



Spanish airports are reopened as strikers forced back to work

NEWS 3

Nordic region blazes a trail in super-fast 4G wireless

BUSINESS & FINANCE 21

THE WALL STREET JOURNAL.

VOL. XXVIII NO. 217

EUROPE

Monday, December 6, 2010

DOW JONES
A NEWS CORPORATION COMPANY

europe.WSJ.com

Christmas comes early to Liverpool



Reuters

Runners in Santa Claus garb compete Sunday in the annual five-kilometer Santa Dash in Liverpool, England. More than 7,000 Santas turned out for the charity run, which this year raised funds to build a sports center in memory of Rhys Jones, an 11-year-old killed in Liverpool three years ago.

Senators say U.S. tax deal within reach

By JENNIFER CORBETT DOOREN

WASHINGTON—Top Senate lawmakers said Sunday they believed they were moving closer to a deal that would keep the Bush-era tax cuts from expiring at the end of the month and extend unemployment insurance benefits.

The comments were made Sunday on talk shows, a day after the Senate turned aside two attempts by Democrats to permanently extend the tax cuts for the middle class.

They also came a day after President Barack Obama said he'd be open to a temporary extension of tax cuts for the affluent, but in exchange for a year-long extension of unemployment insurance, among other political bargaining chips.

The tax cuts enacted under President George W. Bush will expire at the end of the year unless Congress approves an extension and President Ba-

rack Obama agrees to it.

Republicans want to maintain the cuts for all income levels while Obama and most Democrats want only to keep the reductions for individuals earning \$200,000 or less or couples earning \$250,000 or less.

Speaking on NBC's "Meet the Press" Senate Minority Leader Mitch McConnell, (R., Ky.), said he was "optimistic" that Congress and the White House would soon agree to a tax deal that would include a measure to extend unemployment insurance benefits.

"I think it's pretty clear that taxes are not going up on anybody in the recession," he said. "We are discussing how long we should maintain current tax rates."

He also said Republicans support extending unemployment insurance saying the controversy is "not about whether to do it but about whether to pay for it."

Unemployment insurance

typically provides benefits to unemployed Americans for 26 weeks but the federal government can extend benefits and typically does so during economic downturns.

Congress has already passed several such extensions during the current recession.

Speaking on CBS's "Face the Nation," Sen. Jon Kyl, (R., Ariz.), the Republican Whip, said, "I think that most folks believe the recipe would include at least an extension of unemployment benefits for those who are unemployed and an extension of all of the tax rates for all Americans for some period of time."

Also speaking on the same program, Sen. Dick Durbin, (D., Ill.), the No. 2 Democrat in the Senate, said lawmakers "were moving in that direction" when asked if tax cuts would be extended for upper-income people.

On Saturday the Senate
Please turn to page 8

Bahrein BD 1.50 - Egypt \$1.75 (CIV) Jordan JD 2 - Kuwait KD 1 - Oman OR 2 Qatar QAR 4 - Saudi Arabia SR 14
 THE WALL STREET JOURNAL.
 4.9
 9 7792 1919869 171

The Quirk



Fidel's new message: Hey, comrades, nukes are bad!
Page 29

World Watch

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

Editorial Opinion

Probing America's head of airport security
Page 14

Cables reflect tensions over terrorism funding

By KEITH JOHNSON

WASHINGTON—Leaked diplomatic cables show continued U.S. frustration with the lack of cooperation from Arab and Muslim countries in fighting terrorism financing, almost a decade after stopping the flow of funds to extremists became a central part of U.S. counterterrorism strategy.

While al Qaeda's ability to raise funds has been hampered, and by some accounts is at its lowest level since the Sept. 11, 2001, attacks, U.S. officials struggle to persuade allies such as Saudi Arabia and Pakistan to crack down on the illicit financing of other ex-

tremist groups.

That is particularly important since some of those other groups, such as Lashkar e-Tayyiba of Pakistan, are graduating from regional to global terrorism threats.

The latest batch of leaked cables was reported by the New York Times and the Guardian Sunday, a week after the self-described whistleblower website WikiLeaks started publishing its cache of a quarter-million U.S. diplomatic cables.

U.S. politicians continued to take aim at Wikileaks founder Julian Assange over the weekend. Sen. Mitch McConnell (R., Ky.) called Mr. Assange a "high-tech terrorist."

WikiLeaks, under virtual fire all week, has an additional cache of sensitive U.S. documents prepared for publication if its website is closed down, the U.K.'s Sunday Times reported.

The cables related to terrorism financing include dispatches from 2007, 2009 and 2010. They show that, nearly a decade after the Sept. 11, 2001, attacks, U.S. officials continue to press countries such as Saudi Arabia, Kuwait and Pakistan to make fighting terror financing a bigger priority.

Please turn to page 10

Messages shed new light on China-Google rupture..... 9



More energy, fewer emissions. With technology we can do both.

To meet growing demand, the world will need all economically viable energy sources—while also mitigating emissions. ExxonMobil is developing technologies to help address this challenge today and for the future.

Learn more at exxonmobil.com



ExxonMobil
Taking on the world's toughest energy challenges.

PAGE TWO

Facts say get on with restructuring

[Agenda]

BY IRWIN STELZER



"Europe is difficult to understand for the markets," says Christine Lagarde, French finance minister. Actually, it isn't.

Investors understand that Greece, its debt scheduled to reach 160% of GDP in 2013, is in a hole from which it will not emerge until it restructures its sovereign debt. Its banks, their profits plummeting in part because of windfall taxes, are shut out of international capital markets. Ireland is a victim of a decision by its government to make its taxpayers bear the cost of the bankers' folly in lending to mad property developers. Spain is in a trap: the more it cuts spending, the more its economy declines, the higher its 20.7% jobless rate soars, and the more likely it is that the deficit will stick at around 10% of GDP. Portugal's people are the poorest in the European periphery, its economy hasn't grown in years and it cannot compete in world markets. Italy's mostly family-owned businesses—over 80% of all workers are employed by firms with fewer than 250 employees—can't get credit or compete with overseas rivals unless Italy devalues its currency, which its membership in the euro bloc makes impossible. The word of the existing governments in these countries means little, since all are likely to be turfed out in the next elections.

And then there is Germany, the deep pockets of the euro zone. So far, chancellor Angela Merkel has persuaded her voters to allow her to play Florence Nightingale to the euro zone's wounded, or Santa Claus to the economically stricken—pick your metaphor. But—who would have imagined this a few short months ago—the markets are beginning to cast a wary eye on German bunds as the



French Finance Minister Christine Lagarde leaves a cabinet meeting in Paris.

possible extent of Germany's obligations to its euro colleagues and the shaky condition of its banking system become clearer. Andreas Dombert, a member of the Bundesbank's executive board, worries about the banking system's "vulnerabilities and structural weaknesses." Rates on bunds are inching up, and U.S. Treasuries are outperforming them.

Markets also know another thing. Sitting atop this volcano is a bureaucracy that is fractured, indecisive, incoherent and without sufficient resources to contain what it likes to call "the contagion." Euro-zone bureaucrats alternately proclaim an existential threat to their common currency, and attempt to reassure the markets by promising that no nation is too big to bail.

The peripheral countries have to borrow huge sums in 2011, at growth-stifling interest rates if unaided.

Meanwhile, the bailers wage an internecine war to the consternation of investors who loathe uncertainty.

The International Monetary Fund worries that austerity will produce a downward spiral of spending cuts, reduced economic

growth and therefore lower revenues to the treasury, followed by more spending cuts to shore up the treasuries' take, in a cycle that can only be arrested by more spending, now. The European Central Bank opposes such a stimulus, and argues that the path out of this mess is more austerity, which it argues will restore confidence and spur growth.

The euro-zone authorities want to shield investors from losses, lest they raise the price of the capital they make available, while the zone's most powerful member, Germany, insists that investors and creditors share any losses from restructuring. Which causes them to demand still higher premiums to make capital available to struggling euro-zone governments and banks.

Germany's chief government spokesman Steffen Seibert says there are no plans for a joint fiscal policy, while EU Economic Affairs Commissioner Olli Rehn works on ways to promote a euro-wide fiscal framework. Belgian Finance Minister Didier Reynders calls for an expansion of the bailout fund, and Bundesbank President Axel Weber admits the fund may have to be increased. But Jeanette Schwamberger, a spokeswoman for the German finance ministry, says, "There is no need to expand the fund."

The Tower of Babel has been replaced by the Tower of Brussels. All of this against the

background of facts that the market full well understands. "Facts are stubborn things," wrote John Adams in 1770, "and whatever may be our wishes ... they cannot alter the state of facts and evidence." Take that, Lagarde. The facts are these.

The peripheral countries will have to borrow huge sums in 2011, at growth-stifling interest rates if unaided. Italy, already Europe's largest bond borrower, will tap the markets for €340 billion (\$455 billion), Spain will have to sell €160 billion to €180 billion of IOUs, Portugal is estimated to need €40 billion to €60 billion cash. Banks and companies in the euro zone will have to roll over billions more. But the support institutions may not have the resources to help Spain, with an economy twice the size of those of Greece, Portugal and Ireland combined, or Italy, an economy half again as large as Spain's.

The ECB's exposure to periphery countries' sovereign and bank debts is such that a haircut of the magnitude the markets are signaling would virtually wipe out its €78 billion of capital and reserves. Another port of call for the insolvent, the European Financial Stability Fund, hasn't sufficient resources to bail out the larger economies, and will soon be borrowing money to lend to countries that can't repay their current borrowings. And the IMF is hoping to double its lending capacity so that it can lend to heavily indebted countries. Lots of new lending to replace lots of old lending.

Finally, there is the dangerous interconnection of the financial system. One-third of Portuguese banks' foreign lending has been to Greece, Ireland and Spain; German banks have over a \$400 billion exposure to peripheral-nation banks, \$550 billion if exposure to Italian banks is included. Evolution Securities reckons that German, French and British banks have a €1.2 trillion exposure to banks in the peripheral countries (including Italy).

Dominoes, anyone?

What's News

■ **The bond market** is stumbling after a stellar run, and some investors are betting that stocks will post better returns in coming months. Investors pulled money from bond funds in the past two weeks, and there are signs of a move toward stocks. 19

■ **The U.K. government** detained a woman working in Britain's House of Commons on suspicion of spying, which could rattle relations between Britain and Russia. 6

■ **The U.K. private sector** is planning to add jobs in the next 12 months, but concern is growing that a lack of skilled workers could dent hopes of filling vacancies. 6

■ **IBM is sending** executives to provide free consulting services in Asia, Latin America, Eastern Europe, Africa and the Middle East. 19

■ **The euro is at risk** of losing more ground this week as the Irish Parliament votes on an austere 2011 budget. 23

Inside



Angry Birds: why we can't stop playing this game. 27



Basketball stars face a future without the Bentleys. 28

ONLINE TODAY

Most read in Europe



1. Obama Shows Openness to a Tax-Cut Deal
2. Spain Reopens Airspace
3. Data-Miners to Reveal What They Know
4. When Achy Legs Are a Warning
5. A Family Compound

Most emailed in Europe

1. When Achy Legs Are a Warning
2. Reawakening a Passion for Bordeaux
3. Opinion: 'Contagion' and Other Euro Myths
4. London's Best-Kept Decorating Secrets
5. Catalonia's Culinary King

Reader comment

europe.wsj.com

'The WikiLeaks may be embarrassing, but more embarrassing is the ineptitude of trying to plug them.'

Joelle Brink on efforts to control information in the Internet age



Continuing coverage



Get analysis of the top news stories of the day at wsj.com/europeanalysis

Question of the day

View and vote: See slideshows of four European properties and vote for your favorite in our interactive poll at wsj.com/lifeandstyle

Previous results

Q: What kind of effect will the WikiLeaks release have on international diplomacy?

Insignificant

35%

Significant

50%

Disastrous

15%

THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Commodity Quay, East Smithfield,
London, E1W 1AZ

SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 20 3426 1234. Calling time from
8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com.
Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones
International. Frankfurt: 49 69 29725 390;
London: 44 203 426 1111; Paris: 331 40 17 17 01.
Printed in Belgium by Concentra Media N.V. Printed in
Germany by Dogan Media Group / Hürriyet A.S. Branch
Germany. Printed in Switzerland by Zehnder Print AG WIL.
Printed in the United Kingdom by Newsfax International
Ltd., London. Printed in Italy by Teletampa Centro Italia
s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland
by Midland Web Printing Ltd. Printed in Israel by The
Jerusalem Post Group. Printed in Turkey by GLOBUS
Dünya Basinevi.

Registered as a newspaper at the Post Office.
Trademarks appearing herein are used under license from
Dow Jones & Co. ©2010 Dow Jones & Company. All
rights reserved. Editeur responsable: Patience Wheatcroft
M-17936-2003.

Registered address: Boulevard Brand Whitlock, 87, 1200
Brussels, Belgium

NEWS

Spain reopens skies after walkout

By ANA GARCIA
AND SANTIAGO PEREZ

MADRID—Spanish airports and airlines were operating at full capacity on Sunday after the government reopened the country's airspace and forced striking air-traffic controllers to return to work.

The government decreed a state of alarm on Saturday, taking emergency measures after controllers throughout the country walked off the job Friday afternoon, forcing authorities to close Spain's airspace for 18 hours and stranding thousands of travelers at the country's airports.

Socialist Prime Minister José Luis Rodríguez Zapatero ordered the Defense Ministry to take over air-traffic control Friday night. He then issued a decree Saturday morning requiring controllers to return to their workplaces or face legal action, measures not seen since the times of the dictatorship of Gen. Francisco Franco.

"There is military supervision, but the environment is calm" at air-traffic facilities, César Cabo, spokesman for air-traffic controllers union USCA, said on Facebook.

The labor dispute takes place at a time of unprecedented economic turmoil, with the Spanish government seeking to lower spending and raise taxes as part of an effort to put its finances on track following the collapse of the country's once-booming real-estate and construction sectors.

On Friday, it announced a series of economic measures to raise some €14 billion (\$18.5 billion) through the partial privatization of the national lottery and airport operator AENA, as well as the management of Madrid's and Barcelona's airports by private companies.

Monday and Wednesday are national holidays in Spain, and many families travel to reunite in a coun-



Several hundred passengers waited at check-in counters at Madrid-Barajas international airport early Sunday.

try that relies heavily on domestic air transport. On Saturday alone, more than 2,600 flights were canceled.

Flagship carrier **Iberia Líneas Aéreas de España SA** said it plans to operate more than 600 flights Sunday, after increasing staff on duty by 30% to reschedule flights and assist stranded passengers.

Spain's No. 1 airline by revenue canceled most flights on Friday and Saturday, and urged passengers not to go to airports, as angry crowds overwhelmed customer service and call centers of most local airlines. The company also had to secure lodging for 4,000 clients, many of whom had lost connections to transatlantic flights.

Sunday, AENA said the number of total cancellations fell to 165.

On Sunday morning, many people were still sleeping on the floors of Madrid's Barajas airport.

"At least, I was able to make some friends," said Ruth Mari, a young traveler from the island of Ibiza who spent all night at the airport on Saturday, seeking to catch a flight to Galicia in northern Spain.

International airlines also were forced to cancel or reroute most of

its flights in and out of Spain.

"We are deeply sorry about the inconvenience caused to travelers," said Daniel Zamit, another spokesman of the air-traffic controllers union. "But the government must also share responsibility."

The dispute with controllers escalated after the government introduced on Friday new criteria for calculating working hours for them.

Controllers say the new regulations will severely limit parental and sick leaves, among other things, and viewed them as the latest attempt by Public Works Minister José Blanco to shake up their sector.

Earlier this year, Mr. Blanco said he would be curtailing some of the privileges of Spanish controllers, which he said were among the highest paid in Europe.

The government also will require medical examinations of controllers who called in sick en masse.

Mr. Blanco said Sunday the government has so far opened more than 400 disciplinary cases.

Friday's decree limiting parental and sick leaves was seen by controllers as an act of aggression. "It was dynamite, it drove people completely crazy," Mr. Zamit said in a telephone interview.

However, scenes of infuriated travelers at overcrowded airports not seen since this spring—when ashes from a volcano in Iceland forced the closure of most of Europe's airspace—sparked a public backlash against controllers.

In a country with a record-high unemployment rate of 20%, the average annual salary of €200,000 of Spain's air-traffic controllers didn't encourage solidarity. The Workers Confederation, one of Spain's main left-leaning unions, said the walkout was illegal and irresponsible, affecting efforts of unions to defend labor rights. "Air controllers must comply with labor legislation," the union said.

Lawsuit targets website over 'history sniffing'

By JESSICA E. VASCELLARO

Two California residents filed suit against the owner of adult website YouPorn, alleging it had violated cybercrime and consumer-protection laws by using surreptitious technology to harvest information about what websites they had visited.

The suit, which a lawyer for the plaintiffs said was filed late Friday in the U.S. District Court of the Central District of California, is one of the first to target a practice called "history-sniffing," which is drawing increased scrutiny from regulators and academics.

The technique generally relies on the fact that Internet browsers display web links in different colors based on whether the user has visited the particular link before. By running some code inside a user's web browser, a company can tell whether certain sites have been visited and create a profile of where someone has been online without them knowing. The complaint alleges that YouPorn used history-sniffing to "peek into the Plaintiffs' Internet visitation history" by exploiting a vulnerability in Web browsers and failed to disclose they

were doing so to users. It seeks unspecified damages, an injunction against YouPorn and class action status.

YouPorn owner Midstream **Media International NV**, based in the Netherlands, couldn't be reached to comment.

It is the latest suit to take aim at pervasive technologies that track users' online activities, often for marketing purposes. Many other suits and much recent regulatory scrutiny has focused on "cookies," small text files that are placed on users' Web browsers when they visit Internet sites. Companies can use cookies to assemble profiles about users' interests for targeting ads.

Separately Friday, **Quantcast Corp.**, **Clearspring Technologies Inc.** and a number of websites agreed to settle several suits filed against them this summer by individuals, who alleged they used online-tracking tools that essentially hack into a person's machine without their knowledge.

Consumers, academics and regulators have begun to scrutinize a wider array of targeting techniques, including history sniffing.

—Emily Steel contributed to this article.

It's a
**BIG
WORLD,**
after all.

**With the
right multinational
insurance, you can do
business anywhere.**

Whether your business is exposed to risk in two countries or 102, the Chartis companies can execute and service your program—from underwriting to loss control to claims payment—no matter where you do business. See why businesses around the world have turned to Chartis for over 80 years.

Visit www.chartisinsurance.com/multinational

CHARTIS

Your world, insured

All products are written by insurance company subsidiaries or affiliates of Chartis Inc. Coverage may not be available in all jurisdictions and is subject to actual policy language. For additional information, please visit our website at www.chartisinsurance.com.

EUROPE NEWS

Latin America offers lessons for Europe

[The Outlook]

BY BOB DAVIS

Latin America has endured more financial crises than any other part of the world in the past six decades. It's learned lessons that are important now for the euro zone, which is coping badly with financial wildfire.

Although the two regions have very different levels of wealth, there are important similarities. Financial woes in both regions skip from country to country via trade, finance and group psychology. Many Latin countries tied their currencies tightly to the dollar, leaving their monetary policy in the hands of the Federal Reserve, similar to the way euro-zone countries ditched their own currencies in favor of the euro and the European Central Bank.

How to fight a financial crisis that's threatening to spin out of control? The traditional recipe of cutting budgets and slashing social programs to pay down debts, bolstered by International Monetary Fund loans, can work, Latin America's experience shows. Partly that's because the IMF essentially rolls over loans for countries that make progress in meeting the cost-reduction targets. In Europe, the IMF is working with a European fund to craft rescue loans.

When investors abruptly pulled money out of Brazil in 1998, threatening to bankrupt it, the IMF extended a loan that year, one in 2001 and another in 2002. The last IMF loan didn't expire until 2005—giving Brazil seven years to get its affairs in order, avoid default and set it on a path to growth. Even so, countries resist turning to the IMF for loans because the Fund requires big cuts in spending and often tighter monetary policy in exchange.

But other examples in Latin America also show that default, which euro zone countries are struggling to avoid, can have a big upside. "Restructuring can be less painful than it appears provided it is done cleanly and quickly," says Harvard economist Ricardo Hausmann, who has long worked on Latin debt problems. "There have been restructurings that have had salutary effects" by reducing



Demonstrators pour gasoline to burn tires in Buenos Aires in December 2004, as thousands rallied to mark the third anniversary of unrest that kicked off Argentina's economic crisis.

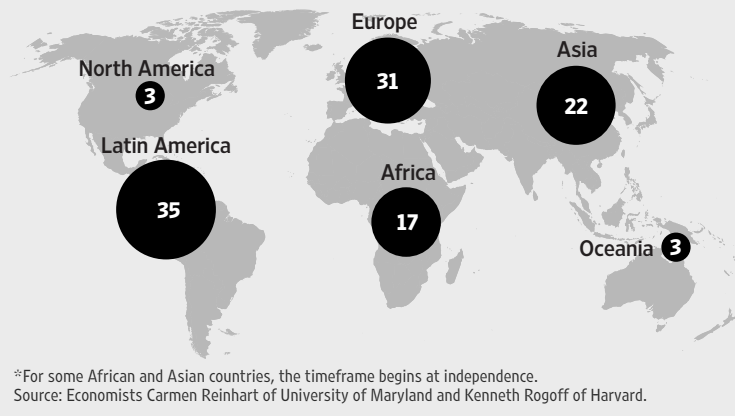
debt burdens.

Structuring a deal is tricky. Andrew Powell, a senior researcher at the Inter-American Development Bank, distinguishes between "market friendly" defaults and "aggressive" defaults. Jamaica—the Caribbean is considered part of the Latin American region—this year persuaded more than 99% of creditors to accept a reduced interest rate on Jamaica's domestic debt and later repayment. That reduced the government's yearly interest payments by about one-third, Mr. Powell estimates. The IMF and multilateral development agencies provided a \$2.2 billion loan to support banks, which held much of the debt.

The downside: The market-friendly solution didn't reduce Jamaica's overall debt level of 140% of gross domestic product, because the face value of domestic

Crisis champs

Number of banking crises 1945-2010*



debt wasn't touched and foreign debt wasn't included in the plan. "It gives you time to do the adjustment, but you still have to do it," Mr. Powell said.

The most prominent example of an aggressive default is Argentina, which has been essentially shut out of international financial markets since 2001, when it committed the

world's biggest sovereign-debt default, on \$95 billion of bonds. The country crammed down the throats of its creditors a 70% hit on the face value of the debt in 2005, and it still has many holdouts who are trying to pressure Buenos Aires into paying more.

The upside: Argentina's debt load shrank by one-third after the

default, and it shifted into high growth. Part of the reason for that is the surge in demand for Argentine wheat, meat and other commodities, thanks to China. But partly, it's because the economy's growth wasn't stalled by overly burdensome debt payments.

"Aggressive debt defaults mean you'll be classified as a rogue debtor, you'll be excluded from capital markets, but there's the possibility you might solve your problems more quickly," says Mr. Powell.

Germany wants euro-zone nations to force creditors to take hits on their debt in future crises, though it's proposing a convoluted financial plan that may make such an outcome unlikely. But euro-zone countries can't devalue their currencies to gain a competitive advantage, as Argentina did, unless they pull out of the euro.

Mr. Hausmann says such a move would be difficult and have unpredictable consequences but could quickly reduce a country's foreign debt. If Ireland declared one Irish pound equal to one euro, it could turn euro debt into Irish pound debt. Then it could let the value of the pound float on currency markets, he said. The inevitable devaluation would boost the country's export competitiveness, without worsening its domestic debt load.

The case of Brazil in 1995 suggests a less-dramatic alternative. That time, the country was pulled out of a financial funk when the Argentine peso appreciated rapidly because it was tied to what was then a soaring dollar. Brazilian agricultural exports boomed as Argentina's sank. Argentina inadvertently became an economic engine for Brazil.

Germany could play the same role in Europe—though this time by design—if it revved up domestic demand to draw imports from Ireland, Greece, Spain and other troubled European countries. Nobel Prize-winning economist Joseph Stiglitz says Germany would also need to help countries slash their debts, rather than just providing more loans.

"These countries [in Europe] could probably survive with just insisting creditors take haircuts," rather than leave the euro, he says. "But they'll need another tool—a huge amount of aid."

Can Germany keep pulling euro-zone load?

BY BRIAN BLACKSTONE

Germany and the European Central Bank have taken a tag-team approach to keeping the euro zone afloat: The former supports the currency bloc's economy, the latter its financial markets.

Each has enough juice to play its part into the new year. After that, they may start to flag.

For now, markets want to see that the two are willing and able to do all they can to contain Europe's debt crisis. To that end, investors will watch Monday's release of data on the ECB's latest bond-buying activity.

Talk in financial markets of heavy ECB bond purchases last week fueled a rally in debt issued by Por-

Bumpy ride

How many dollars one euro buys



tugal and Ireland. To show the ECB brought out the big guns, economists said Monday's report needs to

indicate purchases increased toward €10 billion (\$13.4 billion). That would compare with the ECB's average weekly bond buys of about €1 billion in November.

One caveat: Monday's report will include only purchases made up to last Wednesday. Investors will have to wait another week for data on purchases made Thursday and Friday.

Yet the ECB's actions ultimately are stopgap measures. More important is the health of the German economy, which accounts for 30% of euro-zone gross domestic product and has one of its lowest deficit-to-GDP ratios. This gives it the ability to cushion stagnation in Greece, Ireland and Spain, as well as the financial heft to lead rescues.

At the moment, German industry, the backbone of its export-driven economy, is ending 2010 on a high

The Bundesbank on Friday forecast 2% German growth for next year, down sharply from this year's projected 3.6% rate. In 2012, it forecasts growth of just 1.5%.

note. Data due Wednesday are likely to show a monthly rise in industrial production in October of about 1%. Coupled with robust consumer spending (usually the Achilles' heel

for Germany), the figures should point to German GDP growth of about 3% annualized this quarter, cementing growth well north of that for 2010.

Yet risks are mounting for 2011 when an uncertain global outlook threatens exports. Germany's central bank, the Bundesbank, on Friday forecast 2% growth for next year. That is down sharply from this year's projected 3.6% rate, abnormally high for what in recent years has been a slow-growing economy. In 2012, it forecasts growth of just 1.5%.

That may be enough to keep German unemployment low. It doesn't necessarily leave a lot of scraps, though, for euro-area laggards like Greece and Ireland.

THE CLASSIC WATCH

No other watch is engineered quite like a Rolex. The Datejust, introduced in 1945, was the first wristwatch to display the date through an aperture on the dial. Its unique magnifying Cyclops eye, added a few years later, became recognised as a Rolex design standard. Now in a larger, more distinguished 41 mm size, the Datejust II is a natural evolution of a classic. The Datejust II is presented here in Rolex signature Rolesor, a unique combination of 904L steel and 18 ct yellow gold.

THE DATEJUST II



EUROPE NEWS

Sarkozys see India's sights ahead of talks Monday



Agence France-Presse/Getty Images

French President Nicolas Sarkozy and his wife, Carla Bruni, visit Fatehpur Sikri, a ghost town that was the capital of the Mogul empire, Sunday. The couple made a short stop at the Taj Mahal, the 17th-century monument to love, as part of the trip. Mr. Sarkozy is to hold talks with Prime Minister Manmohan Singh on Monday.

EU is dealt a setback on China at WTO

By JOHN W. MILLER

BRUSSELS—The World Trade Organization condemned European Union antidumping tariffs on imports of Chinese screws, handing Beijing its biggest legal victory yet at the Geneva-based body. EU officials described the decision as a significant setback.

Legal experts said the victory is a sign of the effectiveness of China's strategy of fighting foreign import tariffs by hiring top-notch trade lawyers and lobbying heavily at WTO headquarters in Geneva.

The ruling, issued Friday, could also set a precedent, making it harder for the EU and the U.S. to impose antidumping tariffs on developing economies, which argue that factors other than state aid make their products less expensive.

China joined the WTO in 2001. Its exports to the rich world immediately soared, leading to tensions over currency values, public contracts, access to the Chinese market by Western companies and charges of "dumping," or exporting to a foreign country below cost.

The EU and the U.S. have made extensive use of WTO rules that allow countries to impose tariffs on dumped goods, frequently targeting countries where the state plays a large role in the economy. Between 1999 and 2009, China was the target of 445 antidumping measures, or 24% of those imposed by all WTO members combined.

That hasn't sat well with the Chinese government. Following the ruling, Chinese Ministry of Commerce complained of systematic "unfair treatments" over the past decade.

Beijing started putting up a fight around 2008, when it emerged as a key player for the first time, in the failed discussions on the Doha Round of trade talks. About the same time, it inaugurated a brand-new mission, a football field away from WTO headquarters. China also started paying top dollar for expert trade lawyers.

Since then, China has systematically challenged EU and U.S. tariff increases. "They have a lot of complaints against them, and they've become adept at challenging other countries," Simon Lester, founder of WorldTrade Law.net LLC, a Washington-based consultancy.

Import duties helped cut EU imports of Chinese screws and fasteners to \$555.7 million in 2009 from \$1.39 billion in 2007. In July, China appealed, and the WTO accepted months later. China's claim was that the EU unfairly used costs in India and the EU itself as comparisons when determining what the screws should have cost to make in China.

On Friday, the WTO accepted the Chinese claim, agreeing with the Chinese argument that manufacturing in China is legitimately cheaper, even without help from the state.

"It is important to note that this is only an intermediary step because the EU or China can decide to appeal it. It is therefore too early to speculate on what kind of impact the ruling would have," said John Clancy, an EU spokesman. Privately, EU officials said the ruling was a significant defeat.

New Russian-spy allegations

By NEIL SHAH
AND ALISTAIR MACDONALD

LONDON—The U.K. government has detained a woman working in Britain's House of Commons on suspicion of spying, a crackdown that could rattle the often frosty relations between Britain and Russia.

Mike Hancock, a lawmaker in the U.K.'s Liberal Democrat party, said on Sunday that his parliamentary assistant, Ekaterina Zatuliveter, had been detained Thursday by British authorities and faces deportation "on the basis that her presence here was not conducive to the public good," his office said. Mr. Hancock said his assistant plans to appeal.

Britain's Sunday Times newspaper reported that U.K. Home Secretary Theresa May has approved 25-year-old Ms. Zatuliveter's detention.

The Home Office declined to comment. Mr. Hancock's office in Portsmouth South, in southern England, referred back to the lawmaker's news release.

Tensions over Ms. Zatuliveter's detention could chill British-Russian relations, which have yet to recover from Moscow's refusal to extradite a suspect in the poisoning of a former KGB official in London. One U.K. security official said that despite the end of the Cold War, Russian espionage continues at high levels as the country tries to gain British military and commercial secrets.

While Mr. Hancock, who has no ministerial post, wouldn't have been privy to many state secrets, any proven spy connection would embarrass the U.K., given that his assistant would have had full access to Parliament. Mr. Hancock's Ports-

mouth constituency also contains a large Royal navy base. It isn't particularly rare for British lawmakers to employ foreign nationals in such posts. A special adviser to Foreign Secretary William Hague is Bosnian, while one of Deputy Prime Minister Nick Clegg's most senior staffers is German.

According to Mr. Hancock, Ms. Zatuliveter finished a master's degree at Bradford University in the U.K. and had been working for him on a work visa for 2½ years.

British authorities questioned her upon her return from a vacation in August—an inquiry with which she has been cooperating, Mr. Hancock said. "She could have left at any time since then...but believed she had done nothing wrong," he said. "No evidence has been given to her as to the reasons for all this."



European Pressphoto Agency

U.K. lawmaker Mike Hancock

U.K. companies see skills shortfall

By ILONA BILLINGTON

LONDON—The U.K. private sector is planning to add jobs in the next 12 months, but concern is growing that a lack of skilled workers could dent hopes of filling vacancies.

According to a survey to be published Monday by PricewaterhouseCoopers, 28% of U.K. firms polled said they plan to increase staffing in 2011. While that is similar to levels in the U.S. and Europe, concerns over a lack of suitably skilled workers is more striking in

the U.K., highlighting the possibility of longer-term implications.

"The expected headcount increases are encouraging news for the job market and suggest the private sector will be able to accommodate those public-sector workers who are made redundant," said Michael Rendell, head of human-resources services at PwC.

Still, 53% of U.K. companies say that the current skills shortage represents the biggest challenge.

"The U.K. has lost its position as the world's most educated work force, which is particularly worrying

as we come out of the recession and may limit future growth," Mr. Rendell said, adding that companies need to ensure money spent on training is as closely monitored as capital investment in order to get the most from their work force, and particularly new workers.

A lack of skills at a time just as the economy is in great need of job creation to help prop up the wider economy will be worrying news for the U.K.'s coalition government.

Government spending cuts mean each department must slash their budgets by between 25% and 40%,

and in order to do so up to 330,000 public-sector jobs are expected to be cut in the next four years.

The independent Office for Budget Responsibility predicts a net increase in employment over the coming years, as it forecasts increasingly strong growth in the U.K.'s private sector.

But that forecast is seen as unrealistic by some economists, particularly in 2011, when the bulk of jobs will be lost and companies will be competing hard for their share of much diminished discretionary income.

U.S. NEWS

Sidewalk graffiti draws crackdown from cities

By JIM CARLTON

SAN FRANCISCO—Cities from here to New York are cracking down on a form of marketing that some police liken to graffiti vandalism—much of it paid for by such marquee companies as **Microsoft Corp.** and others.

The marketing technique entails sending people out to plaster corporate logos and products on sidewalks and other public places. Proponents say it gives companies a cheap and creative way to advertise compared with conventional methods. But city officials across the U.S. say the advertisers are defacing public property, and shunting the cost savings onto the public by adding to cleanup and enforcement expenses.

Authorities are imposing fines and making arrests to try to corral the activity. Last month, the San Francisco City Attorney's office said it reached a \$45,000 settlement with Davis Elen Advertising of Los Angeles for gluing fake money on city streets in August to promote **Zynga Game Network Inc.**'s social game Mafia Wars.

In New York, police in July jailed independent contractors working with Brazilian sandal maker **Havaianas** on vandalism charges for stenciling chalk ads on sidewalks.

Officials of Davis Elen and Zynga declined to comment. San Francisco officials said Zynga was unaware of the campaign.

One of the lead contractors behind the Havaianas campaign, Attack! Marketing of San Francisco, said it agreed to remove hundreds of the ads depicting a set of sandals in New York, Chicago, Los Angeles, San Diego and San Francisco.

"If we've offended anyone, our objective first and foremost is to do everything we can to right any perceived wrongs," said Christian Jurinka, managing partner of Attack! He added his firm conducted the stenciling campaign at the behest of another agency, London-based Cake Group.

Cake officials didn't return calls for comment; a spokesman for Havaianas couldn't be reached.

Marketing experts trace the guerrilla marketing trend to the 1980s, when some agencies began using street stunts to advertise products, like parading a scantily clad model in a public venue, such as the Parliament building in London. Its proliferation in the past decade paralleled a rise in "street art" around the country, such as more stickers, fliers and murals appearing in cities like New York, said Piers Fawkes, who runs a marketing-ideas website in New York called PSFK.com. "What happened is the marketing agencies borrowed from that language," Mr. Fawkes said.

Graffiti vandalism is particularly grating to cities as many grapple with budget woes. City officials say it can cost thousands of dollars to clean up street art—even if made with chalk—because crews have to go out with steamers and other equipment, and administrative expenses are involved.

Companies like Microsoft downplay any damage done. Last month, the Redmond, Wash., software maker admitted to a street-marketing campaign in New York and San Francisco for its Windows Phone 7.

Microsoft officials said the company and one of its marketing agencies, GoGorilla Media of New York, used "chalk art" in select neighborhoods to promote concerts by Maroon 5 and Katy Perry related to the phone launch.

On Nov. 10, Microsoft received a "cease and desist" letter from San Francisco's public-works department. Debbie Anderson, a Microsoft

spokeswoman, said, "The chalk designs were temporary and have all been successfully removed." GoGorilla declined to comment.

This isn't the first time companies have gotten into trouble for street-art marketing. In 2005, **General Electric Co.**'s NBC Universal paid San Francisco \$103,000 in fines and other fees for stenciling ads for the short-lived TV show "The 4400."



Sidewalk graffiti promoting Microsoft phone software near the corner of 17th and Valencia streets in San Francisco.

U.S. NEWS

Inflation risk is low, Fed says

By SUDEEP REDDY

Federal Reserve Chairman Ben Bernanke took his message into American homes Sunday evening, defending the central bank's controversial bond-buying program on CBS's "60 Minutes" television program and pledging that he is "100%" confident he can prevent runaway inflation.

Mr. Bernanke warned that the economic recovery "may not be" self-sustaining and called the chance of unemployment remaining high for a protracted period "the primary source of risk that we might have another slowdown in the economy."

This was the Fed chairman's second appearance on "60 Minutes." In a March 2009 interview, he defended the central bank's response to the financial crisis amid the backlash over bailing out insurer **American International Group Inc.** Since the crisis, Mr. Bernanke has taken his message to the public through town hall forums and discussions on college campuses.

Sunday's TV interview, taped Tuesday at Ohio State University following a forum with business leaders, came a month after the Fed announced its plan to buy \$600 billion in Treasury securities to lower interest rates and stimulate growth, in part by pushing investors into riskier assets. The move drew sharp attacks from foreign leaders, who fear damage to their export sectors, along with conservative economists and politicians who maintain that it will spur runaway inflation.

Mr. Bernanke called the inflation fears "way overstated" and said he has 100% confidence that he can act quickly enough to keep prices in check. "We've been very, very clear that we will not allow inflation to rise above 2% or less," he said. "We could raise interest rates in 15 minutes if we have to. So, there really is no problem with raising rates, tightening monetary policy, slowing the



Fed Chairman Ben Bernanke says the possibility of extended unemployment is 'the primary' danger for the U.S. economy.

economy, reducing inflation, at the appropriate time."

Instead, Mr. Bernanke said the Fed decided to embark on its bond-buying plan because of high unemployment and "very, very low" inflation that put the economy at risk of deflation. "We're getting awfully close to the range where prices would actually start falling," Mr. Bernanke said. By acting, "the risk is pretty low," he said. "But if the Fed did not act, then given how much inflation has come down since the beginning of the recession, it would be a more serious concern."

People who worry about inflation are "looking at some of the risks and uncertainties with doing this policy action, but what I think they're not doing is looking at the risk of not acting," Mr. Bernanke

said.

He also said "it's certainly possible" the Fed could expand the bond-buying program beyond \$600 billion. "It depends on the efficacy of the program. It depends on inflation. And finally it depends on how the economy looks," he said.

Mr. Bernanke also said "it doesn't seem likely" that the economy would fall into recession again but suggested that could happen if the unemployment rate remained high "for a protracted period of time." The Fed chairman said returning to a more normal unemployment rate of 5% or 6% could take four or five years. Some economists say that assessment is optimistic.

As lawmakers in Washington debate extending tax cuts and cutting the deficit, Mr. Bernanke said poli-

cymakers should focus on the long-term structural budget deficit but not take actions "that will affect this year's spending and this year's taxes in a way that will hurt the recovery." He also endorsed efforts to overhaul the tax code to increase its efficiency and create more incentives for investment.

Mr. Bernanke called the growing income gap between rich and poor Americans "a very bad development" that's based in large part on education. "It's creating two societies," he said. "If you're a college graduate, unemployment is 5%," he said.

"If you're a high school graduate, it's 10% or more. It's a very big difference. It leads to an unequal society and a society which doesn't have the cohesion...that we'd like to see."

Tax deal looks to be within reach of lawmakers

Continued from first page
failed to get enough votes to bring to the Senate a House bill passed on Thursday that would have extended the lower tax rates for individuals who earn less than \$200,000 and couples earning less than \$250,000 with a vote of 53-36.

A vote of 60 would have been needed to allow the bill to come to the Senate floor.

Lawmakers then defeated a separate attempt by a vote of 53-37 to raise the threshold for middle-class tax cuts to \$1 million and then extend that tax level permanently.

Republicans unanimously opposed both votes along with some Democrats.

Mr. Obama called the Saturday votes "very disappointing" and said the issue of the tax cuts renewal needed to be resolved shortly.

After the Senate votes, President Obama told Democratic congressional leaders he would be open to a temporary extension of the Bush-era tax cuts for the affluent, but he would demand concessions from the GOP: a year-long extension of unemployment insurance and tax cuts for middle-income and working poor Americans that were in the stimulus law but also expire at the end of this year.

Those include the Making Work Pay tax cut of \$400 for middle-income individuals and \$800 for couples, a tuition tax credit, an expanded earned income and child credit for the working poor, and a payroll tax credit for new hires.

That package would cost the Treasury around \$150 billion a year. But without it, taxes would still rise for 95% of Americans, a White House official said.

House lawmakers approved legislation permanently extending the lower tax cuts for middle class Americans on Thursday.

Democrats castigated Republicans, saying that in the first opportunity in the Senate to pass a measure extending the Bush tax cuts for most Americans, the GOP decided to vote against such legislation. Before the November midterm elections, Democrats pushed just for the renewal of lower tax rates for people earning less than \$200,000—what they termed middle-class Americans.

Sen. Mark Begich (D., Alaska) said that only around 315,000 Americans earned more than \$1 million a year, saying that Republicans had chosen to defend those wealthier people at the expense of the rest of the country.

After the drubbing they received, Obama and congressional Democratic leaders made it clear they would be open to an agreement that saw all the tax cuts renewed at least temporarily.

Republicans have argued throughout that with the weak economic conditions in the U.S., it would be a mistake to raise taxes for anyone.

Talks continue between congressional lawmakers and top administration officials about what would be the exact constructs of a bipartisan deal.

—Jonathan Weisman
contributed to this article.

In crime lists, nuance is a victim

[The Numbers Guy]

By CARL BIALIK



Criminologists say an annual ranking of cities by crime rates is guilty of statistical offenses.

When CQ Press's City Crime Rankings were published recently, they prompted headlines nationwide, particularly in cities that ranked near the top or bottom. The rankings showed that Detroit had the country's highest crime rate among the largest cities, while El Paso was the least dangerous.

But critics say such comparisons are meaningless. Cities differ markedly in how tightly their borders are drawn around their inner core, and how much of outlying areas are included within city limits can have a big effect on crime levels. The rankings are based only on reported crime, and reporting rates vary. Also, personal safety

varies tremendously depending on lifestyle, income and neighborhood.

"Knowing the city someone lives in tells you next to nothing about their risk for crime," says Richard Rosenfeld, a criminologist at the University of Missouri-St. Louis and a critic of the rankings.

CQ Press, which SAGE Publications bought from Congressional Quarterly in 2008, says it is merely making available public data and leaving it to readers to draw broader conclusions. "The numbers are the numbers," says Ben Krasney, CQ Press's spokesman. "It's a starting point for further research."

The CQ Press ranking takes into account a city's per-capita incidence of six serious crimes: murder; rape; robbery; aggravated assault; burglary; and motor-vehicle theft. For each crime, the editors calculate how each city's rate differs from the national average. These are averaged to produce an overall score, then cities are ranked by that score, which, roughly speaking, represents the difference between

a city's rate of serious crime and the national rate.

This method produces some quirks. A city with below-average levels in five of the categories but a very high level of, say, car theft could score poorly. Also, if crime is down nationally, a city whose crime rate falls more slowly could see its crime ranking rise. And there is very little difference near the middle of the rankings.

The Federal Bureau of Investigation, which compiles the data used by CQ Press, cautions on its website against ranking cities using the agency's crime statistics. "It's apples to oranges," says Gregory Scarbro, unit chief for the FBI Uniform Crime Reporting Program.

Critics in St. Louis particularly bemoan the emphasis on ranking by city, saying metropolitan areas—which also are ranked by CQ Press, but get less attention—are a fairer unit of comparison. In recent years, St. Louis consistently has landed near the top of crime rankings, while its metro area has ranked outside the top 100 in violent crime.

Prof. Rosenfeld notes that crime varies more within a city than between cities, as different neighborhoods, age groups and lifestyles—for example, a tendency to be away from home late at night—all affect crime rankings.

To adjust for these factors, Prof. Rosenfeld and other criminologists in a group called Improving Crime Data for several years have been releasing city homicide rankings adjusted for demographic factors such as median income and unemployment rates. In 2008, Detroit had the second-highest homicide rate among 63 cities, but was 53rd highest after the adjustments.

Yonkers, N.Y., touted its own ranking system, which compares the city only with relatively large urban areas and counts all major crimes equally. "It's more fair to compare Yonkers to a city like Newark, or Louisville, Ky., than to a city of 50,000 to 60,000 people in the middle of Iowa," says city spokesman David Simpson.

Learn more about this topic at WSJ.com/NumbersGuy.

WORLD NEWS

U.S.-Korea trade pact fortifies ties

By EVAN RAMSTAD

SEOUL—The U.S. and South Korea over the weekend finally finished reshaping a sweeping free-trade agreement that had been stuck in legislative limbo since 2007, making compromises that drew some political criticism here over fairness but not enough to harm the likelihood of ratification.

Trade Minister Kim Jong-hoon, in a nationally televised news conference that lasted more than an hour, on Sunday rejected critics who, before hearing details, were accusing his negotiating team of caving in to U.S. pressure in the revising the agreement.

He also denied acting too swiftly to make a deal in the aftermath of a North Korean attack on South Korea, an event that prompted Seoul to look to Washington for reassurance of their decadeslong defense alliance.

"I only negotiated this on the basis of economic principles," Mr. Kim said.

The pact, which requires legislative approval in both countries, is the largest by value of trade volume anywhere in the world since the North American Free Trade Agreement took effect in 1994 involving the U.S., Canada and Mexico.

U.S. President Barack Obama said it would support at least 70,000 American jobs, an important selling point as he pushes for ratification in the U.S. Congress.

The floor speaker of South Ko-



South Korean Trade Minister Kim Jong-hoon speaking on the trade agreement at a Seoul new conference on Sunday.

rea's opposition party derided the revised agreement as an "economic attack" and a "humiliation." But leaders of the ruling party, which controls 171 of the 299 seats in parliament, endorsed the changes and said ratification is likely.

The U.S.-South Korea deal doesn't open every economic segment in either country. But it is expected to boost two-way trade, which amounted to \$69 billion last year, by \$10 billion or more, and

slightly narrow South Korea's surplus with the U.S.

To clinch the deal, South Korea agreed to new steps to open its auto market to U.S. producers. Chief among those steps was that it will allow U.S. makers to sell as many as 25,000 vehicles a year using U.S. safety standards rather than Korean ones.

South Korea's auto rules are a mix of domestic, U.S. and European standards that have stymied foreign

manufacturers because they require modifications to a small volume of production. As a result, foreign brands account for only about 6% of overall vehicle sales in South Korea, making it one of the most closed auto markets in the world. The top-selling U.S. brand in South Korea, **Ford Motor Co.**, sold 3,100 units from January through October, about 0.2% of the overall market volume of approximately 1.2 million vehicles.

Auto imbalance

Annual passenger-car imports, in billions



Sources: U.S. Census Bureau

Mr. Obama had hoped to secure a revised agreement during his trip to Asia last month for the G-20 summit hosted by South Korea. The talks foundered, in part because South Korean officials had told the Korean public for weeks they would make no compromises. Mr. Obama left Seoul empty-handed, but the appearance that the U.S. was willing to walk away from the deal alarmed South Koreans, Seoul officials said.

The pact gives a lift to Mr. Obama's efforts to double U.S. exports by 2015. "Essential to that is opening new markets around the world to products that are made in America," Mr. Obama said in Washington on Saturday.

—Elizabeth Williamson
in Washington contributed
to this article.

Beijing ordered hacking of Google, U.S. cable says

By LORETTA CHAO

BELJING—Leaked U.S. diplomatic cables are shedding new light on the atmosphere of suspicion and tension between the U.S. and China surrounding a massive rupture between Google Inc. and the Chinese government.

The cables, gathered by the WikiLeaks website and published by news organizations, include allegations that sophisticated cyber attacks on Google, which the company publicly complained about early this year, were ordered by top Chinese leaders. They document how China put growing pressure on Google over the years to censor its searches within China. According to one cable, authorities may have stepped up the intimidation last year by asking three state-owned telecommunications companies to stop working with the U.S. search giant.

This year, Google decided to stop cooperating with authorities and move its search services out of mainland China, putting at risk its future in the world's biggest Internet market, by number of users.

Several news organizations, including the New York Times and the Guardian, were given access to the more than quarter-million cables before WikiLeaks began making them public late last month. The cables on Google, some of which were published on those newspapers' websites, were based on research and conversations with various individuals, many by officials from the

U.S. Embassy in Beijing. Names of sources were redacted on some cables, making it hard to assess their credibility. Details couldn't be independently verified.

One cable noted that Google's announcement early this year that it would stop cooperating with Chinese censorship regulations "presented a major dilemma" for the Chinese government because it made Google more interesting and attractive to Chinese Internet users, like "forbidden fruit." It also said accusations made at the time by Chinese authorities that Google was working with the U.S. government to undermine the Chinese government were part of a strategy to "appeal to Chinese nationalism."

Another cable recorded conversations with Dan Piccuta, formerly deputy chief of mission at the U.S. Embassy in Beijing, and unnamed individuals about Google facing increasing censorship pressure because a Politburo member allegedly entered his name into its search engine and discovered that the company's global site is uncensored and that Chinese-language searches included results critical of him.

The cable said three ministries were asked to demand that Google cease its "illegal activities," which it said included providing links from its Chinese website, which was filtered at the time, to its unfiltered global website. Google declined because it was "against company principles."

Google didn't immediately re-

spond to a request for comment.

Efforts to compromise with authorities failed, and an individual whose name was omitted from the published cable said that China had asked telecom companies to stop working with Google.

This would be a "hard blow" because Google was betting heavily on mobile Internet in China, the individual said.

The cable recommended a "high-level" U.S.-government response because even though the individual's information wasn't verifiable, commercial retaliation by the government on Google seemed "quite possible" and was "cause for serious concern."

Google's later decision to publicly refuse cooperation with Chinese censors did have commercial consequences.

The New York Times reported that one of the cables traced cyber attacks on Google to senior propaganda official Li Changchun and top security official Zhou Yongkang, both members of the Politburo Standing Committee, the Chinese Communist Party's nine-member governing group, based on information from an unnamed Chinese source with elite family connections.

The attacks "had been coordinated out of the State Council Information Office with the oversight" of Mr. Li and Mr. Zhou, the cable said, according to the report.

Attempts to get comment from the Chinese government and the individuals named were unsuccessful.

CLASSICAL DEWITT AUDACITY



EVERY DEWITT IS BUILT BY A DEDICATED MASTER HOROLOGIST
AND EACH INCLUDES AN AUDACIOUS TWIST
ON THE CLASSICAL WATCHMAKERS ART.

WWW.DEWITT.CH

WORLD NEWS

Mumbai 'handlers' identified

By AMOL SHARMA

NEW DELHI—David Headley, the Pakistani-American who pleaded guilty in U.S. federal court to aiding the 2008 Mumbai terrorist attacks, identified voices of some key conspirators in the gruesome shooting spree, a top Indian official said.

Indian investigators played intelligence phone intercepts for Mr. Headley during an interrogation this year, said the official, Home Secretary G.K. Pillai. The U.S. made Mr. Headley available to Indian officials for questioning in Chicago in early June. India had pressed for access to him on U.S. soil because his U.S. plea deal barred his extradition.

Mr. Pillai said in an interview that Mr. Headley was able to identify three out of four Pakistan-based "handlers" for the attacks in those recordings. Mr. Headley told investigators he personally had two handlers, one from the militant group Lashkar-e-Taiba, which India believes carried out the attacks, and one from Pakistan's spy agency, the Inter-Services Intelligence.

Mr. Pillai said information from Mr. Headley's interrogation in early June and other evidence was submitted to Pakistan this summer to further the country's prosecution of those responsible for the deadly rampage in Mumbai, in which 10 gunmen killed more than 160 people at some of the city's top tourist spots and hotels. But Pakistan is making "no progress" despite India's leads, Mr. Pillai said.

"I don't think they're going to do anything about it," Mr. Pillai said, adding that he believes that Pakistan's moves so far to advance the case are a "facade" and that it isn't pursuing the people in the "control room" who orchestrated the attacks. He said Pakistan is wary of cracking down on top militants, for fear they will "sing" and implicate Pakistani government officials in the attacks. "They just can't do it," he said.

Abdul Basit, a spokesman for Pakistan's foreign ministry, said India this summer gave Pakistan the names of six Pakistani nationals, in-



Firefighters try to douse fires as smoke rises from the Taj hotel building in Mumbai after the November 2008 attacks.

cluding two people believed to be serving or former military officers, who Mr. Headley said were involved in the Mumbai attacks. But he said Pakistan has been unable to identify these people, whom Mr. Headley likely knew by pseudonyms.

Pakistan has strongly denied having any role in the Mumbai attacks. It has charged seven people in its Mumbai investigation, including Lashkar-e-Taiba members, but their trials haven't started. Indian officials have been frustrated at what they see as stalling tactics, a major reason attempted peace talks between the nuclear-armed rivals haven't got off the ground this year.

Mr. Headley, the 49-year-old son of a Pakistani diplomat and an American woman, was arrested by U.S. authorities in October and pleaded guilty in March in a Chicago federal court to several terrorism-related charges. He acknowledged attending training camps in Pakistan operated by Lashkar-e-Taiba and conducting surveillance of several Mumbai targets ahead of the attacks

as well as helping co-conspirators find landing sites in Mumbai for attackers arriving by sea.

Mr. Headley's attorney, John Theis, said Sunday that the plea agreement his client signed in March "requires him to cooperate with authorities." Mr. Theis wouldn't comment on the specific claims that Mr. Headley identified the voices of key conspirators. "As to any meetings he may or may not have had with law enforcement, I couldn't comment," Mr. Theis said.

Mr. Pillai said Mr. Headley's interrogation revealed a "sophisticated command-and-control" network that orchestrated the attacks. Each handler he identified on the tapes was responsible for a different target—one for the Taj Mahal Palace hotel, one for the Chabad Jewish community center and so on.

Among the names India turned over to Pakistan was Sajid Mir, who India believes was one of the masterminds of the Mumbai attack as a top official in Lashkar-e-Taiba. The intelligence intercepts India has

turned over to Pakistan are strong evidence of Mr. Mir's role, Mr. Pillai said. He said he has told Pakistani officials, "I've given you the photograph, I've given you the voice transcript, the guy is in Pakistan. You go catch all the Sajid Mirs you've got in Pakistan, match the voice transcript, and you've got your guy."

Under his plea deal, the U.S. agreed not to extradite Mr. Headley, a decision that has made it more difficult for India and Pakistan to use his testimony to help prosecute those whom he identified as responsible for supervising the attacks. Mr. Pillai said the U.S. made that decision "unilaterally" and "without consulting either India or Pakistan." As a result, he said, Mr. Headley's statements can't be used in Indian or Pakistani courts, though his identification of Mumbai planners on voice recordings has furthered India's investigations into the attacks.

A U.S. embassy spokeswoman in New Delhi declined to comment.

—Tom Wright
contributed to this article.

U.S. shows frustration on funding of terrorism

Continued from first page

However, the cables do show notable progress in just a few years. A cable from 2007 reports that President George W. Bush was "quite concerned" and sent a letter to Saudi King Abdullah.

A dispatch from earlier this year, in contrast, highlighted Saudi Arabia's "important progress in combating al-Qaida financing emanating from the country....Al-Qaida's ability to raise funds has deteriorated substantially, and it is now in its weakest state since 9/11."

A senior U.S. administration official, while declining to comment on the leaked cables themselves, said, "The U.S. government has made terrorist financing a high priority and raised the issue consistently with countries all over the world, especially in the Gulf, and, as a result of those efforts, we have put substantial financial pressure on al-Qai'da. One of the principal reasons for this progress is an increased prioritization of this issue by Saudi Arabia. In the past 2 years, for example, we've seen the Saudi Arabian government disrupting terrorist financing networks, seeking to delegitimize the practice of funding terrorism, and holding terrorist financiers publicly accountable."

Still, there are concerns. Donors in Saudi Arabia, for example, are described in a December 2009 cable from Secretary of State Hillary Clinton as "the most significant source of funding to Sunni terrorist groups world-wide."

Qatar's counterterrorism record is described as "the worst in the region" in the same cable.

Kuwait, alone among its neighbors, doesn't have a law against terrorist financing.

Pakistan systematically blocks efforts by the U.S. and United Nations to curtail the financing of extremist groups.

The cables illustrate that the battle against terrorist financing is stymied by many of the same forces that have bedeviled it for years.

Islamic charities continue to be a significant source of funding for extremist ideologies, despite years of talks about regulating charitable giving in countries such as Saudi Arabia. Mrs. Clinton's 2009 cable singled out three Saudi charities: the International Islamic Relief Organization, the Muslim World League, and the World Assembly of Muslim Youth.

"[T]hese groups continue to send money overseas and, at times, fund extremism overseas," the cable says.

Terrorism is funded by a range of activities, many of which are difficult to target with regulatory measures. The Afghan and Pakistan Taliban, for example, have used drug smuggling and kidnapping to raise large amounts of money.

Importantly, terrorist attacks are cheap, meaning even small amounts of money reaching extremists can have an impact. The October air-cargo plot hatched in Yemen, for example, cost just \$4,200, according to an article in the English-language magazine of al Qaeda in the Arabian Peninsula. By some estimates, the Sept. 11 attacks cost about \$500,000.

Mediator intervenes in Ivory Coast

By WILL CONNORS

Former South African President Thabo Mbeki arrived Sunday in the Ivory Coast to try to break a political stalemate after two rivals declared themselves the winner of the country's first presidential election in a decade, plunging the West African nation into a fresh crisis.

Mr. Mbeki met Sunday in Ivory Coast with the two presidential candidates: incumbent Laurent Gbagbo and his challenger, Alassane Ouattara. There were no immediate details available about the talks.

The borders of the country—the world's largest producer of cocoa—have been closed since Thursday. They were temporarily opened to allow Mr. Mbeki's plane to land. Mr. Mbeki was sent by the African Union in an attempt to find a peaceful way out of the crisis and to help prepare the ground for a legitimate government.

On Saturday, Mr. Gbagbo was sworn into office at a ceremony mostly boycotted by the international community. Mr. Ouattara was sworn in later that day at a hotel

fortified by United Nations' peacekeepers.

The dueling ceremonies marked the latest twist in a protracted, and at times violent, contest to lead a country still recovering from the end of a civil war earlier in the decade. Ivory Coast remains sharply divided, and parts of the country are heavily armed.

The government has had a power-sharing agreement since 2003, but that tenuous unity is no longer evident. Both candidates have dug in their heels, posing a stiff challenge for the mediator in the election dispute, Mr. Mbeki.

"[Mr. Mbeki] has got that job of trying to persuade them to almost jump at the same time," said Nic Cheesman, a lecturer at Oxford University in African politics. "Given the history of broken promises and weak institutions [in Ivory Coast], that's going to be the thing that's so hard to get."

A key task for Mr. Mbeki will be keeping the northern-based rebel movement, the New Forces, vested in the election's outcome. Their leader, Guillaume Soro, served as

prime minister in a power-sharing government with Mr. Gbagbo since a peace deal signed in March 2007 to end the civil war.

Mr. Soro has pledged to support Mr. Ouattara. The former economist named Mr. Soro prime minister Saturday after declaring himself the new president.

"At this point we're not ready to take any action," Cisse Sindou, chief of staff of the New Forces cabinet, said in a phone interview. "We think the war is over and we should focus on a peace accord. Saying that, if anyone attacks us, we're going to be forced to defend ourselves, but we hope we never get to that point."

On Thursday, the country's independent electoral commission gave Mr. Ouattara 54% of the vote. That verdict was officially approved by the U.N. peacekeeping mission, which has a mandate to certify the elections as part of a peace deal.

The U.N. has access to all 20,000 results sheets, and foreign governments, including the U.S. and France, have endorsed the electoral-commission results. The African Union also has taken the rare step

of unequivocally backing Mr. Ouattara as the victor.

Despite the international support for his opponent, Mr. Gbagbo's camp claimed victory after the head of the country's constitutional council threw out about half a million votes from the northern part of the country, where in the first round Mr. Ouattara won a large majority.

Election observers criticized the move. The Atlanta-based Carter Center "saw no evidence of systematic irregularities that would have a significant impact on the results." Moreover, it found that the country's constitutional council "misapplied the electoral law by choosing to annul partial results," according to a statement from the Carter Center.

Meanwhile, the New Forces, like many armed groups in the country, are seen as wild cards in the electoral standoff. Mr. Sindou of the New Forces said his group wouldn't consider a power-sharing agreement, and urged Mr. Gbagbo to step down.

—John James in Abidjan, Ivory Coast, contributed to this article.