

WEEKEND JOURNAL.



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What they hope
to accomplish

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Russia extends sentence of tycoon, drawing rebuke

BY GREGORY L. WHITE

MOSCOW—A Moscow court on Thursday sentenced former oil tycoon Mikhail Khodorkovsky to six more years in prison in a case widely seen as retribution for the billionaire's efforts to challenge the Kremlin's control.

The sentence—18 months short of the maximum possible—nearly matched what prosecutors had asked. It would keep the 47-year-old onetime billionaire, who has already spent seven years in prison, in a Siberian prison camp until 2017.

The ruling indicates the Kremlin is showing no sign of easing its pressure on Mr. Khodorkovsky and his OAO Yukos, once Russia's largest oil company. The seven-year legal assault that has been seen as one of the highest-profile in the Kremlin's crackdown on opponents.

Western governments on Thursday renewed their criticism of the case. "The impression remains that political motives played a role in this process," German Chancellor Angela Merkel said.

In a statement Thursday, the U.S. State Department added: "We remain concerned by the allegations of serious due process violations, and what appears to be an abusive use of the legal system for improper ends."

Western officials said, however, the ruling isn't expected to have a major impact on relations.

The Yukos case is likely to continue to haunt the Kremlin for years in Western courts. Appeals already are pending against Mr. Khodorkovsky's

first conviction—in 2005 on charges of tax evasion and fraud—in the European Court of Human Rights in Strasbourg. That court also is considering a claim for \$98 billion in damages from the company that had held his stake in Yukos. Billions of dollars in other investor claims are pending in Western arbitration panels.

Several Western courts that have already ruled in related cases have said Russian courts' handling of the cases appeared politically motivated and unjust.

Russian officials publicly reject such criticisms and deny political motivations, portraying its efforts against Yukos as a bid to prosecute corporate fraud like the Bernard Madoff case in the U.S.

Privately, current and former officials say the case was an effort to scotch Mr. Khodorkovsky's bid to challenge Kremlin political control. It also turned into a move to renationalize Yukos. The company was broken up and sold off, mostly to state companies, to pay off billions of dollars in back-tax claims levied after Mr. Khodorkovsky's October 2003 arrest.

On Thursday, Judge Viktor Danilkin of Moscow's Khamovnichesky Court convicted Mr. Khodorkovsky and his former partner, Platon Lebedev, of embezzling tens of billions of dollars in oil from Yukos and laundering the proceeds. Defense lawyers denounced the verdict as "lawlessness" and vowed to appeal. "We're not losing hope," the defendants said in a statement.

Some relatively pro-Kremlin Russian officials contrib-

Please turn to page 6



Jailed Russian tycoon Mikhail Khodorkovsky in a glass-fronted defendants' cage Thursday in Moscow's Khamovnichesky Court, where a judge sentenced him to an additional six years in prison.

Rattner pension case ends with deal

BY MICHAEL CORKERY

Wall Street financier Steven Rattner has agreed to pay \$10 million and refrain from doing business with any New York pension funds for five years, settling an often acrimonious battle with soon-to-leave New York Attorney General Andrew Cuomo.

The settlement, announced Thursday afternoon, caps Mr. Cuomo's investigation of Mr. Rattner's alleged role in a scandal that engulfed the New York Common Retirement Fund, the state's flagship pension fund for public employees.

In public statements and court papers, Mr. Cuomo said Mr. Rattner, a former Obama administration official and founding principal of private-equity firm **Quadrangle Group** LLC, essentially traded favors for access to the state's \$125 billion fund.

Those allegations took on an increasingly personal, bitter tone. In November, Mr. Cuomo's spokesman accused

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Editorial & Opinion

Happy New Year, Britain, from the taxman. **Page 13**

Notice to readers

The Wall Street Journal Europe won't publish Monday in observance of the New Year holiday. News and updates are available at europe.WSJ.com.

THE WALL STREET JOURNAL.

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PAGE TWO

Another royal wedding can't mask a grim outlook ahead for U.K. PLC

[Agenda]

By TERENCE ROTH



The way things look now the April royal wedding in the House of Windsor might well be the 2011 high-water mark for Britons and their economy. But whatever boomlet Wills and Kate can provide, the outlook is fraught with more risk than many economists would care to count.

The government's cutbacks in the public sector are the most dramatic since the Thatcher years, and organized labor is promising a corresponding response.

Sluggish exports, flagging consumer confidence, government austerity, student unrest over education reform, a failed immigration policy, stubbornly high unemployment and a king-size budget deficit amounting to approaching 12% of gross domestic product.

The pound's exchange rate is 25% lower against major trading currencies than it was at the start of the financial crisis three years ago. It hasn't helped exporters to the extent the Bank of England might have hoped as added world demand was mopped up in Asia and—in Europe—Germany.

The sluggish economy, heavy bank exposure in Ireland and concerns of a possible downgrade in the U.K. sovereign-debt rating have held the currency down. Some market forecasters believe the pound will be on the rebound if fiscal risks subside. That's anybody's call, but it replaces a failed solution with a potential problem of making life for exporters still more trying.

Double that if the Cameron government's fears are realized and the euro-zone sovereign-debt crisis pulls that big source of order bookings into a new



Prince William and Kate Middleton announce their engagement on Nov. 16.

recession.

British consumers get their first real dose of Conservative-Liberal Democrat medicine next week as the government raises the value-added tax rate by 2.5 percentage points to 20%. If that weren't bad enough, the Bank of

The British have a history of turning to their monarchy for comfort in times of crisis.

England might hold that this inflationary step should prompt a faster set of increases in official interest rates.

The screws will then tighten even more in April as the government accelerates spending cuts that will slash £81 billion (\$124 billion) from public spending at the cost of more than 300,000 public-sector jobs by 2015. Economists expect knock-on

job losses in the private sector as government demand dries up.

Organized labor is now serving notice that the massive layoffs under the government's austerity plan won't be taken lying down. Mark Serwotka, head of Britain's largest civil servants union, told the Times that all big unions will meet at the Trades Union Congress in January and will gear up for a series of coordinated industrial actions in the spring. "2011 is going to be a horrible year," TUC chief Brendan Barber pronounced in his New Year message.

U.K. unemployment stands to jump by 200,000 to total 2.7 million in 2011, while average earnings growth looks set to remain below inflation in the year, a survey by the Chartered Institution of Personnel and Development predicted this week. "Add in the possibility of employment disputes and social discontent arising from the fiscal squeeze and public-sector job cuts and it's not hard to conclude that

2011 could prove to be a troubled year all round," CIPD found.

As middle-income households feel the squeeze, U.K. child and adult poverty levels are set to increase in coming years as economic conditions and the government's austerity measures take their toll. In a report commissioned by the development charity Joseph Rowntree Foundation, the Institute for Fiscal Studies estimates that the number of people living in absolute poverty in the U.K. will rise by 900,000 by 2014.

The British have a history of turning to their monarchy for comfort in times of crisis. If the Queen a year from now deems 2011 to have been another "annus horribilis," it won't be for lack of royal effort on April 29.

Europe's strongman

Viktor Orban introduces a new brand of leader to the European Union's political stage, a strident populist with leadership traits closer to Vladimir Putin than Silvio Berlusconi.

Mr. Orban has swept aside concerns about a draft law on intrusive investigations into media operations in Hungary. These also include fines and other new penalties that the government-seated panel will impose on reporting it deems "unbalanced" or "offensive."

That strong-arming of a free press sounds unlike the country that in early 1989 set the unraveling of the Soviet Bloc into motion by tearing down its border fencing, opening the first gap in the Iron Curtain to the west. Amnesty International has joined voices of concern from various European institutions and countries.

The Orban government's contention that its law is in the public interest and that critics are unjustified comes up for review with the final law published on New Year's Eve.

What's News

■ **The trustee attempting to recoup money for the companies of convicted Ponzi schemer Tom Petters sued J.P. Morgan Chase, seeking more than \$300 million in multiple lawsuits. 17**

■ **The Vatican created a watchdog to supervise financial transactions in an effort to improve transparency at the Holy See's bank. 4**

■ **A bomb exploded outside a court building in Athens, causing no injuries but damaging cars and the building's facade. A smaller bomb exploded outside the Greek Embassy in Buenos Aires. 6**

■ **Estonia is poised to join the euro zone on Jan. 1, becoming the poorest member of a currency bloc that is struggling to restore financial stability. 5**

■ **Nintendo said children under the age of 6 shouldn't play 3-D games on its coming game machine, to avoid potential harm to their eyes. 17**

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Real Time Brussels

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'Estonia is a long-time fiscal hawk: Budget-cutting seems to be easier there than in places like Greece.'



Continuing coverage



Look through photos of New Year celebrations happening around the world at europe.wsj.com

Question of the day

Vote and discuss: Does your company use cloud computing services?

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Previous results

Q: Does the U.K.'s Bribery Act go too far?

Yes

60%

No

40%

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NEWS

A pardon for Wild West's Billy the Kid?

BY STEPHANIE SIMON

Billy the Kid was a killer and a thief. So why is the governor of New Mexico thinking of pardoning him? Because he was also a snitch.

The outlaw testified against three men accused of gunning down a one-armed lawyer in 1879. And some historians say he would never have done so unless he had been told he wouldn't be prosecuted for some of his crimes.

Historical documents suggest that a promise of clemency came from the territorial governor of New Mexico. If so, it was never honored.

The Kid—who was born Henry McCarty but went by such aliases as William H. Bonney, or Billy—was convicted of murder and sentenced to hang in 1881. Now, days from leaving office, Gov. Bill Richardson is weighing whether to honor a promise his long-ago predecessor may or may not have made to one of the iconic figures of the Wild West.

Mr. Richardson has asked the public to help him in his decision and has received more than 800 emails from Kid defenders and detractors as far away as New Zealand, with a slight majority favoring a pardon.

Historians say the passion isn't surprising. Billy the Kid has inspired dozens of films and hundreds of books in the 130 years since he roamed the Southwest, rustling cattle, wooing women and spoiling for

fights.

"The staying power of this juvenile delinquent is phenomenal," said Bob Boze Bell, author of "The Illustrated Life and Times of Billy the Kid." Mr. Bell says the Kid doesn't deserve a pardon, calling him a "little jerk" who has been romanticized just because he is part of Wild West lore.

But that lore is a big economic driver for New Mexico. Tourists can see the remnants of all things Kid, from his foster home in Silver City to his favorite gambling joint in Ruidoso. The governor's staff says the pardon debate is likely to spark still more interest.

A baby-faced orphan, the Kid was a key player in a bloody war between posses battling for control of Lincoln County, N.M., in 1878. Blamed for—or credited with—several murders, he was convicted of one but managed to escape from jail, leaving two dead guards. The Kid spent about 11 weeks on the lam before Sheriff Pat Garrett found and fatally shot him in July of 1881. He was 21.

Several newspaper articles from the era quote territorial governor Lew Wallace as saying he promised the Kid a pardon for an 1878 murder in exchange for his testimony in an unrelated killing.

Descendants of Gov. Wallace and Sheriff Garrett say that is bunk. They contend no clemency was offered and firmly oppose one now.



Everett Collection (3); Associated Press (Wallace)

But some historians insist the Kid had a deal that should be honored—even a century late—to uphold the integrity of the state.

"Billy didn't testify to be a good citizen," said Mark Lee Gardner, author of the Kid biography "To Hell on a Fast Horse." A posthumous par-



The governor of New Mexico is weighing whether to grant posthumous clemency to Billy the Kid. Some historians say Lew Wallace, bottom right, offered him a pardon for some of his crimes. The Kid was eventually killed by Sheriff Pat Garrett, top right.

don wouldn't erase the outlaw's deeds, he said, but would "make us feel a little better" knowing "an injustice has been righted."

O'Donnell denies investigation

A Wall Street Journal Roundup

Christine O'Donnell, the unsuccessful GOP Senate candidate from Delaware, pushed back against a report that she is being investigated by the U.S. Federal Bureau of Investigation for alleged campaign-finance-law violations.

"We have heard absolutely nothing other than the same unsubstantiated allegations and rumors that have been circulating in the press for months," Ms. O'Donnell's former campaign manager, Matt Moran, said in a statement Wednesday. "If anything does materialize from this rumor, we will continue to fully cooperate as we have made every attempt to ensure we are in compliance with all rules and regulations."

In an email statement, Ms. O'Donnell suggested the entire incident is political bullying.

The Associated Press reported Wednesday that a source said two FBI agents and two federal prosecutors are investigating whether Ms. O'Donnell inappropriately used campaign donations to cover personal expenses.



Christine O'Donnell made a failed bid for a U.S. Senate seat in Delaware.

Ms. O'Donnell appeared on several morning television shows Thursday to defend herself. "There's been no impermissible use of campaign funds whatsoever," Ms. O'Donnell told ABC television.

She said she found it suspicious that she, her campaign staff and her lawyer haven't been informed of a federal investigation.

Ms. O'Donnell told NBC television that people making the allegations include a fired former staff member and a former volunteer, both of whom she described as disgruntled. She says many other workers who spent longer with her campaigns have defended her.

In an email statement Wednesday, Ms. O'Donnell suggested the entire incident is political bullying.

"I was warned by numerous

sources that the DE political establishment is going to use every resource available to them," she said. "Given that the King of the Delaware Political Establishment just so happens to be the Vice President of the most liberal Presidential administration in U.S. history, it is no surprise that misuse and abuse of the FBI would not be off the table."

The left-leaning watchdog group Citizens for Responsibility and Ethics in Washington filed a complaint in September with the Federal Election Commission and the Delaware U.S. attorney's office alleging Ms. O'Donnell used her campaign fund to pay her rent.

Her campaign has dismissed the attacks, noting that the head of CREW, Melanie Sloan, used to work for then-Sen. Joe Biden, who represented Delaware for decades before becoming vice president.

This isn't the first time Ms. O'Donnell, who ran for Senate against Mr. Biden in 2008, has suggested she is being targeted by the vice president. In August, she told National Public Radio, "I ran against Joe Biden, and I was audited."

"I have faith that our supporters and the general public will see right through these thug tactics. This is simply an Establishment trick to stop the anti-establishment Tea Party movement in its tracks," she said in the statement.

Rattner pension case ends with a \$10 million deal

Continued from first page

Mr. Rattner of "the most egregious of all the actions in the New York 'pay to play' scam. He effectively stole from the taxpayers, defrauded the state pension fund and then lied to this office about it."

The settlement concluded with Mr. Rattner not admitting to any wrongdoing. In a lawsuit filed in November, Mr. Cuomo was seeking to collect \$26 million from Mr. Rattner and bar him from the securities industry in New York for the rest of his life.

In a statement, the former Lazard banker and U.S. "auto czar" said, "I am pleased to have reached a settlement with the New York Attorney General's Office, which allows me to put this matter behind me. I apologize if during the course of this process there is anything I did that may have made reaching this agreement more difficult."

Mr. Rattner had already agreed to pay \$6.2 million to settle a separate Securities and Exchange Commission case related to its pay-to-play investigation. The SEC settlement also bars Mr. Rattner from associating with any investment adviser or broker dealer for two years.

In a statement, Mr. Cuomo said, "I am gratified that we have been

able to reach an agreement in this case, as it resolves the last major action of our multiyear investigation. The state pension fund is a valuable asset held in trust for retirees and supported by taxpayers. Through the many cases, pleas and settlements in this investigation, I believe we have been able to help restore and protect the integrity of the state pension fund."

The settlement concluded with Quadrangle's Steven Rattner not admitting to any wrongdoing.

Mr. Cuomo is to be inaugurated as New York's governor on Saturday. He will succeed David A. Paterson.

With Mr. Rattner's settlement, Mr. Cuomo said the investigation has secured agreements with 19 firms and five individuals, garnering more than \$170 million for New York and the pension fund. He said the investigation has led to eight guilty pleas, including pleas by former Comptroller Alan Hevesi, his chief political consultant and his chief investment officer.

EUROPE NEWS

Vatican creates financial watchdog

By SABRINA COHEN
AND NATHAN ZEVY

VATICAN CITY—The Vatican created a watchdog to supervise financial transactions and new laws against financial crimes, capping a yearlong effort by the Holy See to join other sovereign states in cracking down on money-laundering and terror financing.

The new measures, which come as Vatican bank officials are under investigation in an Italian money-laundering probe, are intended to improve transparency at the Holy See's bank.

"This is a very important step in a long path towards transparency and legality," Father Federico Lombardi, the Vatican's spokesman, told reporters.

The new Authority for Financial Information will monitor all Vatican institutions—including its bank, pharmacy and supermarket—for possible crimes including terrorism financing, stock-market violations and insider trading, according to an apostolic letter published Thursday on the Vatican's website.

The Authority will be able to investigate and prosecute violators in accordance with Vatican law. The Authority's chairman will be appointed by the pope and serve for five years, the Vatican said. Details on how the watchdog will operate and monitor transactions are still being ironed out, Father Lombardi said.

Since late 2009, Vatican officials have been working to get the city state in line with international financial norms.

Ettore Gotti Tedeschi, chairman



Pope Benedict XVI appeared at the Vatican on Thursday. A new regulator will target transparency at the Holy See's bank.

of the Vatican's bank, the Institute of Religious Works—known as IOR from its Italian acronym—met executives at the Organization for Economic Cooperation and Development, or OECD, in July to discuss creating a financial regulatory body.

The efforts accelerated after September, when Italian prosecutors announced that they had put Mr. Gotti Tedeschi and the IOR's director general under investigation for

allegedly not complying with Italy's anti-money-laundering rules.

Neither Mr. Tedeschi nor the IOR's director general has been charged in the probe. Both denied wrongdoing.

Mr. Gotti Tedeschi has said the bank operates with "absolute transparency." The Vatican has called the probe the result of a "misunderstanding" between the bank and Italian authorities.

As part of the investigation, prosecutors are trying to determine whether IOR clients used Vatican bank accounts to transfer funds to Italy from Vatican City, which is outside the jurisdiction of Italian financial regulators, according to a person close to the probe.

For years, the IOR has transferred funds to its accounts at other banks on behalf of its clients without fully disclosing those clients'

Among the measures announced by the Vatican on Thursday:

- A new Vatican law to counter money-laundering and terror-financing
- A new Vatican law to counter fraud and counterfeiting on euro banknotes and coins
- The creation of the Authority of Financial Information, or AIF, an independent body with the specific task of preventing and countering money-laundering and terror financing.
- Enhanced power given to the Vatican's judicial authorities in exercising criminal jurisdiction in the case of crimes related to money-laundering and terror financing.
- In its statement, the Vatican said the new measures are part of the Holy See's 'efforts to build a just and honest social order. At no time may the great principles of social ethics like transparency, honesty and responsibility be neglected or weakened.'

identities.

In 2007, however, Italy introduced tougher disclosure laws, requiring banks to list the names of people who receive funds from IOR accounts and the reason for the transaction.

Officials at the OECD couldn't be reached to comment.

Spain talks up prospects

By CHRISTOPHER BJORK
AND DAVID ROMAN

MADRID—Spain's central bank and prime minister made cautiously optimistic statements on the country's ailing economy Thursday, with the latter saying he expects growth in the fourth quarter.

In its closely watched monthly economic report, the Bank of Spain said private consumption, which tumbled as the local property market crashed in 2008, showed "a less unfavorable evolution" in October and November than it had previously, and is ticking higher compared with the third quarter—a sign that government forecasts for modest 1.3% economic growth in 2011 may not be far off target.

Separately, Prime Minister José Luis Rodríguez Zapatero told a news conference in Madrid that he will press ahead with overhauls seeking to lift Spain's low productivity.

With polls showing Mr. Zapatero's Socialists would likely suffer a historic defeat if elections were held now, the embattled prime minister said Spain is on track to meet its budget deficit target for 2010, of 9.3% of gross domestic product.

Mr. Zapatero said he doesn't plan to call early elections, despite continued requests from the conservative opposition. He also said he remains committed to implementing previously announced changes in early 2011, including a rise in the mandatory retirement age to 67 years old from the current 65.

Improving economic numbers may help Mr. Zapatero in coming months. Data published Thursday by



Prime Minister José Luis Rodríguez Zapatero spoke in Madrid on Thursday.

Spain's National Statistics Institute INE showed household savings rates fell sharply in the third quarter, an indication Spaniards could be starting to spend more. Retail sales were down 1% on a yearly basis in November, an improvement on the previous five months.

Still, dark clouds remain. INE said consumer confidence in the construction sector dropped to its lowest point yet in this economic cycle in November. Cement consumption, a key gauge of building activity, fell 24% in November, the statistics institute said.

Mr. Zapatero said Spain's economy still isn't creating any jobs, a

serious drawback for a country facing 20% unemployment, the highest of any developed economy.

The Bank of Spain also said Thursday that savings banks—or "cajas"—that received cash from the country's bank-bailout fund won't be allowed to be "aggressive" with the interest rates they offer for deposits, a move aimed at containing a damaging fight for deposits.

Some savings banks that got aid from the Spanish state's rescue fund in 2010 have launched deposit accounts offering annual yields of more than 4%, conduct the central bank considers aggressive because it hurts profit margins.

Portuguese government is confident on debt

By ALEX MACDONALD

LISBON—Portugal has the means to resolve its financing problems through ambitious targets to cut public debt and to put public finances under control, Minister of the Presidency Pedro Silva Pereira said Thursday.

"We are confident in the capacity of the Portuguese economy to confront the current situation," Mr. Pereira told reporters after a cabinet meeting, rejecting any notion that the country may be forced to seek European Union aid early in 2011, as many economists fear. "We believe that the Portuguese economy will be able [via] its national plan to resolve its financial problems."

Portugal has been thrown into the limelight of the current euro-zone sovereign-risk crisis, which has already claimed Greece and Ireland as victims. Investors are worried about Portugal's feeble growth prospects and heavy reliance on external debt, which may make it hard for the government to rein in its budget deficit.

Portugal has announced a series of austerity measures including public wage cuts and tax increases to reduce its budget deficit to 4.6% of gross domestic product in 2011 from an estimated 7.3% in 2010 and 9.3% in 2009. Portugal hopes that by reducing its budget deficit and boosting long-term growth, it can once again extract less costly financing terms from markets.

Finance Minister Fernando Teix-

eira dos Santos traveled to Brazil and China this month, seeking to diversify Portugal's bondholder base and secure support to confront a sovereign debt crisis that threatens the stability of the euro-zone.

A news report following Mr. Teixeira dos Santos's meeting with Chinese officials said China was contemplating purchasing as much as €5 billion (\$6.6 billion) in Portuguese sovereign debt.

When asked about the report, Mr. Pereira said "I have no information that I can give."

Mr. Teixeira dos Santos's remarks come as China's influential Deputy Prime Minister Li Keqiang visits European countries including neighboring Spain next week.

Mr. Li plans to meet with Spanish Prime Minister José Luis Rodríguez Zapatero during the trip.

Portugal's debt agency, IGCP, on Wednesday said it is aiming to issue €18 billion to €20 billion in bonds in 2011 to cover the borrowing needs of Portugal's central government during the year.

Portugal is likely to continue facing high borrowing costs after Fitch Ratings cut the country's sovereign credit rating by one notch on Dec 23.

Mr. Pereira said the government remains confident on the debt plan devised by the IGCP. He also noted that current financial problems regarding sovereign-debt risk aren't unique to Portugal, but affect the euro zone as a whole and therefore require a solution at the European level.

EUROPE NEWS



European Pressphoto Agency

A mannequin in a shop window in Parnu, Estonia, holds a model of a euro coin. The country adopts the currency in 2011.

Estonia readies for euro, unfazed by bloc's travails

By GORDON FAIRCLOUGH

When the tiny Baltic nation of Estonia rings in the new year, it will become the latest addition to the euro zone—and the poorest member of a currency bloc that is struggling to restore financial stability.

Larger and richer Central and Eastern European nations, once eager to gain entry into a prestigious club, have turned skittish about adopting the euro, which they increasingly see as a potential liability.

Central bankers and government officials in Poland and the Czech Republic have said that, given the turbulence among the euro zone's current 16 nations, it is hard to predict when membership would make sense for their countries.

Estonia's small Baltic neighbors, Latvia and Lithuania, have taken the preliminary step of linking their national currencies' value to that of the euro—a precondition for joining the common currency. Latvian Prime Minister Valdis Dombrovskis recently said that his country aims to join the euro zone in 2014. Lithuanian President Dalia Grybauskaitė has said that her country is looking to adopt the euro sometime in 2013 to 2015.

But even within Estonia, debate over membership has been heated. And support has waned since euro-zone countries had to step in and bail out first Greece, and then Ireland, whose massive government debt brought them to the brink of insolvency.

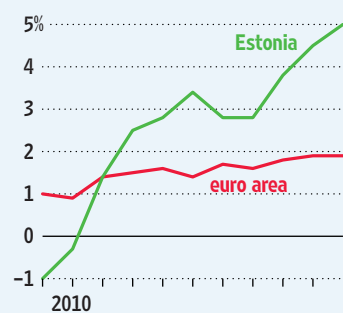
A government-commissioned survey shortly before Christmas found that slightly more than half of Estonia's 1.3 million people approve of the Jan. 1 switch from the local currency, the kroon, to the euro, down from peak support of nearly 60%.

Estonian Prime Minister Andrus Ansip told legislators in December that joining the euro "will bring along more jobs, higher pensions and faster economic growth. It will bring us stability."

But opponents say that euro membership comes at too high a cost, especially as Estonia will be

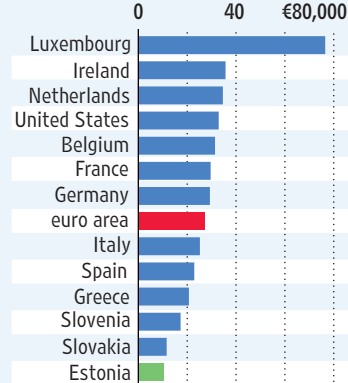
New arrival | Estonia joins the euro area

Change in consumer prices from previous year



Note: €1=\$1.32
Source: Eurostat

2009 GDP per capita, selected countries



expected to contribute funds to rescue Ireland and any other indebted euro-zone country that may need help.

"We are joining at the worst possible time," says Anti Poolamets, a lawyer at the forefront of the campaign against euro adoption. "We had to tighten our belts for years" to qualify for euro membership, and now face paying to help countries that have been less responsible, he says.

Estonia has one of the lowest levels of public debt in Europe, and has kept a tight rein on spending, despite having plunged into its deepest recession since independence from the Soviet Union in 1991. The economy contracted nearly 14% in 2009, and unemployment is above 15%.

The government responded with severe budget cuts and reduced public-sector wages by 10% in order to stick to its budget targets. As a result, the government budget deficit in 2011 is expected to be just 1.6% of gross domestic product, well below European Union limits. Public debt remains below 10% of GDP.

Mr. Poolamets—who has been putting up posters around the country's capital, Tallinn, reading "Estonia, Welcome Aboard the Titanic"—says that he and other opponents of euro adoption will

now push their government to refuse to participate in any future bailouts.

Slovakia, which along with Estonia would be among the zone's least-affluent members, refused to provide money for bailing out far richer Greece and has pushed for stricter conditions for other rescues.

In an interview in December, Estonia's finance minister, Jurgen Ligi, said that indebted euro-zone countries "need to carry out structural reforms and fiscal consolidation."

Also in December, the Czech National Bank and the country's finance ministry issued a joint statement saying that "the current situation does not seem conducive to future euro adoption...or to taking steps towards it."

The Czech Republic, as well as the Baltic states, Poland, Hungary, Romania and Bulgaria are all required to join the euro as a condition of their membership in the EU. However, there is no deadline for adopting the currency.

WSJ.com

ONLINE TODAY: See an interactive rundown of the 2011 outlook for euro-zone countries, including GDP and unemployment data, at europe.WSJ.com

Better communication tops Europe's 2011 resolutions

[Brussels Beat]

By STEPHEN FIDLER



Top of the European leaders' New Year resolutions: promising to stay on message.

European leaders agreed at their last summit of 2010 on the broad outlines of a new euro-zone rescue fund. But there was accord on something else, say senior officials: They must communicate better.

According to one senior official, the heads of state and government agreed that "the communications cacophony has to stop."

Cynics might retort that the real issue in 2010 was not inept communication—but the underlying contradictions of the euro zone. Slick public relations can try to put lipstick on the pig—but underneath it's still a quadruped with a curly tail that grunts.

Nonetheless, there's not much argument that the discordant way euro-zone governments transmitted their views didn't calm trouble waters but only roiled them further.

This suggests that Western European politicians haven't understood what many of their counterparts from supposedly less sophisticated countries have long internalized: You can't segment your messages according to the audience you are addressing.

If, for example, Chancellor Angela Merkel shapes her statements according to the concerns of the bailout-hating voters of North Rhine-Westphalia—as she seemed to before the May 9 elections—she shouldn't be surprised if investors worry that Germany intends to block rescue plans for cash-strapped governments and react by selling off their bonds.

It used to be quite common for politicians to say one thing to audiences at home and something quite different abroad. The Brazilians have a saying for it: *só para inglês ver*. It literally means "Only for the English to see" but it's used to describe things said or done for show where the underlying reality is quite different. It is said to have derived from the 19th century when the British were clamping down on the slave trade, and the Brazilian government (which didn't abolish slavery until 1888) pretended to be helping them.

These days, the financial markets aren't taken in as easily as the English may have been. The growth, first, of international economic newswires and later of the Internet had largely put a stop to this "double discourse." In many poorer countries that depend on foreign capital, shrewder politicians have for years recognized the price of saying things to their electorates that upset foreign investors.

Not so yet in Europe. European leaders berate the financial markets in ways which suggest they believe they are the cause, rather than the manifestation, of

the euro's problems. Then they say things that only foolish investors would ignore.

Message discipline is clearly tougher across 16 member states of the euro zone—17 with the accession of Estonia on Jan. 1—than in a single government.

Nonetheless, in the view of many senior officials and politicians, the poster child for inept communications was the Deauville summit on Oct. 18. There, Ms. Merkel and Nicolas Sarkozy cooked up a plan for the post-2013 euro zone in which holders of government bonds could be forced to take losses as a price for other governments stepping in with aid.

The poor messaging was on two levels, these people say. First, the proposal wasn't outlined beforehand to other governments or to key European institutions. Senior European officials say there was little prior consultation with the European Central Bank, the European Commission or with other member states. The message taken by other governments was that the euro zone's two heavyweights were imposing their agenda on the rest of the bloc.

It used to be common for politicians to say one thing to audiences at home and something different abroad.

Second, as the plan emerged, it wasn't explained to the financial markets. It wasn't clear, for one thing, whether bondholder losses would be a precondition for future government rescue packages or just a possible outcome. Investors inferred in any case that hard wiring bondholder losses into likely future rescue packages increased the likelihood that they wouldn't be paid in full and on time.

Eventually, the proposal was clarified—bondholder losses wouldn't be a precondition and it would affect only bonds issued after June 2013.

Officials concede that the proposal accelerated Ireland's slide toward a bailout. "Bringing up private creditor losses was the worst thing to do at that point," said one senior official.

Officials say that governments have learned their lesson. Look, they say, at how differently Ms. Merkel and Mr. Sarkozy handled their next summit, in Freiburg on Dec. 10. Nothing emerged there that could be interpreted as railroading a bilateral agenda through the rest of the euro zone, they point out.

In his Christmas address, Herman Van Rompuy, the president of the European Council, a role that means he chairs EU summits and therefore presides over his share of cacophony, suggested communications were getting better.

He noted that, apart from fighting the crisis in 2010, his first year in office: "There seemed little time for anything else!" Then, in an assertion notable in its modesty, he added: "We are succeeding more frequently to give a common message."

EUROPE NEWS

Man who took on the Kremlin

BY GREGORY L. WHITE

A former Communist Youth League leader, Mikhail Khodorkovsky personified Russia's new class of tycoons in the 1990s who converted ambition and contacts into vast wealth as the Soviet economy lurched toward capitalism. He started his first business as a student in the late 1980s.

On Thursday, he became the first of the big 1990s tycoons to be sentenced to a long prison term when a Moscow court ordered him held until 2017 on a second conviction.

Two decades earlier, Mr. Khodorkovsky had been on the forefront of the new capitalist class. By the early 1990s, his Bank Menatep was one of the largest, earning millions from currency speculation as the ruble plunged and inflation soared.

Menatep plowed the proceeds into buying companies at knock-down prices in the government's mass-privatization program. It won control of **Yukos** in 1995 in an auction where it faced no competition, one of the controversial loans-for-shares deals that gave some of Russia's richest assets to the oligarchs at a fraction of their value.

He almost lost control of the company in Russia's 1998 financial crisis. Workers angry at not being paid stormed the company's Siberian offices. In Moscow, Mr. Khodorkovsky fought off creditors and minority shareholders who accused him of trying to strip the company's assets and of siphoning cash from its units—an allegation that prosecutors picked up in his latest trial.

By the end of the 1990s, Mr. Khodorkovsky had become the epitome "of everything that was wrong with Russian business," according to a former adviser.

But he also had full control of Yukos, his prize asset. He realized that it would be far more valuable to him if he turned it into an investor darling and sold out to a foreign oil giant, according to people who worked with him at the time.

"The metamorphosis from robber



A protester bearing a portrait of jailed oligarch Mikhail Khodorkovsky pickets in support of the jailed oligarch Thursday.

baron to business statesmen was achieved with lightning speed," then-U.S. Sen. Tom Lantos, who met Mr. Khodorkovsky around that time, said later.

Mr. Khodorkovsky also raised his political profile, cultivating contacts in Washington and championing closer ties between the two countries. He spoke out on foreign policy, criticizing then-President Vladimir Putin's opposition to the U.S.-led war in Iraq.

In private, he pushed for even more influence. He and other Yukos shareholders spent millions of dollars to fund friendly candidates running in the December 2003 parliamentary elections, according to people familiar with the efforts.

He told advisers and diplomats that he hoped to win as much as a third of the seats in parliament, allowing him to block Kremlin initiatives. He spoke openly about the idea of

strengthening the role of the parliament and weakening the presidency. He also said he planned to retire in 2007—just before Mr. Putin would be forced to give up the presidency by term limits. "Those conversations cost him dearly," said one legislator who discussed the issues with him.

Mr. Khodorkovsky's moves violated the informal deal that Mr. Putin had offered the oligarchs when he came to office in 2000. If the tycoons didn't challenge the Kremlin's control of politics, the authorities wouldn't question how they had earned their fortunes, according to people familiar with the discussions. By 2003, two other oligarchs who had defied the Kremlin had fled into exile, largely stripped of their assets.

But Mr. Khodorkovsky remained defiant, even after his partner, Platon Lebedev, was arrested in the summer of 2003. Three other billionaires met with him later that

summer in Moscow to tell him he was breaking the informal rules and putting them all at risk, according to several participants. He brushed off the concerns, saying he was "hedging his political risks."

He also thought his support in Washington would provide some insurance with the Kremlin. Adding to the U.S. ties, he was closing in on a deal to sell a big stake in Yukos to **Exxon Mobil Corp.**, according to people close to the talks. He told associates he thought Mr. Putin was "weak and indecisive," several former colleagues said. He publicly dared the Kremlin to arrest him.

That proved a major miscalculation. Liberal Kremlin advisers said they thought his political challenge could be managed without a crackdown. But hard-liners from among Mr. Putin's former KGB colleagues disagreed and prevailed, according to current and former officials.

Russia sentences tycoon to six more years

Continued from first page
uted to the criticism. "I don't believe in the objectivity of the court," said legislator Gennady Gudkov, a member of a party that usually supports the Kremlin. "It's clear why the verdict was rendered on the eve of the new year—so there would be no discussion," he said.

The main evening newscast of state-controlled NTV news ran its report on the ruling second, following news that a member of Boney M, a German disco group popular in Russia, had died in St. Petersburg.

Business leaders and members of the ruling United Russia party declined to comment Thursday.

The 20-month trial included dozens of witnesses. But in a December 2009 cable about the trial, released recently by WikiLeaks, a U.S. diplomat described the proceedings as "a superficial rule-of-law gloss to a cynical system where political enemies are eliminated with impunity."

Now being held in Moscow's Lefortovo Prison, Mr. Khodorkovsky isn't expected to be returned to YaG-14/10 prison camp in the Siberian city of Krasnokamensk until after the sentence is confirmed on appeal

early in 2011. His current sentence ends in October. Standing in the glass-fronted defendants' cage, Mr. Khodorkovsky listened impassively as the sentence was passed Thursday.

Some Russian political insiders had thought the Kremlin's fervor in prosecuting the numerous cases had cooled in recent years, particularly once Dmitry Medvedev took over as president in 2008 with a pledge to strengthen the rule of law and the independence of the courts.

But Prime Minister Vladimir Putin, who was president when the case began and is viewed as the more powerful member of the ruling tandem, continually defended the prosecution in public comments, at times accusing Mr. Khodorkovsky of being implicated in murders for which he has never been charged.

The "Yukos affair," as the waves of prosecutions have come to be known, marked the height of the Mr. Putin's drive to crush the political power of the oligarchs—business tycoons who had converted their wealth into vast influence in the 1990s—and the beginning of a push to reassert state control over key sectors of the economy.

"This is a clear signal that it could happen to anyone," a senior Russian official said in early 2004, less than a year after Mr. Khodorkovsky's arrest. "That if the authorities don't like you, they can grind you to dust."

In the months before his arrest, Mr. Khodorkovsky and his allies spent millions of dollars to support candidates from across the political spectrum in the December 2003 parliamentary elections, aiming, as Mr. Khodorkovsky told diplomats and associates at the time, to win as much as one-third of the seats in parliament. That would be enough to block major Kremlin initiatives. While liberals in the Kremlin were confident they could block the efforts on the campaign trail, according to current and former officials, hardliners pushed for his arrest.

Though fears of a wave of similar cases weren't realized, administrative and legal pressure on private business jumped sharply in the following years, business leaders and officials agree. The forced bankruptcy of what had been a blue-chip stock continues to worry many potential investors.

Twice this week Mr. Medvedev admitted that Russia's investment climate is "bad," though he didn't single out the impact of Yukos. Struggling to attract the hundreds of billions of dollars in capital it needs to revive growth and overhaul industry and infrastructure, the Kremlin now says it wants to improve the environment for business.

At the same time, for the Kremlin, the Yukos case helped remove big business as a political rival and led to a surge in tax payments as companies abandoned the widely used tax-reduction strategies for which Yukos was prosecuted.

Once known for his harsh and ruthless business tactics, Mr. Khodorkovsky has sought to recast himself as a political prisoner in his years behind bars. A multi-million-dollar campaign of public relations and lobbying funded by his supporters and other former Yukos shareholders has helped keep his cause alive. Polls show sympathy for him is growing among Russians, though slowly. He could still seek a presidential pardon to shorten his term in prison, though lawyers said Thursday he doesn't plan to.

Greek blast damages courthouse and cars

BY ALKMAN GRANITSAS
AND NICK SKREKAS

ATHENS—A powerful bomb exploded here on a stolen motorcycle parked outside a court building in a central part of the capital Thursday, but no one was reported injured, despite the blast's rush-hour timing.

The 8:22 a.m. explosion significantly damaged parked cars and the court building, blowing out windows across its facade, said police spokesman Stelios Skrepetos. The blast could be heard some kilometers from the building, located in the city's residential Ambelokipi district.

There was no immediate claim of responsibility, but the attack follows a wave of bomb blasts by Greece's various, shadowy urban-guerrilla groups over the past two years.

In Buenos Aires, Argentina, meanwhile, a smaller bomb exploded outside the Greek Embassy, causing minimal damage, the Associated Press reported. Greek Foreign Ministry spokesman Grigoris Delavekouras said the device was very small and that no one was at the embassy when it exploded.

'You cannot terrorize a democracy, so these extremists will fail, and this explosion will not frighten Greek judges,' the country's justice minister said.

The Athens blast was preceded by a warning telephone call to a newspaper and a local television station, allowing authorities time to evacuate nearby buildings.

"At [7:38 a.m.] there was an anonymous phone call to a local television channel named Alter and to Eleftherotypia newspaper warning that a bomb would go off in 40 minutes," the police spokesman said. "They warned that the bomb was set to a timer and was placed on a motorcycle, which we were already looking for since it was stolen last night. We found it and had sufficient time to vacate and lock down the area to prevent injuries and harm to the public," he added.

The blasts also follow a series of Greek police raids earlier in December that found caches of weapons believed to belong to a little-known group, Rebel Sect, as well as a string of parcel-bomb attacks in early November by another group, Conspiracy of Fire Nuclei. More than a dozen suspected members of the Conspiracy of Fire Nuclei group are due to go on trial in January for their role in the parcel bombings.

More recently an Italian anarchist group, Informal Anarchist Federation, claimed responsibility for a spate of parcel-bomb attacks in Rome, saying it was acting in solidarity with its Greek counterparts.

Haris Kastanidis, Greece's justice minister responded toughly Thursday. "You cannot terrorize a democracy, so these extremists will fail, and this explosion will not frighten Greek judges," he said.

U.S. NEWS

Good tidings in Christmas-tree sales

By KEVIN HELLIKER

OAK PARK, Ill.—Sandhill Christmas Trees here sells fewer than 5,000 firs in a typical holiday season but in 2010 it sold nearly 6,000, many as last-minute deliveries to retailers who had underestimated demand.

“Dad would be proud that we went out and had a record year,” said John Brussock, who at age 24 just completed his rookie season as chief executive of Sandhill after taking over for the founder, his father, James Brussock, who died earlier in 2010.

Sandhill’s success mirrors that of tree farms across the U.S.

Precise numbers won’t be available until late winter, when the National Christmas Tree Association completes its annual survey. But after two flat seasons, tree-farm associations in the biggest-producing states say members are estimating an industrywide sales jump in the mid- to high single digits over a year earlier, with some growers reporting larger gains.

“At times during the season, we had growers reporting increases of 20% to 40%,” said Brian Ostlund, executive director of the Pacific Northwest Christmas Tree Association, whose territory includes Oregon, the nation’s largest producer of Christmas trees.

With annual sales under \$2 billion, the Christmas tree is a small but nevertheless telling economic indicator because when incomes fall, people tend to forgo buying trees, economists say.

“Better sales would be a good supporting indicator for better consumer sentiment,” said Michael Swanson, agricultural economist for Wells Fargo & Co.

At Sandhill, the 2010 sales boost also reflects a son’s determination to embrace a family business his father called “an out-of-control hobby.”

Like many Christmas-tree farmers, the elder Mr. Brussock got into it



John Brussock, center, with his father, James Brussock, left, and friend Ben Emmrich at Sandhill Christmas Tree Farm in Marquette County, Wis., in 2009.

as a sideline. The owner of a kitchen-remodeling business in Oak Park, a Chicago suburb, James Brussock decided about 30 years ago to start growing Christmas trees on 200 acres he owned in southern Wisconsin.

The project required endless toil—planting, fertilizing, shearing—with no quick payoff because the first crop of trees took eight years to mature. Even after sales took off, the burly, white-bearded Mr. Brussock limited the operation’s growth so it wouldn’t interfere with his day job.

Yet growing and selling Christmas trees gave him great pleasure. A devoted outdoorsman, he loved working fields of Frasers and Balsams. Selling the trees from the as-

phalt parking lot of his remodeling firm, he also treasured the local renown it brought his family.

“Our kids just know the Brussocks as the Christmas-tree people,” said Lisa Hendrix, an Oak Park schoolteacher who has been buying Brussock trees for years.

Even as a toddler, John Brussock worked the farm and sold trees alongside his dad. But after graduating with an economics degree from the University of Wisconsin, he took a job selling commercial real estate in Chicago. In 2008, his father manned the tree lot alone.

John, missing the outdoors and physical work, returned the next year and started an online sales business. His father was delighted. “I don’t know that there’s anything better in

life than working with your son,” Mr. Brussock said in interviews for an article published in 2009 in *The Wall Street Journal*.

In early 2009, the elder Mr. Brussock was diagnosed with bile-duct cancer. Doctors predicted it would kill him before Labor Day. “I want another Christmas,” his wife, Kitty, recalled him saying.

James and John worked the sales lot together through the 2009 holidays. This summer, they tended trees side-by-side in the fields. “I was shearing with him, and that is hot, strenuous work,” said John Brussock. His father died Sept. 4 at the age of 65.

The younger Mr. Brussock intends to make a full-time career out of Christmas trees, as his father had

dreamed of doing. Thanks to his dad, John said, “Christmas trees are my passion.”

With a farm planted with 75,000 trees, John Brussock aims to more than triple Sandhill sales over the next few years by increasing both Internet and wholesale revenue. “There are always new people opening Christmas-tree lots, and we have a reputation for quality trees,” he said.

Before his father died, John Brussock peppered him with questions on things like the per-acre formula for spraying herbicide. But some business details got lost. One recent day, Mr. Brussock wondered where his father stored the spare tire for a tree-hauling trailer. He reached for his cellphone to call his dad, only to remember he was now on his own.

Jobless claims hit lowest level since July '08

By SUDEEP REDDY

Initial claims for unemployment benefits declined last week to the lowest level in more than two years, offering another hopeful sign that the U.S. job market is improving as the economy regains some momentum.

New claims fell 34,000 to a seasonally adjusted 388,000, the lowest since July 2008, the Labor Department said Thursday. The four-week moving average for claims, a measure used to smooth volatility in the weekly data, fell to 414,000 from 426,500. New filings have been hovering below 450,000 a week since the beginning of November.

The measure is closely watched because it gives one of the earliest indications of how many people are losing jobs. But the latest drop may have been exaggerated by Christmas week, which complicates how claims are counted. New jobless claims fell sharply around the same time the past two years and then moved higher in January.

Still, the report was seen as encouraging. “While the degree of decline may be overstated because of the seasonal issues, the trend is pretty clear,” said John Silvia, chief

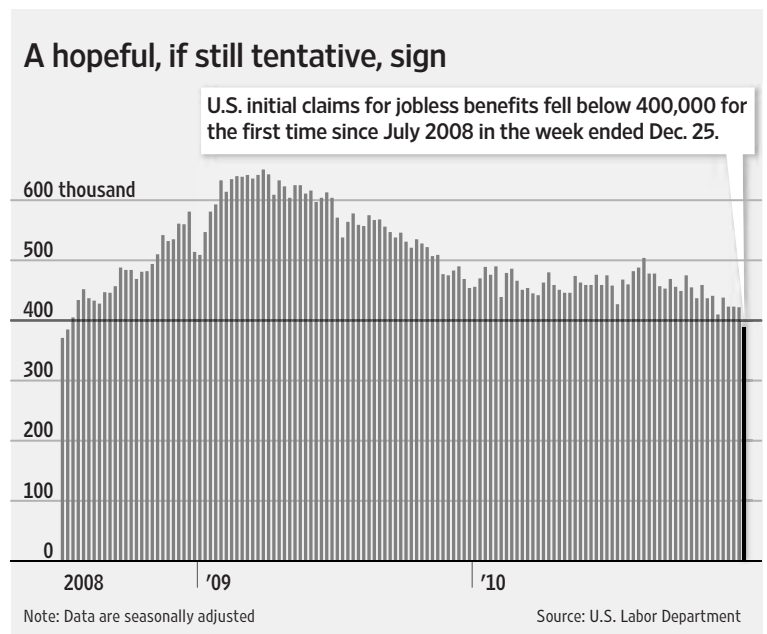
economist at Wells Fargo. “That gives me a lot of hope and expectation for better job growth going forward.” He expects the economy to add about 160,000 jobs a month on average in 2011, compared with about 90,000 a month in 2010. But at that pace, it would still take years to replace the 8.4 million jobs lost after the recession started.

The Labor Department reports next Friday on the number of jobs added and the unemployment rate in December.

That report is based on a survey taken in mid-December. In the wake of a surprisingly weak report for November—only 39,000 jobs added—analysts are expecting significantly more than 100,000 jobs were added in December, though their predictions often prove far from the actual tally.

Other gauges of the employment market are turning positive, suggesting that a gradually accelerating economic expansion could translate into sustainable job growth in coming months. Surveys of purchasing managers show continued employment gains in the manufacturing and service sectors.

Confidence among business executives from large and small compa-



nies is also moving higher, a key ingredient for stronger hiring. A recent survey by the Business Roundtable showed that almost half the chief executives in the group, which represents large corporations, plan to increase their U.S. employment in the next six months.

Stronger growth in the labor market would provide critical support for areas of the economy that are already recovering, such as retail sales, and help struggling sectors like housing.

The National Association of Realtors said Thursday that its index of

pending home sales gained 3.5% in November, indicating stronger sales of existing homes to close out the year. The measure uses contract signings to forecast sales of existing homes in the next two months. It stood about 5% below its level from a year earlier.

The housing sector remains under pressure from high inventories and a coming wave of foreclosures, which are expected to keep the supply of homes for sale high and push prices lower. But the latest gain in the index suggests sales activity is picking up, albeit from very low levels, after months of declines following the April 30 expiration of a tax credit for home buyers.

“They’re headed in the right direction,” said J.P. Morgan economist Daniel Silver. “We saw a steep drop-off, then we saw it bottom out, and we’ve seen growth in recent months.”

Many forecasters expect home prices, which have restarted declines in recent months, to remain under pressure for much of next year. While presenting problems for some homeowners and the investors who own their mortgages, price declines could help draw some buyers from the sidelines into the market.

U.S. NEWS

Wilderness policy stirs anger

By STEPHANIE SIMON

An Obama administration initiative to preserve more public lands as pristine wilderness is stirring anger in the West, where ranchers, sportsmen and energy companies fear they will lose access to acreage they count on for their recreation and livelihood.

The new policy, initiated this month, directs the **Bureau of Land Management** to survey its vast holdings from Alaska to Arizona, from Colorado to California, in search of unspoiled back country. The agency can then designate these tracts—potentially millions of acres—as “Wild Lands.”

Protections will vary from site to site, but in general such lands will be shielded from activities that disrupt habitat or destroy the solitude of the wild, according to the Interior Department. That might mean banning oil drilling, uranium mining or cattle grazing in some areas. It could also mean restrictions on recreational activities, such as snowmobiling or biking.

“Americans love the wild places where they hunt, fish, hike and get away from it all, and they expect these lands to be protected wisely on their behalf,” Interior Secretary Ken Salazar said in announcing the policy shift late last week.

The initiative reasserts a power that the BLM used extensively in the 1970s and '80s to designate stretches of prairie, desert, mountain range or river basin as wild and to limit human intrusion on those landscapes. The agency largely relinquished this practice in 2003 to settle a lawsuit filed by the governor of Utah, who was seeking to block the BLM from setting aside 2.6 million acres in his state as wilderness.

The Obama administration's policy, which does not need Congressional approval, overrides the 2003 agreement and asserts that preserving the wild qualities of remote



The Organ Mountains in Las Cruces, N.M., is one of the sites a new Obama administration initiative may seek to preserve.

lands is a “high priority.”

That has many in the West hopping mad.

“This harms economic growth,” said Rep. Rob Bishop, a Utah Republican who will take over next month as chair of the House subcommittee on public lands. “The West is being abused.”

House Republicans say they will hold hearings on the new policy and perhaps seek to cut funding to the BLM for identifying and managing wild lands.

Mr. Salazar and BLM officials have tried to counter criticism with a pledge to hold public hearings before designating areas as wild lands. They also say they won't necessarily bar all intrusive activities; they may, for instance, allow vehicular travel on existing roads. The plans developed to protect each region will be revisited every 10 to 20 years, said Jeff Jarvis, a BLM division chief.

None of that reassures Jim

Hagenbarth, a Montana rancher who leases BLM land to graze cattle. He fears he might lose some of his leases to Wild Lands designations, or be barred from such practices as burning off sagebrush to clear room for the grasses that cattle prefer.

“We're extremely worried,” Mr. Hagenbarth said. The initiative has also drawn opposition from the energy industry. Kathleen Sgamma, a director of the Western Energy Alliance, which represents 400 oil and natural-gas companies, said the new policy could block some promising lands from drilling. “They're treating lands arbitrarily as de facto wilderness,” she said.

Such fears are heightened by a draft BLM memo that became public earlier this year outlining strategies for protecting up to 140 million acres of BLM land—an area equivalent in size to Colorado and Wyoming combined. Not all this land

was deemed sufficiently untouched to qualify as wild, but the memo listed sites in New Mexico, Nevada, Oregon, Colorado, California and Utah as likely candidates.

The BLM says the memo was just an exercise in brainstorming, but critics see the outlines of a bold bid to put ever more land off-limits. “The message of the Nov. 3 election is we want less regulation, less government intrusion. We want to keep these lands open,” said Rep. Dean Heller, a Nevada Republican.

Environmentalists respond that protecting wild lands is crucial—for flora and fauna, for humans craving solitude and even for economic growth, since tourists may be drawn to the hiking, hunting and rock-climbing that are typically permitted in wilderness areas.

“The economy is often tied to the health of the landscape,” said Josh Pollock, a director at the **Center for Native Ecosystems** in Denver.

Cold turkey is new order on Navy subs

[Washington Wire]

By NATHAN HODGE

For some, the New Year traditionally begins with a hangover. On Navy submarines, 2011 may begin with nicotine fits.

Back in April, Vice Adm. John Donnelly, the commander of Navy submarine forces, introduced a new policy banning smoking below decks aboard all U.S. Navy submarines. The ban takes effect no later than Dec. 31. The reason for the ban? Cutting secondhand smoke inside subs.

In an April Navy news release, Adm. Donnelly alluded to recent tests that showed “unacceptable levels of secondhand smoke” aboard submerged submarines. “The only way to eliminate risk to our non-smoking Sailors is to stop smoking aboard our submarines,” he said.

The impending ban has already prompted a spate of newspaper articles in Navy towns. In a piece in the *Virginian-Pilot*, sailors lamented the end of the “smoke pit,” the place where gossip is traded. In Spokane, Wash., the *Spokesman-Review* profiled the USS Michigan, a boat that went smokeless back in July.

The options for the dedicated pack-a-day submariner are limited. The Navy will offer tobacco “cessation programs” as well as nicotine patches and nicotine gum. Drugs like Chantix or Zyban, commonly prescribed to wean smokers off tobacco, are verboten.

Of course, sailors can still opt for another nicotine delivery method—dipping or chewing—although Navy officials have said they want to discourage the use of smokeless tobacco.

Pentagon eyes oil prices

Washington is going into deficit-cutting mode, and that promises increased pressure on the Pentagon budget. But the Pentagon may have one more budgetary issue to worry about in 2011: soaring crude-oil prices.

The Department of Defense is the largest consumer of oil within the U.S. government. With the price of a barrel of oil now hovering around \$90, the department's bean counters are monitoring markets closely.

Pentagon spokeswoman Cheryl Irwin said prices “will not affect current operations or internal fuel prices, because the department's working-capital fund can absorb some effects of price fluctuations.” But, Ms. Irwin added, “further market increases could become problematic.”

The Pentagon forecasts fuel prices one year in advance. The department then fixes a standard composite fuel price for the fiscal year based on those projections.

If prices surge unexpectedly, however, it could cut into operations and maintenance accounts—meaning the Pentagon might have to ask Congress for more money.

—More at washwire.com

Names in play for consumer post

By DAMIAN PALETTA AND VICTORIA McGRANE

White House adviser Elizabeth Warren and a top lieutenant are quietly asking business and consumer groups for names of people who might run the new Consumer Financial Protection Bureau, people familiar with the matter said.

The hunt suggests that Ms. Warren, a lightning rod for some bankers, might not be selected to lead the bureau, a centerpiece of the Dodd-Frank financial overhaul bill that passed this summer. Still, many liberal groups will push to get her in the post.

President Barack Obama's choice could signal how he intends to deal with resurgent Republicans in Congress. The feelers to business groups serve as a reminder that any nominee would likely need support from at least seven Republicans in the Senate to win confirmation.

Among the names being discussed are Iowa's attorney general, Tom Miller; New York state bank regulator Richard Neiman; and former Office of Thrift Supervision director Ellen Seidman.

Mr. Miller, through a spokesman, declined to discuss whether he had been contacted by the administration



Treasury Secretary Timothy Geithner with Elizabeth Warren in September.

about the post or was interested in it. A spokesman for Mr. Neiman declined to comment. Ms. Seidman didn't respond to a request for comment.

The Obama administration weighed nominating Ms. Warren earlier this year but held off amid concern that Republicans who consider her anti-business would block

her appointment. Instead, she was named a special adviser to set up the agency, and a decision on a permanent head was put off until 2011.

Several federal agencies are scheduled to transfer their powers to the new agency in July, and the administration wants to have a confirmed chief in place by then. Without

a Senate-confirmed director, the agency's powers would be limited.

So far, Ms. Warren and her senior adviser, Raj Date, have solicited input from a range of groups, including the Independent Community Bankers of America, the Financial Services Roundtable and the Center for Responsible Lending, according to people familiar with the matter.

The first two groups are two of Washington's most influential associations for lenders, representing thousands of big and small banks. The Center for Responsible Lending is a North Carolina-based consumer group that pushed for the creation of the new agency and is influential with congressional Democrats.

A concrete list of candidates hasn't yet been established, and the White House could dismiss any recommendations made by banking or liberal groups. The decision on a nominee will ultimately be made by Mr. Obama, and could come by March, the people said.

Richard Hunt, president of the Consumer Bankers Association, another lending trade group, said he was “perplexed” that the White House hasn't nominated someone yet. “It's going to take months for anyone to get confirmed,” he said.

WORLD NEWS

A tale of two forces in Afghanistan

BY ALISTAIR MACDONALD

NAHR-E SARAJ, Afghanistan—In 26 years as an Afghan soldier, Col. Abdul Sboor has fought for the Russians against the mujahedeen and for the mujahedeen against the Taliban. Now he's fighting alongside the local British battle group helping train Afghan soldiers and police to try to take control of their country's security.

For coalition forces, a successful withdrawal from Afghanistan over the next few years rests in the hands of men like Col. Sboor and Lt. Mohammed Wali, the local heads of the Afghan National Army and Afghan National Police, respectively.

The British on the ground here in restive Helmand province say the Afghan army—often seen in the past as inefficient or incompetent—is showing signs of improvement, in what the British hope is a positive sign for the rest of Afghanistan. The national police force here still appears more prone to corruption and poor practices.

A recent White House review of progress in Afghanistan warned that success hinged on the Afghan government's ability to take over security and governance, but showed concern that neither the army nor the police were yet up to the task.

The U.S.-led coalition has been training the army since 2006, and the police since 2009. As of November, 144,000 army and 117,000 police personnel had been recruited, each around 85% of the coalition's goal.

Critics among coalition forces and in the West have said the quality of the new forces is mixed.

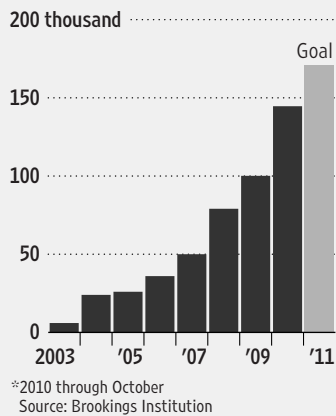
On a joint military patrol outside a small village in this insurgent-soaked region of Helmand one day earlier this month, Col. Sboor and many British personnel expressed growing confidence that the Afghan army is heading in the right direction.

"We plan to bring security" into Nahr-e Saraj, said Col. Sboor, who totes an AK-47 he took from a dead Taliban fighter, rather than a U.S.-issued M-16.

Growing British confidence in the Afghan army forces they are training was evident on a combined patrol that day in the former Taliban stronghold of Tor Ghai. The British battle group's commander, Lt. Col. Andrew Harrison, gave Col. Sboor's forces joint credit for a recent offen-

Help wanted

The Afghan National Army is aiming to have 171,000 troops by the end of next year.



British Lt. Col. Andrew Harrison, Commanding Officer of 2nd Battalion The Parachute Regiment, raises a glass of tea while relaxing with Afghan soldiers. To his left is Col. Abdul Sboor of the Afghan army.

sive that ousted insurgents from this district. "These blokes have no fear," said British Maj. Nick French of his Afghan army colleagues. Moments later, he gave an emotional greeting to Lt. Jaweed—a 27-year-old who goes by one name—with whom he led the joint U.K.-Afghan force that took Tor Ghai. "You fight with someone, you develop a bond," Maj. French said.

Still, as the joint British-Afghan force patrolled near Maj. French's compound, their differences were apparent. The British from the elite Parachute Regiment walked in silence in single file, each soldier an equal distance from the next, weapons in the "standing alert" position across their chest.

Afghan troops sauntered after them, talking in groups, their weapons held casually, before climbing into Ford pickup trucks to follow Britain's heavily armored Husky vehicles back to base.

Complicating the relationship have been incidents like one in July, when three British soldiers were killed at a Nahr-e Saraj base by a renegade Afghan army soldier, and an incident in 2009 in which five British soldiers were killed by a



member of the Afghan National Police. British forces are the second-largest coalition contingent in Afghanistan after the U.S.

But on this day, at a local British patrol base, British personnel made tea for their Afghan colleagues. ANA troops are sometimes seen walking around the base with loaded weapons before and after patrols. During an operational briefing, British officers reeled off positive reports on the Afghan army.

Yet as often as they commended the Afghan soldiers, the British regaled each other with tales of police unpopularity and corruption.

One British officer reported a "rather unusual patrol" by Lt. Wali's police, who—without notifying the British—arrived to fight the Taliban on motorbikes they had recently taken from the insurgents. After being pinned down by the insurgents, the Afghan police forces were forced to retreat on foot.

Another report recounted that the district police commander had arrested members of his own force who had been asking locals for protection money and stealing goods at a market.

In the end, it turned out that two

of the men weren't police—and showed up on a biometric watch list for potential Taliban.

Lt. Wali, in an interview, said the men involved were from another local police force. "If my men take so much as a stone," he said, he wants to know about it. About the motorbike incident, Lt. Wali said his force took the Taliban bikes after they attacked his station.

The bearded 27-year-old police chief said it was unfair to compare the army and the police, because the police are involved in more unpopular actions, such as confiscating poppy harvests. Other defenders of the police note that the coalition has been training the army for longer.

Like his men, Lt. Wali is local. Col. Sboor, like almost all his men, is from the north.

Because police are typically locals, they often have a "sixth sense" about whether a "bloke is dodgy or not," which the soldiers lack, said Capt. Charlie Grant from the 5th Battalion, Royal Regiment of Scotland.

The Afghan army still struggles in some areas. Its disparate composition has led to discord within the force, and Col. Sboor admits that ju-

nior ranks often disobey midlevel officers. This can happen because of friction among the various ethnic groups that make up the army, a British intelligence official said.

The official talked of other frustrations when dealing with the Afghan army. Officers often report rumor as fact, the official said. In a recent example, army troops told him that Lt. Wali, the police chief, had killed a local as part of a blood feud. The report turned out to be false.

As coalition nations line up dates for departure, both the Afghan army and police are moved from being mentored to a partnership role. In many cases they are increasingly taking over security. For the U.K. in Helmand, that goes from the Afghan army running a local wheat-distribution service to the police manning 50 checkpoints in the nearby city of Lashkar Gah.

Lt. Col. Dougie Graham, commanding officer of the locally based Royal Highland Fusiliers battalion, credited Afghan forces with Lashkar Gah's comparative security and increasingly buoyant economy.

Lashkar Gah is "a good example of how Afghanistan could be," he said.

Sudan's south girds for secession vote

BY SARAH CHILDRESS

JUBA, Sudan—A huge digital clock looms in a traffic circle in this dusty capital, counting the days, hours and minutes until Jan. 9, when people here will vote on whether to split Africa's largest country in two.

After decades of civil war, and several years of tenuous peace, southern Sudan is preparing to decide whether to split from the north to form a separate nation. Southerners—mainly animists, adhering a traditional African belief system, and Christians—are widely expected to choose secession from the predominantly Arab Muslim north.

The stakes for both sides are huge. Southern Sudan has fertile agricultural land and most of the country's oil, which is pumped through a pipeline to the north, where it is refined and sold. Losing

the southern region to secession could be a financial blow to President Omar al-Bashir, whose regime has been enriched by oil revenue.

How the south handles the vote, and its expected nationhood, will reverberate through a resource-rich region that includes war-torn Somalia and the turbulent Democratic Republic of Congo. A stable southern Sudan could galvanize investment in the area; instability could set back the pace of development.

Recent comments from the government in Khartoum, the Sudanese capital in the country's north, have spurred hopes that the potential split would be peaceful, but secession is fraught with risks.

A few months ago, the referendum faced delays amid logistical challenges, such as setting up an electoral commission and printing ballots. But now all appears on schedule for the week of voting to



Southern Sudanese in Juba this month marching in support of the independence referendum. The vote on whether the oil-producing region will separate from the north is set for Jan. 9.

start Jan. 9.

"It's a very big moment for Africa," said Greg Mills, author of "Why Africa is Poor: And What Afri-

cans Can Do About It."

A 2005 peace deal that ended Sudan's last civil war, which cost about two million lives, provided for

the referendum. That deal was signed by President Bashir, who is wanted by the International Criminal Court for alleged war crimes related to massacres of civilians in the western region of Darfur, and whose regime, designated by the U.S. as a state sponsor of terrorism, is subject to tight economic sanctions. According to a recent count by the election bureau set up by the southern government, some 3.4 million southerners have registered thus far. That is below the 4.7 million the bureau had forecast, but still a high figure given that some people had to walk 65 miles to ensure their name was counted, according to a local election monitoring group. The south has about eight million inhabitants; the north about 34 million.

—Joe Lauria in New York and Peter Wonacott in Johannesburg contributed to this article.

WORLD NEWS

Brazil's president takes a victory lap

BY PAULO PRADA

SÃO PAULO, Brazil—As Luiz Inácio Lula da Silva prepares to step down from Brazil's highest office on Saturday, he leaves a legacy whose downsides may undermine the very success that made him the most popular president ever in Latin America's biggest country and paved the way for Dilma Rousseff, his protégée and former chief of staff, to handily win the election to succeed him.

A fiery former metalworker and union organizer, Mr. da Silva is fond of contrasting his successful eight years in office with the "cursed inheritance" of a stagnant economy, high unemployment, and seemingly intractable poverty left behind by previous administrations. But growing fiscal and economic concerns—including a dramatic increase in public spending, creeping inflation, and fears of a nascent bubble in consumer credit—have critics saying that he is leaving a cursed inheritance of his own.

"He may be leaving as a success, but he also leaves a giant question mark behind him," said Alexandre Barros, a political consultant in Brasília, Brazil's capital. "Things got better while he was in office, but there are problems emerging just as he leaves."

One question is whether he actually will leave. In recent weeks, Mr. da Silva has said he doesn't rule out another presidential bid—while at the same time saying he supports Ms. Rousseff's right to run again in 2014. The dithering has clouded the lead-up to Ms. Rousseff's inauguration and revealed a president reluctant to release his grasp on power.

To be sure, the 65-year-old Mr. da Silva is regarded as one of the most successful presidents anywhere. He leaves office with more than 80% of Brazilians saying they are satisfied with his tenure. His role as a prominent spokesman for the developing world raised Brazil's



Luiz Inácio Lula da Silva, who steps down as Brazil's president on Saturday, speaks with journalists on Monday in Brasília.

profile on the international stage and helped it win rights to host the World Cup in 2014 and the Summer Olympics in 2016.

Few question the economic revival that Brazil, now the world's eighth-largest economy, has enjoyed since Mr. da Silva took office. By adhering to economic reforms introduced by predecessors, Mr. da Silva ensured stability and disproved skeptics who feared that his government, led by leftists long critical of those very reforms, would push Brazil back toward the type of instability it had endured for decades.

Economic growth, averaging more than 4% annually over his two terms, doubled compared with that of the previous eight years. This year, Brazil is expected to grow by almost 8%.

Coupled with ambitious social-

welfare programs, the growth catapulted 30 million people into the middle class and lifted 21 million people, almost half of those considered poor in 2003, out of poverty. Once billions of dollars in debt to the International Monetary Fund, Brazil is now a lender to the institution.

In recent weeks, Mr. da Silva struck a triumphalist tone during teary farewell speeches across the country. On Wednesday, noting Brazil's ability to weather the economic downturn, he poked fun at the woes of still-struggling major economies and remembered sarcastically how they once dispensed economic advice to the developing world. It was a pleasure, he said during an address, "to end my term seeing the U.S. in crisis, seeing Europe in crisis, seeing Japan in crisis, given that they once knew everything."

Still, Brazil has challenges of its own, many of them unwelcome consequences of the boom itself. For instance, as tens of billions of dollars in foreign investment have poured into the country annually, Brazil's currency, the real, has soared in value, complicating business for Brazilian exporters and making imports more competitive against homegrown products. Goldman Sachs has called the real the most overvalued currency in the world.

Some problems stem from steps Mr. da Silva took to buffer the country from the global downturn. When the financial crisis began, the government flooded massive state-run banks with cash, ordering them to open the taps on loans to consumers and businesses. The government also increased its own spending, making sure that public contracts,

projects, and salaries helped to fuel economic activity.

The government didn't slow spending once the crisis was averted. Federal expenditures as a percentage of the economy have more than doubled during Mr. da Silva's time in office. This week, the government recognized the spending would likely cause it to miss its budget target for the year and post a larger-than-expected deficit.

In a Thursday editorial, *O Estado de São Paulo*, an influential daily, said the government should have used the boom as an opportunity to cut public spending and reorder government finances. It questioned whether Ms. Rousseff's economic team, which includes many people serving under Mr. da Silva, would seriously pursue her pledge to slash spending in 2011. "Are they believable?" the newspaper asked.

The spending, combined with ravenous consumer demand, has prompted fears of inflation, long the Achilles' heel of Brazil's economy, to re-emerge. Recently, the government said price increases would cause inflation for 2010 to reach as much as 6%, well beyond the official target of 4.5%. In minutes released from the last meeting of central bank leaders, policy makers suggested an interest-rate increase is likely in coming weeks—contradicting Ms. Rousseff's publicly expressed desire that Brazilian rates, long among the highest in the world, fall more in line with those of the world's more developed economies.

As consumers continue to borrow, economists have begun to watch for signs of a credit bubble. Mr. da Silva, in an address just before Christmas, warned Brazilians not to go overboard with holiday spending. His words, delivered in the raspy, avuncular tone popular with many Brazilians, was mocked by some of the president's critics as advice that he himself should have followed.

Israeli former president is convicted of rape

BY JOSHUA MITNICK

TEL AVIV—A Tel Aviv district court convicted former Israeli President Moshe Katsav on two counts of rape, making a lengthy jail sentence possible for the former senior statesman and capping a four-year legal process that has riveted the nation.

The court's action Thursday makes Mr. Katsav, Israel's eighth president, who served from 2000 to 2007, the highest-ranking Israeli official to be convicted on criminal charges. The post of president in Israel is largely ceremonial, but is still one of the highest-profile portfolios in the country.

The court convicted Mr. Katsav on two counts of rape and one count of indecent acts by force, stemming from accusations by a former employee who worked for him when he was Israel's tourism minister in the late 1990s. The court also convicted him on two counts of sexual harassment and one count of indecent acts, related to accusations by two former employees from his presidential office.

He was also convicted on a separate charge of obstruction of justice, but cleared of a charge of harassing



Moshe Katsav enters court in Tel Aviv before the verdict Thursday. The court found him guilty on two charges of rape.

a witness.

In their verdict, the three justices ruled that "we accept in full the version" of the plaintiff who accused Mr. Katsav of rape. "It follows, that the version of the defendant is deceitful," they ruled. As Judge George Kara read the guilty verdict on the

rape charges, Mr. Katsav shook his head in disagreement.

Mr. Katsav, 65 years old, has repeatedly denied all of the charges, at one point turning down a plea bargain that would have dropped the rape charges. The two rape convictions each carry a possible maxi-

mum sentence of four to 16 years in prison. Sentencing will occur at a later date.

On Thursday, Mr. Katsav's son Boaz told reporters: "We will continue to walk with our heads high and all the nation...with God's help, will know that [my] father, the

eighth president of the state of Israel, is innocent."

Mr. Katsav's lawyer Avigdor Feldman told Israel Radio that he is mulling an appeal because the verdict "was so one-sided."

After the allegations emerged in 2006, Mr. Katsav faced enormous pressure to step down. In the end, he accepted a short leave of absence before his term expired.

Born in Iran, Mr. Katsav immigrated to Israel as a child and was raised in Kiryat Malachi, a small town in southern Israel populated mostly by Jewish immigrants from the Mideast. He was the first Jew of Middle Eastern origin to rise to become president. That turned him into a favorite of Israel's predominantly Middle Eastern Jewish working class.

He served in the cabinet of several right-wing Likud Party governments before being elected president.

Prime Minister Benjamin Netanyahu called the conviction of a former president a sad day for Israelis. "The court handed down two clear and sharp messages," he said, "on the equality of everyone before the law, and on the full rights of a woman to her body."