Golden goals: FIFA set to decide World Cup hosts for 2018, 2022
SPORT 28

Obama commission reveals tough measures to cut debt
U.S. NEWS 8

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Too much cold, too soon

Reuters

A plane sat at a snow-covered Edinburgh Airport in Scotland on Wednesday, as a cold-weather front over Northern Europe snarled air travel and trains. Forecasters warn that the wintry conditions could remain in place at least until next week. **Article on page 6; updates and photos at europe.wsj.com.**

Spain, Italy call on ECB to ease crisis

Spain and Italy, the countries that with Portugal appear most at risk from being enveloped by the euro zone's deepening debt turmoil, are leading an effort to spur more decisive action from the European Central Bank in order to prevent the crisis from spreading further.

*By Santiago Perez, **Brian Blackstone** and Stephen Fidler*

A €67.5 billion ($88.18 billion) bailout plan for Ireland European Union governments signed Sunday has offered no respite from the crisis, dashing the hopes of European leaders. Since then, borrowing costs for the three governments have risen sharply.

On Wednesday, though, market pressures eased amid expectations the ECB would deliver a tonic for spooked bond investors by announcing an expansion of its bond-buying program, as the governments are urging, following its monthly meeting Thursday.

European policy makers haven't overtly pressed the ECB, recognizing that pressure on a central bank notoriously jealous of its independence could backfire.

Olli Rehn, the EU economic commissioner, said Wednesday he wasn't "clairvoyant" about what the ECB would do but said he was confident that its actions, with other measures, "could provide a sound basis for the continuation of actions of stabilization."

Though she didn't comment on the meeting, French Finance Minister Christine Lagarde told reporters in Paris: "I am delighted with the extremely active role the ECB is playing by our side." She said: "Europeans...are clearly determined and committed to defending their currency and their monetary zone."

Privately, Italy, Spain and Portugal have pushed for strong and decisive action from the central bank, officials said.

In an effort to push the case that Madrid is serious about getting its own house in order, Spanish Prime Minister José Luís Rodríguez Zapatero advanced plans Wednesday to sell assets valued at as much as €14 billion, including the privatization of the country´s top two airports and a 30% stake in the national lottery, and to cancel a long-term unemployment benefit.

Italian policy makers voiced concern at the increase in Italian bond spreads this week, saying the speculative attacks have nothing to do with the country's economic fundamentals, which they say are sound. As a result, consen-

Please turn to page 4

The Quirk

Lawmakers want to turn the volume down on television commercials. **Page 29**

World Watch

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

Editorial & Opinion

Scotland's chance to steal a march on England. **Page 11**

Fed details crisis loans; ECB, Goldman got help

By Luca Di Leo and Maya Jackson Randall

WASHINGTON—**Goldman Sachs Group** Inc., **General Electric** Co. and the European Central Bank were among the big names that came to the Federal Reserve for help during the financial crisis.

The U.S. central bank on Wednesday disclosed details of some $3.3 trillion in loans made to financial firms, companies and foreign central banks during the crisis. In posting the data on its website, the Fed was complying with the Dodd-Frank financial-regulation law passed in July, which, among other things, aims to boost transparency at the central bank.

The data showed Goldman Sachs used an emergency overnight loan program from the Fed 84 times for a total of nearly $600 billion. Announced in March 2008, the Primary Dealer Credit Facility was used 212 times by **Morgan Stanley**.

Fed officials said it is the biggest release of crisis lending data that a central bank has ever undertaken. The $3.3 trillion figure refers to the sum total of lending at each facility's peak. The data cover all the Fed's emergency lending programs during the crisis except for banks that borrowed from the central bank's discount window. The files give information on more than 21,000 transactions from December 2007 to July 2010.

The Fed said it has made no credit losses on the programs that have been wound down, thanks to better financial conditions, and it doesn't expect losses on the few remaining ones.

In December 2007, the Fed started a series of unprecedented programs aimed at dealing with the credit crunch, as signs grew of severe distress in global financial markets. The Fed first created the Term Auc-

Please turn to page 22

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48

PAGE TWO

The bright side hides a darker reality

[Agenda]

By Patience Wheatcroft

With a Herculean effort at looking on the bright side, the European Commission declared on Wednesday that: "The economic recovery, which has slowly taken hold since the beginning of 2010, has been proceeding at a somewhat faster pace than expected earlier this year."

This effort at optimism, however, was included in a statement that extended by a year, to the end of 2011, special measures allowing state aid for banks. The end of 2010 is certainly not going to be the moment to declare a return to normality. As Joaquín Almunia, the EU competition commissioner put it: "The remaining risk of renewed stress is a valid reason to proceed with care and caution in the exit process."

The crisis is far from over. Although the euro was on Wednesday given a brief respite from its pounding, it was only because the markets have now taken it as certain that the European Central Bank will step in with further measures to shore up the currency by providing further help to ailing member states. It is expected to bolster its buying of bonds from Ireland, Greece, Portugal and Spain. Yet that can provide only a temporary reprieve.

Can it be almost two years since Gordon Brown, the then British prime minister, proclaimed: "We have saved the world"? This grandiose boast was not what he intended to say, although he might actually have been deluded enough to believe it. He rapidly backtracked to say: "We have saved the world's banks." But while his bailout package set a trend, it clearly didn't save the world or even the world's banks. The vulnerability remains.

Agence France-Presse/Getty Images

Belonging to the euro zone means 'joint liability,' says Christine Lagarde.

As the commission's statement on state aid explained: "The high level of inter-connectedness and inter-dependence within the financial sector in the Union has given rise to market concerns about contagion." The cross holdings of sovereign debt mean that one country's problems are potentially another country's losses, should there be a default, the eventuality that the EU is currently determined to avoid, but, in the long term, cannot. That the bondholders will eventually have to take a haircut is clear. In financial crises, the private sector has to share the pain. For now, it is merely being delayed, but the banks have not escaped.

Whether the rest of the club could hold together if its strongest member pulled out is debatable.

There were various reasons that banks drove themselves into peril but shoring them up doesn't address the crucial issue facing much of Europe: massive debts. Willem Buiter, the chief economist at Citigroup, argues that Ireland and Greece are insolvent, so is Portugal, and he suggests that Spain may be, too. And, further out, he points to the possibility of high debt levels and political instability leading to sovereign-debt crises in Italy and Belgium.

There is now a concerted effort from those at the heart of the European project to persuade the markets that these countries, and thus their common currency, will be supported. Jean-Claude Trichet, the president of the European Central Bank, said on Wednesday that: "I don't think that financial stability in the euro zone, given what I know, could really be called into question." Those words probably helped Portugal get its bond issue away on Wednesday, but success was only achieved with a yield of 5.3%, achingly expensive for a one-year issue.

France's Finance Minister Christine Lagarde was also at work trying to talk up the euro. Interviewed by the BBC, she was adamant that, having bailed out Greece and Ireland, other countries would also be helped if necessary. "It is the principle of the monetary zone," she said. But principles have a price. Belonging to the euro-zone club, she said, meant that "you have joint liability to each other."

What does that mean, though, when members differ so much, in relative economic strength and in attitudes? The debate is now moving quite fast as to what the new club rules might have to be. Germany, as new data show almost daily, is in a position to be the major funder of the club, but what do other countries pay for their membership? Some sacrifice of sovereignty is the obvious answer. To make that sacrifice palatable, the rebalancing of finances required across the club might be too great for Germany's electorate to condone.

The prospect of Germany extricating itself from the euro is now being seriously discussed. An international financier assured me on Tuesday that Germany still had a stash of Deutsche marks that it had decided against burning when the common currency was minted. Whether the rest of the club could hold together if its strongest member pulled out is debatable, but, despite the efforts of Mr. Trichet and the vocal defenders of the euro zone, it is difficult to see it emerging from the current crisis other than in a very different shape.

Wiki opportunism

Diplomatic cables are often couched in undiplomatic language. A recognition of that has damped reaction to some of the barrage of the private correspondence now being made public. That has not stopped economist David Blanchflower from seizing on the WikiLeaks material as grounds for saying that Bank of England Governor, Mervyn King, should resign.

Mr. Blanchflower, a former member of the Bank's Monetary Policy Committee, has made no secret of his unhappy relationship with Mr. King, decrying his leadership style and his support for the government's austerity package. But his latest outburst, a highly imaginative effort at interpreting the leaked cables as demonstrating "thirst for power and influence" and political bias, is unlikely to have the desired effect. That a central banker should meet with the leaders of the opposition before an election, particularly at a time of crisis, seems not only sensible but crucial. Worrying aloud about their lack of experience seems equally reasonable.

The voice of unreason is that of Mr. Blanchflower.

ONLINE TODAY

Most read in Europe

1. Contagion Fears Hit Bonds, Euro
2. Why We Can't Stop Playing Angry Birds
3. Europe's Crisis Widens
4. WikiLeaks Shelters in Amazon Servers
5. Google Set to Launch E-Book

Most emailed in Europe

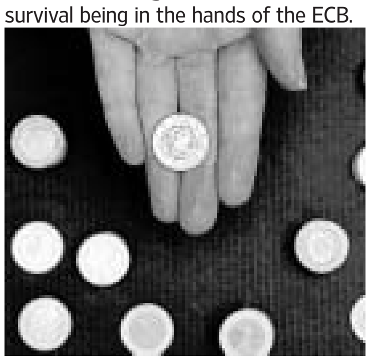
1. Panel: Triple That Vitamin D
2. Why We Can't Stop Playing Angry Birds
3. Contagion Fears Hit Bonds, Euro
4. Europe's Crisis Widens
5. Economists' Grail: A Post-Crash Model

The Source

blogs.wsj.com/source

'The ECB keeps its monetary policy at emergency extremes or the euro goes into terminal decline.'

Nicholas Hastings on the euro's survival being in the hands of the ECB.



Continuing coverage

Football's power brokers to decide on the host for 2018 and 2022 World Cup finals at **wsj.com/sports**

Question of the day

Vote and discuss: Do you plan on rewarding your employees this holiday season with a party, gift, or other gesture?

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

Previous results

Q: Would you use an Internet 'do-not-track' tool if it were included in your Web browser?

What's News

■ **Ireland's central bank** criticized the country's banks for not changing pay and bonus policies that encourage what it termed "inappropriate risk-taking" and warned that they could face severe penalties next year. 17

■ **Glaxo is nearing a deal** to buy Nanjing MeiRui Pharma, a Chinese drug company that would boost its exposure to the fast-growing market. 17

■ **Shares in Carrefour** continued to slide a day after the French retail giant lowered its profit forecast on anemic growth in Spain and mismanagement in Brazil. 19, 32

■ **E.ON is selling** its 3.5% stake in Gazprom for $4.41 billion, but the German utility pledged to sustain a close partnership with its biggest supplier of natural gas. 19

■ **Auto makers posted** another solid rise in new-vehicle sales in the U.S. in November, lifting hopes for a strong finish to the year. 18

Inside

The problems of using your home as your office. **27**

FIFA decides today: The World Cup wait will soon be over. **28**

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THE WIKILEAKS FALLOUT

Outed U.S. sources chafe, move along

By Jason Dean in Beijing, Marc Champion in Istanbul and Greg White in Moscow

The U.S. diplomatic cables released this week could impede U.S. diplomats' ability to engage in one of their most essential functions—learning about foreign countries—say some of those cited in cables.

"No one else [among my peers] talks to the Americans—now I see why," said a person quoted in U.S. diplomats' reports on Russian politics released by website WikiLeaks, sometimes speaking critically of top officials. "It's not at all clear what all this will mean for me."

Much of the work of diplomats involves building trust with officials, government-connected scholars and other sources who can provide useful perspectives on the policies and personalities of foreign governments. That can be especially important in countries such as China and Russia—which pair enormous international clout with often-opaque policy making and statements—and in countries from Central Asia and Africa to Latin America and beyond where public dissent can be muted.

With only several hundred of the 251,287 cables gathered by WikiLeaks published so far, current and past U.S. diplomats say it is impossible to predict the final damage. But some worry that the release of cables describing conversations conducted under the expectation of privacy creates a spectacle that could hurt trust in U.S. diplomats' ability to elicit candid insights. They fear it could make potential sources reluctant to meet U.S. officials or less willing to be even somewhat candid when they do talk.

Reuters

Diplomatic leaks continued to spark a wave of fence-mending, most recently Wednesday as U.S. Secretary of State Hillary Clinton appeared in Kazakhstan for the summit of the Organization for Security and Cooperation in Europe.

The leaks continued to spark a wave of public fence-mending Wednesday amid U.S. Secretary of State Hillary Clinton's appearance in Kazakhstan for the summit of the Organization for Security and Cooperation in Europe. Many of the OSCE's 56 members, from Russia to Turkey, had supposedly private conversations exposed.

"I have not had any concerns expressed about whether any nation will not continue to work with and discuss matters of importance to us both, going forward," Mrs. Clinton told reporters at a joint appearance with Kazakh Foreign Minister Kanat Saudabayev.

The host nation suffered one of the least dignified cables, which described the lavish villas of Kazakh President Nursultan Nazarbayev, the dancing vigor of Prime Minister Karim Masimov at a nightclub called Chocolat and the tendency of the country's defense minister to "drink himself into a stupor."

The 2008 cable—"The Lifestyles of the Kazakhsani Leadership"—also described Mr. Nazarbayev's son-in-law, Timur Kulibayev, as throwing a 41st birthday party in 2007 at which Elton John was paid £1 million ($1.6 million) to sing. A press representative for Mr. John said she wasn't aware of the cable.

Mr. Saudabayev—who was mentioned in the cable as taking diplomats for what were described as Soviet-quality boiled-meat dinners at a billionaire metals tycoon's home—called the leaks part of "normal price that one has occasionally to pay while we lead our work." He added that the leaks wouldn't have an impact on U.S.-Kazakh relations.

Some of those cited in the cables said they would continue working as usual with U.S. diplomats, pointing out that the information in the leaked dispatches typically didn't rise to the level of state secret and often expressed views espoused in newspapers or by country analysts. Some of these people also said that those who talk to foreign diplomats generally avoid saying things that could get them in serious trouble.

Others said the blame shouldn't rest on U.S. diplomats who were doing their jobs, but on WikiLeaks for releasing the documents. Singapore's Ministry of Foreign Affairs said it had "deep concerns about the damaging action of WikiLeaks," adding, "It is critical to protect the confidentiality of diplomatic and official correspondence."

That statement, carried on the ministry's website, came in response to a cable describing private conversations last year between former Prime Minister Lee Kuan Yew and a senior U.S. State Department official. According to the cable, Mr. Lee, who at 87 years old remains a powerful figure in Singapore, described North Korea's leaders as "psychopathic types, with a 'flabby old chap' for a leader who prances around stadiums seeking adulation."

In several countries, independent analysts and opposition members paid less mind to comments attributed to them in the cables because they echoed their public statements.

Masha Lipton, editor of a journal at the Carnegie Moscow Center and a source quoted in cables on Prime Minister Vladimir Putin and President Dmitry Medvedev, was cited in one cable as characterizing Mr. Putin as "the sole arbiter in the redistribution of assets and property in Russia."

"I would write this too," she said. "What else is new? I've said it so many times."

—Patrick Barta in Singapore and Sue Feng in Beijing contributed to this article.

Ankara angry over cables

By Marc Champion

ISTANBUL—Prime Minister Recep Tayyip Erdogan of Turkey suggested Wednesday the U.S should punish diplomats who reported claims in leaked State Department cables that he and his family are corrupt, and said he planned to take legal action against them.

In a sometimes furious televised address at the start of an investment conference in Ankara, Mr. Erdogan said, "My friends in the judiciary and we are working to do what is necessary about these diplomats. We spoke to the U.S. They did apologize, but it is not enough. The U.S. should do what is necessary about these diplomats."

"Those who smear us will be crushed under their accusations; they will end, disappear," Mr. Erdogan said, adding that one person who previously claimed he made $1 billion in kickbacks while he was mayor of Istanbul in the 1990s was now awaiting trial as a member of an alleged terrorist organization.

"I don't have a single kurus in Swiss banks. If you prove this, I will resign. But will you stay in your posts?" he said. A kurus is a hundredth of a Turkish lira.

A senior aide to Mr. Erdogan clarified that lawyers from the justice ministry were examining the feasibility of suing under international, U.S. and Turkish law.

Reuters

Turkish Prime Minister Recep Tayyip Erdogan says he plans legal action.

The decision to seek legal action after first playing down the cables and attacking the credibility of WikiLeaks appears to have been triggered by domestic politics ahead of elections in June. Opposition party leaders are demanding that Mr. Erdogan and his government answer the claims of corruption.

Among cables published so far regarding Turkey is one dated Dec. 30, 2004, from former U.S. ambassador Eric Edelman, in which he writes about widespread corruption, naming several ministers from the ruling Justice and Development Party, or AKP.

"We have heard from two contacts that Erdogan has eight accounts in Swiss banks; his explanations that his wealth comes from the wedding presents guests gave his son and that a Turkish businessman is paying the educational expenses of all four Erdogan children in the U.S. purely altruistically are lame."

Mr. Edelman retired from the State Department last year and is now a nonresident scholar at the Merrill Center for Strategic Studies at the Paul H. Nitze School of Advanced International Studies. Contacted through a spokeswoman, he declined to comment.

WikiLeaks website 'ousted' by Amazon

A Wall Street Journal Roundup

Amazon.com Inc. dropped WikiLeaks from its servers, prompting the controversial group to move its website to a European provider.

WikiLeaks said in a Twitter message on Wednesday that it had been "ousted" by the Seattle company, which sells Web services and storage in addition to being an online retailer.

In its message, WikiLeaks said its money is "now spent to employ people in Europe." The organization recently released a trove of sensitive U.S. State Department documents, and turned to Amazon's Web services after it claimed its servers in Sweden were targeted by computer attacks.

Amazon didn't response to a request to comment about its relationship with WikiLeaks.

Representatives for WikiLeaks didn't respond to a request to comment further.

According to a press release from Connecticut Sen. Joe Lieberman's office, Amazon informed the senator's staff on Wednesday that it would stop providing the Web hosting for WikiLeaks.

"I wish that Amazon had taken this action earlier based on WikiLeaks' previous publication of classified material," Mr. Lieberman said in a statement. He added that "the company's decision to cut off WikiLeaks now is the right decision and should set the standard for other companies."

Separately, Julian Assange's lawyer said on Wednesday that the WikiLeaks founder is being persecuted by Swedish authorities who have accused him of rape and other sex crimes in a case that prompted Interpol to place him on its most-wanted list.

Swedish officials have turned down repeated offers to speak to Mr. Assange even as they seek his arrest, his attorney, Mark Stephens, said.

Mr. Assange's exact whereabouts are unknown, although he has conducted online interviews with some media organizations.

The WikiLeaks founder is wanted on suspicion of rape, sexual molestation and unlawful coercion.

No formal charges have been filed but Swedish prosecutors say they want him to be detained because he has not made himself available for questioning.

Mr. Stephens complained that Mr. Assange has yet to receive formal notice of the allegations he faces—which he called a legal requirement under European law.

Economic fault lines | How Portugal stacks up against major euro-zone countries on key indicators

	2010 GDP growth, forecast	Deficit as percentage of GDP	Debt as percentage of GDP	Unemployment rate
Portugal	1.5%	7.3%	83.3%	11.1%
Germany	3.6	4.0	75.4	6.7
France	1.6	7.7	82.9	9.9
Spain	–0.3	9.3	62.8	20.6
Italy	1.1	5.0	118	8.3

Note: Unemployment rates are averages for three months ended in October and are seasonally adjusted. Source: Eurostat

Pressure on Portugal rises

By Patricia Kowsmann
And Jeffrey T. Lewis

European Pressphoto Agency

Analysts speculate that the government of Prime Minister José Sócrates, pictured earlier this week, will need a bailout.

LISBON—Portugal is under increased pressure to become the third member of the euro zone to seek financial help from European officials and the International Monetary Fund.

In fresh signs of the stress on the country, Portugal's short-term borrowing costs climbed sharply from a sale two weeks ago, as Standard & Poor's Corp. put its long-term rating under watch, although demand for the paper was stronger than many had expected.

Much could hang on remarks Thursday from European Central Bank President Jean-Claude Trichet amid speculation that he will use the ECB's monthly news conference to announce an increase in government bond purchases.

Wednesday, investors did a U-turn on their push into U.S. Treasurys and into the dollar after reassessing Mr. Trichet's comments a day earlier, in which he warned financial markets not to underestimate the resolve of euro-zone governments and the European Union as a whole.

"The market is clearly reading into Trichet's statements, but the ECB has indicated, if necessary, they will do [something]" to shore up confidence in the zone and its common currency, said Aroop Chatterjee, chief foreign-exchange quantitative strategist at Barclays Capital in New York. Stepped-up bond purchasing "would temporarily alleviate the pressure on the euro, but the issues are much more deep-seated than that," and the currency would still likely remain under pressure longer term, he said.

Greece and Ireland have had to turn to the EU and the IMF for aid this year, and investors are keeping a close eye on Portugal, with its spiraling public debt and prospects of little or no growth in coming years.

The government is in the middle of imposing severe measures to cut the deficit, including cutting salaries of public workers and raising taxes, but economists say the measures may not be enough to appease international investors.

"In our view, it remains likely that Portugal will access the [European Financial Stabilization Fund] soon," Citigroup's chief economist and former Bank of England rate-setter Willem Buiter said in a report.

According to analysts at Execution Noble, Portugal, a nation of a little more than 10 million people, could need €54 billion ($70.09 billion) in aid to address its problems, compared with the €85 billion package for Ireland.

Tuesday night, Prime Minister José Sócrates again denied the country will need help from the IMF. He declined to comment on the S&P announcement, made late that day.

The ratings agency said its decision to put Portugal on rating watch took into account possible terms of any financial support. The country's single-A-minus long-term rating is four notches into investment-grade territory.

Portugal on Wednesday sold €500 million of 12-month treasury bills at an average yield of 5.281%, up from 4.813% at its last auction, on Nov. 17.

Another weak spot is the country's banking system. Earlier this week, however, the Portuguese central bank warned that banks are relying heavily on emergency funding from the ECB, a situation it called "unsustainable" since the ECB is expected to shut the mechanism at some point.

In total, the banking system has borrowed about €40 billion from the ECB in each of the past two months, compared with as little as €15 billion earlier in the year.

Portugal insists it isn't like Greece, which took time to start implementing measures to cut its deficit, or Ireland, whose banks suffered heavy losses from a collapse in the property sector.

The government has promised to cut its budget deficit next year to 4.6% of gross domestic product from 7.3% in 2010, a move that will likely increase unemployment and curb growth. According to EU estimates, the Portuguese economy will shrink 1% in 2011, after expanding 1.3% this year.

The government expects 0.2% growth next year.

—Emese Bartha in Frankfurt, Alex Macdonald in Lisbon and Andrew J. Johnson in New York contributed to this article.

Spain arrests 7 suspects in terror sweep

By David Roman

MADRID—Spanish police arrested seven men in Barcelona, suspected of stealing passports for radical Islamic cells in Thailand and Pakistan, and collaborating with the group that carried out the 2008 attacks in Mumbai, the country's Interior ministry said Wednesday.

The suspects, six Pakistanis and one Nigerian, are believed to be part of a European network that allegedly obtained passports to be forged in Thailand. The passports were later distributed to cells including al Qaeda, Pakistan's Lashkar e Taiba—which carried out the Mumbai attacks, killing more than 160 people—and Sri Lanka's Tamil Tigers, the ministry said in a statement.

This is the latest in a series of police stings in recent years against local cells linked to al Qaeda. Islamic terrorists haven't attacked Spain since the Madrid bombings in 2004 killed 191 people, but have remained active in the country.

The Thailand-based head of the group, also a Pakistani citizen, was detained there, together with another Pakistani and a Thai national, the ministry added.

According to Spanish police, the group allegedly stole large amounts of foreign passports from tourists in Spain—practically all in or around Barcelona—over the 18-month period during which the group was under surveillance. The thefts were allegedly requested by the Thailand-based head of the group, who asked for passports with specific nationalities and age brackets.

Spain, Italy push to get decisive step from ECB

Continued from first page

sus is growing that the way to calm markets is for assertive moves from the ECB, a government official said.

European officials said Mr. Zapatero, Italian President Silvio Berlusconi and Portuguese Prime Minister José Socrates met with EU President Herman Van Rompuy and European Commission President José Manuel Barroso, to discuss the crisis Monday night at an EU-Africa summit in Libya.

At the meeting in the hall of the luxurious Rixos Al Nasr hotel in Tripoli, Spain pushed for a coordinated, "faster and more active response" from the EU to counter market pressures, said a person familiar with the situation. This would include the ECB increasing its purchases of sovereign bonds, instead of being a "ghost with his hands tied by the Germans," this person said.

The opposition in Germany, whose financial support for EU-led rescues is critical to solving the debt crisis, to an aggressive expansion of the program is strong and may be a factor hampering the kind of actions Spain and Italy are seeking.

Axel Weber, the German central bank chief, has been the most vocal opponent of the ECB's bond-buying, saying it blurs the line between fiscal and monetary policy. German finance officials roundly criticized the Fed's recent expansion of its government-bond purchases.

José Antonio Alonso, the leader of the ruling Socialist party in the Spanish parliament, said Tuesday that the ECB should contemplate "quantitative easing" measures like the U.S. Federal Reserve.

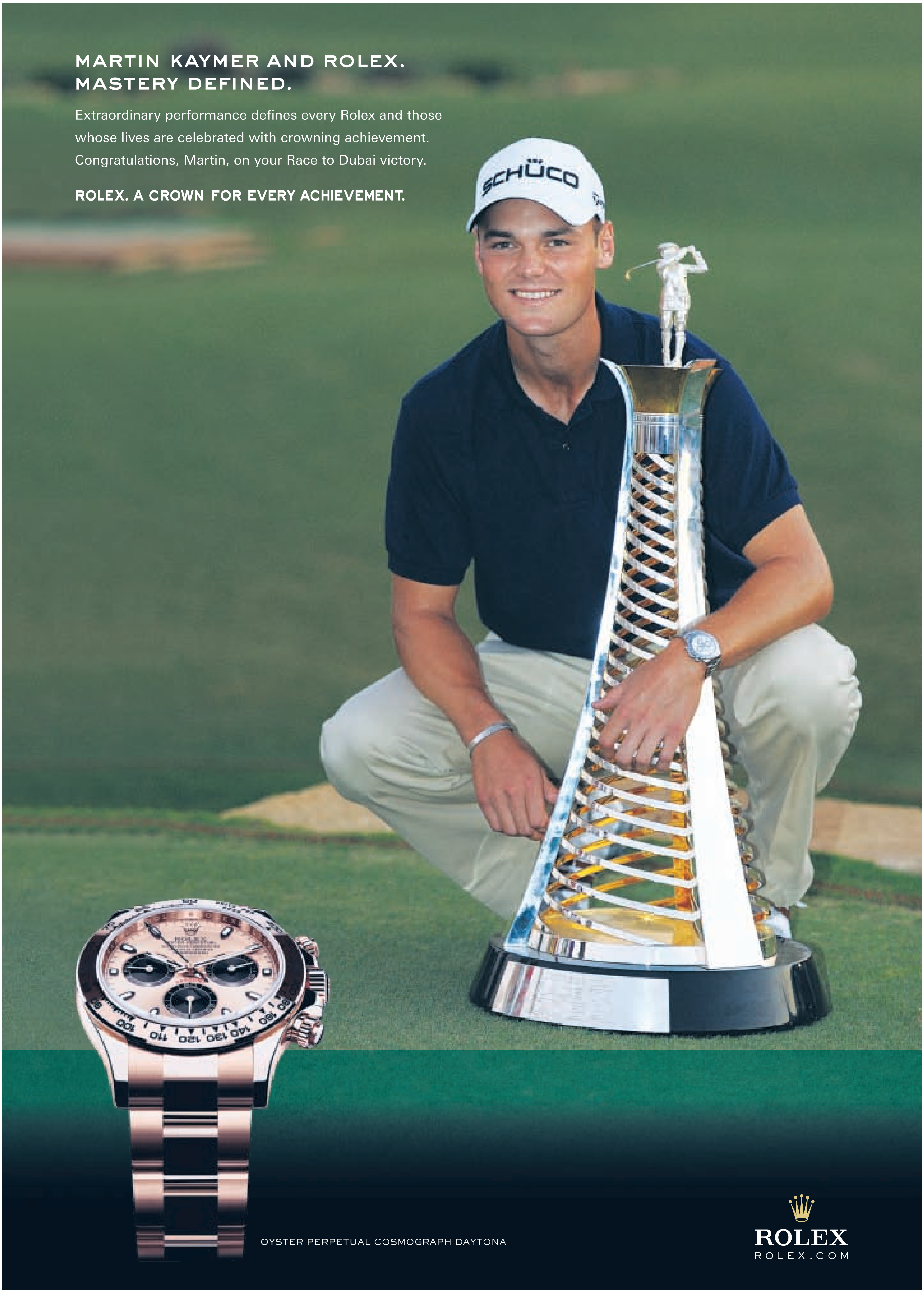
But the ECB's bond-buying effort pales in significance compared with that of the Fed, whose quantitative-easing programs call for purchase of bonds and other assets valued at 14% of U.S. economic output, according to analysts from BNP-Paribas.

Analysts doubt that the ECB will do anything on that scale. On Monday, the ECB said it had bought more than €1.3 billion in peripheral bonds last week, the largest amount since September, bringing the total to more than €67 billion since the program was created in early May.

Other possibilities for action that have been considered include expanding the two EU bailout funds, currently totaling €500 billion. But officials said that hasn't been broadly discussed, also because of German opposition, and because it would send a destabilizing signal to investors that the EU expected contagion to spread to Spain and Italy.

Germany's role in the latest round of sovereign-debt turmoil has stirred resentment. Spanish, Italian and Irish officials argue that a key factor behind the recent volatility in euro-zone debt markets has been the German insistence that holders of government bonds should be forced to take losses in the event of a bailout after 2013 of an insolvent country. A plan based on the German approach was adopted by euro-zone governments Sunday night.

—Jonathan House, Alessandra Galloni, David Gauthier-Villars and Riva Froymovich contributed to this article.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EUROPE NEWS

Cold snap and snow snarl air traffic

A Wall Street Journal Roundup

Europe remains in the grip of financial paralysis but this week it encountered an altogether more familiar foe. An unseasonal cold weather front, borne by bone-shuddering winds from Russia, has settled over Northern Europe and is stubbornly refusing to budge.

The icy snap—unusual this many weeks before Christmas—shut scores of airports on the Continent Wednesday. Train services were suspended and roads ground to a halt as subzero temperatures swept across swaths of Northern and Western Europe.

"Boulders in the stream" is the figurative explanation given by Britain's Meteorological Office for why the cold weather gripping Europe is expected to stick around a bit longer. Forecasters warn that the wintry conditions could remain in place at least until next week, with two banks of high pressure in the mid-Atlantic and Scandinavia effectively hemming in the cold, preventing warmer westerly winds from the Atlantic jet stream from reaching the Continent.

Barry Gromett, a spokesman for the Met Office, says: "They are acting as a blocking pattern. Everything has to go around them. You have this diverting effect where the normal jet stream cannot go its usual way.

"We are now receiving our weather from eastern parts of Europe, including Russia, which is naturally bringing cold weather."


Agence France-Presse/Getty Images

Children play in the snow in Lyon, France, on Wednesday. Authorities canceled 116 flights from Lyon's airport.

Former U.S. President Bill Clinton and Spanish Prime Minister José Luis Rodríguez Zapatero were caught up in the chaos Wednesday as they traveled to FIFA's headquarters in Zurich for Thursday's vote on who will host the 2018 World Cup.

The poor weather forced authorities to shut down the airport in Geneva, Switzerland's second-biggest after Zurich. It planned to reopen early Thursday, according to European air traffic control authority Eurocontrol.

In France, Lyon-Bron airport in the southeast was closed Wednesday morning as staff struggled to clear the runways of ice.

SNCF, France's national railway, said traffic on its southeastern routes had been affected by snowfall, but 80% of its high-speed trains were running.

Germany was also badly affected. Some 60 flights at Frankfurt airport, one of Europe's busiest, were canceled Wednesday, a spokesman for the airport said. Schools were closed in parts of the northern German state of Schleswig-Holstein, while heavy snow, snowdrifts and fallen trees caused traffic problems elsewhere.

The German newspaper Bild said it was the coldest Dec. 1 in several hundred years, with the mercury sinking as low as minus 18 Celsius (0 Fahrenheit) in some parts.

In Poland, the extreme temperatures killed at least eight homeless people.

In the U.K., Eurostar services leaving London for the Continent were delayed for up to 90 minutes while Gatwick, the country's second-largest airport after Heathrow, was closed until at least Thursday morning, affecting 600 flights.

Leeds Airport, in the north of England, was closed Wednesday as well. A spokesman for Gatwick airport said its runways had been covered with 15 centimeters of snow Wednesday morning. In Scotland, Edinburgh Airport was scheduled to be closed until midnight GMT.

The lowest temperature in Britain was recorded at Altnaharra in the Scottish Highlands which experienced an overnight low of -21.2 Celsius. Some 250,000 Scottish children, around 40% of those of school age, were given the day off from attending lessons.

Britain's Meteorological Office issued heavy snow warnings Wednesday for much of the eastern part of the country and some central areas.

RSA, a British insurance company, said the bad weather would cost the already struggling U.K. economy £1.2 billion ($1.87 billion) a day. Peninsula, a British law insurance firm, said a study of more than 850 companies found that 57% of workers had arrived at factories or offices late Wednesday morning.

Germany fuels gain in manufacturing

By Nicholas Winning

LONDON—Euro-zone manufacturing picked up to its strongest level in four months in November, fueled by regional powerhouse Germany and a 10-year high in France, final results of a survey by Markit showed Wednesday.

But in a reminder that the recovery remains uneven across the 16 countries that use the euro, Italian manufacturing activity slowed to its weakest level in nine months, while the sector stagnated in Spain, and contracted further in Greece.

Manufacturing activity in Ireland, the second country in the currency area after Greece to need a bailout, hit a four-month peak in November.

The Markit final euro-zone manufacturing purchasing managers' index, a measure of activity in the sector based on a survey of 3,000 firms, rose to a four-month high of 55.3 in November from 54.6 in October. A reading above the neutral 50 mark indicates expansion. The manufacturing PMI has been in growth territory for 14 consecutive months.

Chris Williamson, chief economist at Markit, said the data showed how domestic demand holds the key to the divergences between different euro-zone member states.

"Austerity measures and growing political uncertainties led to weaker domestic order book inflows, offsetting any export gains and subduing recoveries, in all cases except France and Germany," he said.

Euro-zone manufacturing production rose at the strongest rate since August, with the rate of expansion in France and Germany hitting eight and three-month highs, respectively. But the rate of expansion eased in Italy, Ireland saw only modest growth, and Spain contracted for the first time in nine months.

Manufacturing employment rose for the seventh consecutive month and at the strongest rate since July 2007, although it remained concentrated in Germany, the Netherlands, and Austria, while France registered its first increase since April 2008.

New manufacturing orders rose at the fastest rate since July, with France, Germany and the Netherlands seeing the strongest gains. But there were declines in orders in Italy, Spain, and Greece.

Bloomberg News

Federal Reserve Vice Chairman Janet Yellen spoke Wednesday in New York.

Fed officials press for fiscal stimulus

By Sudeep Reddy

Top Federal Reserve officials are pressing lawmakers to pair a long-term plan for deficit reduction with new short-term fiscal stimulus to boost an economy that needs more help than the central bank can provide.

Fed Chairman Ben Bernanke has tucked support for a two-part fiscal strategy into speeches, and has pushed it behind the scenes with lawmakers, offering a boost both to deficit hawks and to proponents of spending more or taxing less in the near term.

Fed Vice Chairman Janet Yellen, in a speech on Wednesday, amplified Mr. Bernanke's call: "We need, and I believe there is scope for, an approach to fiscal policy that puts in place a well-timed and credible plan to bring deficits down to sustainable levels over the medium and long terms while also addressing the economy's short-term needs." Ms. Yellen didn't elaborate on the latter.

Even if the central bank's controversial bond-buying initiative works as its proponents hope, Fed officials acknowledge it will only do a little to boost growth and bring down unemployment. Internal Fed estimates say it could reduce unemployment by three-tenths of a percentage point. With short-term interest rates already at zero, several Fed officials see fiscal policy as the best way to spur economic growth.

The Fed's 19 policy makers—the Fed governors in Washington and 12 regional bank presidents—routinely highlight the risks of unrestrained deficits, as their predecessors did. Despite projections that unemployment will remain high, some Fed officials, like many Republican lawmakers, dispute the idea that a short-term stimulus is necessary, or wise, for today's economy. And although the plan unveiled Wednesday by the co-chairmen of the president's deficit-reduction commission contemplates a payroll-tax holiday to spur hiring, few analysts currently expect Congress to enact a further stimulus.

Mr. Bernanke and Ms. Yellen are stepping cautiously as commenting on fiscal policy carries political risks and invites members of Congress to involve themselves in monetary policy. Some conservative lawmakers, who believe the Fed's bond-buying program risks sparking high inflation or instability down the road, have already attacked the Fed and talked of reopening the law that governs it.

Complicating Mr. Bernanke's pitch is that the committee he oversees is divided, as lawmakers are, on what the economy needs most. "This is a very politically contentious issue," said former Fed governor Laurence Meyer, now at Macroeconomic Advisers, a consultancy. "He doesn't want to be so strong on deficit reduction that he swings in favor of the Republicans and potentially lessens support for short-run fiscal stimulus."

In public, Mr. Bernanke has called for a fiscal program "that combines near-term measures to enhance growth with strong, confidence-inducing steps" to reduce the deficit. "There are limits to what can be achieved by the central bank alone," he said in a speech last month.

In meetings with lawmakers, he has avoided advocating specifics to avoid stepping into politics, leaving his views open to interpretation by politicians.

"He's never defined what short-term stimulus is to me," said Sen. Bob Corker (R., Tenn.), who met with the Fed chairman last month. "I'm going to take that to mean keeping our tax rates where they are for at least a couple of years while we wrestle with the tremendous spending issues."

Sen. Jack Reed (D., R.I.) said the Fed chairman is making "a legitimate point and a wise point" in his case for short-term stimulus. "Monetary policy alone has an effect, but it has to be complemented by fiscal policy," he said.

Former Fed Chairman Alan Greenspan drew criticism for his forays into fiscal policy, both for endorsing President George W. Bush's 2001 tax cuts—though he notes that lawmakers ignored his pleas to include triggers to cancel them if deficits re-emerged—and for lending his support to President Bill Clinton's tax-heavy deficit-reduction program in the early 1990s.

Top central bankers in Europe and the U.K. occasionally weigh in on fiscal policy, and occasionally draw criticism for doing so.

Mervyn King, the head of the Bank of England, has drawn fire recently from another member of the bank's policy committee, Adam Posen, who described Mr. King's support for the new government's austerity program as "excessively political."

U.S. to restrict drilling off Atlantic coast, in Gulf

By Siobhan Hughes

The Obama administration said Wednesday it won't allow drilling off the Atlantic coast and in the eastern Gulf of Mexico, reversing course after the Deepwater Horizon disaster led it to reconsider the safety of offshore oil and gas exploration.

But the U.S. Interior Department said it would process a permit long sought by **Royal Dutch Shell** PLC to drill off the coast of Alaska, and would consider offering new leases in Alaskan coastal waters by 2017.

The Interior Department also said it aimed to offer new leases to drill in other portions of the Gulf of Mexico by late 2011 after stringent environmental reviews. The government put the Gulf leasing process on hold after the explosion and sinking in April of **BP** PLC's Deepwater Horizon rig, which triggered the worst offshore oil spill in U.S. history.

The oil industry has struggled to gain access to new oil and gas reserves under the Obama administration, and it expressed dismay at the decision. But the administration kept alive the industry's hopes to look for oil off the northern coast of Alaska, an area thought to hold as many as 12 billion barrels of recoverable oil.

"We believe that the most appropriate course of action is to focus development on areas with existing leases and not expand to new areas at this time," U.S. Interior Secretary Ken Salazar told reporters on Wednesday. He said that the reversal in plans was "based on the lessons that we have been learning and knowing that there is a robust safety regime that we are standing up to prevent another Deepwater Horizon incident."

Reuters

The decision reverses a plan President Barack Obama put forward in March.

Wednesday's decision reverses a proposal President Barack Obama put forward in March, when he unveiled a new offshore-drilling strategy that would have opened waters off the Atlantic coast and in the eastern Gulf of Mexico, which are currently off limits.

But he canceled that plan after oil began gushing into the Gulf of Mexico from BP's blown out well.

The decision drew praise from Sen. Bill Nelson (D., Fla.), a foe of offshore drilling whose state is a frequent battleground in presidential contests.

"The senator is pleased the White House has decided rightly to keep the area off-limits," a spokesman said Wednesday. "He hopes Florida's next governor and the legislature similarly will commit to protecting the state's tourism economy and unique environment."

The administration's decision comes a day before a presidential commission investigating the BP oil spill is scheduled to hold two days of meetings in Washington to draft recommendations on preventing future oil spills.

—Stephen Power contributed to this article.

U.S. NEWS

Associated Press

Erskine Bowles, left, and Alan Simpson, co-chairmen of the deficit commission, have focused in particular on taxes.

Deficit panel's report calls for broad change

By Damian Paletta

WASHINGTON—A 59-page proposal from the co-chairmen of the White House's deficit-reduction commission calls for sweeping changes in how the country spends money and collects taxes, the starting point for a debate about how to tackle the U.S. debt.

Democrat Erskine Bowles and Republican Alan Simpson, who head the National Commission on Fiscal Responsibility and Reform, proposed in their final report changes that would affect almost everyone, from wage earners to people who put gasoline in their cars or hope one day to collect Social Security, Medicare or Medicaid. The plan would cut 200,000 federal-government jobs by 2020, roughly 10% of the work force, and trim defense spending.

The proposals are likely to trigger resistance from interest groups that would be affected, such as seniors and home builders.

The plan would achieve nearly $4 trillion in deficit reduction through 2020, reduce the deficit to 2.3% of gross domestic product by 2015, overhaul the tax code, cap government revenue at 21% of GDP and reduce debt to 40% of GDP by 2035, the co-chairmen said. The 18-member commission plans to vote on the proposal Friday. The chairmen are expected to come up short of the 14 votes needed to issue a formal recommendation to Congress and the White House, but the proposal is expected to frame the debate over budget changes.

Messrs. Bowles and Simpson have taken particular aim at the country's tax code, especially the $1.1 trillion in tax breaks that many use to lower their taxable income, such as deductions for interest on mortgages. The proposal would cap or gut many of the tax expenditures. It would offer a 12% nonrefundable tax credit to all taxpayers and cap the mortgage-interest deduction to loans less than $500,000, with homeowners receiving no credit from mortgages on a second home. Capital gains and dividends would be taxed at normal income rates. The plan would also limit the ability of people to deduct health-insurance payments pretax.

To offset taking away or limiting tax expenditures, the co-chairmen proposed several scenarios for lower income-tax rates.

For Social Security, they recommend raising the retirement age to 68 by 2050 and 69 by 2075. They recommend creating a hardship exemption for people who can't work beyond 62 and other exemptions for low-income earners. For Medicaid and Medicare, they recommend cuts they say would save billions.

The commission's recommendations aren't binding, but retiring New Hampshire Republican Sen. Judd Gregg predicted that no matter how many votes the recommendations receive, they will form the foundation for discussions next year about how to tackle the debt.

Mr. Simpson predicted that interest groups and politicians would try to rip the proposal "to shreds." Changes to tax policy, Social Security and Medicare are likely to draw the quickest attacks.

The proposal is also likely to include a condition that no changes to tax policy occur until specific spending cuts are in place.

The proposal largely tracks a draft the co-chairmen floated several weeks ago, but there were a few exceptions. For example, they said Congress should consider a payroll-tax holiday in 2011. This recommendation was also made in a recent report by a Bipartisan Policy Center task force led by Democrat Alice Rivlin and Republican Pete Domenici.

A payroll-tax holiday would essentially allow people to suspend paying Social Security payroll taxes for a year, costing the government $50 billion to $100 billion.

Many panel members have declined to comment on the proposal, because they hadn't seen full details.

Deficit hawks

The deficit-reduction chairmen call for changes in how the U.S. spends money and collects taxes. Proposed measures:

■ Cut 200,000 federal jobs by 2020 and trim defense spending.

■ Cap government revenue at 21% of GDP and reduce debt to 40% of GDP by 2035.

■ Cap mortgage-interest deduction at loans of $500,000.

■ Raise retirement age to 68 by 2050 and 69 by 2075.

Economic upturn strengthens

By Conor Dougherty And Justin Lahart

Several reports Wednesday showed the U.S. economy starting to fire on more cylinders.

A gauge of the manufacturing sector notching its 16th straight month of growth in November; a measure of payrolls showing private employers continued adding jobs last month; and a report from the Federal Reserve showing the rebound strengthening in several key regions of the U.S.

The ISM's manufacturing index was at 56.6 in November, down from 56.9 but still the second-strongest reading of the past six months. Any number above 50 indicates expansion.

Separately, the national employment report from payroll company Automatic Data Processing showed private-sector employers added 93,000 non-farm jobs in November, compared with 82,000 the month before. The October figure was revised heavily upward, from an initial estimate of 43,000.

There was another sign of hope in the Federal Reserve's "beige book." The report, an anecdotal survey of economic conditions in the central bank's 12 districts, said that in most regions the recovery had continued to improve.

Barclays Capital economist Dean Maki said he believed the U.S. recovery had reached the point where it was self-sustaining, with consumers spending enough to prompt companies to hire, and companies hiring enough to prompt consumers to spend more.

Big choices need to be made and there's little consensus

[Capital]

By David Wessel

Tis the season to talk about reducing the federal budget deficit.

The sheer size of projected deficits, the rise of Republicans committed to cutting spending and headlines from Europe are elevating the deficit on the public's and politicians' worry list.

"Anyone watching the spreading debt crisis in Europe—in Ireland, Portugal and Spain—understands the threat we face is real," said Sen. Kent Conrad (D., N.D.), chairman of the Senate Budget Committee, at a meeting Wednesday of the president's fiscal-responsibility commission. "We can't afford to wait until the crisis is upon us."

But if the debate is going to move beyond "yeah, we got a problem" to solutions, there are really big choices to make, and not much consensus on them.

Deficit reduction is about more than accounting. It's about the size, shape and nature of government. All government spending is not created equal, and each tax increase (and, yes, there will be some tax increases) hits the economy in a different way.

"This is about plans. It's not about ideas," said Andrew Stern, the former union leader, at Wednesday's meeting. He meant that platitudes don't substitute for specifics.

But a lot of this is about ideas: Who should be helped by government and who should pay the bill? What's the right balance between caring for the poor and elderly versus investments that pay off in the future? What is the best way to restrain health costs? Is holding government to 21% of the economy, as the plan before the commission suggests, too much or too little, especially given the certainty that government health and retirement spending will rise as America ages?

The plan before the president's commission is 75% spending cuts and 25% revenue increases. An alternative crafted by veteran budgeteers Alice Rivlin, a Democrat, and Pete Domenici, a Republican, is roughly 50-50. A third plan, offered by liberal think tanks, is 70% revenue increases and 30% defense-spending cuts through 2025. Those are big differences.

On taxes, though, there appears to be an emerging, though far from universal, consensus that shrinking some tax deductions, credits and loopholes is a better way to raise revenues than higher rates. But, as Alan Simpson, the Republican co-chairman of the panel, warned, the "practitioners of the dark arts"—lobbyists whose clients benefit from tax breaks—have not yet begun to fight.

Timing is an issue, too. The U.S. economy is growing so slowly that unemployment, now at 9.6%, is as likely to rise as fall in the next several months.

There is an argument that shrinking the deficit aggressively now would give the economy a near-term lift, a view the British government is embracing. But that would be risky for a U.S. economy still so fragile, especially with the Federal Reserve unable to lower interest rates.

The lessons of 1937 are remembered: Back then, premature fiscal and monetary tightening pushed the U.S. economy back into recession.

So nearly all the talk is about putting in place a credible deficit-reduction plan that would take effect later. But there's little consensus on how quickly it should bite—given that unemployment is forecast to remain above 7% through 2013. Liberals yelp that the fiscal-commission plan, which would start in 2012, moves too quickly; the commission's chairmen say starting soon is essential to convincing anyone that the U.S. is serious about this.

One argument for doing something serious—anything—on the deficit now is that it may be the only way to get Congress to go along with more fiscal stimulus if the recovery falters.

Deficit reduction is about more than accounting. It's about the size, shape and nature of government.

"Clearly, the optimal policy is to make room for short-term fiscal stimulus by having an ironclad agreement and plan to begin serious deficit-reduction after, say, two years," says Laurence Meyer of forecaster Macroeconomic Advisers.

Fed Chairman Ben Bernanke, painfully aware of the limits of the Fed's power, is pushing that. Congress shows little interest, but if unemployment moves toward 10% next year, that could change.

And then there are the politics. Any credible deficit-reduction package needs bipartisan support; otherwise, everyone will bet (correctly) that it'll be undone after the next election. That requires a plan that raises taxes more than Republicans want and cuts spending more than Democrats want. Sen. Conrad and Sen. Judd Gregg, the top Democrat and Republican on the Senate Budget Committee, signed on to the fiscal commission's oxgoring plan; the other 10 members of Congress on the panel will show their hands on Friday.

After that, it's the president's move. He'll have to decide which, if any, of the painful deficit-reduction proposals to include in the budget he sends to Congress next year. And then there's next spring's showdown in Congress over what conditions to put on raising the federal debt ceiling.

The fiscal-commission report may be pronounced dead on Friday if most of the panel's members refuse to support it, Mr. Simpson acknowledged. But, he predicted, "the cadaver will rise from the crypt."

WORLD NEWS

Yeonpyeong islanders criticize aid

By Evan Ramstad

Associated Press

Residents of Yeonpyeong Island displaced by last week's deadly attack rested at a shelter in Incheon on Wednesday.

SEOUL—Government officials are struggling to help the people displaced by the North Korean attack on a South Korean island last week, with several hundred residents living in a public bathhouse while cleanup on their homes hasn't even started.

The irritation of Yeonpyeong Island residents has been growing for days and surfaced Wednesday at an acrimonious meeting with officials from the Incheon city government, which holds jurisdiction over the island. The displaced residents rejected an offer from the officials to rent apartments for them in other cities, saying they wanted to stay in the port city, which has daily ferry service to Yeonpyeong and where they have some political sway.

At the same time, the residents want out of the bathhouse, where conditions have grown unpleasant. About 400 islanders remain in the Incheon bathhouse where they first gathered and cleaned up after the attack. The rest of the 1,400 residents dispersed to the homes of friends and relatives.

"Just imagine hundreds of people sleeping together. I am speechless," Koh Young-ja, a Yeonpyeong resident staying there, said Wednesday.

A spokesman in the Incheon mayor's office said city officials worried that the island was in danger of another attack during the South Korean-U.S. joint exercise and that cleanup activities could begin now that it is over.

On Tuesday, South Korean President Lee Myung-bak expressed frustration and said more agencies needed to get involved in the recovery, calling it a "national crisis" that deserved the attention of his entire cabinet. He said it appeared to him that some people in the government felt it was only a matter for the defense ministry to handle.

Beyond the government and a handful of charities, the plight of the island's residents has generated little action in the eight days since the attack. None of the country's major conglomerates have provided monetary or other contributions, civic officials and island residents said, a sharp contrast to the outpouring after an oil spill in 2007 and during preparations for last month's Group of 20 summit.

The difficulties faced by the residents is only now starting to crack through domestic news coverage of the attack's aftermath, which has been dominated by attention to diplomatic maneuvering and a joint South Korea-U.S. naval exercise.

The attack of Nov. 23 damaged nearly every home on the island, and residents have been kept from returning to their homes because of continued verbal threats from North Korea. The joint South Korea-U.S. military exercise that went from Sunday to Wednesday also raised perceptions about the risk on Yeonpyeong. The South Korean military ordered people on the island into bomb shelters for a brief period Sunday and restricted visitors for the duration of the exercise.

Much of the criticism Mr. Lee has faced since the attack has been over the military's initial response, and the residents' treatment and cleanup of the island also pose political risks if not handled right, analysts say.

The military reinforced its marine outpost on the island, which had just a few howitzers, with more artillery guns and multiple rocket launchers. But the continuing difficulties of the islanders suggest South Korea was poorly prepared for a North Korean attack.

"People are always talking about security, but you never feel it's precious until it is threatened," says Song Young-sun, a member of parliament from the ruling conservative party. "Unfortunately, the government had no prepared plan or training for this."

—Jaeyeon Woo contributed to this article.

China touts a drive to target hackers

By Loretta Chao

BEIJING—Chinese authorities said they arrested hundreds of alleged hackers and closed a number of hacker-training websites in a recent crackdown on domestic cyberattacks, but said that such Internet activity remains a severe problem in China.

An announcement published on the website of China's Ministry of Public Security discussed only hacking that originated in China and targeted Chinese victims—it didn't address accusations from abroad that government-backed hackers from China have attacked websites and networks of foreign companies and governments. Still, it reinforced the Chinese government's concern over what experts say is rapid growth in hacking activity in China—and underscored authorities' claim that entities and individuals in China itself are a major victim of such activity.

The ministry's notice, dated Tuesday, said authorities as of the end of November had arrested 460 hackers, resolved 180 cases of computer crimes, and closed 14 websites providing hacking software or training. It didn't specify when the crackdown began but it appeared to refer to efforts this year—it cited 10 examples of police breakthroughs that have all occurred since March. The ministry didn't respond to requests to comment.

China has a vast network of hackers—known in Chinese as "heike," or black guests—who are widely seen by international experts as a threat to global computer users. Many Chinese hackers learn their craft on Internet forums, and collaborate informally to assemble, tweak and distribute malicious programs that steal account passwords, financial information and other potentially valuable data.

Google Inc. drew global attention to concerns about Chinese hacking in January when it alleged that a series of cyberattacks originating in China had been carried out against it and other foreign companies. The attention was rekindled this week, after one of a series of U.S. diplomatic cables made public by the website WikiLeaks relayed an allegation by a U.S. Embassy source in Beijing that the attacks against Google had been ordered by the Politburo, the governing group of China's Communist Party.

China's Foreign Ministry has declined to comment on the content of the WikiLeaks cables. The government has repeatedly denied involvement in cyberattacks.

In its statement, the Ministry of Public Security said domestic hacker activities are aimed at seeking "private gains" such as stealing from online bank accounts through computer viruses. It said reports of hacking incidents received by Chinese public security offices had increased by 80% a year in "recent years," without being more specific.

Some of the websites that were said to be closed appeared to be still accessible Wednesday.

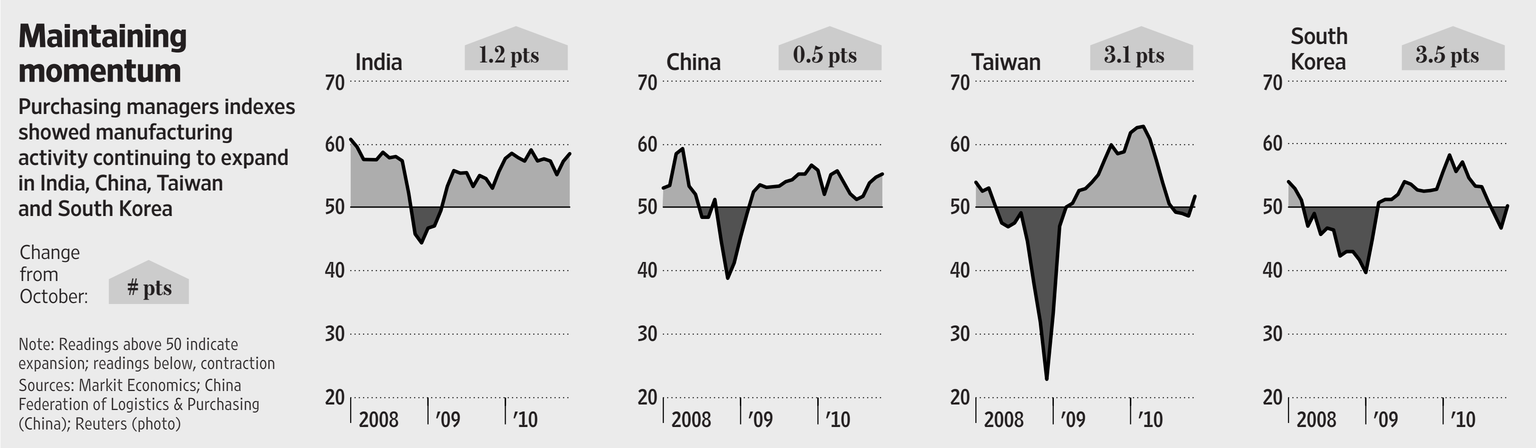
—Juliet Ye in Shanghai contributed to this article.

WORLD NEWS

Asia manufacturing data boost mood

By Arran Scott


A worker cuts metal at a workshop in Mumbai Wednesday.



SINGAPORE—Manufacturing in Asia gathered steam in November, led by a strong acceleration in China, an encouraging sign for a global economy rattled by Europe's debt crisis and sluggish growth in the U.S.

The news helped encourage investors that China's economic growth is still strong and combined with positive U.S. and European economic data to boost stock markets in the U.S. and Europe Wednesday.

But the China data also highlighted inflationary pressures building, in what economists said will likely prompt Beijing to raise interest rates further in a bid to stem politically sensitive price increases without stalling the world's growth engine.

Sharp increases in purchasing-managers indexes in China were mainly driven by output and export orders, revealing strength both on the domestic front and overseas. PMIs elsewhere showed other Asian countries pulling out of a lull that had set in as manufacturers caught their breath after revving up production sharply as the region was powering out of the global downturn.

Taken together, the data provide good news for Asia's economies, which have been a crutch for the unsteady global recovery.

"China is enjoying very strong momentum. This bodes well for fourth-quarter growth and for sentiment in markets in Asia," said Dariusz Kowalczyk, an economist at Crédit Agricole Corporate and Investment Bank. "If China is accelerating, it means concerns over a global economic slowdown may be exaggerated."

China's official PMI rose to 55.2 in November from 54.7 in October, the China Federation of Logistics and Purchasing said. The HSBC China Manufacturing PMI rose to 55.3 in November, the highest since March, from 54.8 in October. Readings above 50 indicate an expansion in manufacturing activity.

In South Korea, the HSBC PMI surged to 50.23 from October's 20-month low of 46.75, ending six months of contraction. Taiwan manufacturing expanded for the first time in four months, with the HSBC PMI rising to 51.7 from 48.6.

Asia isn't in the clear, however. Economists have been warning inflation could rear its head, imperiling economies if policy makers don't manage the risks wisely. Wednesday's data, along with a surprise interest-rate increase by Thailand, underlined the problem.

The input-prices subindex in China's official PMI rose to 73.5 from 69.9, showing price pressures remain strong after China's consumer-price inflation hit a two-year high of 4.4% in October.

"The current economic situation is relatively complicated, and relatively big uncertainties exist in the future trend," CFLP analyst Zhang Liqun said in a statement accompanying the PMI data.

Inflation in Indonesia, Southeast Asia's largest economy, jumped to 6.33% in November from 5.67% in October. Thailand's inflation rate held steady at 2.8% in November. Korea's consumer-price index rose 3.3% in November from a year earlier, slowing from October's 4.1% rise

But input prices in Korea's HSBC PMI clocked the fastest gain in four months, something that HSBC economist Kim Song Yi said will likely catch the Bank of Korea's eye. He predicts the central bank is still poised to tighten monetary policy further in the coming months.

Policy moves by China's central bank, however, will have the biggest implications for Asia and elsewhere, given the importance of the Chinese economy—on track to overtake Japan as the world's second-biggest this year—in global production networks and the sway Chinese demand has over global commodities markets.

The People's Bank of China raised rates in October for the first time in almost three years and has taken steps to soak up liquidity in the banking system. In recent days, Beijing has warned against speculation in a bid to curb price rises in food and commodities that are largely behind the upturn in inflation.

Crédit Agricole's Mr. Kowalczyk said the PBOC is behind the curve in its inflation fight, predicting its next rate increase could come "anytime," with a percentage point worth of increases likely through the middle of next year. Beijing may also let the yuan rise faster in the months ahead to temper inflationary pressures from the rising cost products on global markets, he said.

Asia-Pacific data weren't all upbeat. The Australian Industry Group-PricewaterhouseCoopers Australian Performance of Manufacturing Index fell 1.8 points in November from October to 47.6, as manufacturers were hit by a rising Australian dollar, higher borrowing costs and skills shortages. Worryingly for producers, new orders remain tepid, suggesting there is little immediate relief in sight. This decline highlights stark contrasts within Australia's economy as a once-in-a-century mining boom grabs headlines but with little solace for manufacturers and exporters outside the mining sector.

Dim view on Japan's economy

By Megumi Fujikawa

YAMAGATA, Japan—Bank of Japan policy board member Miyako Suda said Japan's economy may be in for a prolonged slowdown, with deflationary pressures continuing to drag on the economy well into next year.

"I think the possibility that on-year changes in the core consumer-price index, which excludes fresh-food prices, will come out of negative territory in the next fiscal year [ending March 2012] is not high, and improvement toward overcoming deflation will likely take some time," Ms. Suda said in a speech Wednesday to business leaders in this northern Japan city.

Her forecast was the most pessimistic assessment yet by a member of the BOJ's nine-member policy board, its most senior policy-making body, regarding the Japanese economy. Ms. Suda said she sees "a high possibility" that the economy will contract in the October-December period.

Her views mirror the analysis of private economists and recent government data, which are pointing to an economic downturn, as a strong yen and slowing export markets begin to take their toll.

The government said Tuesday that industrial output, a critical sector in the economy, dropped by 1.8% in October, its fastest decline in 20 months. The slowdown is coming despite actions by both the government and the BOJ.

Parliament last week approved a 4.85 trillion yen ($57.95 billion) spending package of job programs, welfare spending and aid to small businesses. But economists were skeptical that the package, at less than 1% of the country's gross domestic product, would have much impact.

The central bank in October announced a far-ranging "comprehensive easing" that pushed down target rates further and created a five-trillion-yen fund to purchase financial assets, including government and corporate debt. For the first time, the BOJ will buy exchange-traded funds and real-estate investment trusts.

Ms. Suda said the BOJ may now consider expanding the scope of its purchases of riskier assets, a step she has been advocating.

Ms. Suda has been critical of some BOJ actions, arguing it is largely useless to keep pushing down interest rates in the money markets because that won't encourage more lending. She also echoed concerns that a prolonged period of rates at virtually zero will have a long-term impact on the functioning of the money markets.

Instead, she advocates doing more to push down rates for riskier corporate borrowers, such as small and medium-size enterprises, known as the "risk premium."

Ms. Suda said it won't be easy to increase medium- to long-term inflation expectations in Japan, which has been suffering long bouts of deflation since the mid-1990s.

The strong yen continues to push down prices of imports, and Ms. Suda said price competition with foreign companies, especially those in emerging markets, also weighs on price levels in Japan.

The latest government data show that core CPI, which excludes fresh food prices, fell 0.6% from a year earlier in October, the 20th straight monthly decline.

Hamas leader supports peace-treaty referendum

By Joshua Mitnick

TEL AVIV, Israel—Hamas's political leader in Gaza said the organization would abide by a peace treaty with Israel negotiated by rival Palestinian President Mahmoud Abbas if it is ratified by a global Palestinian referendum.

The statement was a new, if uncertain, sign of flexibility within the militant group, which has consistently opposed negotiations with Israel.

Prime Minister Ismail Haniyeh told a news conference in Gaza City Wednesday that Hamas wants "to be part of the solution, not the problem."

Hamas, which has controlled the Gaza Strip since a takeover from Mr. Abbas's security forces in 2007, is a potential spoiler of any peace deal between Israel and Mr. Abbas's U.S.-backed Palestinian Authority.

The militant group has been highly critical of Mr. Abbas's decision in August to begin direct talks with Israeli Prime Minister Benjamin Netanyahu. Those talks have been frozen since the end of September.

An Israeli foreign ministry official dismissed the Hamas leader's remark as "superficial spin."

The Hamas prime minister said the group wouldn't oppose establishing a Palestinian state in territories occupied by Israel following the 1967 Arab-Israeli war, the Associated Press reported.

It is unclear if the remark by Mr. Haniyeh, a relative moderate within Hamas, reflects a consensus in an organization in which power is dispersed between the hardline leader Khaled Mashal in Damascus, Syria, and the military wing in Gaza.

Though Hamas figures have occasionally expressed support for a long-term truce with Israel along the 1967 borders, Mr. Haniyeh's willingness to accept a bilateral treaty seems to go a step further.

Mr. Haniyeh said the referendum would have to include the Palestinian diaspora outside the West Bank, Gaza and East Jerusalem.