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WEEKEND JOURNAL

THE WALL STREET JOURNAL.

VOL. XXVIII NO. 10 EUROPE Friday - Sunday, February 12 - 14, 2010

DOWJONES A News Corporation Company europe.WSJ.com

EU vows to support Greece

By Charles Forelle And Marcus Walker

BRUSSELS—European leaders said they wouldn't let Greece succumb to its credit woes, offering an unprecedented pledge of support that could end up pushing the 16-member euro zone toward joint responsibility for budgets and debts.

Countries that share the euro "will take determined and coordinated action, if needed, to safeguard financial stability in the euro area as a whole," leaders of the European Union declared at a summit in Brussels on Thursday after discussing Greece's budget crisis.

The statement was a significant acknowledgment that the fiscal problems of one euro-zone country have now become the problems of all. That's an historic step for Europe's 11-year-old experiment with a common currency, which has so far staunchly maintained that its member countries are fiscally sovereign.

EU officials stopped short of outlining how any bailout would work, however, disappointing currency markets, which had been looking for concrete details.

The euro slid to below $1.37 late Thursday in Europe from $1.38 early in the day, while European stock markets reacted in mixed fashion, with markets in Paris and Frankfurt falling slightly but some others rising. Greek credit spreads tightened slightly, a sign that investors were more confident about Greece's ability to service its debt.

Reuters

From left, ECB President Jean-Claude Trichet, German Chancellor Angela Merkel, Greek Prime Minister George Papandreou and French President Nicolas Sarkozy Thursday.

The EU officials had initially hoped to keep Greece off the meeting's agenda but worsening market turmoil and worries that Athens' problems could spill over to other countries forced officials to act.

The vague words reflect a tricky balance: Convincing spooked financial markets—particularly a bond market that has driven up Greece's cost of borrowing—that bigger, stronger euro-zone countries led by Germany and France won't let a weak member fail, but without lessening pressure on Greece to make tough budget reforms at home.

Greece's struggle to rein in its exploding debt has fed worries that the country might default, and triggered rising concern about unsustainable debts in other euro-zone countries, including Portugal, Spain, Ireland and Italy. Policy makers increasingly fear such a domino effect could destabilize the euro and rock the European and global economy.

Thursday's public show of support amounted to a tacit admission the currency bloc needs to address what critics have long seen as its essential weakness—the absence of coordinated fiscal policies. Under the current system, the European Central Bank has the power to set monetary policy in the euro zone but

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The Quirk

Year of the Tiger—but will they still be around next time? **Page 29**

Editorial & Opinion

The Green Movement won't be able to stop the Iranian bomb. **Page 13**

Giant of fashion Alexander McQueen dies in London

By Christina Passariello And Paul Sonne

Alexander McQueen was one of the last designers who believed that fashion is an art—a master of the gothic and theatric who often bemoaned the constraints on his creativity, as he struggled to adapt to an industry that is becoming ever-more commercial amid pressure to make products that sell.

The provocative British designer died at his apartment in London Thursday, his company said, shocking the fashion world, which was gathering in New York for the beginning of the season's international fashion shows. The 40-year-old was due to present his collection in Paris in less than a month.

"Lee McQueen, the founder and designer of the Alexander McQueen brand, has been found dead at his home," the brand's parent company, Gucci Group, said in a statement, referring to the designer by his first name. He began using Alexander, his middle name, when he got into fashion in the 1990s. "We are devastated and are sharing a sense of shock and grief with Lee's family," the company said.

Though they didn't release Mr. McQueen's name, the police confirmed the death of a 40-year-old man on Green Street in the Mayfair area of central London, where Mr. McQueen lived, on Thursday. An ambulance service had been called to the address in the morning. The police are treating the death as nonsuspicious, but plan to carry out a post-mortem examination, a spokesman for Scotland Yard said, confirming that suicides can fall into that classification.

Mr. McQueen's death also leaves Gucci Group with a decision over how to continue

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Derick Santini

Alexander McQueen pictured at his London Studio in 2006.

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Creating a level playing field for AIFs

[Agenda]

By Lord Woolmer of Leeds

The Alternative Investment Fund industry in the U.K. is under threat from proposals by the European Commission. This is an industry that employs an estimated 40,000 people in the U.K. and generated up to €4 billion of tax revenues across the EU in 2009. It is an important sector of the European economy, especially for the U.K. and the City of London.

The European Commission's Alternative Investment Fund Managers Directive published in April 2009 could undermine a sector of the economy which had no direct influence on the recent financial crisis by making Europe unattractive and uncompetitive to Alternative Investment Fund managers. And by reducing investor access to non-EU funds, EU investors could lose up to €1.5 billion per annum on top of reduced returns from higher compliance costs.

The House of Lords EU Select Committee this week published a report on the directive. The report had no argument with the principles of the directive. Its aim to improve oversight and transparency of fund managers and reduce any systemic risk that might arise is right. As is its aim to create a level playing field or single market for AIFMs across the EU. But the devil is truly in the detail. The proposals as currently drafted could have serious negative consequences for the EU and U.K. economies.

In taking evidence for the report, the committee heard that many of the problems with the directive could have been avoided if adequate consultation had been carried out on the proposals. As it was, political pressure in the run-up to the 2009 European elections forced the commission to rush out proposals that were not properly thought through and contained many major flaws. The European Commission's own "better regulation principles" required much more thorough consultation with industry on the potential impact of the directive and it is a matter of regret that these principles were not followed.

Agence France-Presse/Getty Images

Do Alternative Investment Funds, like people, need passports?

One serious concern surrounds the marketing of non-EU AIFs into and across the EU, to obtain what is called a "passport" to access the whole EU market.

AIFs and their management are part of global businesses and capital flows. The directive appears to set conditions for access, to get the "passport," that will be difficult, sometimes impossible, for non-EU funds and managers to meet.

> **Unnecessary restriction on the flows of capital could be extremely damaging for the EU economy**

The issue involves "equivalence" of regulatory and supervisory regimes. No other countries will operate schemes identical to what is proposed for the EU, so a strict interpretation of equivalency would be extremely damaging.

Does the directive mean equivalence of laws, regulations and supervision or equivalence of outcomes? The former would be protectionist, the latter a workable compromise.

Unnecessary restriction on the flows of capital could end up being extremely damaging for the EU economy. If a compromise can be found and the "passport" implemented successfully without damaging the global flow of capital, it will have extremely positive benefits in strengthening the EU single market in alternative investment funds and allowing authorized fund managers to market funds across borders within the EU.

There are other problems too, involving the way in which supervision of AIFMs is conducted, the way in which leverage regulation might be framed and implemented, as well as depositary and valuation issues.

The directive would also implement new disclosure requirements on fund managers, which are designed to give supervisors a better oversight of the industry and take action to prevent risks to the financial system. The Financial Services Authority has already begun a Hedge Fund Survey in the U.K., and it is encouraging that the directive will implement such a system EU-wide.

The financial crisis has shown that transparency to supervisors is crucial in attempting to reduce the risk of a repeat, and these requirements go some way to ensuring that the traditionally opaque alternative investment fund industry becomes more transparent.

However, even these disclosure requirements need further examination, mirroring a problem with the directive as a whole.

It attempts to impose a "one size fits all" solution in the vast variety of different types of fund managers. This approach fails to appreciate the idiosyncrasies of operation methods of different types of fund managers and so may impose unnecessary and costly burdens on alternative investment funds. This could represent another disincentive for fund managers to base themselves in the EU.

It is vital that efforts to regulate the financial-services industry in general and alternative investment markets in this case, are coordinated globally. Even a regional body like the EU cannot prevent major players from relocating outside their sphere of influence if the regulatory regime becomes too onerous.

The report of our select committee stresses that the EU must ensure the AIFM directive fits within an agreed global regulatory regime. It is especially important that the EU coordinate its efforts with the U.S. to ensure the EU alternative-investment-fund industry does not lose competitiveness at a global level as a result of regulatory arbitrage.

The U.K. government is currently undergoing negotiations in the Council of Ministers to try to resolve these problems. And the European Parliament is involved too in the negotiations on the way forward.

Successive attempted compromises to date would have gone some way to addressing the concerns raised, but agreement has not yet been achieved. Our report urges the U.K. government to withhold agreement on the key elements of the directive until a successful solution to the problems can be found.

—Lord Woolmer of Leeds is a member of the Subcommittee on economic affairs of the House of Lords EU Select Committee. The views expressed in the article are his own and do not necessarily represent those of the committee.

What's News

■ **About a quarter** of the 8.4 million jobs eliminated in the U.S. since the recession began won't return and will ultimately need to be replaced by other types of work in growing industries, a survey of economists found. 7

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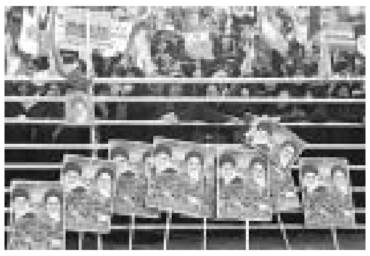

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THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Stapleton House, 29 - 33 Scrutton Street, London, EC2A 4HU

SUBSCRIPTIONS, inquiries and address changes to: Telephone: +44 (0) 207 309 7799. 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 9714280; London: 44 207 842 9600; 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 Telestampa 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.

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Editeur responsable: Patience Wheatcroft M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

Shock, controversy, beauty

The fashion world soon got over its doubts over Alexander McQueen's wild inventiveness

By William Lyons

The evolution of Alexander McQueen, once dubbed the "hooligan of English fashion," from the East End of London to award-winning designer to an international fashion brand was as dramatic as one of his many award-winning shows.

His collections were lauded for their extraordinary designs, astounding imagination and visual artistry. By the time of his death, McQueen had influenced a generation of designers, picked up a slew of awards and sold the brand he founded to the **Gucci Group**; completing the journey, via the fashion houses of Paris, from a taxi driver's son to a Commander of the British Empire. By the end of 2006 he had boutiques across the world including London, Paris, New York, Milan, Moscow and Beijing.

His obvious quality and ability to shock made him popular with singers such as Lady GaGa and Rihanna. Outrageous confections which envisaged women metamorphosing into reptiles vied with a genius for cutting and his impeccable tailoring. He was, as Alexandra Shulman, the editor of British vogue, said "a master of the fantastic," whose modern day genius and gothic aesthetic was adopted by woman the world over."

It was on Savile row where, among others, his clients included the former Soviet leader Mikhail Gorbachev and the Prince of Wales. At the age of just 20, McQueen spent time working for designer Koji Tatsuno before moving to Italy where he worked as a design assistant to Romeo Gigli, a designer renowned for his use of luxury fabrics.

In 1990 he studied for an MA at Central Saint Martins College where upon his graduation he had his entire collection bought by the late fashion journalist and stylist Isabella Blow. It proved to be the beginning of a lasting friendship which significantly helped Mr. McQueen's career. Five years Ms. Blow brokered the sale of Mr. McQueen's label to Gucci. Their relationship ended in 2007 when Ms. Blow killed herself.

After graduating Mr. McQueen set up his own label, based in the East End, raising his profile by launching his own line of extremely low-strung "bumster" trousers.

By the mid-90s he had caught the attention of Paris and in 1996 he succeeded John Galliano as head designer at French label Givenchy. It was here he was labeled the "hooligan of English fashion" and "enfant terrible" by the French press. It was a nickname seen more as a reference to his close-cropped hair and Doc Martens than his fashion style and Mr. McQueen went on to silence his critics by wowing them.

His runway shows, more often like performance pieces because they were so dramatic, and sometimes, bizarre were always a highlight during the Paris fashion week. One of his collections included a show built around the concept of recycling, with models donning headwear made out of trash. In 1998 he caused widespread controversy with a show that included car robots spraying paint over white cotton dresses and a double amputee walking down the catwalk with wooden legs. Another show featured a life-sized hologram of Kate Moss, who became synonymous with his style.

He left Givenchy in 2001 after saying the role was "constraining his creativity" and went to Gucci as creative director. In December 2000, Gucci Group acquired 51% of his Alexander McQueen label, where he remained employed as creative director until his death.

Throughout the 2000s his label flourished as he released a string of women's and men's ready-to-wear collections as well as accessories, eyewear, perfume and a line of trainers with Puma. Expansion followed across the world from London to Moscow to Beijing.

Openly gay he once described his coming out at a young age as going "straight from my mother's womb on to the gay parade." One of his lifelong passions was scuba diving, his spring 2010 collection, Plato's Atlantis, drew heavily on an underwater theme.

(Top to bottom) Agence France-Presse; Reuters

Alexander McQueen at a Givenchy show in 1997, above, and, right, models in outfits from McQueen's Spring/Summer 2010 collection.

Designer is found dead in London

Continued from first page

with a fashion house that was so interlinked with its founder's name. Since Gucci bought a 51% of the brand in 2000, the company has struggled to make money, becoming profitable only as of 2007.

The brand is very small compared to the group's flagship Gucci brand. Still, thanks to Mr. McQueen's acclaim among the fashion world, the company was a small jewel of the Gucci holdings, which belong to French retail-to-luxury group **PPR** SA. Among Gucci's other holdings are fashion houses Yves Saint Laurent, Balenciaga and Stella McCartney, in addition to jeweler Boucheron. Gucci had no comment on the future of the fashion house.

Mr. McQueen was best known lately for his dramatic designs, such as reptilian dresses and hoof-like shoes that were met with critical acclaim on the glamorous runways of the fashion world. But the designer's roots were far from the milieu where he eventually became a star. Born in east London in 1969, Mr. McQueen was the youngest of six children. His father was a taxi driver. He quit school at age 16 to take up an apprenticeship on tony Savile Row, where he learned classic English tailoring at Gieves & Hawkes and Anderson & Sheppard.

Mr. McQueen's bold creativity became evident when he enrolled in London's prestigious fashion school Central St. Martin's in 1992. The entire collection he produced for his master's thesis was bought by English style icon Isabella Blow—a remarkable accomplishment for a young graduate.

At the young age of 27, Mr. McQueen was appointed as the designer of French fashion house Givenchy, whose muse Audrey Hepburn brought the house fame. The same year, in 1996, Mr. McQueen won the British Designer of the Year award—an accolade he received three more times.

"His ability to cut was parallel to someone like Christian Dior," said Mark Henderson, chief executive of Gieves & Hawkes. "He had the most amazing natural ability."

A stint at theatrical costumiers Angels and Bermans planted the seed for dramatic fashion shows later in his career.

Mr. McQueen recently wrote on his Twitter feed that he had been traumatized by the death of his mother on Feb. 3. On the feed, where he revealed the news, he wrote, "but life must go on!!!!!!!!!!!!!!!" However, four days later he wrote, "been a f___ awful week but my friends have been great but now I have to some how [sic] pull myself together and finish with the," trailing off at the end.

—Rachel Dodes and Ray A. Smith contributed to this article.

Alexander McQueen | The hooligan of fashion

1969 Born in London's East End.

1985 Apprentices at Savile Row tailors Anderson & Sheppard in London.

1989 He starts working for London-based designer Koji Tatsuno.

1990 Starts working for Italian designer Rome Gigli.

Begins his MA at Central Saint Martins College of Art & Design.

1992 Sells his graduate collection to stylist Isabella Blow and launches his own label, quickly gaining a reputation as an enfant terrible.

1995 His catwalk show, which featured models in torn clothes, hits the headlines.

1996 He becomes designer at Givenchy in Paris.

1998 Designs tour outfits for the Rolling Stones.

2000 Agrees to sell his 51% stake in McQueen to Gucci.

2002 Opens a store in New York.

2003 Named British Fashion Designer of the Year for the fourth time.

2010 Found dead in his London home.

European Pressphoto Agency

Seafood on display Thursday at the main seafood market in central Athens. EU leaders have promised to support Greece.

EU leaders vow to support Greece

Continued from first page

has little influence over individual members' fiscal policies.

In a nod to skepticism of a bailout in Germany and other healthier euro-zone countries, the EU statement paired its promise of support for Greece with demands for "additional measures" if efforts by Athens to repair its budget fail to convince markets.

Greece won't get "money for free," and would first have to satisfy other European governments that it has done all it can, said Luxembourg's Prime Minister Jean-Claude Juncker, who heads up the "euro group" of finance ministers from euro members.

If even extra measures don't pacify financial markets, then euro-zone governments will help Greece out, Mr. Juncker said.

Such statements effectively run counter to EU treaty clauses restricting bailouts of euro member countries—which European officials say aren't watertight anyway—and show how the global financial crisis is pushing reluctant European governments toward deeper fiscal and political integration.

The Greek debt crisis shows the need for greater coordination of economic policies and a stronger hand in policing renegade states, said Jean-Pierre Jouyet, head of France's stock-market regulator and President Nicolas Sarkozy's former state secretary for European affairs.

"There's a hole in the structure" of Europe's monetary union, Mr. Jouyet said: "The Greek example shows that the EU needs to have new tools to manage disequilibriums." Mr. Jouyet added that because the EU doesn't have the proper tools to bail out fellow states, it should work together with the Washington-based International Monetary Fund.

Previous French calls for a more centralized "economic government" of the euro zone have met with resistance elsewhere—as most European governments are reluctant to lose control over their tax and spending policies.

Yet greater coordination of economic policy will necessarily happen, says Charles Grant, director of the Centre for European Reform, a London think tank. "There will be for Greece and possibly Spain a loss of fiscal sovereignty, a two-tier Europe with the weaker countries having to accept outside tutelage" as the price of financial support, he says.

Germany and France, the two biggest economies in the 16-nation euro zone and the wider, 27-country EU, remain deeply unenthusiastic about financing the public debts of Greece or other struggling euro members. Politicians in Berlin and Paris fear aid would anger their own taxpayers, while letting profligate Greece off the hook.

Those concerns meant German Chancellor Angela Merkel and French President Sarkozy didn't make Greece a concrete offer of aid on Thursday, German officials said.

Thursday's EU statement was "clear" and "sufficiently precise" to address Greece's present situation, Mr. Sarkozy said at a joint press conference with Ms. Merkel after the summit. "If something else comes up, we'll reconvene," Mr. Sarkozy said.

Governments haven't yet agreed on what form any assistance would take.

"Leaders are yet to decide the precise measures to help the Greek economy," Mr. Juncker said. European officials are considering mechanisms including bilateral credits or debt guarantees, according to people familiar with the matter.

Greek Prime Minister George Papandreou told his colleagues at the summit that Greece doesn't need aid, officials who took part said. "We will not be needing any help," Mr. Papandreou told reporters.

Greek officials stress that they don't need to tap bond markets again until late April, when an outstanding bond matures. By then, Greece hopes to show investors that steps to slash spending and raise tax revenues are under way.

Yet Thursday's signal to markets is clear: "There is a 'Merkel put' "—or German-led guarantee—that Greece won't fail, said Daniel Gros, director of the Center for European Policy Studies, a Brussels think tank.

Tiny Greece makes up less than 3% of the euro zone's $12 trillion economy, but the country has become a test case for whether Europe's monetary union can enforce fiscal rectitude in its members. Greece has consistently violated EU rules limiting budget deficits to 3% of GDP and sown doubts about the honesty of its public accounts.

Greece's newly elected Socialist government said late last year that the current deficit, at nearly 13% of GDP, is far larger than the previous government admitted. That has led to a financial-market run on Greece in recent weeks, pushing up the cost of insuring against a Greek bond default to record levels.

European officials have stepped up behind-the-scenes talks in the past week about how to save Greece if need be, amid fears that markets are also turning against Portugal, Spain and other struggling euro-zone economies.

Thursday's verbal support for Greece by euro-zone leaders was probably too vague to the market jitters, analysts said. "It's a clear disappointment that nothing concrete has come out," said Lutz Karpowitz, senior foreign-exchange strategist at Commerzbank in Frankfurt. "Despite this market disappointment, I have no doubt that a bailout for Greece will happen if it's necessary," he said.

The promise of euro-zone support shows most EU leaders are reluctant to let the International Monetary Fund help Greece, other than with advice. Many EU officials believe that would be an embarrassing sign of weakness.

Mr. Juncker described a possible IMF intervention as an "intrusion," saying: "We have all the instruments to take care of our own affairs."

—Alessandra Galloni contributed to this article.

Could Athens' problems lead to tighter EU rules?

[Brussels Beat]

By Stephen Fidler

One question that hasn't been asked as speculators have piled the pressure on the euro zone in the past couple of weeks is this: Will there be consequences in the form of tougher regulation of Europe's financial markets?

The frenzy has left euro-zone governments surprised and bruised, and wondering whether there is anything they can do to stop this kind of assault on the financial markets. The answer is probably no, but that doesn't mean they won't try.

From the point of view of derivatives traders in Europe, the timing hasn't been good. Just as the decision by Goldman Sachs and one or two other investment banks to pay out billions of dollars in compensation reignited a U.S. debate about bankers' pay, so this market turmoil, driven in part by the derivatives market, may have stirred action on derivatives and other financial regulation.

Spain's economy minister, Elena Salgado, dropped such a hint in an interview Wednesday in Madrid. She predicted the markets would calm down in several weeks and "then we'll continue with our daily work." Then she added: "We have to control a little bit more the financial system, especially derivatives, because things are blowing up again."

Because the interview ended, there was no time to inquire about the consequences of this. But her words might have greater significance in that Spain currently occupies the rotating presidency of the European Union.

The rotating presidency still has important powers, even though somewhat reduced by the Lisbon Treaty that is now in force. It means Spain will guide a lot of detailed work of legislation until the middle of the year and there are a raft of financial regulation measures that it will have the opportunity to influence, including coming legislation on financial derivatives.

The European law-making machine is so convoluted that no one country can dominate it, but to suggest there will be no consequences for the regulatory climate is probably to underestimate the impact the markets' assault on the euro zone has had in Southern Europe and beyond.

There is a palpable sense among government officials, opinion formers and more widely among ordinary people in Spain that what has been experienced is a deliberate effort from New York and the City of London to undermine the euro.

This may, according to what one hears in Madrid, be motivated by efforts to preserve the status of the dollar as the global reserve currency, or by the U.K. government to distract attention from its own debt problems, or for other reasons. It is also said to be orchestrated by the English-language financial media, including this newspaper, which speak the language of the financial markets and are the only ones with international reach.

To get a flavor of this debate in Madrid, just plug "conspiración" into Google News and use the translation tool if you need to. Conspiracy is a word government officials don't usually voice in public. But euro-zone leaders have given voice to the idea that unseen forces are at work.

Greek Prime Minister George Papandreou spoke in Davos last month of the targeting of the euro zone by people with an "ulterior motive or agenda." On Feb. 5, Spanish Prime Minister José Luis Zapatero said: "It's significant that most analysts carrying out these speculations are from other currency zones."

Antonio Garrigues, president of the eponymous Madrid-based law firm that is the largest in continental Europe and a noted Spanish jurist, said he sees no conspiracy. But he put it this way in an interview this week: "We are in the hands of the Anglo-Saxon world. The Anglo-Saxon countries are the most important in the capital markets."

It would be no surprise then if governments in the euro zone tried to redress this by using one important tool they have at hand: EU legislation.

* * *

It's not only in derivatives that the Spanish presidency of the EU will have an impact on the financial markets. It is looking closely at the proposed European law intended to cover alternative investment vehicles, such as private equity and hedge funds.

This proposal has had a tortured history from its birth at the European Commission. The Swedish government, during its presidency in the second half of last year, made substantial changes to the draft directive.

Now it looks like Spain is going to reintroduce some of the things Sweden took out. "You can expect many changes to be introduced in the directive to try to accommodate all the needs and worries of member states. It has become a priority of the Spanish presidency to find a balanced compromise text acceptable to all," a Spanish representative wrote in an email.

One of the clauses Spain has reintroduced aims to make sure that funds from the U.S. and other third countries being marketed inside the EU must comply with common rules and provide certain information to investors, companies they control and "competent authorities."

As Sweden left it, third-country funds would only have to meet national requirements to market in that country. But this would create an uneven playing field between managers of funds based inside the EU, which would have to comply with the entire European directive, and those of non-EU funds that would have only national requirements to meet. Spain says it wants to put both on an equal footing.

Sovereign debt weighs on euro zone

Governments struggle to service obligations amid a sluggish economic recovery and intense pressure from markets

By Brian Blackstone

FRANKFURT—As European officials grapple with the immediate problem of how to avert a sovereign default among the weaker members of the euro zone, governments are contemplating a long-term struggle in paying the money back.

Greece, Spain and Europe's other fiscal laggards—unable to cope by devaluing their currencies as they could before joining the euro zone—face servicing the mountain of debt weighing on their economies amid dwindling tax revenue, rising social-service spending needs and lagging productivity.

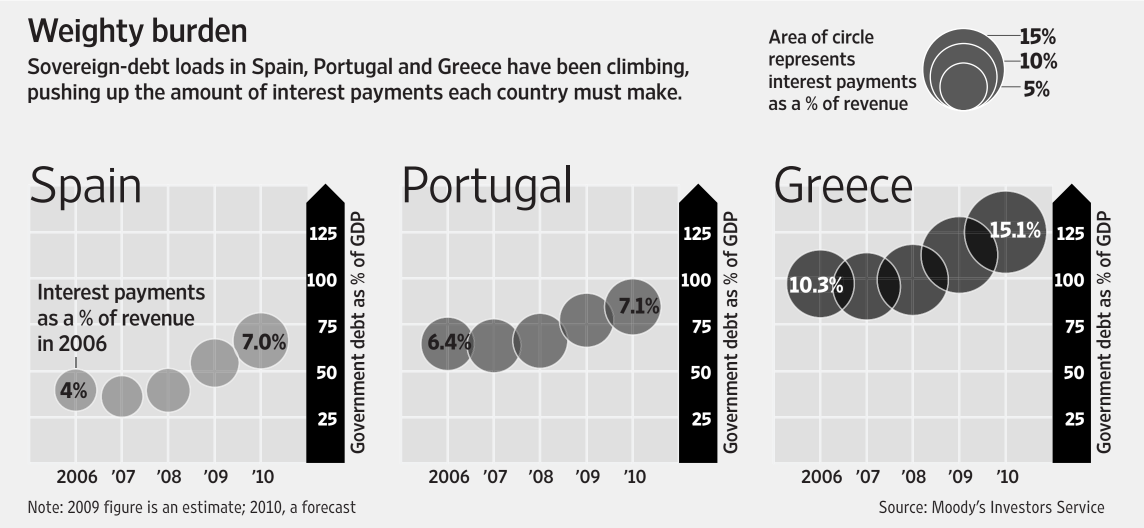
Under intense pressure from financial markets, investors may balk at buying government bonds without a hefty premium that would saddle the countries with even more debt.

The prospect of prolonged economic malaise in the affected countries, which could undercut Europe's economy as a whole, will linger for many years, some economists warn, even if European officials manage to solve Greece's immediate funding crisis.

That is because the massive interest payments that countries such as Greece have to make to service their debts will likely constrain spending in other areas that could help boost their economies.

"If [investors] start to think about medium-term prospects for the economy and level of debt, perhaps concerns could spread to Italy and Belgium," which both have high debt as a share of gross domestic product, said Ben May, economist at consultancy Capital Economics in London.

Even France is on the "edge" of the radar screen, the firm cautions, because it borrowed more as a share of its economy than anyone in Europe outside Spain, Greece and Ireland, and a big chunk of its outstanding debt matures this year.



When a nation's debt rises to more than 90% of its annual economic output, as has happened in Greece, economic-growth rates are reduced, on average, by about one percentage point a year, according to recent research from economists Carmen Reinhart of the University of Maryland and Kenneth Rogoff of Harvard University.

The problem is acute in the wake of financial crises, when tax revenues tend to shrink and expenditures soar as governments try to cushion the blow.

"Following a wave of financial crises especially in financial centers, you get a wave of defaults," Ms. Reinhart said in a recent interview. "You go from financial crises to sovereign-debt crises. I think we're in for a period where that kind of scenario is very likely."

The nations most at risk in Europe are countries such as Greece, expected by the European Commission to reach a debt-to-GDP ratio of 120% this year, Ireland and Portugal.

Spain, which entered the crisis with a debt-to-GDP ratio below 40%, is expected to hit 66% this year and 74% by the end of 2011.

These countries aren't outliers. Some of the world's largest economies, including the U.S., the U.K. and Japan are already above the 90% mark or will be soon, suggesting the economic drag from sovereign indebtedness will be global.

For now, at least, investors appear to be confident that the sheer power of these countries and their central banks' autonomy will enable them to escape the debt trap. Most countries have central banks that can, in a pinch, print money and buy government debt—something the ECB can't.

It may result in higher inflation for countries that follow that path, but investors would still get paid. In addition, markets tend to be less concerned about countries with deficits that are funded domestically, such as in Japan, where the debt-to-GDP ratio is 200%.

While larger economies such as Spain and Italy have also come raised concerns in recent days, those fears may ignore key variables, such as Spain's high savings rate, that work to support the country's economic recovery.

Still, the rush to raise unprecedented sums of cash by selling bonds this year could raise interest rates for weaker and stronger players alike—itself a form of financial contagion, said Jeremy Brewin, head of emerging-market debt at Aviva Investors in London.

Spain continues to trail the euro-zone's economic recovery, although the pace of its decline in its output slowed in the fourth quarter of 2009, according to data out Thursday.

Spain was the only euro-zone country to remain in recession in the third quarter and many analysts say the country's economic weaknesses make reining in its deficit a tall order.

Sovereign-debt crises aren't new to international finance. The global economy weathered them in Russia, Mexico and Asia during the 1990s and in the last decade, saw Argentina default.

European Central Bank President Jean-Claude Trichet, who has worked on dozens of national debt crises over the past several decades, said that what distinguishes the current situation is that it "started at the heart of the financial markets of the West," and not in emerging markets. "This first real stress test of global finance has demonstrated a fragility that is absolutely unacceptable," he said in a recent interview.

Chances of a Greek default are still seen as relatively low by many economists and investors. The cost of insuring Greek debt has surged in recent months but is still below that for Ukraine, Iceland, Venezuela and Argentina.

The surest warning sign of default would be if Athens were unable to roll over maturing debt into new bonds, which would prompt a scramble to pay its bondholders. That hasn't been the case yet, as new Greek bond offerings have seen strong demand, albeit at a hefty premium.

Eastern European countries such as Hungary and Latvia that faced default risks at the height of the crisis in 2008 and 2009 received rescue packages from the International Monetary Fund and embarked on austerity programs to get their finances in shape.

In the case of Latvia, that has meant a painful recession, lopping as much as 20% off GDP. Its default risk has receded since last year but remains higher than in Greece, according to Markit.

Debt ratios will rise throughout Europe this year and next, analysts say, as a very weak recovery and absence of inflation drain government tax revenues at a time when spending on unemployment and other benefits remain high.

Surprisingly low inflation, or outright price declines, "shrink the revenue base but the interest rate governments pay [on debt] is unchanged," explained Arnaud Mares, senior vice president at Moody's Investors Service. "The debt weighs more."

—Jon Hilsenrath, Neil Shah and Bernd Radowitz contributed to this article.

Banks to EU: Aid Greece

By Patricia Kowsmann And Madeleine Nissen

LONDON—Europe's big banks have been urging euro-zone countries to help Greece in consultations with government and European Union authorities, people familiar with the situation said Thursday.

"There are talks taking place between bankers and European authorities, and the idea is that a bailout would be good for the countries, banks and to calm fears that other countries could face problems if Greece defaults on its debt," said one person at a European bank.

Among those holding talks are major banks such as Germany's **Deutsche Bank** AG and **Commerzbank** AG, according to the people. Banks in the U.K. are also in discussions with the EU, but without U.K. government involvement, one person said.

U.K. Prime Minister Gordon Brown said Thursday that discussions about a Greece rescue "at the moment are within the euro area." French Finance Minister Christine Lagarde met chief executives of French banks to discuss their commitments to lend domestically, but it wasn't clear whether Greece was on the agenda.

France's **Credit Agricole** SA, whose Emporiki Bank of Greece SA subsidiary gives it one the biggest direct exposures to Greece among foreign banks, declined to comment.

Greece is struggling to address a heavy debt burden and wide fiscal deficit, and fears of a sovereign default have been growing.

Many European banks have exposure to the Greek economy in government and corporate lending, including to Greek banks. No European bank has so far disclosed its exact exposure to Greece, but the Bank for International Settlements says corporate and government lenders in France had the biggest exposure at $78.9 billion last September. Switzerland was next at $78.6 billion, followed by Germany at $43.2 billion and the U.K. at $12.5 billion.

If the crisis were to affect Spain, the sums become larger. German lenders have a $240 billion exposure, while France's is $185.3 billion. Exposures in the Netherlands and the U.K. are $125.5 billion and $120.7 billion, respectively.

Shares in Greek banks have plunged in recent weeks, though the lenders have reiterated that they have no balance-sheet issues themselves.

The most recent set of bailouts backed by the EU have involved agreements by banks to maintain their operations in, and lending to, the countries being aided, and that might set a precedent for Greece.

In March of last year, when a number of Eastern European countries appeared on the brink of a balance-of-payments crisis, the EU and a number of other agencies launched the European Bank Coordination Initiative.

Western European banks active in Eastern Europe agreed to continue supporting their subsidiaries there in return for funding from the EU and the International Monetary Fund to those nations. It wasn't immediately clear whether EU authorities were already asking European banks to commit keeping their credit lines open to Greece if a bailout takes place.

—Paul Hannon and Jethro Mullen contributed to this article.

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EUROPE NEWS

Aleksander Prokopenko/EPA

Ukrainian Prime Minister Yulia Tymoshenko, left, arrives at the cabinet ministers' meeting in Kiev on Thursday.

Tymoshenko ignores poll

Business as usual for defeated Ukrainian prime minister

Associated Press

KIEV, Ukraine—Ukraine's embattled prime minister, Yulia Tymoshenko, appeared in public for the first time in days at a government meeting on Thursday but didn't reveal whether she plans to concede defeat in the presidential election and resign her post.

Ms. Tymoshenko, looking tense but determined, appeared before the media for the first time since Sunday's election to run a government meeting. She didn't comment on the elections directly but took a swipe at the pro-Russian opposition leader Viktor Yanukovych, who defeated her by 3.5 percentage points, according to the official preliminary vote count.

"It is already obvious today that nobody from Yanukovych's team has any intention of raising social standards," Ms. Tymoshenko told the government meeting. "Already, after the election, we are starting to discover huge pre-election deceptions and people should factor that into their future political calculations." Analysts say her strategy now appears aimed at undermining Mr. Yanukovych's attempts to consolidate power and enact legislation.

Ms. Tymoshenko's campaign has continued to demand recounts at numerous polling stations across the country and has warned that it will challenge the vote in the courts.

But a key ally of the prime minister urged her supporters Thursday to prepare to take up their role as the official opposition.

"We are seriously checking the conduct of the election, but we are even more serious about preparing for our activity as the opposition," said Mykola Tomenko, a deputy parliament speaker and a member of Ms. Tymoshenko's bloc.

Mr. Yanukovych's Party of Regions condemned Ms. Tymoshenko's refusal to accept defeat and said it reflected her unwillingness to accept the will of the people. "She should cease this deceitful behavior and accept what the people of Ukraine have voted for—Viktor Yanukovych has won these elections," said Boris Kolesnikov, deputy leader of Mr. Yanukovych's party.

Mr. Yanukovych's victory was a repudiation of the 2004 Orange Revolution, when Ms. Tymoshenko and the outgoing President Viktor Yushchenko led weeks of mass demonstrations against the rigged election won by Mr. Yanukovych.

Thousands of Mr. Yanukovych's supporters continued to rally outside the Central Election Commission on Thursday to block any attempt by Ms. Tymoshenko to call mass protests. It isn't clear anyway how many would follow that call.

"I came to the [2004] demonstrations. But that won't happen again," Stanislav Krasnov, a 52-year-old security guard said. "No one will come out onto the streets for her now. She'd be standing by herself."

EU rejects data-sharing plan

By John W. Miller

BRUSSELS—The European Parliament voted Thursday to kill a deal giving U.S. counterterrorism authorities access to banking data collected by the Society for Worldwide Interbank Financial Telecommunications, a Brussels-based registry of international financial transactions known by its acronym, Swift.

The vote, by 378 to 196, is a show of strength for the parliament, long an institutional weakling but emboldened by new powers granted under the Lisbon Treaty.

The agreement signed by EU member states last November didn't achieve "the correct balance between security and the protection of civil liberties and fundamental rights," says Jerzy Buzek, the parliament's president.

The defeat is also an embarrassment for the EU's executive arm, the European Commission, which had backed the deal. "I remain convinced that the program enhances the security of our citizens," said home-affairs commissioner Cecilia Malmstrom. She promised to craft a new deal with reinforced safeguards for privacy and data protection that would be palatable to the parliament—and the U.S.

U.S. officials say the Terrorist Finance Tracking Program has allowed U.S. authorities to foil a plot to blow up jets over the Atlantic in 2006 and early 2010, and has led to "more than 1,500 reports and numerous leads" handed over to European law enforcement, the U.S. mission to the EU said in a statement.

Probing Swift records became a common U.S. tactic after the Sept. 11 attacks and came to light in 2006. The 2009 deal formalized what had been an extra-legal practice.

"Our fundamental principle has been to preserve the confidentiality of ours users' data while complying with the lawful obligations in countries where we operate," Swift said in a statement in 2006. Swift officials didn't comment on Thursday's vote.

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East Anglia plans new climate review

By Guy Chazan

The U.K.'s University of East Anglia said it will launch an independent review of the science published by its scandal-hit Climatic Research Unit, an attempt to restore its credibility after the disclosure of thousands of its emails last year raised questions about the group's climate-change research.

The move represents the latest damage-control measure taken by a key player in the academic effort to document the effects of global warming, whose reputation has taken a beating in recent weeks. More than 1,000 private emails and 3,000 other documents that were allegedly hacked from the university's Web site and leaked online late last year appeared to show CRU scientists trying to block access to data and squelch the views of climate-change skeptics.

UEA said it had asked the Royal Society, Britain's national science academy, to help find independent scientists to staff the inquiry. UEA had already announced a wide-ranging probe into whether its researchers manipulated information about global warming. That review, headed by a senior civil servant, Sir Muir Russell, officially began work Thursday and called for submissions from interested parties by March 1. It says it hopes to present its preliminary conclusions by the spring.

The independent review announced today will reappraise the CRU's scientific conclusions. The Russell review is specifically focused on the email hacking and is investigating whether there is evidence of poor scientific practice and data management, which would call CRU research into question.

The launch of the probes comes amid a string of recent controversies that have cast a pall over the science of global warming. The latest involves the Intergovernmental Panel on Climate Change, a United Nations-sponsored network of scientists whose reports strongly influence global policy on greenhouse-gas emissions. It was disclosed in January that the IPCC's 2007 report incorrectly said that Himalayan glaciers could disappear as soon as 2035.

The University of East Anglia's independent review was broadly welcomed. But there was some criticism that the institution has taken more than two months to act—a sign of the hit the climate-research group's credibility has taken since the crisis began. After initially condemning the email hack, university officials went virtually silent in recent weeks as criticism mounted.

"I think an independent review should have happened earlier," said Peter Frumhoff, director of science and policy at the Union of Concerned Scientists and a lead author of the IPCC's 2007 report. "The longer these attacks on CRU are left without a credible response, the longer they fester and corrode the public perception of the science and the integrity of the scientific process."

Others said it didn't go far enough. "To do an assessment of the scientific research ... is sort of beside the point," said Judith Curry, chair of the School of Earth and Atmospheric Sciences at the Georgia Institute of Technology. "The main issue is to provide open access to the data and the metadata—which describes in detail how the analysis is conducted—and let the broader community assess the data sets."

There was also some frustration that Sir Muir's review had given interested parties only 2½ weeks to make submissions. "They've already been working for more than two months—what have they been doing in that time?" said Steve McIntyre, a Toronto-based minerals consultant with statistics expertise who has been sharply critical of some of CRU's research and whose name came up numerous times in the leaked emails.

The flurry of investigations stands in stark contrast to UEA's initial reaction when the email scandal broke.

The CRU scientists condemned the theft of the emails as part of a smear campaign to distract attention from the irrefutable nature of climate change.

CRU's director, Prof. Phil Jones initially dismissed the charge that he and his colleagues had tried to manipulate or suppress data as "ludicrous."

But although the emails didn't undermine the fundamental science behind human-induced global warming, some of the issues raised by the correspondence were serious. They appeared to show Prof. Jones and others encouraging peers to refuse requests for raw data made under the Freedom of Information Act and in some cases to delete it. UEA has insisted no data were ever deleted.

As the furor continued, UEA was forced to act. Sir Muir's independent probe was announced in December, and Prof. Jones stepped down pending its outcome. Last week the embattled scientist admitted in an interview with the Times of London that he hadn't dealt with the FOI requests "in the right way." He also said he had contemplated suicide after receiving several death threats.

The interview was published just days after the U.K.'s information commissioner's office said UEA broke the law by failing to comply with FOI requests, though too much time had elapsed for the university to be prosecuted.

Prof. Jones has stood by CRU's research. The unit is renowned for its global temperature record, based on readings from sites on land and sea around the globe. This data figured prominently in the IPCC's 2007 report on climate change, which concluded that global warming is "unequivocal" and "very likely" caused by man.

Few scientists think the integrity of the CRU's data sets, which jibe with the temperature records of two other influential climate research institutes, have been compromised. "Most scientists associate the thermometer data with CRU and no one is voicing serious reservations about it," says Hans von Storch, a professor at the Meteorological Institute of the University of Hamburg. "I have no difficulty working with it."

Meanwhile, details were released of Sir Muir's review. The panel said it would determine whether there was evidence of poor scientific practice that would call CRU's research into question; whether CRU followed university and freedom of information procedures properly; and whether CRU should improve its methods of keeping data safe.

U.S. NEWS

Economists believe many jobs won't return

By Phil Izzo

About a quarter of the 8.4 million jobs eliminated in the U.S. since the recession began won't be coming back and will ultimately need to be replaced by other types of work in growing industries, according to economists in the latest Wall Street Journal forecasting survey.

While the U.S. job market is constantly shifting as some sectors fade and others expand, this recession threw that process into overdrive. Thousands of workers lost jobs as companies automated more tasks or moved whole assembly lines to places like China. As growth returns, so will job creation—just with a different emphasis in the mix of jobs being created.

Economists in the survey are predicting a slow upswing for the economy as a whole. Respondents on average expect economic growth to settle at about 3% in 2010, off sharply from the powerful 5.7% seasonally adjusted annual growth rate in the fourth quarter.

This is why job creation has become such a worrisome issue: Based on that growth projection, over the next year economists estimate the U.S. will add about 133,000 jobs a month. That sounds good and it's certainly better than more job losses. But with about 100,000 new jobs a month needed just to soak up new entrants to the work force, that pace of job creation will only slowly reduce the high unemployment rate.

That's why the economists expect the unemployment rate to only fall to 9.4% by the end of the year—down from 9.7% in January. They say job growth needs to average more than 200,000 per month for the U.S. to see a strong recovery in jobs.

The White House released its economic forecast Thursday, projecting payrolls will increase by an average of just 95,000 a month this year with the unemployment rate averaging 10%. The Council of Economic Advisors expects GDP growth to be about 3% in 2010, in line with the surveyed economists.

It isn't just weak growth that's damping job growth. "Companies, in the name of making money, substitute against labor through outsourcing or technology," said Allen Sinai of Decision Economics. Wages and benefits make workers "so expensive that who wants to hire them? As a result, the displaced workers won't be rehired unless we have double the growth rate we're expecting."

On average, the 55 surveyed economists, not all of whom answered every question, said three-quarters of the job losses during the recession are cyclical, meaning the positions will eventually return when demand picks up. For example, the manufacturing industry has shed 2.2 million jobs since 2007, as consumers and businesses cut spending sharply amid the credit crisis. When demand stabilizes, factories need to bring some of those workers back. Indeed, the sector added jobs in January for the first time in nearly three years.

But some companies have used the recession to find ways to do more with less. "There's a certain Darwinian angle to recession," said economist Sean Snaith of the University of Central Florida in Orlando. "Firms that survive are stronger for having the experience. They tighten down and look for ways to cut waste."

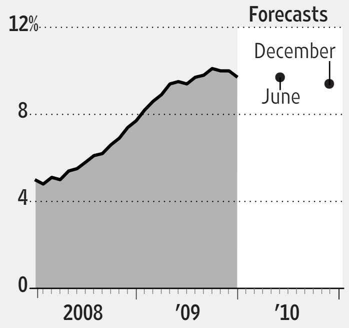
The challenges facing the economy—and the government's response to them—translated into low marks for President Barack Obama and Treasury Secretary Timothy Geithner. The economists gave the president an average grade of 57 out of 100, while Mr. Geithner scored an average of 60. Just 10 economists gave both men marks in the A or B range above 80. Despite the low marks, 29 of the economists expect Mr. Geithner will still be Treasury secretary at the end of the year.

J.P. Morgan Chase economist Bruce Kasman said, "You need to change incentives for hiring in a permanent way, but that is hard to do amid deficits."

However, Federal Reserve Chairman Ben Bernanke fares significantly better, with an average grade of 78, and 33 economists giving him an A or B. "The Fed chairman misread the economy and risks initially but eventually acted aggressively and successfully," said Jim O'Sullivan of MF Global. And despite a bruising confirmation battle earlier this month, most economists said the central bank's independence was only slightly undermined.

Slow descent

Forecasters don't expect the U.S. unemployment rate to fall much this year.



Source: The Wall Street Journal survey of economists

Snow adds to capital's political drift

The only thing working in the storm is politicians' knack for making everything symbolize their opponents' faults

By Elizabeth Williamson
And Neil King Jr.

Getty Images

Washingtonians had to dig out again after the region was hard hit by a second megasnowstorm in five days.

WASHINGTON—In a town where everything takes on political freight, this week's historic snows have dumped a shovelful of mixed metaphors on the federal government.

Oklahoma Republican Sen. Tom Coburn found himself stranded inside the Capitol, an odd position for a small-government curmudgeon who called the government shutdown a "dream." He cleaned his desk, wrote to constituents, read books and reveled at the empty corridors of power.

"The best thing is we're not passing any legislation, which ultimately will save the government a lot of money," he said. "We're not gonna be blamed for this one," he added, alluding to a prior shutdown in 1996, caused by a dispute over the federal budget.

The storm, the result of two weather systems combining, brought official Washington to a near standstill, not to mention disrupting air travel and knocking out power to thousands in the capital area. Wednesday's snowfall, the fourth in two weeks, topped off what's now the nastiest Washington winter on record—55.9 inches of snow for the season so far—and one of its foulest political seasons, too.

Liberals found their own metaphoric barbs in it. "This storm can try as it might," said Senate Majority Leader Harry Reid (D., Nev.), "but a few feet of snow have got nothing on Senate Republicans' ability to paralyze Washington with their blizzard of filibusters and procedural gimmicks."

Brendan Daly, an aide to House Speaker Nancy Pelosi (D., Calif.), said, "Recovering from this blizzard demands patience, cooperation, collaboration and teamwork. Unfortunately, the Senate is in session this week."

Not that the severe weather is just a matter for joking. Some 20 deaths have been attributable to the storm throughout the East, including traffic fatalities.

In economic costs, one past blizzard, the 1993 "Storm of the Century," cost more than $6 billion across the East Coast, by some estimates.

In terms of the expense of shutting down the federal government in Washington, one study has estimated that can run $100 million a day in lost productivity.

For some, the snow generated a flurry of musings about cooperation and the proper role of government.

Grover Norquist, president of Americans for Tax Reform, joined Wednesday in "community shoveling" in the alley behind the conservative group's downtown headquarters.

"Think about it...a government which can't plow the streets and can't fix the potholes wants to tell us how our toilets should flush, what size cars we should drive and whether we should have paper or plastic when we buy our groceries," he said.

Of the communitarian dig-out—which some dubbed "snowcialism"—he noted, "That's voluntary."

The daughter and grandchildren of Oklahoma Republican James Inhofe, the Senate's most outspoken climate-change skeptic, built an igloo a snowball's throw from the Capitol, bearing signs saying "Al Gore's New Home" and "Honk if you [heart] Global Warming."

Mr. Inhofe's daughter, Molly Rapert, said the signs were an afterthought and she regretted that anyone would think it was "an assault on some serious issue." Mr. Gore's office didn't respond to calls for comment.

Others also made hay over the contrast between the snow and the global-warming issue. The Virginia GOP ran ads against Reps. Tom Perriello and Rick Boucher, two conservative Democrats who support legislation to make industries pay for their emissions. "Tell them how much global warming you get this weekend.... Maybe they'll come help you shovel," the ads said.

The storm has coughed up a host of nicknames—snowmageddon, snowpocalypse, tsnonami, snoverkill, snowoverit, snOMG. It has also spawned a blizzard of anti-stimulus snipes, like how Washington has finally found the ultimate shovel-ready project.

Across the city, few vehicles stirred, except the odd SUV. "I have one big word for it—'liberating,' " said Chad Vieau, a District of Columbia resident who has been careening around in his Hummer. His proudest moment came, he said, when he pulled a police car out of a snowbank. Though his friends laughed when he bought the vehicle, "I'm feeling good now," he said.

"People have finally found a use for their Hummers," shot back Dan Becker, who directs the Safe Climate Campaign and has inveighed against SUVs. "Now if some entrepreneur would just ship all this snow to Vancouver, Greenland and the arctic, where it is so clearly needed."

The Center for American Progress, an Obama-friendly think tank led by former Clinton chief of staff John Podesta, canceled its discussion on "The Global Implications of Climate Migration," due to the blizzard.

The Finnish embassy rescheduled a party celebrating its climate-friendly rehabilitation project, saying that "the record snowfall of the past few days is too much even for us Finns!"

Political comedian Andy Borowitz extracted a different form of peace from the storm. Alluding to how former Alaska Gov. Sarah Palin was spotted recently looking at notes on her palm during a question-and-answer session after giving a speech, Mr. Borowitz wrote: "One good result of this blizzard: Sarah Palin's been strangely silent today—probably because she's wearing mittens."

The storm spelled opportunity for the Congressional Effect Fund, a mutual fund that invests in the S&P 500 only when Congress is out of session, and in Treasurys and the money market anytime else. "When we found out at 4:30 p.m. yesterday that they were going to declare a snow day, we went into the market," said Eric Singer, who manages the portfolio.

The rationale for the fund: "Over the past 40 years, 99% of the price gains in the market cumulatively occur when Congress is on vacation," Mr. Singer said.

He spent Wednesday trying to find out if the government would stay closed. "Nobody in Congress is answering the phones," he said. "So what else is new?"

—Peter Wallsten, John D. McKinnon and Stephen Power contributed to this article.

U.S. NEWS

Unwinding Iran's revolution takes time

[Capital Journal]

By Gerald F. Seib

Anti-government demonstrators showed up as scheduled on Iran's streets Thursday, commemorating in their own defiant way the 31st anniversary of the country's Islamic revolution. Government forces, meanwhile, worked overtime, and apparently with some success, to clamp down on the protesters.

Important as the day's efforts by the dissidents may be, though, their significance transcends one day, or one anniversary. It is simply this:

The Iranian revolution in 1979 was the biggest event of the last generation in the Middle East, spawning wars and radicalization that have reshaped the region and, to some extent, the world. If we're now watching the slow unwinding of that revolution, the consequences will be equally momentous.

To be sure, this is a long-term question, not a short-term one. Iran's Islamic government in its current form is well-entrenched, and the Revolutionary Guards that sustain it are by far the country's most powerful force. The government of President Mahmoud Ahmadinejad has shown that it possesses the most important attribute of any imperiled regime, which is the willingness to use brute force to quell rebellion.

So it may take years rather than months to know the end result of today's grass-roots opposition to the Ahmadinejad government, and there is a distinct limit to what the U.S., or any outside force, can do to affect the course of opposition within Iran.

Yet slowly, things appear to be changing. For one thing, the world increasingly views Iran's mistreatment of its own dissidents as a problem on a par with its nuclear program. One small sign of this came Thursday in the U.S. Senate, where a bipartisan group of senators unveiled a bill that would compel the Obama administration to target economic sanctions on Iran at officials who abuse their citizens' human rights, not just at those involved in the country's nuclear program.

"The scheme of the bill is straightforward: targeted sanctions against human-rights abusers in Iran," said one Senate aide involved in drafting the legislation.

Without doubt, the stakes are enormous. The best way to grasp the consequences of a potential unwinding of the Islamic revolution in Iran is to consider how fundamentally that revolution altered the course of history in the first place.

The 1979 revolution was the event that, more than any other, inspired a rise of Islamic fundamentalist sentiment across the Middle East and the larger Islamic world. That rise has shaken governments across the region, prompting them to alternately accommodate fundamentalists, giving them new power, or to suppress them, generating a backlash of sympathy among the populace.

Most notably, the government of Saudi Arabia, in response to both the forces unleashed in Iran in 1979 and to an uprising by Islamic radicals at the Grand Mosque in Mecca that same year, granted new power, money and freedom to the kingdom's conservative clerical establishment. That allowed the most conservative elements of the Saudi theocracy to better spread their fundamentalist philosophy not just within the country, but to places such as Pakistan and Yemen as well, sowing the seeds for troubles that continue to erupt.

The rise of Islamic power in Iran also led both the U.S. and rich Arab states to bulk up Saddam Hussein in next-door Iraq as a bulwark against the spread of Iranian-style revolution. This empowering of Iraq led to the massively destructive and expensive eight-year Iran-Iraq war—and also to the cultivation of a monster in Saddam Hussein that took two more wars to eliminate.

Further abroad, the Iranian revolution led directly to the creation of the Hezbollah armed Islamic movement in Lebanon, which has become a military threat to Israel more real than that posed by any surrounding Arab state. Iran's revolutionary government also has provided at least inspiration, and some funding, over the years to Hamas, which has undermined the secular Palestinian movement in the Gaza Strip and threatened it in the West Bank.

More broadly, it's not a stretch to say that the rise of Iranian-inspired fundamentalist sentiment in the region led to the growth of the al Qaeda extremist movement. Direct relations between Iran and al Qaeda have ranged from distant to hostile over the years, because the former is a Shiite Islamic state and the latter a Sunni-dominated Islamic movement.

Still, the U.S. government's official commission investigating the 9/11 terrorist attacks reported at least some minor Iranian assistance to various players in the plot.

The point is this: Imagine a world in which an unwinding of Iran's regime produced an unwinding of all those ripple effects.

Of course, even the leaders of the Iranian opposition don't want to actually undo the Islamic revolution, but rather to reform and democratize it, raising questions about how much would really change if they succeed.

Yet the question for U.S. policy makers increasingly will be whether it's realistic or mere wishful thinking to suppose the opposition can persist and grow. Put another way, what matters most right now isn't precisely how many demonstrators turned out in the streets of Tehran Thursday, but whether the tide of history has turned against the Islamic government of Iran, at least in the form it has taken for the last 31 years.

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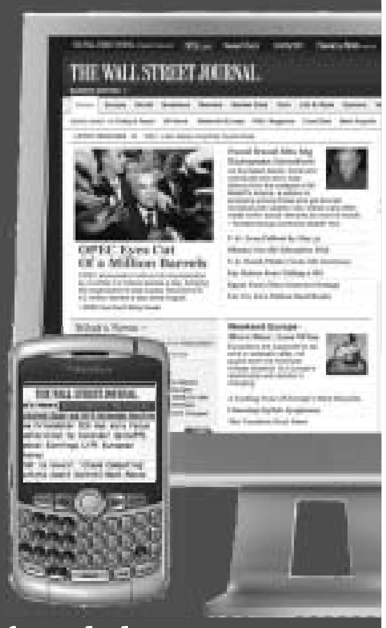

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WORLD NEWS

Cheers, protests mark Tehran rally

Activists face crackdown as pro-state demonstrators hail revolution; president says uranium has been enriched

By Farnaz Fassihi
And Chip Cummins

Agence France Presse/Getty Images

Police officers stand guard as pro-government demonstrators attend a rally in Tehran on Thursday commemorating the anniversary of the 1979 Islamic Revolution.

Tens of thousands of pro-government demonstrators rallied in Tehran on Thursday as security forces dispersed—sometimes violently—pockets of protesters, who had vowed to show up in large number to demonstrate against the government.

President Mahmoud Ahmadinejad, meanwhile, said Iran had successfully produced its first batch of higher-enriched uranium for a medical-research reactor, his latest act of defiance against an international community increasingly worried that the country is pursing nuclear weapons.

Tehran, as it had promised earlier this week, mounted a massive mobilization against Thursday's protests, which the opposition had timed for the 31st anniversary of the Islamic republic's founding. Security services and government supporters appeared to vastly outnumber protesters, according to online opposition accounts and Iranians reached by telephone.

The government's crackdown and fresh nuclear claims appeared to be twin messages aimed at international and domestic critics: That Mr. Ahmadinejad's government remains unbowed, despite pressure from Washington and allied capitals to curb its nuclear ambitions, and amid persistent domestic unrest stemming from last summer's contested presidential elections.

Opposition Web sites and international media reported arrests and several clashes, including security forces firing tear gas and paint balls into crowds of protesters in the capital. A top opposition leader, Mehdi Karroubi, was attacked by plainclothes militia, according to family members.

Protests broke out in other big Iranian cities including Isfahan and Ahvaz, according to opposition reports and videos posted on YouTube. In Isfahan, opposition supporters massed on a historic city bridge, as drivers honked their horns in support. Anti-riot police fired tear gas and guns in the air, chasing the crowd off the bridge, according to videos circulating on the Internet.

In Tehran, Zahra Rahnavard, the wife of opposition leader Mir Hussein Mousavi, was attacked by plainclothes militia forces and riot police Thursday, according to Mr. Mousavi's official Web site, Kaleme. The site said Ms. Rahnavard suffered injuries to her head and back from punches and baton blows.

She was attacked around Sadeqiyeh Square, where separate reports said other opposition members were assaulted earlier in day. Bystanders eventually formed a protective circle around Ms. Rahnavard, according to Kaleme, and helped her escape from the militia officers.

It wasn't immediately possible to confirm the accounts. As they have in the past, opposition supporters used their Web sites to report news and posted clips and reports of protests on social-networking sites, in order to bypass a ban on reporting anti-government demonstrations.

On Wednesday, an Iranian telecommunications official said the country was shutting down Google Inc.'s email service, in order to promote a government service. Gmail users reported disruptions Thursday, but the service didn't appear completely hobbled. Tehran residents, reached by telephone, also reported severe disruption to their Internet and cell-phone texting services late Wednesday.

These residents said much of the city had the feel of martial law, with heavy security deployed throughout the city and many shops closed. Government forces fanned out across the capital in force Wednesday, with Revolutionary Guard Corps troops lining streets where demonstrators had signaled they would gather.

Still, "people are still as determined as ever to go out in the streets," said a 40-year-old opposition supporter, reached by phone in Iran. "I don't know anyone who has participated in previous protests and is staying home today."

For weeks, both sides had called for their supporters to take to the streets Thursday. Typically, the holiday—marking the capitulation of the shah's forces in 1979—is a day of pro-government rallies. Opposition leaders have repeatedly chosen such state-sponsored celebration days to continue protests that first flared after Iran's contested June 12 presidential elections.

The stakes for both sides are high.

Opposition leaders, who allege the June polls were rigged, need to muster large numbers of demonstrators to persuade Iranians that their movement is still powerful. Mr. Mousavi—a former prime minister and an unsuccessful presidential candidate in the June polls—and other opposition leaders have sought to maintain the movement while reining in the most extreme protesters, who have begun to call for an overthrow of the Islamic Republic. Mr. Mousavi recently urged restraint, saying his movement was peaceful and didn't seek regime change.

Meanwhile the government of Mr. Ahmadinejad, which says the June election represented the will of the people, has needed to keep anti-government demonstrations under control, or risk appearing impotent. The government had threatened a severe crackdown if protesters turned out Thursday.

Taking it to the Streets | Some recent protests in Iran

- **June 13, 2009:** In the immediate aftermath of claims that President Ahmadinejad had won re-election, opposition demonstrators defy security forces and plainclothes militia to protest the results.
- **June 15:** Demonstrators take to the streets in the worst domestic unrest since the Islamic Revolution in 1979.
- **Sept. 28:** Amid threats of reprisals from security forces, students protest against the regime on the first day of the academic year.
- **Nov. 4:** Thousands of antiregime protesters march during the anniversary of the storming of the U.S. Embassy in Tehran in 1979.
- **Dec. 21:** Protesters seize upon the death of dissident cleric Grand Ayatollah Hossein Ali Montazeri to stage protests in the holy city of Qom and other cities.
- **Feb. 11, 2010:** Tens of thousands of government supporters and security forces outnumber pockets of anti-government protesters, who are dispersed.

U.S.'s Arab allies express caution on Iran

By Margaret Coker,

ABU DHABI—Even as Washington's allies in Europe respond to Iran's heightened nuclear rhetoric with a push for further economic sanctions, the U.S.'s Arab allies are staying on the sidelines.

In recent weeks, top Arab diplomats have shuttled between the Mideast and Washington to discuss potential policies to deter Iran's nuclear ambitions. Secretary of State Hillary Clinton, meanwhile, travels to the Middle East this weekend for meetings in Qatar and Saudi Arabia.

While Iran won't be the only topic on her agenda, Iranian President Mahmoud Ahmadinejad's boasts of nuclear-technology successes this week are likely to be a top concern for Arab officials meeting with her.

Washington's allies here have to balance fear of Iranian nuclear advances with the reality of Iran's proximity and the still-significant trade and economic ties they share with Tehran.

"The situation [with Iran] has looked bad from our point of view for a very long time," said one Gulf Arab diplomat. "Unfortunately, it doesn't look like it's going to get any better." Still, this official said, "those of us here at ground zero have to be very cautious."

On Thursday, Mr. Ahmadinejad announced Iran had successfully produced its first batch of uranium enriched at levels that exceeded its previous capability, which Tehran says it will use in a medical-research reactor.

Western and Arab capitals worry Iran is pursuing nuclear weapons.

In a speech Thursday, Mr. Ahmadinejad repeated Iran's claim that it isn't interested in building a nuclear bomb, but also suggested it could if it wanted to.

"If Iran wants to make [a nuclear weapon] it has the courage to do so and announce it clearly, but we have no intention of making a bomb," he told a crowd of tens of thousands of government supporters on the 31st anniversary of the Islamic Republic's founding.

Gulf nations for years have pursued an ambiguous policy toward Tehran, a Persian Shiite theocracy historically at odds with the Arab, Sunni monarchies ruling most of the rest of the Gulf.

They have publicly embraced Tehran as a neighbor and trading partner, but have privately bolstered military defenses against any Iranian aggression.

The issue of sanctions is especially controversial, and few officials in the region say, even privately, that they believe sanctions will have any effect on Tehran's behavior.

WORLD NEWS

Agence France-Presse/Getty Images

South African President Jacob Zuma gestures before delivering his State of the Nation in Cape Town on Thursday, the 20th anniversary of Nelson Mandela's release from prison.

Embattled Zuma promises new jobs

South African president focuses on economy, not paternity scandal, on 20th anniversary of Mandela's release

By Peter Wonacott

JOHANNESBURG—Two decades after Nelson Mandela's release from prison began South Africa's transition to a multiracial democracy, his successor, President Jacob Zuma, is shackled by a host of troubles.

President Zuma is embroiled in a damaging sex scandal and presides over an economy that has shed an estimated 900,000 jobs during the global downturn. In a State of the Nation address Thursday, President Zuma made no reference to a recent uproar caused by his fathering a child—No. 20—with a woman who isn't one of his three wives or one fiancée. He did promise to do something about jobs.

In the 70-minute speech, coming nine months into office, President Zuma promised expanded public-works employment, retraining of laid-off workers and help for distressed companies. Over the next three years, he said, 846 billion rand ($109.75 billion) will be spent on infrastructure—roads, rail, ports and other projects.

"Now is the time to lay the groundwork for stronger growth going forward, and for growth that gives rise to more jobs," he said.

President Zuma said he chose the date of his address to celebrate the 20th anniversary of Mr. Mandela's release, "a watershed moment that changed our country." A white-haired Mr. Mandela watched the speech from the audience.

Democracy hasn't cured all of South Africa's ills. The country is emerging slowly from a recession and unemployment the government pegs at just under 25%. A huge number of jobless are South Africa's youth, many of whom have emerged from an education system unprepared for the work force. Meanwhile, worries over high crime rates have dogged preparations for South Africa to host the 2010 football World Cup in June.

To tackle these challenges, President Zuma has sought ways to rally political support. As in the past, he has turned to South Africa's first black president: Mr. Mandela.

Now 91 years old and frail, Mr. Mandela remains a powerful national symbol, someone able to unite black and white, rich and poor, supporters as well as critics of the current president. Mr. Mandela's 1990 release, after 27 years in jail, struck a fatal blow to South Africa's system of racial segregation, known as apartheid.

The anniversary has provided fresh ammunition to Mr. Zuma's critics, who have assailed him for not measuring up to a national icon.

"In everything he does, he wants to invoke the legacy of Nelson Mandela," says Mbhazima Shilowa, first deputy president of the Congress of the People, a South African political party. "But where in his actions—not in his words—does Jacob Zuma stand for moral righteousness?"

On Saturday, the president apologized to his family and his political organization, the African National Congress, and said he regretted "the pain that I have caused." The apology followed days of intense media coverage and Mr. Zuma's acknowledgment of fathering a baby out of wedlock. He promised payment to the family of the mother.

Although President Zuma, 67, is a polygamist—a legal practice in South Africa—critics have accused him of cloaking his promiscuity in Zulu culture. The Congress of the People, or Cope, plans next week with other opposition parties to submit a motion of no confidence, according to Mr. Shilowa, the group's first deputy president.

But with an ANC-led government alliance holding a clear majority in Parliament, the odds of opposition parties moving such a motion—and forcing the president to resign—are slim. Vincent Magwenya, the president's spokesman, said Mr. Zuma is more concerned about reversing job losses. The State of the Nation speech wasn't an appropriate platform to address personal matters, added his spokesman.

"The president has acknowledged the public outcry," said Mr. Magwenya, noting Saturday's apology. "But how do we move forward to deal with the pressing issues for South Africans, rather than obsessing over his private life?"

Still, some analysts say President Zuma's troubles have sparked clashes within the ANC, as senior leaders jockey to succeed him. The infighting has proved to be a major distraction to the government and is likely to intensify if Mr. Zuma gets into trouble again, according to Jakkie Cilliers, executive director of the Institute for Security Studies, a think tank in Pretoria.

"They have a serious problem on their hands," he says. "They are one apology away from a leadership crisis."

Nigeria's acting leader woos oil companies

Nigeria's new acting president, Goodluck Jonathan, is attempting to breathe life into the nation's ailing energy sector just two days after assuming the duties of President Umaru Yar'Adua, who has been out of the country since November with health problems.

*By **Will Connors** in Lagos, Nigeria, And **Spencer Swartz** in London*

Mr. Jonathan summoned several executives from foreign oil companies on Thursday to meet with top Nigerian officials. A focal point of the talks: militants who have sabotaged pipelines, disrupting production and oil prices.

Mr. Jonathan is Nigeria's first president from an ethnic minority or the Niger Delta—an area the size of England that is rich in oil but long plagued by poverty and violence against the energy industry. That ethnic background could help him work with militants in consolidating the peace process, say officials and analysts.

"There's concern that the militants are getting irritated and worried," said Emmanuel Egbogah, the president's oil adviser.

Under the peace program that began last summer, the Nigerian government has essentially paid militants to lay down their arms. However, the delta's main militant group recently called off its cease fire because of its unhappiness over how little money the government is putting into the region.

Wale Tinubu, chief executive of **Oando** PLC, Nigeria's biggest non-state energy company by revenue and oil production, said he thinks Mr. Jonathan's ascent to power could spur the reconciliation process between the government and militants.

"Jonathan will make a renewed push towards peace in the Delta and I do believe that will reassure investors in the oil industry," said Mr. Tinubu, who wasn't at Thursday's government meeting. Executives from **Chevron** Corp., **ExxonMobil** Corp. and **Royal Dutch Shell** PLC, among other companies, attended the meeting with government officials, according to Mr. Egbogah, the government oil adviser.

Nigeria has long been a key crude supplier to the U.S. and Europe, but its oil-pumping capacity has flattened out over the past five years or so.

Output from new and lucrative Nigerian offshore oil projects has been offset by regular militant attacks—and by natural decline rates—at onshore locations.

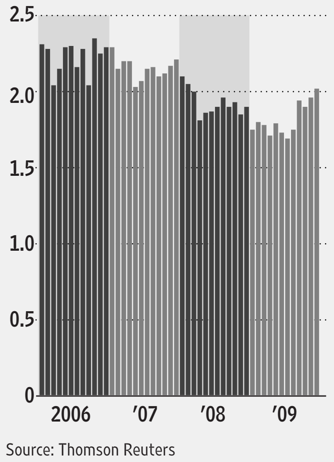
U.K. consultants **Wood Mackenzie** estimate that Nigeria's actual oil production could hit three million barrels a day by 2016 from just over two million a day currently, representing a sharp revision downward from projections a few years ago.

"Nigeria's reserves are probably still there but the growth in output is a lot slower," because of lagging investment and fewer barrels being generated from aging fields, said Stewart Williams, a senior Africa energy analyst at Wood Mackenzie.

Foreign executives have been concerned not only by the militant attacks, but also by pending petroleum-industry legislation. The legislation is likely to result in higher taxes and reduced profits for oil companies, but has stalled as the president was out of the country.

Inching up

Nigerian oil production, in millions of barrels a day



Source: Thomson Reuters