" about a Tehran-Baghdad alliance in the U.S. is matched by a fear in Iran about U.S. influence. "An Iranian official visited me in the past and told me, 'I thought the Americans were standing at the door of your office,' " he said.

In an interview in Washington, Vice President Joe Biden also said Iran had failed to buy influence during the election or to co-opt Mr. Maliki, who was among the members of the current Iraqi government who briefly took refuge in Iran during the reign of Saddam Hussein.

Mr. Maliki's new majority depends partly on followers of anti-American cleric Moqtada al-Sadr. But Mr. Biden credited Mr. Maliki for denying Mr. Sadr's bloc any control of Iraqi security, while forming a government with full buy-in from Iraq's main factions of Sunnis, Shiites and Kurds.

U.S. military commanders still accuse Iran of funding and training Shiite militias, like Mr. Sadr's Promised Day Brigades, which they say are responsible for attacks against U.S. forces and gangster-style assassinations that continue to plague Baghdad and other areas.

Mr. Maliki suggested his government had co-opted militias like those associated with Mr. Sadr. "The militias are now part of the government and have entered the political process," said Mr. Maliki. The Sadr contingent, he added, "is moving in a satisfactory direction of taking part in the government, renouncing violence and abandoning military activity, and that's why we welcome it."

Security is the new government's top priority, Mr. Maliki said, as in his previous term. Sectarian violence and suicide bombings continue to plague the country as the full withdrawal of U.S. soldiers nears. A resumption of more extreme violence, of course, could alter the thinking in Baghdad and Washington about the U.S. timetable.

But Mr. Maliki said the only way for any of the remaining 50,000 or so American soldiers to stay beyond 2011 would be for the two nations to negotiate—with the approval of Iraq's Parliament—a new Status of Forces Agreement, or SOFA, similar to the one concluded in 2008.

That deal took a year of protracted negotiations in the face of opposition from many among Mr. Maliki's own Shiite constituency, and no repeat is expected.

Mr. Maliki and U.S. officials have largely refrained from raising the issue publicly during the months of political wrangling in Baghdad, as Mr. Maliki negotiated with potential coalition partners, many of whom have adamantly opposed an extended U.S. stay.

A senior official in President Barack Obama's administration said Washington was "on track" to withdraw all its remaining soldiers in Iraq by the end of next year. That's the final milestone in the security agreement, following the reduction in American troop levels to below 50,000 in August and the pullout of U.S. soldiers from most Iraqi inner cities in June 2009. "The prime minister is exactly right," said the senior official.

During the interview, Mr. Maliki said he was heartened by America's "commitment" to honoring the agreements it reached with Iraq, and he laughed approvingly when told that U.S. Ambassador James F. Jeffrey keeps a frayed copy of the so-called Strategic Framework Agreement in his briefcase. That document calls, in broad terms, for long-term cooperation in security, defense, economy, energy and culture, among other areas.

In a briefing for Western reporters last week, Mr. Jeffrey said that despite the requirement to pull out all American troops at the end of 2011, the framework document and other agreements between Baghdad and Washington contain "a very robust security agenda."

The U.S. Embassy in Baghdad will house a "significantly sized" office aimed at security cooperation, Mr. Jeffrey said, made up of about 80 to 90 military personnel that would take over most of the current functions of the U.S. military in advising, training and equipping Iraqi forces. That's similar to arrangements with other countries in the region, including Egypt, Saudi Arabia and Turkey.

The embassy would also oversee a major Iraqi police-training program.

Mr. Maliki played down Iraq's need for any major help from the U.S. military, despite acknowledging serious deficiencies in areas including control of airspace and borders. He said the days when ethnic or sectarian-based militias roamed the streets of Iraq and operated above the law were over.

"Not a single militia or gang can confront Iraqi forces and take over a street or a house," said Mr. Maliki. "This is finished; we are comfortable about that."

He said full withdrawal of U.S. troops also will remove a prime motivator of insurgents—both the Shiite fighters tied to militia groups and Iran, and Sunnis linked to Mr. Hussein's ousted Baath party.

Mr. Maliki defended his horse trading with rival factions, many of which are seen as far apart on several policy issues. He called the post-election process—in which he managed to prevail despite his own party bloc failing to gain the most votes—"very arduous."

He acknowledged that he expanded the number of cabinet seats just to placate the squabbling parties that he cobbled together into his coalition, arguably the broadest since the fall of Mr. Hussein.

"I mean seven to eight ministries are, allow me to say, ministries for appeasement purposes," he said.

Mr. Maliki said he agreed to several Kurdish demands, including a referendum in contested northern regions, though he didn't think it was feasible without a constitutional amendment to accompany it.

The referendum was one of 19 demands made by Kurdish President Masoud Barzani in exchange for a power-sharing deal that ended the gridlock that followed the March elections. The resulting unity government headed by Mr. Maliki, a Shiite, includes Kurds and a Sunni-dominated bloc headed by the secular Shiite and former Prime Minister Ayad Allawi.

Mr. Allawi, whose bloc won the most seats in the election but couldn't form a majority, will chair a new National Council for Higher Policies, but won't be able to implement policies without broad government support.

Pakistan party pulls ministers from cabinet

By Zahid Hussain
And Tom Wright

ISLAMABAD—A key coalition partner in Pakistan President Asif Ali Zardari's government said it will pull its ministers from the country's federal cabinet, further weakening an administration already facing an economic meltdown and rising threats from Taliban insurgents.

The resignations came as the International Monetary Fund, which has lent Pakistan $11 billion to stabilize its economy, said it had agreed to extend the term of the loan by nine months through September to give the country more time to get a growing budget deficit under control.

A spokesman for the Muttahida Qaumi Movement, the fourth-largest party in the National Assembly, said it hadn't decided whether to quit the government altogether and join the opposition, meaning the coalition government appears safe for now. But the cabinet resignations compound problems for Mr. Zardari's government, and are likely to add to the political squabbling that has distracted from policy-making in the past year.

The situation also could complicate U.S. efforts to help stabilize the government as part of its efforts to stamp out militant Islamic groups in the region.

The U.S. is betting a stable Pakistan is more likely to cooperate in the war against al Qaeda and Taliban militants, who use the country's border areas with Afghanistan as a safe haven from which to launch attacks on U.S. troops. Washington is pumping billions of dollars in military and civilian aid into the administration of Mr. Zardari, whose term runs through 2013.

The U.S. Embassy in Islamabad declined to comment.

The Karachi-based MQM said late Monday it would ask its two cabinet ministers, whose portfolios are ports and overseas Pakistanis, to stand down. Mr. Zardari met with senior MQM leaders in Karachi on Tuesday in a bid to defuse the tensions, which have escalated between the parties due in part to the MQM's refusal to back the government's economic-reform agenda.

The government, backed by the IMF, is trying to implement a general sales tax and other overhauls to boost revenue and trim a budget deficit that finance officials say has ballooned to 6% of gross domestic product, above a 4% target.

The MQM—which represents largely urban voters in Karachi, a port city of 18 million and Pakistan's financial hub—contends the tax will disproportionately hit its supporters.

The party has called for an agricultural tax on large landholders, who are currently exempt.

Agence France-Presse/Getty Images

Pakistan's President Asif Ali Zardari at a meeting in Russia in August