Secretive culture at Toyota exacerbated auto maker's woes
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THE WALL STREET JOURNAL.

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France lends Greece a hand

France and Germany are working together on a possible plan to help Greece resolve its budget problems, a person close to the French presidency said, as European Union officials prepared for a Thursday summit that investors hope will come up with a solution to the financial woes of the euro zone's weakest member.

By Alessandra Galloni, Charles Forelle and Stephen Fidler

Fears of a Greek government default have roiled equity, debt and currency markets for weeks, and the vertiginous gyrations in recent days, EU diplomats say, have put pressure on the 27 leaders of the European Union meeting in Brussels on Thursday to show that they have the problems under control.

Earlier on Wednesday, a group of euro-zone finance ministers convened a conference call to discuss the situation in Greece. A senior Spanish official said the participants discussed mechanisms that could be used to guarantee Greek debt, and thus ensure that the euro itself is sustainable despite fiscal problems of individual countries. "It's about the credibility of the euro," said the official. He added that a broad outline of a plan would likely emerge at Thursday's summit, though details might come later.

Also on Wednesday, French President Nicolas Sarkozy lunched in Paris with Greek Prime Minister George Papandreou. Before the meeting, Mr. Sarkozy spoke with German Chancellor Angela Merkel, according to a statement from the Elysee presidential palace.

"We are working together ahead of the meeting," the person close to the French president later added, referring to France and Germany.

It isn't clear how France and Germany—the euro-zone's two largest economies and the de facto major financiers of any bailout—might propose to act. Earlier, German officials had examined providing loan guarantees to Greece to help ease its financing pressures. Greece, already burdened by a heavy debt load, ran a budget deficit of around 13% of its gross domestic product last year, and it has faced high costs to secure the fresh borrowings it needs this year.

Amid reports on Tuesday that Germany was examining how to provide aid to Greece, equity markets had shot up and the euro had strengthened. Then on Wednesday, when few details emerged, and the German government said nothing had been decided, the euro slumped.

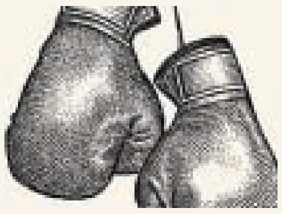
The European Central Bank's governing council was

Please turn to page 5

Associated Press

French President Nicolas Sarkozy and Greek Prime Minister George Papandreou met in Paris on Wednesday.

The Quirk



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World Watch

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

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The Committee to Save Greece convenes in Brussels. **Page 11**

U.S. Northeast grinds to a halt

BY JOHN MCKINNON

The U.S. Northeast was pounded by a blizzard that halted transportation, knocked out power, caused roofs to collapse and brought the federal government to a near standstill.

Experts said that the storm—coupled with another big mid-Atlantic snowfall last weekend—likely would wind up ranking among the costliest and most disruptive in memory.

The latest storm comprised two separate weather systems, prompting Maryland Gov. Martin O'Malley to term it a "swirling double buzz saw" for his state, among the hardest-hit.

A government expert on winter storms, Paul Kocin, said the recent snows would rank among the worst-ever for the mid-Atlantic. "I don't think there's ever been quite a siege of systems like we've had the last week and a half," he said. He compared it in severity to the so-called Superstorm of 1993 and the Blizzard of 1996, which caused several billion dollars in damages each.

Reuters

A man skis by the U.S. Capitol.

Some officials held out hope of reopening airports in the region on Thursday, but it could take days longer for life to return to normal.

The storm was proving so ferocious that many local governments suspended plowing by midday Wednesday, and some power companies were forced to interrupt their restoration work. Gov. O'Malley said power outages could number in the hundreds of thousands by the time the storm runs its course.

Federal officials said on Tuesday that significant new snow could keep Washington offices closed for the remainder of the week. Congress already was shut down on Wednesday, slowing debate over a new jobs bill.

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The next crisis: Prepare for peak oil

[Agenda]

By Patience Wheatcroft

As Europe's leaders gather in Brussels today, they have only one crisis in mind: the debts that threaten the stability of the European Union. They are unlikely to be in any mood to listen to warnings about a different crisis that is looming and that could cause massive disruption.

A shortage of oil could be a real problem for the world within a fairly short period of time. It was unfortunate for the group which chose to point this out yesterday that they should have chosen to do so on the day the Organization of Petroleum Exporting Countries, or OPEC, reported that the effects of the financial downturn had led to a slight downgrade in its forecast for oil consumption this year.

Against the gloomy economic backdrop that Europe currently provides, siren voices shrieking that a potential energy crisis is imminent and could be worse than the credit crunch are liable to be dismissed as scaremongers. Since they are led by Sir Richard Branson, whose Virgin group runs an energy-guzzling airline, and include Brian Souter, who runs Stagecoach, another energy-hungry transport business, they are also at risk of being seen as self-interested scaremongers.

But the work of the Industry Taskforce on Peak Oil and Energy Security shouldn't be disparagingly dismissed. Its arguments are well founded and lead it to the conclusion that, while the global downturn may have delayed it by a couple of years, peak oil—the point at which global production reaches its maximum—is no more than five years away. Governments and corporations need to use the intervening years to speed up the development of and move toward other energy sources and increased energy efficiency.

Reuters

The North Sea Shearwater platform was producing years beyond expectations.

In the first report from the task force, Lord Ron Oxburgh, a former chairman of Shell, wrote that "It is pretty clear that there is not much chance of finding any significant quantity of new cheap oil. Any new or unconventional oil is going to be expensive." He went on to quote King Abdullah of Saudi Arabia commenting on a new oil find: "Leave it in the ground...our children need it."

Governments should be doing all in their power to encourage developments that reduce oil dependency

The latest report from the Taskforce points out how much modern economies depend on oil, whether for transport, heating or even fertilizer. Demand may have peaked in the developed world but any shrinkage there, is likely to be more than outweighed by the developing countries, with their rapidly expanding appetite for energy to fuel industry needs and consumer aspirations. The International Energy Agency, in its World Energy Outlook report last year, estimated global oil demand, currently running at just over 85 million barrels a day, could reach 105 million barrels a day by 2030. The Taskforce, assimilating various opinions, believes 92 million barrels a day will be the most that global supplies will be able to generate, "unless some unforeseen giant, and easily accessible, finds are reported very soon."

It may be that the oil companies are keeping some giant secrets from us but that seems unlikely. So what lies ahead is a mismatch between supply and demand. According to Chris Skrebowski, of the Peak Oil Consulting firm, mid-2015 is when the crunch hits. "This is when capacity starts to be overwhelmed by depletion and lack of new capacity additions."

Where that would take oil prices, who can tell? In recent times they have been extremely volatile, hitting $147 a barrel in July 2008, plummeting to $32 at the end of that year and hovering between $70 and $80 since August last year.

At these levels, it is economic for some of the oil that is harder to get at to be extracted from deepwater developments such as the Gulf of Mexico or the Canadian tar sands. A higher price might encourage more of this difficult production.

But a higher oil price brings with it dangerous knock-on effects for oil-dependent economies with little in the way of their own oil resources. Europe has reason to be concerned. According to Philip Dilley, the chairman of Arup, the consulting engineers: "We must plan for a world in which oil prices are likely to be both higher and more volatile and where oil prices have the potential to destabilize economic, political and social activity."

Not everyone involved in the energy business takes such a pessimistic line. BP, for instance, has been more optimistic about the prospects for tar sands, although it is also pursuing wind, solar and biofuel investments. Gas is also becoming a much more important part of the energy mix.

Yet even if the gloomsters should turn out to be wrong, the core of their message surely deserves attention. Governments should be doing all in their power to encourage developments that lessen oil dependency. That will also enhance their energy security for, as Russia's Vladimir Putin has demonstrated with use of the on/off switch on the pipeline to Ukraine, it can be uncomfortable being dependent on other countries for energy.

Wind and sun and wave can all make their contributions, but nuclear is where the biggest strides can be made. The U.K. gave up an early lead in nuclear and only in 2008 gave the go-ahead for a new generation of reactors, though funding remains an issue. France is the most enthusiastic devotee of nuclear, with around 60 working reactors. Whatever progress can be made in turning crops into power, scale will make nuclear the fuel of the future. But governments need to wake up to the urgency with which it may be required.

Some dubious emails and slightly dodgy dossiers have cast a new, and unflattering, light on the global-warming debate, raising the risk of a return to the belief that we can go on consuming oil with impunity. Being a "climate-change denier" is in danger of becoming almost fashionable. But whatever the risk to the climate, scarce and expensive oil would be a threat to established economies.

We need alternatives.

What's News

■ **The BOE's King said** it is far too soon to rule out further purchases of government bonds using freshly created money, and signaled that the central bank won't tighten policy for at least a year. He stressed that U.K. recovery will be gradual. **4**

■ **Bernanke outlined** the likely path the U.S. Fed will take to tighten credit once the economy has recovered enough, pointing to the rate paid to banks on excess reserves as a key tool. **6**

■ **AIG plans to revamp** how it doles out annual incentive pay, as it moves away from retention bonuses that have proved controversial. **17**

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ONLINE TODAY

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3. Opinion: Cheney's Revenge
4. Iain Martin: Iceland Should Have Stuck to Fishing
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5. Agenda: The World Can Learn a Lot From Israeli Growth Formula

Iain Martin on Politics

blogs.wsj.com/iainmartin

"As the election inches closer, the pair's mutual hatred becomes ever more apparent ..."

Iain Martin on Brown and Cameron facing off at Prime Minister's Questions

Continuing coverage

Get updates as European leaders meet to discuss a possible rescue plan for Greece at **europe.wsj.com**

Question of the day

Vote and discuss: Bailout or default: Which scenario would you rather see for Greece's debt woes?

Vote online and discuss with other readers at **wsj.com/dailyquestion**

Previous results

Q: Do you think Hector Sants has been effective at the U.K.'s Financial Services Authority?

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NEWS

Pitch for cricket puts film at risk

Mumbai police hold nationalist protesters

By Arlene Chang

MUMBAI—Mumbai police have detained more than 1,000 people in the hopes of heading off a potentially violent protest of a film set to hit theaters Friday.

Mumbai's Hindu nationalist party, the Shiv Sena, has pledged to disrupt the premiere of the film "My Name Is Khan" to protest the views of its star, Shah Rukh Khan. Mr. Khan upset the party by saying top Pakistani cricket players should be welcomed into India's professional cricket league. Mr. Khan is one of Bollywood's biggest stars and co-owner of Kolkata's cricket team.

Police said they will protect theaters ahead of Friday's premiere. "We will provide adequate security to facilitate the scheduled release of the film," said D. Sivanandhan, Mumbai's police commissioner. "We have made all arrangements" to protect theaters, he said.

In the past 36 hours, police rounded up 1,050 potential troublemakers from the Sena as a preventive measure, while 63 others have been arrested for rioting, damaging property, unlawful assembly and trespass during protests of the film Tuesday.

Theaters that started selling advance tickets for Mr. Khan's movie Tuesday saw strong sales, but they stopped selling Wednesday for fear of more attacks.

Officials at the production company behind the film, **Dharma Productions**, as well as the film's Mumbai distributor, **Shringar Films**, didn't return phone calls. Fox STAR Studios will market and distribute the film throughout India; Fox STAR is a joint venture between Twentieth Century Fox and STAR, which are owned by **News Corp.**, which publishes The Wall Street Journal. A spokesman for Twentieth Century Fox in Los Angeles had no comment.

Theaters that started selling advance tickets for Mr. Khan's movie Tuesday saw strong sales, but they stopped selling Wednesday for fear of more attacks. "The advance booking on the first day was quite brisk and sales were good," said an official of Cinemax, a multiplex chain in Mumbai. "We stopped advance booking only this morning after Tuesday's attacks on theaters."

Sushant Rane, booking clerk at the Mehul Theater, which was vandalized by protesters Tuesday, said they were unsure of the film's screening. "We had never even opened bookings for 'My Name is Khan' and we were attacked. We are not even sure if we will be able to screen the film or not. That has yet to be decided," he said.

The Shiv Sena was founded by cartoonist Balasaheb Thackeray in 1966 and seeks to increase the influence of the natives of the state of Maharashtra, of which Mumbai is the capital. The protests are the latest incidents of local parties competing to demonstrate their Hindu and Maharashtrian nationalism.

Last month, none of the eight cricket teams of the Indian Premier League bid for Pakistani cricket players, exacerbating longstanding tensions between the two countries and prompting protests in Pakistan. Pakistan's Interior Minister Rehman Malik termed it a "humiliation" and demanded an apology from Indian authorities. India's minister of external affairs, S.M. Krishna, denied any interference in the selection process.

—Ethan Smith in Los Angeles contributed to this article.

European Pressphoto Agency

Indian police stand guard next to a poster of the film 'My Name is Khan' in Mumbai Wednesday, which is to open Friday.

BOE won't rule out further easing

King, stressing that U.K. upturn will be gradual, says additional government-bond purchases remain an option

By Natasha Brereton
And Paul Hannon

LONDON—Bank of England Governor Mervyn King said that it is far too soon to rule out further purchases of government bonds using freshly created money, and signaled that the central bank won't tighten policy for at least the next year.

In a news conference on the Monetary Policy Committee's quarterly inflation report, Mr. King stressed that economic recovery in the U.K. would be gradual, weighed down by tight credit conditions and the need for the private and public sectors to lower their debts.

The fact that the BOE is keeping the door open to further easing firmly highlights the particular severity of conditions in the U.K.

The European Central Bank and the U.S. Federal Reserve have already begun or started to pave the way toward removing stimulus, while several smaller central banks have raised their key interest rates.

However, the U.K. barely emerged from recession in the final three months of 2009, one or two quarters later than other leading developed economies. And the BOE Wednesday said the economy will grow at a slower pace than it forecast in November, though the risk that it will contract again is lower.

It now expects gross domestic product to return to its precrisis level in late 2011. But there are big uncertainties, chief among them is how quickly the government that will be elected in a vote that must be held by June 3 will cut the budget deficit. Big spending cuts and tax increases would lead to a fall in demand, even-slower growth, and a weakening in inflationary pressures. Against that background, the BOE made it clear that further stimulus may be needed.

"Although the MPC last week announced a pause in its program of asset purchases, it is far too soon to conclude that no more purchases will be needed," Mr. King said. "The committee will keep its options open, and further purchases will be made if they prove necessary to keep inflation on track to meet the target in the medium term."

The BOE paused its £200 billion ($312.4 billion) quantitative-easing program—through which it has bought mostly U.K. government bonds with freshly created central-bank money. It launched the plan in March, having slashed its key interest rate to a record low of 0.5%.

There is little doubt that whatever party wins the coming election will take radical action to cut spending, raise taxes, or pursue a combination of both.

The cautious tone of Wednesday's report prompted some analysts to change their interest-rate forecasts, so that they now expect the BOE to start to raise its key rate later than previously thought.

Based on the assumption that it kept interest rates unchanged and maintained its stock of asset purchases, the MPC said inflation is likely to stand just below its 2% inflation target in two years. If rates are increased as markets expect, to 1% by the end of 2010 and 3.5% by late 2012, inflation will still be far below target in around three years, but risks by that time will be broadly balanced, it said.

While the BOE's central forecast showed output growth rising to around 4% by early 2011, Mr. King has indicated that the MPC prefers to look at more-modest projections, which take into account the full range of risks. Those figures weren't immediately available, but are likely to be lower than in November, when the BOE forecast the economy would grow 1.5% this year and 3% in 2011.

Graeme Leach, chief economist at the Institute of Directors, supported Mr. King's view that it is too soon to conclude that no more easing will be necessary. "We think that it will [be necessary] and that the risk of a double-dip or even a triple-tumble recession and recovery remains high," Mr. Leach said.

With international ratings agencies threatening to remove the U.K.'s cherished triple-A credit rating if the next government doesn't take aggressive steps to put its finances on a sustainable path, there is little doubt that whatever party wins the election will take radical action to cut spending, raise taxes, or pursue a combination of both.

Asked whether he could say with certainty that the U.K. would maintain its triple-A rating, Mr. King said he couldn't think of any reason why the U.K. should lose it, if rating agencies "have any sense." The U.K. economy is "in a strong position" and can't be compared with that of Greece, he said, noting that the maturity structure of U.K. debt is "much longer" than almost any other country.

Mr. King repeated that the large structural budget deficit should be eliminated. While the exact type, timing and speed of government tax increases and spending cuts will be crucial for the central bank when it gauges their economic impact, it is clear that if there were a large fiscal tightening, monetary policy would have to remain loose for longer to compensate.

"Monetary policy has to bear the burden of steering the economy," Mr. King said.

Mervyn King pauses during the quarterly inflation report news conference in London Wednesday

Bloomberg News

Stimulus | Policy stances of central banks

Bank of England
Suspended its £200 billion asset-buying program last week but has left the door open to further purchases if needed. Key interest rate remains at a record low of 0.5%.

Bank of Japan
The BOJ is keeping its target interest rate at 0.1% and is still pumping funds into the money market to boost demand, having launched a program in December to lend around 10 trillion yen in three-month funds.

European Central Bank
The ECB's benchmark rate remains at a record low of 1%. The ECB aims to 'gradually' withdraw extraordinary liquidity-boosting measures.

Reserve Bank of Australia
The RBA raised interest rates three times in as many months at the end of 2009 and recently paused its tightening amid a souring in consumer confidence.

Bank of Canada
The BOC has commited to keep its overnight rate at a record low 0.25% through June.

People's Bank of China
The PBOC has taken measures to curb loan growth, including guiding money-market interest rates higher and raising the amount of deposits banks must keep on reserve and not lend out.

U.S. Federal Reserve
The target federal-funds rate for interbank lending remains in a range of zero to 0.25%. The FOMC says the rate will stay at its record low for an 'extended period' but is gradually winding down its emergency-lending programs.

Bank exposure poses risk

By Sara Schaefer Muñoz

LONDON—Investors remain edgy about the creditworthiness of countries such as Greece and Portugal, but the biggest sovereign threat that U.K. banks may face is closer to home: exposure to U.K. government debt.

The U.K.'s four major banks held roughly £70 billion ($110 billion) in U.K. government debt securities as of the second and third quarters of last year, according to estimates in a J.P. Morgan report Tuesday.

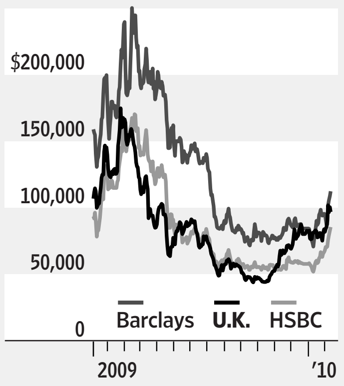
About 50% of the government debt of **Lloyds TSB Group** PLC is from the U.K., compared with around 20% for **Barclays** PLC, and 13% and 6% for **Royal Bank of Scotland Group** PLC and **HSBC Holdings** PLC, the analysts estimate, noting trading-book holdings are subject to change.

The concern is that further market jitters over countries' abilities to pay back their debts could spread to the U.K., driving up the cost of insurance against a U.K. default, analysts say.

This could require banks eventually to pay more for funding since their portfolios will be seen as inherently riskier.

Troubles at home

The annual cost of insuring against a default for five years



Note: As of Tuesday Source: CMA DataVision

To be sure, the sovereign-debt situation remains in flux. Still, analysts believe sovereign-debt concerns will persist, with ratings agency Standard & Poor's warning Tuesday that more euro-zone downgrades are possible in 2010.

Rising sovereign worries come as U.K. financial regulators have encouraged banks to beef up on U.K. and other government securities as a way to meet new liquidity requirements.

"Investors need to realize that there is a flip side to these liquidity buffers," said Joseph Dickerson, an analyst with Execution Noble Ltd. in London. "They are concentrating their sovereign risk."

Before recent worries about countries' defaults, government bonds or other instruments, with the guarantee of a sovereign behind them, were considered very low-risk and nearly as liquid as cash.

That changed after many countries ran up large deficits bailing out their banking sectors, and, most recently, following fiscal problems in Greece, Portugal and Ireland.

Last week, financial markets spiraled downward and the euro slumped against the dollar as investors turned skittish on banks that may have exposure to those euro-zone economies.

The U.K.'s successful sale of £2 billion of government bonds on Tuesday showed that Greece-like sovereign worry hasn't yet spread to the U.K.

However, the country has faced questions from investors and economists as to how it will handle its sprawling deficit.

Investors show faith in Portugal

By Michael Wilson

Portugal demonstrated it still has the support of bond investors, helped by expectations that the European Union will step in to support Greece and other struggling nations in the region.

The Iberian nation on Wednesday sold €3 billion ($4.1 billion) of 10-year bonds after attracting as much as €13 billion in orders. Portugal agreed to pay 1.4% more than the benchmark rate, higher than the 1.35% it paid a year ago.

The sale came a day after news broke that Germany and other European nations were in talks to provide some sort of rescue package for Greece, and perhaps other nations. Last week, Portugal sold fewer short-term bills than it had hoped amid concerns over the sustainability of its public finances.

Shahid Ikram, head of sovereign and absolute return at Aviva Investors in London, said completion of the deal is generally a good sign for Portugal.

"It is refreshing to see some normality returning to the market," said Mr. Ikram, who bought some of the bonds. He said the new bonds represent good value for investors. Portugal's existing 10-year benchmark bonds trade at about 1.17 percentage points over midswaps.

The offering covers a sizable chunk of the €18 billion planned issuance for this year.

Meantime, the Czech Finance Ministry Wednesday sold only half the planned volume of bonds at its auction of 14-year government debt, saying investors were demanding yields that were too high.

Instead, the government is looking for financing options abroad, which would cost about the same.

Fiscally, the Czech Republic stands on a firmer footing than Greece and isn't desperate to raise debt at high yields, analysts said.

The ministry sold 2.899 billion koruna ($152.3 million) of debt, less than half the planned six billion koruna. The decision by the Czech government could be a sign it doesn't have serious worries over access to financing, analysts said.

EUROPE NEWS

Agence France-Presse/Getty Images

Debt weight

The most indebted countries in the developed world, by gross government financial obligations as a percentage of GDP.

Japan	197.2%
Iceland*	142.5
Italy	127.0
Greece	123.3
Belgium	105.2
France	92.5
U.S.	92.4
Portugal	90.9
Hungary*	89.9
Canada	85.7
U.K.	83.1
Germany	82.0

*Hungary and Iceland have received an International Monetary Fund bailout.
Note: Figures are based on estimates for 2010
Source: Organization for Economic Cooperation and Development via Associated Press

Public workers protested government plans for austerity measures with demonstrations Wednesday in Athens.

EU rescue stirs moral-hazard fears

Any EU debt guarantees for Greece, other nations may contain the crisis but risk causing another big problem

By Tom Lauricella

Any deal by European officials to guarantee the debt of Greece and other troubled nations might keep the crisis from worsening, but it raises another big problem: moral hazard.

The concern is that by rescuing a country that for years flouted fiscal discipline, the European Union would be encouraging such behavior rather than discouraging it. One of the strengths of the euro was the idea that when a country joined the European Union it was a one-way trip that came with strict fiscal responsibilities. A loan-backstop program could change that perception.

The moral hazard problem "is real," says John Taylor, chief investment officer at currency managers FX Concepts. "Any rescue has to be nasty enough that nobody wants to be in a position to be rescued."

But that puts European officials in a bind. If a loan bailout became necessary and was imposed with the kind of harsh measures that would eliminate moral hazard, it could do significant damage to local economies, especially already-fragile banks.

In the end, officials may not have a choice but come up with a plan that can be seen as creating some kind of moral hazard, analysts say.

Given signs that the troubles in Greece and other Mediterranean countries were beginning to infect markets in the relatively healthy core of Europe, the lack of a debt-guarantee program could set the markets right back on the path to contagion. Some argue that in the end, averting a debilitating financial crisis will matter more to investors than moral hazard.

Financial markets spent Wednesday in a waiting mode, whipsawed between conflicting news stories about the likelihood of a loan bailout.

On Tuesday the euro rebounded strongly from below \$1.37 on news that a plan was in the works. But as some reports cast doubt on the idea that a plan was imminent, the currency fell back toward \$1.37 before recovering to \$1.373.

In the short run, a guarantee plan is seen by most as a positive for the euro. Amid fears that the problems in Greece would spread, investors had been pulling money out of European financial markets and buying U.S. dollars or yen.

"While there's still a question about how things will proceed ... to alleviate the potential default of a member country–that would be a good thing," says Robert Lynch, currency strategist at **HSBC Bank** in New York.

Financial markets spent Wednesday in a waiting mode, whipsawed between conflicting news stories about the likelihood of an EU loan bailout for Greece.

But the longer-term implications are less clearly positive.

"A bailout implies 'moral hazard'," analysts at **BNP Paribas** wrote last week. "Lack of market-driven discipline due to the '(European Monetary Union) umbrella' has certainly been one of the factors contributing to the buildup of imbalances in Greece and elsewhere. Bailing Greece out would give a signal to other countries, limiting the incentives to undergo the needed adjustment as they gain fiscal 'impunity'."

In addition, if a bailout leads to the euro resuming the climb it enjoyed last year, the result could actually be a negative for European economies. In November the euro was changing hands just shy of \$1.50.

"It's a catch-22," says David Gilmore, economist at Foreign Exchange Analytics. The recent declines in the euro "are doing wonders for European competitiveness at a time when they are crawling out of recession," he adds.

In turn, eventually a bailout would be negative for the euro as it would weaken the overall economic strength of the region, said Tim Backshall, chief strategist at **Credit Derivatives Research**, an independent research firm in New York. Debt levels would rise across the euro zone and forced austerity measures would reduce overall economic growth, he said.

Others, however, say that in the current circumstances, the benefits of a bailout won't necessarily come with the unwanted baggage.

One reason is that it is no longer seen as just a problem facing a single economy—Greece—and instead as something that poses a challenge for all members of the European Union, says Mark Schofield, global head of interest-rate strategy at **Citigroup** in London.

In addition, the current government in Greece appears to be taking the situation seriously. A loan-guarantee plan "is not Greece trying to take the easy way out," Mr. Schofield says.

The idea, he says, "would be to try and make a decent fix of it in the near term and at least get some time to deal with the structural problems."

And for the governments that would be helping Greece, he adds, "you can argue that provided you are conscious of (moral hazard) and going into it with your eyes open, you can deal with that going forward."

Laurence Mutkin, chief European interest-rate strategist at Morgan Stanley, says investors don't have to look far for an example of bailouts that avoid moral hazard—for example, those by the International Monetary Fund.

"If you look at what the IMF does, it gives support on a contingent basis," he says. But for the countries that get rescued, it comes with an "economic and political cost."

France, Germany weigh Greek assistance plan

Continued from first page

also meeting late Wednesday evening to discuss Greece. Germany's Rheinische Post newspaper reported that Germany's finance minister proposed installing ECB Vice President Lucas Papademos as an EU special envoy to Greece, to supervise a series of new deficit-busting measures that have been unveiled. The ECB declined to comment.

Many investors fret that those measures, which included deep spending cuts, on their own won't be enough to bring the budget back in order. They are expecting the 27 EU leaders to give an indication that Greece will get a hand.

But aiding Greece is not easy, since help would run counter to a euro-zone tenet that individual countries must manage their own fiscal affairs. It also risks demonstrating that euro-zone countries don't really need to be prudent, since their richer brethren will step in to help. Hence, officials say that aid to Greece would have to be accompanied by tough love.

Europe "has the fiscal capacity to help Greece and the other smaller countries, and it has the legal authority to do so," J.P. Morgan economist David Mackie wrote Wednesday. "What has been missing so far is clarity about both of these and a clear sense of the final sanctions on a country that fails to comply with the terms of any support provided."

After his lunch with Mr. Sarkozy, Mr. Papandreou said he was committed to austerity measures that included a freeze of public-sector salaries and a cut to civil servants' supplemental income of 10%, on average.

"We are ready to do whatever is necessary," Mr. Papandreou told reporters.

The measures are already causing problems on the ground. Greek civil servants, the people hit most directly by the cuts, went on strike Wednesday. Schools, courts and public offices closed. State hospitals operated with a skeleton staff and rail services were cut. Greece's two main carriers, Olympic Airlines and Aegean Airlines SA, canceled flights into and out of the country as air-traffic controllers joined the walkout.

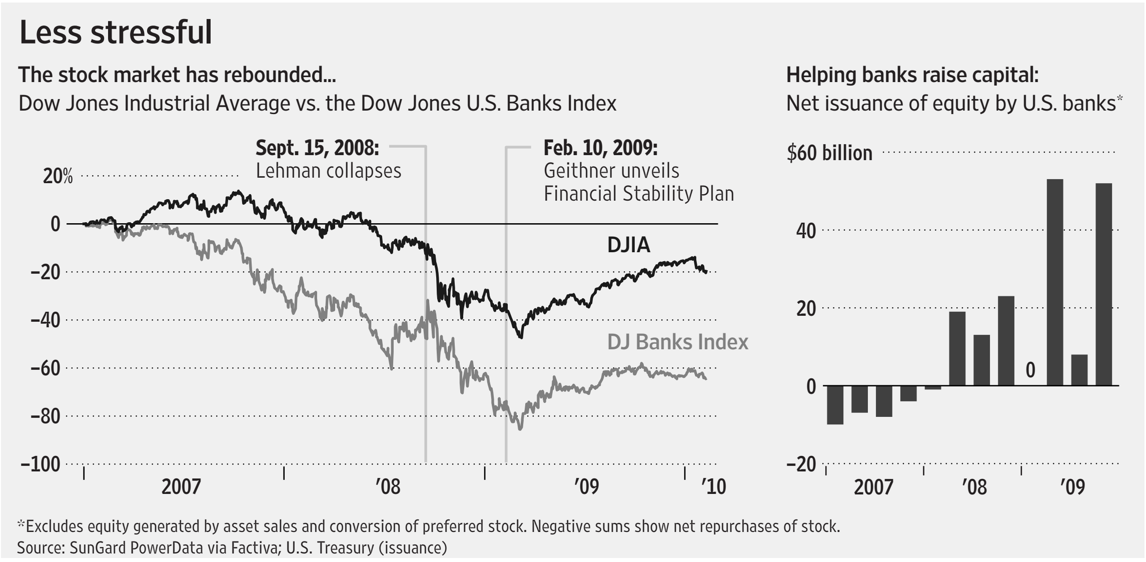
Several thousand public-sector workers marched on the Greek Parliament, chanting slogans and carrying banners that read: "Not one cut in wages or pensions will go to paying for this crisis."

Elias Zografos, a 55-year-old high-school physics instructor, said that Greece's low-paid teachers were bearing the brunt of the cuts. He estimates that teachers, who now earn about €1,200 a month, would see at least €70 shaved off their monthly salaries.

"The public sector is being hit hardest, and especially the poorer classes," he said. "This crisis is just a game for foreign bankers. But it's not a game. It's our lives they are playing with."

—Alkman Granitas and Nina Koeppen contributed to this article.

U.S. NEWS



Geithner gets some credit, and blame, for outcome of push to shore up banks

[Capital]

By David Wessel

One year ago, on Feb. 10, 2009, Treasury Secretary Timothy Geithner outlined the new administration's approach for shoring up U.S. banks. The speech was a flop.

"If it were a movie, it would be headed for a short run," the Philadelphia Inquirer said of the man and his plan. The Dow Jones Industrial Average lost nearly 400 points. A Reuters columnist predicted the U.S. would "nationalize large swathes of its banking system by the time the leaves fall from the trees."

A year later, there's still lots to criticize. The economy is better, but not healthy. Most big banks are stronger, but not lending readily; smaller banks are ailing.

But most big U.S. banks have paid back taxpayer money they swallowed, and big banks have raised $112 billion by selling shares to private investors. Neither nationalized nor broke, banks are criticized for making so much money. And the current threat to global financial stability isn't from Wall Street, but from Athens.

"This was a dramatically successful financial stabilization," Mr. Geithner said in an interview, sounding much more confident than he did a year ago. "We are way ahead of many other countries. We are doing it at a much cheaper cost to the taxpayers and much more quickly than anyone expected. I think a lot about how we could have explained what we did better to the public or did it in a way that seemed more fair. We still have a lot of damage from the crisis, but we are much better off because of what we did and how we did it."

The most biting critique isn't that the Obama-Geithner plan failed to stabilize the banks; rather, that it was too generous and worked so well that surviving banks are hampering the rewrite of finance rules needed to prevent a repeat. "Reform was put off until after the most powerful banks had grown even bigger, returned to profitability, and regained their political clout," economist Simon Johnson of the Massachusetts Institute of Technology writes in a forthcoming book.

Mr. Geithner, of course, who was formerly president of the Federal Reserve Bank of New York, was among the first responders to the crisis before he became Treasury secretary. He deserves credit for what went well before he became Treasury secretary and blame for what didn't. But after Barack Obama's inauguration and Mr. Geithner's job change, three major policies were launched.

One, the Federal Reserve, which had pushed short-term interest rates to zero, independently attacked mortgage and long-term rates by launching the purchase of $1.75 trillion in mortgages and other long-term securities. Two, Congress enacted $787 billion in tax cuts and

The most biting critique isn't that the Obama-Geithner plan failed to stabilize the banks; rather, that it was too generous.

spending increases, a third of which is now out the door. Although argument over the design and efficacy of fiscal stimulus persists, most economists agree that the "firing of the fiscal cannon," as Mr. Geithner puts it, made the economy stronger than it would otherwise have been.

Three was the Geithner "financial stability plan." He replaced his predecessor's stillborn plan for the government to buy toxic assets from the banks by offering generous government credit to investors who bought them. Few took the bait, though the Treasury argues that the mere announcement boosted prices of those assets.

He offered to enlarge an existing Fed-Treasury initiative to reignite the market in which auto, credit-card and other loans are turned into securities. It didn't grow to the $1 trillion program Mr. Geithner mentioned, but the effort did help restart an important market that was moribund.

Most controversially, he put banks through a government-crafted stress test to determine how much new capital they'd need to withstand a severe recession, and then vowed (or threatened) that taxpayers would sink even more money into the banks—unless banks found private money.

This was widely derided from the left as a poor substitute for nationalizing the banks and from the right as a precursor to nationalizing the banks. Others said it would disguise severity of the banks' weakness or leave them too weak to resume lending.

Alternative schemes might have worked better, perhaps even left banks stronger. But a year later, even Geithner critics acknowledge his approach worked better than they anticipated at luring more private capital into banks.

And, at least for now, the bank rescue is going to cost taxpayers less than initially feared. The Congressional Budget Office estimates that the Troubled Asset Relief Program will cost taxpayers $99 billion in all, down from its earlier $356 billion estimate.

So why no cheering for Mr. Geithner?

One big reason is that his efforts have made borrowing easy for big companies, those that can sell bonds, but not for consumers or smaller firms that rely on banks to borrow. "If you're a large corporation relying on capital markets, the Fed and Treasury saved you," says Charles Calomiris, a Columbia University economist. "In the other economy, the real engine of job creation, the banks aren't lending and bank capital is still very scarce."

Another reason is that to a lot of Americans, this simply doesn't seem fair. The banks are back, the bonuses are flowing and the stock market is up from March 2009 lows.

But banks that were too big to fail before are bigger now, hardly anyone went to jail, unemployment remains a painfully high 9.7% and about 15% of all homeowners have mortgages larger than the value of the underlying house. To be told it could have been worse isn't much comfort.

Fed chief outlines tightening strategy

Bernanke may focus on the excess-funds rate

By Luca Di Leo

U.S. Federal Reserve Chairman Ben Bernanke outlined the likely path the Fed would take to tighten credit once the economy has recovered enough. In another step toward unwinding its crisis-lending programs, he said the Fed could soon begin raising its discount rate, charging more for emergency loans it makes directly to banks.

In testimony prepared for a House Financial Services Committee hearing that was called off because of a blizzard in Washington, Mr. Bernanke said that another interest rate might for a time replace the federal-funds rate as the main policy tool. That's the rate the Fed pays to banks on excess reserves they leave at the central bank.

Mr. Bernanke said that though the economy needed support from monetary policy, the Fed would "at some point" increase short-term rates and drain some of the money it had pumped into the economy during the recession.

As part of its plans to wind down its emergency liquidity measures, the Fed may "before long" increase the difference between the discount rate and the federal-funds rate, a Fed-influenced rate at which banks lend to each other overnight, he said. The spread between the two rates is a quarter of a percentage point; before the crisis, it was a full percentage point.

Mr. Bernanke's speech Wednesday was designed to outline the Fed's strategy for withdrawing its extraordinary support for the economy, which has brought the federal-funds rate near zero and led the Fed to buy more than $1 trillion worth of U.S. Treasury and mortgage-backed securities.

He said the sequencing and tools the Fed would use to tighten policy would depend on how the economic recovery develops.

The Fed chairman said he didn't currently anticipate that the Fed would sell any of its holdings of long-term U.S. Treasurys or mortgage-backed securities "in the near term," and probably not "until after policy tightening has gotten under way and the economy is clearly in a sustainable recovery."

But over time, he said, "the Federal Reserve anticipates that its balance sheet will shrink toward more historically normal levels and that most or all of its security holdings will be Treasury securities."

U.K. move could hinder U.S. intelligence sharing

By Alistair MacDonald

A U.K. appeals court on Wednesday forced the British government to disclose U.S. intelligence related to the alleged torture of a former Guantanamo Bay detainee, a move the U.K. had argued could jeopardize future intelligence sharing.

On Tuesday, the White House said, "We appreciate that the U.K. Government stood by the principle of protecting foreign government intelligence in its court filings. We're deeply disappointed with the court's judgment today, because we shared this information in confidence and with certain expectations" and said it would cloud future intelligence relations with Britain.

"As we warned, the court's judgment will complicate the confidentiality of our intelligence-sharing relationship with the U.K., and it will have to factor into our decision-making going forward," the White House said.

The Foreign and Commonwealth Office released a seven-paragraph summary of U.S. intelligence given to British security services about former detainee Binyam Mohamed's treatment during U.S. interrogations in 2002.

The paragraphs detail how Mr. Mohamed was subjected to "cruel, inhuman and degrading treatment by the United States authorities" such as sleep deprivation, threats and shackling. The redacted paragraphs indicated that U.K. officials at the time would view such treatment, if administered on behalf of Britain, as a breach of the country's international treaty commitments banning torture.

The Court of Appeal upheld last year's High Court decision, challenged by the Foreign Office, that said releasing the redacted material was in the public interest and would pose no serious threat to U.K. national security. The case arose from Mr. Mohamed's effort to secure the release to his legal counsel any material held by the British government that might assist in the defense of his case before a U.S. military commission.

The Foreign Office said it wouldn't challenge the decision because despite the ruling, the courts had upheld the principle that "if a country shares intelligence with another, that country must agree before its intelligence is released" and because the information in the redacted paragraphs was "in substance" released in a separate U.S. court case in December.

Mr. Mohamed, an Ethiopian national who had lived in the U.K., was detained in Pakistan in 2002 and transferred to Guantanamo Bay in 2004 before being released in February 2009.

The U.K. has said the U.S. has threatened to downgrade intelligence cooperation if the details are released.

The British concerns over denting U.S. cooperation are similar to those voiced by Central Intelligence Agency officials when the White House was debating the release of Justice Department memos on CIA interrogations.

CIA officials argued releasing such information would harm relations with foreign intelligence services, which share intelligence on the understanding that it won't be made public.

—Evan Pérez contributed to this article.

U.S. NEWS

Mall heirs battle over will

Melvin Simon boosted wife's inheritance, sparking challenge from his daughter

By Kris Hudson
And Rachel Emma Silverman

Indianapolis Star

Cindy Simon-Skjodt, left, and Deborah Simon at The Masquerade, Blue and Gold Ball, a charity event, in 2009.

Seven months before Melvin Simon died, the ailing shopping-mall magnate altered his $1 billion will during a three-hour meeting in Asherwood, his palatial home near Indianapolis. A financial adviser had to hold and guide his hand as he signed the revised document, according to court filings.

Now that scene has become the center of a bitter estate struggle pitting Mr. Simon's second wife, Bren Simon, whose inheritance was greatly increased by the new will, against his children from his first marriage.

Deborah Simon, Mr. Simon's eldest daughter, says the assistance her sick father got to sign the document was evidence that he did so under duress.

Mr. Simon "did not have sufficient capacity to know the extent and value of his property, those who were the natural objects of his bounty [or] their desserts with respect to their treatment", she said in a court document filed last month to contest the will.

But Bren Simon, who was present at the signing of the disputed will, said in a filing that "Melvin made his own voluntary decisions ... for sound and rational reasons, after again receiving independent advice." She said that her husband requested that someone guide his hand at the fateful meeting because he didn't want to sign the document with an "X".

The battle over the will of Melvin Simon, who died in September of cancer at the age of 82, has riveted Indianapolis high society and dragged in **Simon Property Group** Inc., the largest mall owner in the country, which Mr. Simon founded. His son, David Simon, is now its chairman and chief executive.

Melvin Simon, who according to court papers left an estate worth more than $1 billion, also was well known for donating to charities, owning the Indiana Pacers basketball team and occasionally financing comedic movies such as "Porky's" and "Zorro, the Gay Blade." Mr. Simon is survived by Bren Simon, 66, whom he married in 1972; his three children from his first marriage, David, Deborah and Cindy Simon Skjodt; and Bren's daughter, Tamme McCauley Simon, whom he adopted when she was 40, according to the court filings. David and Cindy haven't filed in the court case, although they are represented by the same lawyers as Deborah Simon.

Analysts don't think the outcome of the struggle will have an impact on control of Simon Property, which owns more than 300 malls, because the Simon family owns less than 13% of the company's shares. Much of that stake is held jointly by Melvin Simon; his son, David; and Melvin Simon's brother, Herb.

But Simon Property has become a combatant. The company recently refused Bren Simon's request to convert 6.5 million of Melvin Simon's operating units—a kind of founder's shares—to common stock, explaining that the shares are subject to Deborah Simon's legal challenge of the will.

The battle over Mr. Simon's will joins a list of high-profile estate contests among the super-rich, involving accusations that a senior family member may not have fully understood what was at stake when signing estate-planning documents. For instance, in the recent case of society doyenne Brooke Astor, her son, Anthony Marshall, was convicted last year of defrauding his mother as she struggled in her last years with Alzheimer's disease.

In her court papers, Bren Simon said Melvin Simon's new will was necessary because the value of the estate had "diminished substantially" after a fall in Simon Property's share price. Meanwhile, David Simon's decision to cut the company's dividend, she said, reduced her cash flow. The late changes to the will "reflected an effort to compensate" Bren Simon for her cut inheritance, she said.

The court papers show tensions have simmered for some time. Bren Simon's papers alleged that David Simon "rebuffed" an earlier attempt to have his stepmother appointed to a board overseeing the family's interests in Simon Property. She also alleged that Melvin Simon was concerned "that the children might not be fair or equitable to Bren Simon if the children were left with an ability to impact Bren's financial situation".

David Simon and the attorney representing Deborah Simon declined to comment for this article.

The previous version of Melvin Simon's will, in place for 10 years, set aside one-third of his estate for Bren Simon. Another third was to be distributed to his grown children after Bren Simon's death, with the income going to Bren Simon in the meantime. Charity was to get the final third, with Melvin Simon's four children—including Tamme—determining over a 15-year period which causes got the money.

That plan was changed in the wake of the Feb. 13, 2009, meeting. The new will decrees that half of the estate go to Bren Simon upon her husband's death. The other half would go, after Bren's death, into charitable trusts—with the children getting anything left over from that half 12 to 15 years thereafter.

"Under this new estate plan, Bren would receive hundreds of millions of dollars more than Melvin had previously intended to provide" and "the inheritance of [his children] would be dramatically reduced," Deborah Simon said in her filing. Deborah Simon is also suing to remove her stepmother as the estate's trustee in favor of a bank.

While challenges to wills are common, proving that malfeasance occurred isn't easy. In general, those granting inheritances in a will don't have to have a high level of capacity to draft the instructions; they need to know what their property is, how they want it distributed and who their relatives are. In some cases, mental capacity to create a will doesn't have to be as high as the standard to execute a contract.

When he changed his will, Melvin Simon suffered from neurological disorders that "impaired his language, reading, writing, cognition, memory and understanding", according to his daughter's court papers. Bren Simon denied in her papers that his medical conditions were serious enough to prevent him conducting his financial affairs.

Indiana University

Bren and Melvin Simon at the IUPUI Student Center and Simon Cancer Center.

The two sides also are fighting over whether Melvin Simon was adequately represented when he signed his new will. Deborah Simon's court papers noted that attorney Eric Manterfield and Bruce Jacobson, an accountant and financial adviser to Melvin and Bren Simon, were present at the signing. But neither Messrs. Manterfield nor Jacobson provided Melvin with any documents summarizing his assets or how their distribution would be changed before or after the meeting, Deborah Simon's papers state.

Bren Simon said in her papers that Melvin Simon was extensively advised of the changes. Mr. Manterfield declined to comment. Mr. Jacobson didn't return calls seeking comment.

U.S. trade gap grows, sending mixed signals about economy

By Sara Murray

The U.S. trade deficit widened in December, suggesting that the economy didn't grow quite as strongly in the fourth quarter as first thought, but also indicating that global trade is accelerating as the world emerges from a deep recession.

The U.S. trade deficit shrank last year to $380.7 billion, a 45% drop from 2008, the Commerce Department said Wednesday, as both imports and exports plunged amid the global downturn. Even the U.S. trade deficit with China narrowed last year.

The December figures, however, show U.S. exports and imports are both growing sharply again, a sign of economic vitality, with the deficit growing simply because the U.S. is importing more goods to feed domestic growth—in part to rebuild inventories depleted during the recession—than it is selling abroad. Most of the import surge was accounted for by a larger volume of oil imports.

The trade deficit in December rose to a seasonally adjusted $40.2 billion, up from $36.4 billion in November. Adjusted for inflation, the deficit rose to $43.7 billion in December, up from $40.9 billion the month before.

Economists had predicted December would bring a $35.8 billion shortfall, seasonally adjusted.

The government has estimated that in the fourth quarter net exports added 0.5 percentage point to the 5.7% annual growth in gross domestic product, the broadest measure of goods and services produced by the economy. The larger-than-previously-estimated trade deficit for December is expected to mean a slight reduction in that growth rate when the figure is revised at month's end because a wider trade deficit makes reported GDP smaller.

IHS Global Insight predicted fourth-quarter GDP would be revised down to 5.6% from the government's previously reported 5.7% annualized growth. Nomura Global Economics expected it to be revised to 5.5%, and Morgan Stanley economists thought it would be revised to 5.6%.

"It is true that the wider deficit will shave a couple of tenths off...growth, but it is hard to describe the trade figures as bad news, since they show a continuing robust rebound in world trade," said Nigel Gault, an IHS Global Insight economist.

Exports increased 3.3% to $142.7 billion on gains in industrial materials, capital goods (largely aircraft) and automotive products. Imports climbed 4.8% to $182.9 billion, largely from the boost in oil imports. Capital goods and auto imports also rose.

As long as increases in imports continue to surpass that of exports, trade won't make a positive contribution to U.S. growth.

Continued expansion in emerging economies may help boost exports in the future, but in the near term economists agreed that imports were likely to continue gaining speed at a faster pace than exports, weighing down GDP growth. That prompted Morgan Stanley economists to also lower their first quarter forecast of GDP to 2.8% from 3%.

WORLD NEWS

Iran mobilizes to intercept protests

Militias, morality police and state media take part in government campaign to impede Feb. 11 demonstrations

By Farnaz Fassihi

Agence France-Presse/Getty Images

Iranian pro-government demonstrators, outside the Italian Embassy in Tehran on Tuesday, protested European efforts to curb their country's nuclear program.

BEIRUT—Iranian authorities deployed in force across Tehran Wednesday to conduct last-minute security sweeps and warn residents to refrain from joining antigovernment protests planned for Thursday.

The government typically orchestrates large, carnival-like rallies and demonstrations to mark the anniversary of the Islamic Republic. For this year's events on Feb. 11, the day marking the culmination of the annual celebrations, opposition leaders have called for protesters to demonstrate against the regime.

That has set the stage for clashes between authorities and demonstrators, who have taken to the streets repeatedly to protest the outcome of presidential elections in June.

Government officials, meanwhile, ratcheted up threats against any protests Thursday, vowing to confront demonstrators on the streets and calling for government supporters to turn out in large numbers. Iranian officials have branded protesters as agents of foreign powers.

The Iranian judiciary has handed down a number of harsh sentences against protesters arrested in previous demonstrations, including at least 10 pending death sentences.

On Wednesday, semiofficial news services and opposition Web sites reported last-minute attempts by police and plainclothes militia to suppress antigovernment demonstrations.

Basij militia took over a large bus and taxi station in western Tehran, shutting it down and draping a banner over the terminal stating the area will serve as headquarters for security forces. Iranian Web sites said the bus terminal would also be used by security forces coming in from the provinces to help suppress protests in the capital.

The government typically buses in large numbers of government supporters from outlying regions to Tehran to participate in rallies.

Meanwhile, human-rights groups in Iran reported late Wednesday that 19 mothers whose children were killed in previous postelection unrest had been detained by authorities.

Iranians have reported widespread service disruptions to Internet and text messaging services, though mobile phones appeared to be operating normally Wednesday.

Iran's telecommunications agency announced what it described as a permanent suspension of **Google** Inc.'s email services, saying instead that a national email service for Iranian citizens would soon be rolled out. It wasn't clear late Wednesday what effect the order had on Google's email services in Iran. Google didn't have an immediate comment about the announcement.

Police have also confiscated satellite dishes from residential rooftops, according to opposition Web sites.

Some pedestrians have been quoted on opposition Web sites saying that their mobile phones were searched and, in some cases, taken by police patrolling areas of the capital where protests have erupted in the past.

Iranian authorities given the job of upholding Islamic values have also been scouring the streets, harassing people wearing green, the trademark color of the opposition, according to witness accounts posted on opposition Web sites.

Basij forces, the mostly volunteer corps of pro-government militia, have distributed fliers to homes in many neighborhoods, saying that pro-government supporters "will confront the enemies of Islam" in any protests Thursday.

In south Tehran, Basij members came in a caravan of 15 motorbikes, according to several opposition sites, whose accounts corroborated each other. They knocked on doors and handed out fliers, or threw them over the street-side walls of residential compounds, the reports said.

Opposition Web sites reported last-minute attempts by police and plainclothes militia to suppress antigovernment demonstrations.

Iran's Revolutionary Guard Corps, the country's elite security force, has deployed its troops along routes planned for the opposition demonstrations on Thursday.

Local media have been warned to avoid provocative headlines and not to cover protests not sanctioned by the state. The few foreign reporters still accredited to work in Iran have been told they can cover only government celebrations, and are banned from interviewing opposition supporters or regular citizens.

Political dissidents and activists who were recently released from jail have been called in by the intelligence ministry in the past few days and warned not to take part in demonstrations on Thursday, according to a report by the Organization to Defend Human Rights and Democracy in Iran, a local human-rights group.

Opposition leaders don't appear to be backing down. Mehdi Karroubi, a former presidential candidate, said Wednesday he will march peacefully from a neighborhood in west Tehran toward the capital's Azadi Square Thursday morning.

Opposition Web sites reported that former president Hashemi Rafsanjani, an opposition leader, held an emergency meeting with Supreme Leader Ayatollah Ali Khamenei on Monday night, complaining about the heavy-handed crackdowns ahead of Feb. 11 and calling for "the end of shameful actions" against protesters.

Despite the crackdown, authorities Wednesday appeared to also signal some flexibility. Iran's Revolutionary Court on Wednesday reduced the prison sentence of Iranian-American scholar Kian Tajbakhsh to five years from 15, in an appellate hearing. Mr. Tajbakhsh was sentenced on charges of plotting against national security.

Alireza Beheshti, a top aide to opposition leader Mir Hossein Mousavi, was released from prison Tuesday night in critical condition, after suffering a heart attack in Evin prison this week, according to opposition Web sites.

—Jessica E. Vascellaro contributed to this article.

U.S. sanctions Iran general, firms

By Darrell A. Hughes

WASHINGTON—The U.S. Treasury Department on Wednesday froze the assets of an individual and four companies affiliated with Iran's Islamic Revolutionary Guard Corps.

Islamic Revolutionary Guard Gen. Rostam Qasemi was among those sanctioned. He is also the commander of Khatam al-Anbiya Construction Headquarters, the engineering arm of the Revolutionary Guard that helps fund its operations. The parties sanctioned are considered supporters of Revolutionary Guard, which has been designated a proliferator of weapons of mass destruction by the U.S.

"As the IRGC consolidates control over broad swaths of the Iranian economy, displacing ordinary Iranian businessmen in favor of a select group of insiders, it is hiding behind companies like Khatam al-Anbiya and its affiliates to maintain vital ties to the outside world," said Treasury's Under Secretary for Terrorism and Financial Intelligence Stuart Levey.

The companies sanctioned include: Fater Engineering Instituten Imensazen Consultant Engineers Institute, Makin Institute and Rahab Institute. These firms are owned or controlled by Khatam, or have acted on behalf of Khatam. Khatam al-Anbiya is involved in the construction of streets, highways, tunnels and pipelines, among other infrastructure projects.

"The profits from these activities are available to support the full range of the IRGC's illicit activities, including [weapons of mass destruction] proliferation and support for terrorism," the Treasury said.

The U.S. government had previously acted against the IRGC for its "involvement in proliferation and terrorism support activities, respectively," the Treasury said.

WORLD NEWS

Pakistan says Taliban leader likely perished after drone hit

BY ZAHID HUSSAIN

ISLAMABAD—A senior Pakistani official said Wednesday there was credible information that Hakimullah Mehsud, head of the Pakistan Taliban, died of wounds inflicted by a U.S. missile strike last month in the first official statement about the fate of the militant leader. Still, the statement stopped short of being certain.

"I have credible information that he's dead, but I don't have any confirmation," Rehman Malik, the federal interior minister, told reporters in Islamabad as speculation intensified about whether Mr. Mehsud, 30 years old, had died.

He was seriously wounded when missiles fired by a U.S. pilotless drone struck his hideout in the area between South and North Waziristan in January near the Afghan border.

A Pakistani intelligence official said Mr. Mehsud was hit in the legs and abdomen.

Last week, Pakistani television for the first time reported his death and said that he was buried in the Orakzai tribal region.

An official statement stopped short of expressing certainty of Hakimullah Mehsud's death because of a lack of ground intelligence from the area of the drone attack.

But a Talban spokesman denied the report.

A senior Pakistani army official said there was some credence to the report about Mr. Mehsud's death, but he added that the absence of any ground intelligence from the area has made it more difficult to gather information.

U.S. officials couldn't confirm that Mr. Mehsud is dead.

"The onus is really on the Pakistani Taliban at this point to produce this guy," said a U.S. counterterrorism official. "Hakimullah certainly hasn't shied away from the terrorist limelight before, so why would he do so now when there's so much speculation about his demise?"

Mr. Malik said that security agencies were also investigating reports that Qari Hussain, a Mehsud deputy, had been killed.

Mr. Hussain was in charge of training suicide bombers and had close ties to other militant networks.

More than 30,000 troops backed by air force jets have been engaged in fighting in the region along the Afghan border, which Pakistani and Western intelligence officials believe has become the main hub of Taliban and al Qaeda activities.

Also Wednesday, a suicide bomber struck a police patrol in the Khyber tribal region, killing at least 10 policemen, a local government official said.

All the victims were in the vehicle which was hit.

Another 15 civilians were injured in the attack.

—Siobhan Gorman in Washington contributed to this article.

Heated debate

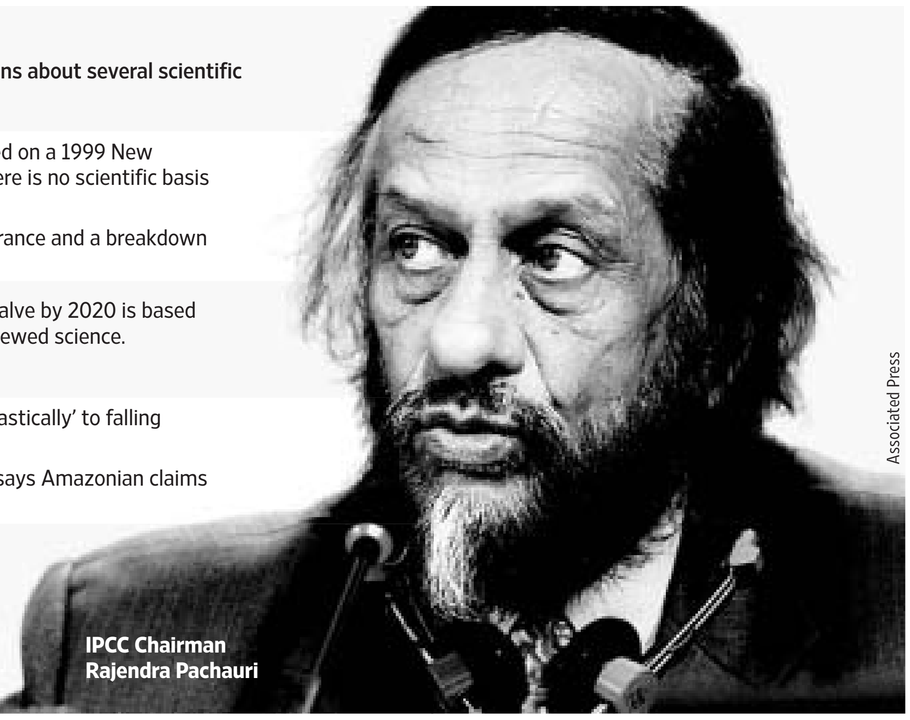
The Intergovernmental Panel on Climate Change is facing questions about several scientific claims in its 2007 climate science report. Some examples:

- A claim that Himalayan glaciers could disappear by 2035 is based on a 1999 New Scientist article; the scientist quoted in that article now says there is no scientific basis for the claim.
- **IPCC:** Cites 'poorly substantiated estimates' on glacier disappearance and a breakdown of IPCC procedures.

- A claim that agriculture yields in some African countries could halve by 2020 is based on a report by a Candian environmental think tank, not peer-reviewed science.
- **IPCC:** No formal response; IPCC still is investigating.

- A claim that 'up to 40% of the Amazonian forests could react drastically' to falling precipitation is based on a WWF report on forest fires.
- **IPCC:** Defends the citation of non-peer-reviewed literature, and says Amazonian claims borne out by more recent peer-reviewed studies.

- A statement linking rising temperatures to increased economic losses from natural catastrophes contradicts the findings of the research the report cites.
- **IPCC:** That section of the report is a 'balanced treatment' of the issue and contains 'many important qualifiers.'



IPCC Chairman Rajendra Pachauri

Associated Press

Climate group admits errors

Some IPCC officials say U.N.-sponsored group must improve report review procedures

BY JEFFREY BALL AND KEITH JOHNSON

Some top officials of a Nobel Prize-winning climate-science organization are acknowledging the panel made some mistakes amid a string of recent revelations questioning the accuracy of some of the information in its influential reports.

Officials of the Intergovernmental Panel on Climate Change, a United Nations-sponsored network of scientists whose reports strongly influence global policy on greenhouse-gas emissions, initially played down some of the allegations and criticized those who called them important. Increasingly, however, they are acknowledging the panel's mistakes and saying it needs to tighten its procedures.

"This has not increased the credibility of the IPCC," said Ottmar Edenhofer, a German economist who is co-chairing one of the main sections of the IPCC's next big climate-change report, due out in 2013 and 2014. "There is some room for improvement."

Scientists and other experts involved in the IPCC say most of the information assembled and reported by the organization is valid. They say the revelations don't impugn the IPCC's main conclusions: that climate change is largely due to man-made greenhouse-gas emissions and that it could have dangerous consequences.

But though they say each revelation itself is small, they worry that the continuing string of them is damaging the IPCC's credibility—not just with experts who question the premise of human-induced climate change, but with the public at large.

In citing climate change as an important issue, a U.N. conference in December in Copenhagen didn't rely "on the precise date of the demise of Himalayan glaciers, or African agriculture" to tackle global warming, says Jean-Pascal van Ypersele, vice chairman of the IPCC and a professor at the Institut d'Astronomie et de Géophysique Georges Lemaître at the Université Catholique de Louvain in Belgium, mentioning subjects that have generated criticism of the IPCC.

"It's the body of evidence" in the whole report that makes the case for action to curb emissions, he says.

Officials say they don't know of additional mistakes in the IPCC's seminal 2007 report, but they say that, given that the report runs more than 3,000 pages, additional mistakes may come to light.

"I do not expect serious mistakes," Mr. Edenhofer said. "But I'm quite sure that if people read the 3,000 pages, there will be some more mistakes."

A number of climate-change skeptics and public officials, including U.S. Sen. John Barrasso, a Wyoming Republican, have said the IPCC's chairman, Rajendra Pachauri, should resign. IPCC officials said Mr. Pachauri was traveling and unavailable to comment Tuesday.

A U.N. spokesman said IPCC rules don't appear to give the U.N. secretary-general authority to dismiss the IPCC chairman, and noted that Secretary-General Ban Ki-moon hasn't called for Mr. Pachauri's departure. Under IPCC rules, the panel's members—national-government officials—choose the IPCC chairman.

That officials with the IPCC are on the defensive is a big turnabout from 2007, when the then-obscure U.N. organization shared a Nobel Peace Prize with former U.S. Vice President Al Gore.

The IPCC won the prize for its 2007 report concluding that climate change is "unequivocal" and is "very likely" caused by humans. The report motivated countries around the world, including the U.S., to push for limits on greenhouse-gas emissions.

But recent revelations have undercut the Geneva-based organization. Among them: Emails were released in which leading scientists at an influential U.K. climate-science institute seemed to squelch dissent from researchers who disagreed with them; the 2007 report incorrectly said that Himalayan glaciers could disappear as soon as 2035; and it was revealed that scientists hadn't peer-reviewed a claim in the 2007 report that climate change would halve African agricultural yields by 2020.

Thousands of scientists and other experts volunteer their time with the IPCC to issue joint pronouncements every five or six years about one of the most complex scientific fields. The group, established by the U.N. Environment Program and the U.N.'s World Meteorological Organization, is administered by a paid staff of only a few dozen people and doesn't do any scientific research itself; its job is to assess work done by others, providing information for policy makers.

Experts involved in writing IPCC reports say the 2007 document's errors point up gaps in the organization's checks and balances.

"They are not big mistakes," said Mr. Edenhofer, who is deputy director of the Potsdam Institute for Climate Research in Germany. But, he added, "We have to think about the procedures again." In particular, he said, IPCC reports have to be more careful about noting the uncertainties surrounding information that hasn't been subjected to peer review among scientists.

Though each revelation itself is small, scientists and other experts worry that the continuing string of them is damaging the IPCC's credibility.

The most glaring mistake in the 2007 report is the claim that Himalayan glaciers could disappear by 2035, several IPCC authors say. That claim wasn't based on any peer-reviewed scientific paper, but on a decade-old interview given by an Indian glacier expert.

Some within the IPCC suggest the mistake may be a typo traced back to a 1996 U.N.-sponsored study—which also wasn't peer-reviewed—that said the glaciers would disappear by 2350.

Chris Field, co-chair of another section of the IPCC's next big report and director of the department of global ecology at the Carnegie Institution for Science in Palo Alto, Calif., said he thinks the IPCC would have caught the error had the team of scientists writing the report chapter on the Himalayas included a glacier expert. It didn't.

"The issue with the Himalayan glaciers really represents something where the procedures fell through," Mr. Field said. He added: "The challenge is the whole enterprise is working on volunteer labor."

Last year, before the disclosure of the Himalayan mistake, IPCC officials decided on a procedural change that might make it more likely that such a mistake would be detected in the future, Mr. Edenhofer said.

Each big report consists of three parts, and the IPCC will allow more time between the publication of each part, so the authors of one part will be likelier to read the others and flag errors.

Some people involved with the IPCC said they saw no reason why Mr. Pachauri should go. "He's dedicated an amazing amount of time and commitment and intellectual energy to the IPCC," said Mr. Field.

U.S. officials said they don't believe revelations of mistakes in IPCC reports undermine cause for concern about global warming.

"It's not useful when mistakes are made, but the overwhelming body of evidence [on climate change] is not disturbed by those events," Todd Stern, the Obama administration's top international negotiator on climate-change policy, told an audience Tuesday at the Center for American Progress, a left-leaning Washington think tank.

He added, "It's nothing short of crazy for us to put our heads in the sand and do nothing" about climate change.

Governments, including the U.S.'s, are now soliciting applicants to help write the IPCC's next climate-change report. Robert Marlay, deputy director of the U.S. Department of Energy's office of climate change policy and technology, who is involved in the solicitation process, says that more people are expressing interest than in prior years.

The recent revelations "do not change any of the core conclusions from prior IPCC reports," he said in an email Tuesday, "but they do underscore the importance of getting strong, science-based researchers involved in the process, keeping an open but critically challenging mind, and grounding conclusions in peer-reviewed literature".

—Guy Chazan and Ian Talley contributed to this article.

WORLD NEWS

China indicts 4 Rio Tinto executives

Allegations of bribery, obtaining commercial secrets offer specifics in a case that has worried executives for its opacity

By James T. Areddy

SHANGHAI—China formally indicted four executives of Anglo-Australian mining group **Rio Tinto** PLC on charges of corruption and obtaining commercial secrets, a case that has come to symbolize growing dismay in foreign boardrooms over Beijing's tactics as it quickly gathers global power.

An indictment handed up by Shanghai prosecutors alleges the mineral salesmen requested and accepted "huge" bribes on multiple occasions from numerous Chinese steel enterprises. It also says they used "improper" means to obtain commercial secrets that caused "serious consequences" for the companies, according to a terse report Wednesday by state-run Xinhua news agency.

The brief report offered the clearest statement yet of China's allegations against Australian national Stern Hu and three Chinese colleagues, who were detained in July and formally arrested in August.

Beijing's relative silence on the matter has sparked unease internationally and among foreign executives in China. Some analysts have said that in the absence of evidence, the case could appear politically motivated.

The indictments, while not a surprise, add to the political challenge facing the administration of Australian Prime Minister Kevin Rudd, which has been attempting a delicate balancing act between addressing domestic anger over the opacity of the Chinese action toward an Australian citizen, and trying to avoid disrupting wider relations with an increasingly important trading partner.

News that China intends to press on with the case may, in fact, lay the groundwork for a resolution. While a guilty verdict would likely inflame tensions, it could also mean a quick end to the legal process, allowing diplomats to get involved, for instance, in requesting Mr. Hu be remanded to Australia.

The Rio case has worried the international business community because it broke amid tense relations between Rio and Chinese government-owned companies, which are Rio's largest customer for iron ore. The Chinese side objected in part to prices that Rio and other suppliers were charging for iron ore. China imported ore valued at $50.14 billion in 2009, second among imports to the $89 billion spent on crude oil.

Reuters

China formally indicted four Rio Tinto executives on Wednesday. Above, the company's Shanghai office.

Australia's Department of Foreign Affairs and Trade couldn't comment on the Xinhua report, a spokeswoman in Canberra said. Rio Tinto, which has in the past denied wrongdoing by the company or its employees, declined to comment.

Lawyers for the three Chinese nationals—Wang Yong, Liu Caikui and Ge Minqiang—said they hadn't been officially informed of the indictments. Mr. Hu's lawyer hasn't been identified.

A police investigation ended last month and the case was handed over to Shanghai prosecutors. Xinhua said the case has been accepted by the Shanghai No. 1 Intermediate People's Court, but didn't provide a timeline for trials.

Rio's challenges come as other foreign companies recalculate the risks of doing business in China. Last month, **Google** Inc. threatened to walk away from the market after alleging that sophisticated efforts to break into its email system, as well as the Internet infrastructure of more than 20 other U.S. companies, originated in China.

This month, China threatened to retaliate against American companies that were part of a $6.4 billion U.S. government arms sale to Taiwan, adding a commercial dimension to a longstanding political wrangle with Washington over the island, which Beijing views as a renegade province. Among the companies is **Boeing**, which sold some $8 billion of commercial aircraft to China from 2006 to 2008. Boeing hasn't commented on China's threats, deferring all comment to the U.S. government.

The Rio case has raised the level of nervousness among some foreign business executives.

Some foreign mining companies are now asking for waivers before opening commercial negotiations with China that they hope will exempt their executives from any criminal prosecution stemming from performing their job duties, say people familiar with these companies. It is unclear how Chinese companies would be able to deliver such guarantees, even if they are in the state sector, given that they do not control the courts.

The indictments' timing came as a surprise to the defendants' attorneys. Mr. Ge's lawyer, Zhai Jian, said he had no indication that action was pending when he met earlier Wednesday with his jailed client, who the lawyer said appeared well physically and mentally. "I am especially puzzled," said Mr. Zhai, who heard about the indictments from news reports. "Why is it that every time the media is telling me these things?"

Chinese officials initially detained Mr. Hu and his team on suspicion that they had violated national security, which could have led to even more serious charges. They have since said that the commercial crimes they are accused of would have been considered by Australia to be illegal if they took place there.

Rio Tinto, meanwhile, has continued to post strong financial results in China, illustrating that its business hasn't been fundamentally hurt.

The company has also taken steps to improve its relations in China. Last week, it tapped a longtime employee who opened the company's first China office 25 years ago and speaks fluent Mandarin, Ian Bauert, to fill the newly created position of managing director for China. "Ian's experience and leadership will provide strategic direction and help guide all aspects of our engagement with China, one of our most important partners," Rio Tinto Chief Executive Officer Tom Albanese said in a statement.

In addition to legal threats, foreign investors face new challenges in China from a rising economic nationalism that favors domestic business over the foreign competition.

The trend has been exacerbated by Beijing's response to the global financial crisis in the form of a massive stimulus program that has disproportionately benefited large state-owned enterprises. The steady expansion of the state sector, which already dominates strategic industries from banking to telecommunications, narrows the scope for the private sector, including foreign companies.

Analysts say that one of the key lessons Chinese leaders took away from the financial crisis is that a powerful state sector provided the stability that let China withstand the shock and deliver the stimulus that has put growth back on track.

That has strengthened the hand of those in the leadership who favor further bulking up state enterprises and limiting access for foreign companies. Increasingly, foreign businesses complain that the market is skewed against them by regulation, including industrial standards designed to exclude foreign products.

—Liu Li, Iain McDonald, Shai Oster and Robert Guy Matthews contributed to this article.

China's commodity imports appear to slow

By Andrew Batson
And Terence Poon

BEIJING—China's purchases of commodities and other goods from abroad appeared to slow in January from the high rates of recent months, according to new figures, though price swings and holidays made the trend difficult to discern.

Headline growth rates, which have picked up amid the past few months' recovery in global trade, remained high: China's Customs agency on Wednesday said January's merchandise exports were up 21% from a year earlier, while imports jumped 85.5% for a third straight month of growth.

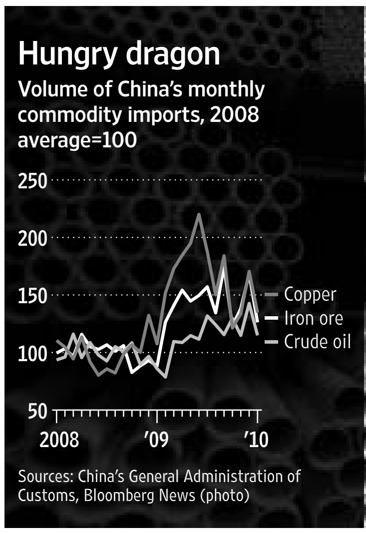
But January 2010 had more working days than January 2009, which was shortened by China's Lunar New Year holiday. The weeklong holiday this year starts Saturday.

Import growth is also inflated because this year's commodity prices are much higher than those paid during the depths of the financial crisis. As a result, "year-on-year comparisons are almost meaningless," said Bank of America-Merrill Lynch economist Ting Lu.

Other indicators hinted at some easing of the recent rapid momentum of resource consumption in China, the world's second-largest oil user and a major market for most metals. In volume terms, China's purchases of major commodities were down in January compared with December, though they remain well above year-earlier levels.

Shipments of crude oil, for instance, were down 20% from December's high for a single month. Iron-ore imports in January were down 25% from December, while copper imports dropped 21%.

Overall, merchandise imports were down 0.9% from the previous month in seasonally adjusted terms, Customs said, and the dollar value



was also smaller at $95.31 billion in January against $112.29 billion in December. The figures could be showing some effects from the government's effort to rein in bank lending—though they could also reflect a pre-holiday slowdown.

Still, the surge in imports over the past several months is likely to taper off as commodity prices stabilize and economic growth moderates, said Xu Jian, an analyst at China International Capital Corp.

—Alex Wilson and Liu Li contributed to this article.