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EUROPE

Wednesday, February 17, 2010

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Chinese skaters soar above the competition



Shen Xue and Zhao Hongbo glide to the gold medal in Olympic pairs figure skating. Chinese teams swept gold and silver, ending an era of Russian dominance on the ice. Olympics coverage, page 28

EU tells Athens to fix its budget as strikes begin

BY CHARLES FORELLE AND ALKMAN GRANITSAS

BRUSSELS—European finance ministers Tuesday stood firm in their position that Greece must work to narrow its budget gap before they would discuss aid to the country, while Greek workers launched strikes and protests against government austerity plans.

Olli Rehn, the European commissioner for economic affairs, said after a meeting of EU finance ministers Tuesday that commission officials, along with delegations from the European Central Bank and the International Monetary Fund, would be “on the ground in Athens” in coming days to examine Greece’s budget measures.

Mr. Rehn also pledged more scrutiny of financial transactions that Greece may have used to mask its debt burden.

The ministers endorsed a decision Monday by members of the euro zone that Greece be given until March 16 to

show progress toward a goal of slicing the equivalent of four percentage points of gross domestic product from its budget deficit this year. Last year’s budget shortfall was around 13% of GDP. The EU limit, which Greece has observed just once in the past decade, is 3%.

If Athens doesn’t show enough progress by March 16, the EU will demand specific changes, such as new taxes on luxury products, such as expensive cars.

The new deadline is tight. Greece must go to international markets for fresh borrowing in April.

Last week, EU leaders committed the euro zone to supporting Greece if the budget situation became dire. But officials have resisted discussing specifics.

A bailout is unpopular in Germany, which would shoulder a leading share of the cost. Germany’s finance minister was absent from Tuesday’s meeting and sent his deputy instead.

In Greece, thousands of Fi-

nance Ministry workers and customs officials walked off the job Tuesday. The four-day strike is expected to affect a range of services including the Greek statistics office—at the center of a storm over poor financial data—and the country’s markets watchdog.

At the same time, thousands of customs officials declared their own three-day strike starting Tuesday. Tax officials will hold a one-day strike Wednesday.

Taxi drivers will strike Thursday, their second walk-out in less than a week. Fuel-truck drivers also threatened to strike this week.

“What we are protesting is the reduction in wages and also the elimination of the autonomous tax rate enjoyed by ministry employees,” said Yiorgos Samaris, president of the Federation of Unions of the Finance Ministry.

Many of Greece’s better-paid civil servants enjoy a preferential tax rate, which the government is proposing to end. That, plus across-the-

Please turn to page 5

Shell plans cut in executive pay

BY GUY CHAZAN

Royal Dutch Shell PLC on Tuesday unveiled far-reaching changes to the way it rewards senior managers, less than a year after shareholders staged an unprecedented revolt against its executive-pay policies.

In a letter to investors, Hans Wijers, chairman of Shell’s remuneration committee, said salaries paid to Chief Executive Peter Voser and Chief Financial Officer Simon Henry—who stepped into their current roles last year—will be 20% lower than what their predecessors earned. Base salaries for Shell’s three executive directors will be frozen until January next year, he said.

Meanwhile, the Shell board will be barred from awarding



Shell has proposed cutting the salary of CEO Peter Voser and other executives in response to shareholder concern.

performance-based shares to the three men—Messrs. Voser, Henry and Malcolm Brinded, head of Upstream Interna-

tional—this year if they don’t meet agreed-upon targets.

Former CEO Jeroen van der Veer had a 2008 base salary of about \$2.6 million, while Mr. Voser, as finance chief, had a base salary of about \$1.4 million. That was the final year both men were in those positions.

Shell said the affected individuals wouldn’t be commenting on the proposals.

The moves aim to head off a repeat of last year’s rebellion, when shareholders shot down Shell’s executive-compensation plan in a nonbinding vote that symbolized mounting public outrage at boardroom excess in the midst of the economic crisis. The heart of the investor anger centered on the company’s award of performance-

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The Quirk



Plenty of spilled milk to cry over for Dutch dairymen lured to U.S. Page 29

World Watch

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

Editorial & Opinion

Is there an Anglo-Saxon plot to destroy the euro? Page 11

Lehman purchase has lifted Barclays

BY SARA SCHAEFER MUÑOZ

LONDON—Barclays PLC soaring 2009 net profit drove U.K. bank stocks higher on Tuesday and signaled that its daring purchase of the Lehman Brothers Holdings Inc.’s North American assets has started to pay off.

The bank, which received no direct government aid during the financial crisis, said Barclays President Robert E. Diamond Jr and its Chief Executive John Varley both waived bonuses for 2009. Barclays modestly reduced its bonus pool and deferred most bonus payouts in adherence with U.K. compensation regulations. Former Lehman businesses, such as equities,

helped drive the growth. Equities and prime brokerage booked £2.8 billion in income in 2009, up 147% from a year earlier, the bank said.

Mr. Diamond said Tuesday that the results showed that the acquisition of Lehman’s North American businesses has been “transformational” for the bank. Barclays, and in particular Mr. Diamond, made a daring bet when the bank swooped in to buy key assets of bankrupt Lehman Brothers Holding Inc. in September 2008.

Investors cheered Barclays results, driving its shares up about 7%.

■ A strong top line, but loan impairments still weigh 17

Bahrain BD 1.50 - Egypt \$1.75 (CV) Jordan JD 2 - Kuwait KD 1 - Oman OR 2 Qatar QR14 - Saudi Arabia SR 14

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PAGE TWO

One possible outcome of Greece crisis: Only splitting the euro will save it

[Agenda]

BY DAN LEWIS

Europe now has a Black Swan Event—high impact, hard-to-predict and rare—every bit as bad to match that of America's subprime crisis.

The euro is in crisis thanks to the old continent's oldest nation, Greece, statistically lying its way in, criminally failing to make income match expenditure and now we have just learned, loading up on undisclosed off-balance-sheet debt to keep the Hellenic big government show going.

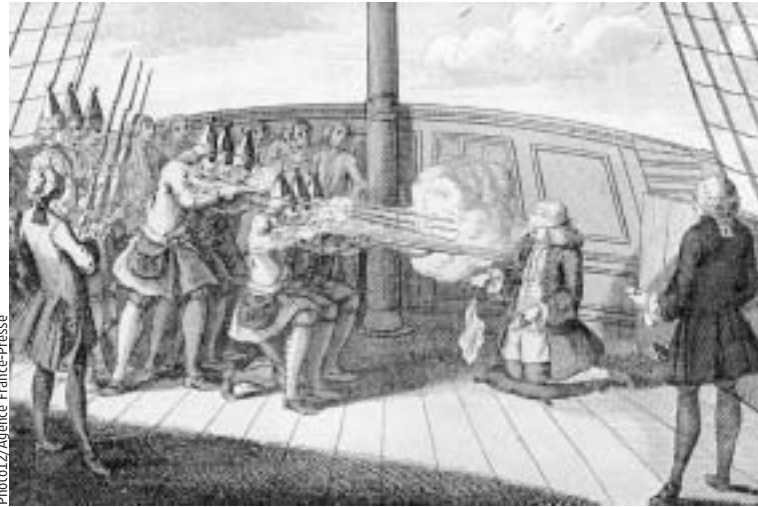
Commentators and some politicians are not unjustifiably baying for Greek blood.

Yet be under no illusion; the ejection of Greece and the economic collapse and hyperinflation that will ensue will be Europe's ugliest moment of the postwar period. No one should take it lightly. And turning Greece into the Admiral Byng of the euro zone (*pour encourager les autres*) will do nothing to address the deepest underlying flaw of the euro: One size will never fit all, but two currencies just might.

Leaving the politics of the euro aside, to use the jargon, deploying a new currency requires an "Optimal Currency Area."

The U.S., which started with several and a much smaller population, should probably today have two currencies—to cover the East and West Coast—but gets by with just one. The important point is that 25% of Americans work outside of the state they were born in. If adjustment is needed in America, people will be prepared to even move house.

The figure in Euroland is vastly less than that, perhaps 1%-2%. Indeed, labor mobility in the European Union never really picked up until the arrival of work-hungry eastern and central



Will Greece become the euro zone's Admiral Byng (who lost Minorca in 1756)?

Europeans.

And the irony is that many of them found work just outside of Euroland in Britain. The U.K.'s semiflexible labor markets and mostly open immigration policy worked inadvertently as a safety valve for the euro, allowing European nations the chance to export some of their youth unemployment and further delay their transitions from social democracy to dynamic liberal market economies.

Nor is labor mobility the only criterion of an optimal currency area. There is the ability of a given state within the currency region to withstand an asymmetric shock. Sometimes, that shock can be a self-imposed positive one, as in Ireland's case: a massive influx of foreign direct investment following the introduction of a hyper-competitive corporation tax, which led to an overheating economy wholly unable to cool down with higher interest rates within the constraints of the euro.

Inevitably, cheap credit always leads to a disastrous one-way bet on a highly leveraged asset—real estate. The rest is history.

The lesson is this: Business and interest-rate cycles can start at the same point, but the distortions of time and circumstance mean that they won't come closer together, but more likely, will move further apart. So what can we do?

Greece now has three choices, the first of which is to impose dramatic public-spending cuts. One year ago, Ireland's spread on Credit Default Swaps was hovering at close to 400 basis points, about where Greece is now, and Ireland chose this path. It worked. David Cameron's Conservatives should take note that no one is talking about an Irish default any more. And the PIIGS (Portugal, Ireland, Italy, Greece and Spain) have become the PIGS, without Ireland. The markets though don't believe Greece will do this, and who's to argue with them?

Another option is for the Greek government to legislate for an across-the-board reduction in prices, wages and contracts by 20%, not unlike Australia in 1932. This would work, but it's also pretty unlikely.

The third option, post-euro

ejection, is a floating currency, because Greece will have no reserves or financial credibility to back an exchange rate administered by a currency board. Greek euros like all euros are marked with their source of origin, so on the practical level it would be transparent. Yet this is probably the doomsday scenario as Greece will only be able to borrow at junk-bond levels of 12%-15% leading to default and rapid bankruptcy.

The much more credible alternative is for Euroland to support with its reserves a soft euro-exchange rate for a parallel cheaper euro for much smaller countries at a 20% lower value than it is today, directly linked to aggressive public-spending cuts. It could be called either Euro-2 or even Euro Club Med. This could stay in place until the banking crisis is over and banks are recapitalized and able to lend at lower risk rates.

The truth is that many of Europe's smaller countries that aspire to join the euro, many of which are quite dynamic liberal market democracies, could do with a single currency but just don't want all the shots called in Frankfurt and Paris or the baggage that a high-value currency entails. Greece only amounts to 3% of the euro area so this is an affordable solution. And German banks, heavily exposed to Greek sovereign debt could probably settle for meeting 80 cents on the euro without running into severe trouble.

Euroland now has a choice. Bailing out Greece or ejecting it wholeheartedly amount to much the same thing: a refutation of the reality that the one size fits all currency doesn't work. Now is the opportunity to look at a parallel currency and make it prosper.

—Dan Lewis is chief executive of the Economic Policy Centre; www.economicpolicycentre.com

What's News

■ **Britain's annual consumer price inflation** rose sharply in January, prompting the BOE governor to explain why it is now more than a full percentage point above the 2% target rate. Meanwhile, German economic expectations deteriorated in February. 4

■ **The U.K. market regulator** handed the chief executive of Genel Enerji a record \$1.5 million fine for insider trading in shares of company partner Heritage Oil. 21

■ **EMI is talking** to potential buyers for Abbey Road Studios, the Beatles' famed London recording facility. 23

■ **Simon Properties offered** \$10 billion to acquire rival U.S. mall operator General Growth, which is in bankruptcy proceedings. 17

■ **U.S. and Afghan soldiers** seized the site of Marjah's government offices, setting the stage for the eventual return of Kabul's authority to a town run by the Taliban. 9

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ONLINE TODAY

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"This is 'too big to fail' played out at the national level. Create a safety net and people take risks."

Reader **Peter Venetoklis** commenting on "The Euro's Greek Moment of Truth"



Continuing coverage



Stay up to date with the Vancouver Olympics, including medal counts, at wsj.com/olympics

Question of the day

Vote and discuss: Were Barclays CEO John Varley and President Robert Diamond right to waive their 2009 bonuses?

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

Previous results

Q: Should officials take steps to slow speeds on luge tracks?

Yes 55%

No 45%

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NEWS

French culture shock over 'work less' art

By WILLIAM LYONS

A Chinese artist found herself caught up in a political row after she decided to poke fun at France's work ethic.

In tweaking a trademark slogan of French President Nicolas Sarkozy, her work—two seven-meter banners reading “work less” from one side, and “earn more” (or “feel more rewarded”)—cut too close to the bone for some French officials.

The Ministry of Culture asked for the work be taken down, which prompted cries of censorship, an apology from Minister of Culture and Communication Frédéric Mitterrand and the eventual restoration of the banners.

The work was intended to be part of an exhibit based around the theme of the seven-day weekend held at Paris's École Nationale Supérieure des Beaux-Arts, or ENSBA.

“When I first arrived in France I couldn't believe how many strikes there were,” said artist Ko Siu Lan.

Mr. Sarkozy, the son of a Hungarian immigrant, made “work more to earn more” one of his main slogans in his successful 2007 presidential campaign, in a bid, he said, to restore the value of work and celebrate wealth.

“I understand it is a very controversial slogan because France is a country that has made a lot of effort to work less,” said Ms. Ko.

The banners had been up for just a few hours when the curator of the show, Clare Carolin, said she was summoned to a meeting by the senior management at the school and told that the work had caused offense to the Ministry of Culture and had to be taken down.

“I was really, really shocked,”

'The direction of the college considers that in presenting the art in this way, she was manipulating the establishment.'

said Ms. Ko, 32 years old, who spent two years in Paris before returning to Beijing, where she now lives.

“I understand there are conservative people everywhere but for this to happen in France is ridiculous,” she said. “In art they should be encouraging debate, not censoring it.”

In a statement, the college said Ms. Ko had set up her work earlier than arranged, adding that it should have been clearly labeled as a work of art and part of an official exhibition.

Instead, it said, the work had an overtly political message out of step with the political neutrality to which state-backed art institutions should adhere: “The direction of the college considers that in presenting the art in this way, she was manipulating the establishment.”

Ms. Ko said that after threatening to file a legal action against the school over the “censorship,” she received a personal call from Mr. Mitterrand, who apologized and asked for the work to be reinstalled.

A spokesman for the Ministry of Culture said that Mr. Mitterrand asked for the work to be reinstalled on the exterior of the building as soon as possible.

On Saturday, the banners were put back in place.

Ms. Carolin, a senior tutor at the Royal College of Art in London, said the whole event had an element of

the absurd.

“It seemed absolutely extraordinary that they should take this action against what was a gentle, humorous piece of satire,” she said. “It's almost like a farce isn't it? Take it down, put it back up again. I suppose I can see the funny side but there is still a slightly sinister undertone.”

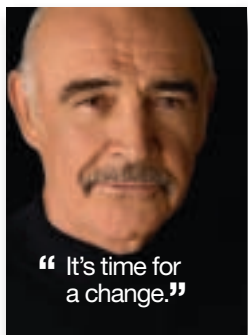


A composite photo of the offending work by Ko Siu Lan

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EUROPE NEWS

U.K.'s inflation accelerates sharply

BOE's King says spare capacity will soak up pressures caused by a rise in oil prices and the reversal of a VAT cut

BY NATASHA BRERETON
AND ILONA BILLINGTON

LONDON—Britain's annual consumer-price inflation rate rose sharply in January, prompting the Bank of England governor to write a letter to the chancellor of the exchequer explaining why it is now over one full percentage point above the 2% target rate.

But despite the widely expected increase, the central bank says inflation is likely to fall below target again in the coming months, underscoring the likelihood that it will keep policy very loose for some time to come.

"The key point is that the Monetary Policy Committee believes that the rise in inflation will prove to be temporary, and therefore requires no policy response," said Simon Hayes, economist at Barclays Capital. "Inflation is likely to stay above target for several months to come, but given the fragility of the recovery, further policy loosening remains more likely than policy tightening."

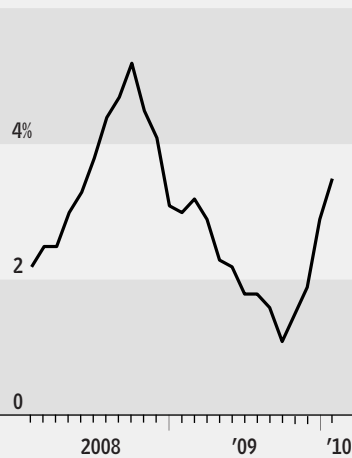
The Office for National Statistics said consumer-price inflation rose 3.5% from a year ago in January. The 0.6 percentage-point increase from December was the second-largest gain between two months since records began in 1996.

In a letter to Chancellor Alistair Darling, BoE Governor Mervyn King noted that the reversal of an earlier sales-tax cut, a 70% rise in oil prices over the past year, and delayed effects of the sharp depreciation in sterling were all pushing up consumer prices.

But he predicted that the large degree of spare capacity will drag down inflation in the medium term.

On the rise | Key influences on U.K. inflation

U.K. consumer price index, year-to-year change



Source: Office for National Statistics

Sales tax



The U.K. sales tax rose to 17.5% on Jan. 1, 2010 from 15% had a 'significant impact' on inflation - ONS spokesman.

Sterling depreciation



The value of sterling has fallen 25% from its July 2007 peak against a basket of currencies, weakening consumer buying power.

Oil prices



Fuel prices rose 25.3% in January from a year earlier, the second largest gain since records began in 1996.

"The committee is committed to taking whatever actions are necessary to ensure that the outlook is for inflation to remain in line with the 2% target," Mr. King said.

The MPC would tighten policy if it believed it necessary, he said, but didn't give any indication that the monetary policy committee is at all close to mulling such action. He pointed out that the committee remains open to extending its purchases of government bonds if economic conditions warrant.

The BoE launched its £200 billion (\$313 billion) quantitative-easing program—through which it has

bought mostly U.K. government bonds with freshly created central bank money—in March 2009, having slashed its key interest rate to a record low of 0.5%.

Responding to Mr. King's letter, Mr. Darling said "such short-run factors have caused inflation to rise to 3.5% in January."

Britain is due to hold an election before June 3. Whichever party wins will need to take radical steps to cut spending, raise taxes, or both. International ratings-agencies threaten to remove Britain's triple-A rating if the next government doesn't take aggressive steps to put

its finances on a sustainable path.

The damping impact of that fiscal retrenchment is a key reason why the central bank is likely to keep policy loose for the foreseeable future.

Replying to Mr. King's letter, Mr. Darling made clear that the government recognizes the need to clean up its finances in the years ahead, which would subdue inflation pressure as the economy recovers.

"Over the medium term, setting a credible consolidation path to ensure sound public finances is a key element of the government's macro-economic strategy and it is essential

for economic stability and the long-term health of the economy," Mr. Darling said. He added that in the financial year starting in April 2011, "the focus of the government's fiscal policy shifts towards consolidation."

The opposition Conservative Party, which currently leads the polls, has said it would cut spending in 2010. Mr. Darling, who belongs to the Labour Party, has said such moves could undermine the economic recovery and wants spending cuts only after 2011.

—Laurence Norman
contributed to this article.

Economic gloom takes halt in Germany

BY NINA KOEPPEN

MANNHEIM, Germany—German economic expectations deteriorated in February, indicating that the recovery isn't gaining any significant momentum, a major think-tank reported Tuesday.

Economic activity is likely to "move sideways, with only minor ups and downs," ZEW President Wolfgang Franz said. "Worries about the labor market, budget deficits and the euro have not lessened."

The ZEW said its economic expectations index declined for the fifth straight month, to 45.1 points from 47.2 points in January. The outcome was above economists' forecasts of 41.5 points, and above

the indicator's historical average of 27.1 points.

After leading Europe's gradual economic recovery since last summer, Germany unexpectedly stalled in the fourth quarter, as rising exports failed to offset weak private consumption and slack investment, the Federal Statistics Office reported last week.

"Large-scale consolidation needs—not only in Greece but also in many other European countries—weigh on the medium-term outlook for the European Union as a whole and accordingly on the German export sector," said Alexander Koch, an economist at UniCredit SpA.

Current economic conditions in Germany picked up in February,

with the corresponding indicator up 1.8 points at -54.8 points, the ZEW survey of 278 analysts and institutional investors showed.

Last year, the German economy suffered its biggest contraction in the 60-year history of the Federal Republic, as gross domestic product contracted 4.9%. Economists expect German GDP to grow around 1.5% this year.

The government will need to make harsh spending cutbacks if it is to reduce taxes next year by €20 billion (\$27 billion) as planned, Mr. Franz said in an interview. "It would be wrong to believe tax cuts could be financed through higher growth rates alone," he said.

The center-right coalition parties are at loggerheads over the timing

of the tax cuts, which they agreed to implement in 2011 if possible.

"I am disappointed that the coalition agreement fails to include concrete action points on fiscal consolidation, especially in light of promised tax cuts," said Mr. Franz.

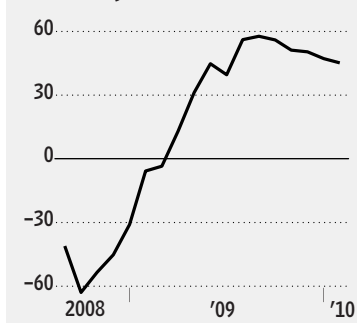
Labor-market conditions will probably deteriorate further, he said. "I don't expect a turnaround in the labor market before 2011, but I hope to be proven wrong here," Mr. Franz said. A total of 3.617 million people were registered as unemployed in January.

ZEW economist Peter Westerbeide said it is unlikely that Germany will enter a "double dip" recession.

—Karen Hage in Frankfurt
contributed to this article.

Hope weakens

The Zew index of economic expectations deteriorated in February



Source: Centre for European Economic Research

Yushchenko warns of an Ukrainian turn east under Yanukovich

Associated Press

KIEV, Ukraine—Outgoing President Viktor Yushchenko said the policies of his newly elected successor risk turning Ukraine back into a Kremlin vassal state. Mr. Yushchenko made the statements, some of his harshest against President-elect Viktor Yanukovich, at a news

conference nine days before he is due to hand over power.

"The victory of Yanukovich is a Kremlin project," Mr. Yushchenko said. Mr. Yushchenko was the leader of mass street protests in 2004 against Mr. Yanukovich's Kremlin-backed election victory that year. Dubbed the Orange Revolution, those demonstrations urged the Su-

preme Court to overturn Mr. Yanukovich's fraudulent win and call for a revote, which Mr. Yushchenko won.

Since then, Mr. Yanukovich has capitalized on Mr. Yushchenko's ineffectual rule, the slow progress of European integration, and the economic meltdown of the past year. He won the presidential ballot Feb. 7 against the heroine of the Orange

Revolution, Prime Minister Yulia Tymoshenko. Mr. Yushchenko saved particular venom for Mr. Yanukovich's plans to give Russia a stake in managing Ukraine's natural-gas pipelines and to extend Russia's lease on a Black Sea naval base.

"It is painful and demeaning for me to hear these pledges. It discredits us as a nation, as Ukrainians,"

Mr. Yushchenko told a sparsely attended briefing.

In a statement, Mr. Yanukovich responded to Mr. Yushchenko's attack with a pledge to pursue a balanced and pragmatic foreign policy.

"I can only say one thing to anyone who expects my presidency to weaken Ukraine—don't count on it," Mr. Yanukovich said.

EUROPE NEWS

Exposure to Greece weighs on Nations

Germany and France have suggested in recent days that rescuing Greece may be necessary to safeguard the euro zone, but both countries may have a more pressing motivation in the move—saving their own banks.

By Vanessa Fuhrmans in Berlin and Sebastian Moffett and Paris

German and French banks carry a combined \$119 billion in exposure to Greek borrowers alone and more than \$900 billion to other countries on the euro-zone's vulnerable periphery: Portugal, Ireland and Spain.

Together, France and Germany's banking sectors account for roughly half of all European banks' exposure to those countries. Nearly half of the outstanding debt is with Spain, according to data from the Bank for International Settlements. The data include government bonds, corporate debt and loans to individuals.

Concern over the exposure has helped to drive down bank stocks in recent weeks. The DJ Stoxx European bank index has fallen 12.5% over the past month against a 7% decline of the broader pan-European index. Among big decliners have been Germany's **Commerzbank**, which has fallen 15% over that period and France's **BNP Paribas**, which dropped 14%.

Meanwhile, the cost of insuring against default at many German and French banks, as measured by credit-default swap spreads for their senior debt, has increased slightly since December.

The fears that French and German banks could fall victim to Greece's debt crisis helps explain why Paris and Berlin have signaled that they would pursue a politically unpopular rescue of Greece—at the same time that they are trying to force Athens to take painful austerity measures.

"What seems to have galvanized minds is the realization that much of European banking is heavily exposed to southern Europe and Greece in particular," Société Générale economists said in a note to clients late last week.

If Athens were to default, investors may question whether French and German banks could withstand the potential losses, sparking a panic that could reverberate throughout the financial system.

Information on individual banks' exposure is scarce, leaving investors to guess where the greatest dangers lie. The BIS doesn't provide such data.

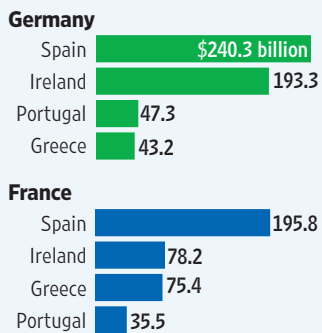
Deutsche Bank AG Chief Executive Josef Ackermann described his bank's exposure to Greece as "relatively small" last week. The company declined to provide more details about what Greek debt is on its books, or those of other vulnerable euro-zone nations.

Among publicly traded banks, **Commerzbank**, through its specialist bank for real estate and public finance unit, Eurohypo AG, has one of the largest exposures, analysts say. Exposure to Spain and Portugal combined make up 19%, or €13.3 billion (\$18.09 billion), of Eurohypo's government bond, or public finance, business in the first half of 2009, according to its midyear report.

Troubled mortgage lender **Hypo Real Estate Holding AG** is exposed

Overexposed

France and Germany's bank exposure to various countries



Source: Bank for International Settlements

through its Deutsche Pfandbriefbank unit. The unit said Spain is €21 billion of its total public-sector exposure of €294 billion, while Greece represents roughly €10 billion, according to 2008 figures. Hypo had to be nationalized last year because of its exposure to the real-estate bubble.

Like a number of German financial institutions, Hypo Real Estate plans to shift about €210 billion in troubled assets into a "bad bank" to help rid its balance sheet of toxic assets.

A spokesman for the Deutsche Pfandbriefbank unit, however, said it hasn't been determined whether Greek assets might be among those folded into the structure.

German banks, which have about \$240 billion outstanding with Spanish borrowers, have more exposure to Spain than any other European country outside the U.K. Some of the bigger creditors are Germany's public-sector banks, or Landesbanken, and banks to public-sector borrowers, analysts say.

While big European banks have been lobbying governments behind the scenes to aid Greece, banking officials have publicly sought to play down the risk of the euro-zone debt crisis to their industry.

Baudouin Prot, chief executive of BNP Paribas and president of the French Banking Federation, said last week that French banks did not have a particular problem with such assets.

"The exposure of French banks to different countries in the euro zone is completely reasonable," Mr. Prot told reporters.

"I'd remind people that on the whole, the big French banks are active in the euro-zone countries that are, if I may say, by far the most solid, so it's not a particular issue for French banks."

Analysts say the French banks most likely to be exposed are those that own Greek banks, notably **Crédit Agricole**, which owns **Emporiki**, and **Société Générale**, which owns **Geniki**.

Societe Generale declined to comment, while a **Crédit Agricole** spokeswoman said its exposure was not "significant."

Jean Pierre Lambert, an analyst at financial services firm **Keefe, Bruyette & Woods**, calculates that at least 6% of **Crédit Agricole's** risk-weighted assets are in Greece. This is the number obtained by calculating the exposure to **Crédit Agricole** to Greece through **Emporiki**, he says.

—David Crawford in Berlin contributed to this article.

EU to Greece: Fix budget

Continued from first page
board bonus cuts, means their take-home pay would fall 25%.

The customs strike is the most disruptive. The closing of ports and border crossings has sparked fears that the action will crimp trade as the country struggles through its worst recession in 16 years.

In Brussels, Mr. Rehn said the EU statistical office has demanded answers from Greece by Friday—earlier than expected—about how it used and accounted for currency swaps and other derivative instruments related to its debt.

Articles in *Der Spiegel* and the *New York Times* have suggested that Greece, with the help of investment banks, employed the swaps to mask its debt levels.

"If confirmed that some investment banks have been involved in these kinds of exercises, we have to see whether to do something in respect to it," Mr. Rehn said.

News reports have named **Goldman Sachs Group Inc.** as one bank that helped to structure such deals. A Goldman Sachs spokesman declined to comment.

Mr. Rehn said investment banks "should also ask, not least after the financial crisis, if this has been in line with the code of ethics of these investment banks."

He said that he had been reading the memoirs of former U.S. Treasury secretary and Goldman chief **Henry Paulson**, which "underlined very strongly the need for ethics" in banking. "I think that's a very force-



Greek Premier George Papandreou, left, with Russian Premier Vladimir Putin.

ful message," Mr. Rehn said. "And I trust that this message will be also practiced in banks."

The closing of ports and border crossings has sparked fears that the strikes will crimp trade.

In other business at the meeting, finance ministers heard from the new internal-markets commissioner, **Michel Barnier**.

Mr. Barnier said the EU should press forward on its proposals for unified financial supervision and

tighter regulation of hedge funds and other alternative-investment managers. He said he believed compensation strictures at financial institutions would encourage less risk-taking.

Finance ministers also discussed global financial regulation, particularly the notion—advanced by the U.S.—that deposit-taking banks should be restricted in making risky trading bets.

"I think it is very important that on both sides of the Atlantic there should be the same proactive approach," Mr. Barnier said at a news conference after the meeting. But "you can't just transpose or copy ideas or reforms proposed by Obama for the European continent."

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EUROPE NEWS

Pope tells clergy: face crisis

Benedict XVI asks Irish bishops to be courageous; fails to address demand for resignations

Associated Press

VATICAN CITY—Pope Benedict XVI asked Irish clergy to be courageous in confronting the pedophile-priest scandal that has rocked the church, but took no action on victims' demands that he force bishops to resign, the Vatican said Tuesday.

The Vatican statement came as the pope and 24 Irish bishops ended an extraordinary meeting on the crisis meant to restore the trust of Irish Catholics shaken by revelations of decades of clergy sex abuse and cover-up.

A Vatican spokesman, the Rev. Federico Lombardi, said following the summit that the pope "shares the outrage" over the abuse, and that he had "already expressed profound regret." Asked if the issue of resignations came up, Rev. Lombardi said "it was not addressed." Rev. Lombardi defended the pope's representative in Ireland for refusing to testify to lawmakers there about covers-up by church hierarchy.

A Vatican statement said the pope called the sexual abuse of children "a heinous crime" and a "grave sin which offends God." Irish bishops scheduled a news conference for later Tuesday before they head back to Ireland ahead of Ash Wednesday.

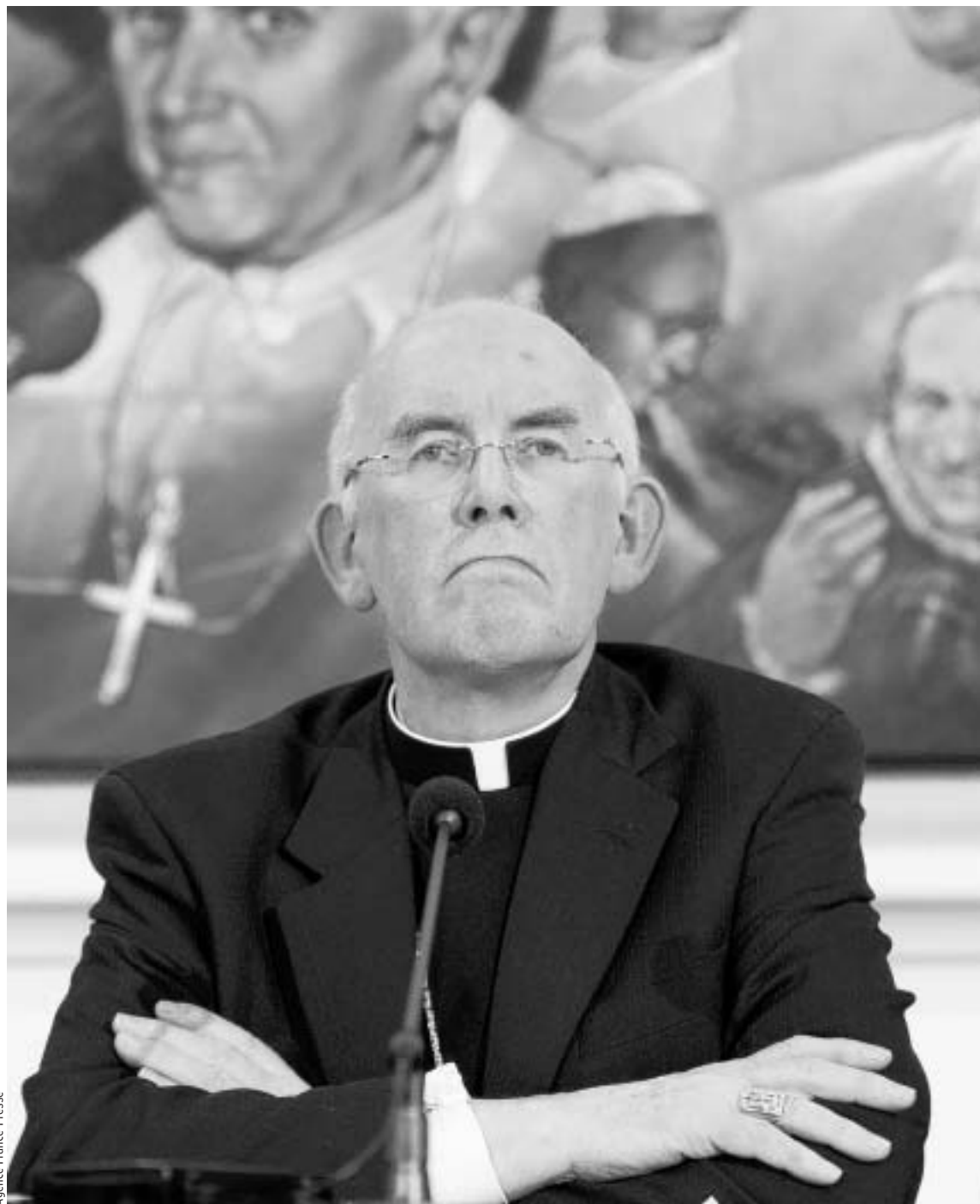
During the two-day summit behind closed doors at the Vatican, anger flared in Ireland over the refusal of papal envoy Archbishop Giuseppe Leanza to appear in the Irish parliament. The archbishop, who participated in the summit, told lawmakers in a letter published Monday that he wouldn't answer questions from the foreign-affairs committee.

"I wish to inform that it is not the practice of the Holy See that apostolic nuncios appear before parliamentary commissions," the archbishop wrote in the Feb. 12 letter.

Archbishop Leanza has faced heavy criticism in Ireland for ignoring letters from two state-ordered investigations into how the church suppressed reports of child abuse by parish priests and in Catholic-run residences for poor children.

Rev. Lombardi said Archbishop Leanza, as a diplomat, "has to respond to rules" about diplomatic privilege. "If this is not part of his duty, you can't expect him" to testify, the Vatican spokesman told an improvised news conference minutes after the summit ended.

Irish lawmaker Alan Shatter expressed dismay over Archbishop Leanza's refusal, saying that "it is acknowledged in Rome that mem-



Agence France-Presse

Cardinal Sean Brady, archbishop of Armagh and primate of all Ireland, listens to questions during a news conference on Tuesday at the Vatican, following meetings between Ireland's bishops and Pope Benedict XVI. The victims of abuse had said the talks would be a failure unless the pope sought the resignations of those who played a role in cover-ups.

bers of the clergy in Ireland are guilty of abominable sexual abuse of children."

Rev. Lombardi said the pope would send Irish faithful a letter about the crisis during Lent.

"While realizing that the current painful situation will not be resolved quickly, he challenged the bishops to address the problems of

the past with determination and resolve, and to face the present crisis with honesty and courage," said a Vatican statement read to journalists by Rev. Lombardi.

Victims had said the talks would be a failure unless the pope demanded the resignations of bishops who had a role in concealing wrongdoing. They demand the pope accept

in full the findings of the Irish investigations, which some church officials in Ireland have called unfair.

In their meeting with the pope, "the bishops spoke frankly of their sense of pain and anger, betrayal, scandal and shame expressed to them on numerous occasions by those who had been abused," the Vatican statement said.

Black-box find may shed light on crash cause in Belgium

Associated Press

BRUSSELS—Search teams on Tuesday located one of two black boxes from the wreckage of two trains that slammed into each other near Brussels, a find that could help reveal the cause of tragedy that killed 18 people and injured more than 170.

One train driver survived the crash with serious injuries but still wasn't healthy enough to be questioned, railway officials said.

Operators of the the Eurostar and Thalys high-speed trains that connect London and Paris with Brussels said they were suspending services for a third day Wednesday, and drivers of other trains held a wildcat strike Tuesday that left thousands of commuters without their normal transport.

Rescue workers picked through the wreckage of the two commuter trains that collided on Monday in one of the deadliest rail accidents in Belgian history. After a better count, provincial officials raised the number of injured to 171 people, some seriously hurt, up from 95 Monday.

European Commission officials said the track near the Buizingen station where the trains crashed, 14 kilometers south of Brussels, lacked the latest automatic braking system designed to stop trains after they pass through a red signal.

Lodewijk De Witte, governor of the province of Flemish Brabant, had said earlier that one train apparently didn't heed a red signal as the other—leaving 10 minutes late from Buizingen—moved onto the track of the oncoming train.

National Railways spokesman Jochen Goovaerts described the wreck as a lateral collision, contradicting initial reports that the trains smashed head-on. One train apparently was diverting to another track when it was hit by the second.

The search continued for the second data recorder that could help determine whether mechanical failure, human error, freezing weather or other factors were primarily responsible for the crash. The recorders also should reveal how fast the trains were moving when they collided, said Mr. Goovaerts. "There are a lot of possible explanations to this tragedy," he said. "We don't want to put the blame where it doesn't belong."

The accident scene was sealed off Tuesday with police tape. One passenger car from each train was tipped onto its side, and whether more bodies were trapped underneath was unknown.

Mr. Goovaerts said the surviving driver was on train that was approaching the station.

Infrabel, the rail management company, said its technical teams would need three days to inspect six rail lines once the wreckage is removed, meaning train traffic is likely to remain disrupted in the capital for the rest of the week.

Meanwhile, the wildcat strike by about half Belgium's train drivers paralyzed much of the traffic in the southern part of the country and caused cancellations and delays in the north.

Infrabel called for the installation of automatic braking systems on all trains. Officials said these would have prevented the accident.

Delhi police question two Britons

By ARLENE CHANG

MUMBAI—Delhi police late Monday night detained two British nationals for "suspicious behavior" following a high alert in the city in the aftermath of the Pune blast that killed 10, a police spokesman said.

The Press Trust of India identified the two men as Stephen Hampston, who the news agency said is in his mid-40s, and 55-year-old Steve Martin, who were picked up from the Radisson Hotel after police received a tip that the two possessed sophisticated equipment. Police recovered high-tech binoculars from

them, the news agency said.

Delhi police spokesman Rajan Bhagat said in an interview Tuesday that the men weren't arrested but being questioned at their hotel. "We picked up two people from Radisson Hotel for questioning," he said, adding, "They are British nationals, but we can't say if they are from any outfit." He declined to say if the duo possessed equipment capable of air surveillance.

A British official said two people with similar names were arrested in recent days for photographing planes, but wasn't aware of any connection with the Pune blast.

Several cities in India, including Delhi, which hosts field hockey's World Cup this month and the Commonwealth Games in October, have been on high alert after the Pune blast. The blast in the western Indian city occurred Saturday at German Bakery, a popular tourist spot in the upmarket Koregaon Park area.

The explosion took place after a waiter attempted to open an unattended package in the bakery premises. The incident claimed its tenth victim Tuesday.

Satyapal Singh, Pune's police commissioner, told a news conference Tuesday that the explosive

used "was a mixture of ammonium nitrate, RDX and petroleum hydrocarbon."

He declined to disclose how many people police had questioned. "We have questioned many people but I cannot put a number to it," he said. "It will be very premature to comment on which organization is involved. ... We cannot concretely say anything now."

Pune's blast shouldn't derail Feb. 25 resumption of talks between India and Pakistan—scheduled for Feb. 25—U.S. Sen. John Kerry said.

—Alistair MacDonald in London contributed to this article.

U.S. NEWS

Three big firms pull out of climate partnership

By **STEPHEN POWER**
AND **BEN CASSELMAN**

WASHINGTON—Three large corporations are quitting the U.S. Climate Action Partnership, a broad group of businesses and environmental organizations that has been instrumental in building support in Washington for capping U.S. emissions of greenhouse gases.

Oil giants **BP PLC** and **ConocoPhillips** along with **Caterpillar Inc.**, the Peoria, Ill., heavy-equipment

maker, have decided against renewing their membership in the organization, according to a statement released by the group Tuesday.

Red Cavaney, ConocoPhillips senior vice president for government affairs, said USCAP was focused on getting a climate-change bill passed, whereas Conoco was increasingly concerned with what the details of such a bill would be.

“USCAP was starting to do more and more on trying to get a bill out without trying to work as much on

the substance of it,” Mr. Cavaney said.

In a written statement Tuesday, Caterpillar said it had decided to direct its resources toward the “commercialization of technologies that will promote and provide sustainable development and reduce carbon emissions.” The company recently announced it had joined FutureGen Alliance, an organization that has been working to build a coal-fired, near-zero emissions power plant in eastern Illinois.

Spokesmen for ConocoPhillips and BP said their companies remain committed to passing some kind of climate-change legislation, but believe they can accomplish more working outside USCAP’s umbrella.

“Our position on this issue is longstanding and is unchanged,” BP spokesman Ronnie Chappell said. “What this does is underscore our desire to continue to participate in this important discussion but to do it as BP.”

A spokesman for USCAP said the

group intends to continue its campaign for legislation that would cap U.S. emissions of greenhouse gases. The spokesman said any questions about the companies’ reasons for not renewing their memberships would have to be answered by the firms.

“We think there’s momentum to get [climate legislation] done,” the spokesman, Tad Segal, said. “President Obama’s State of the Union address made it clear the administration is behind us.”

Amid carp threat, a call to unhook

Great Lakes states want to undo a historic project and disconnect from the Mississippi to fend off invasive fish

By **DOUGLAS BELKIN**

CHICAGO—More than a century ago, this city reversed the flow of its eponymous river, connecting the Great Lakes with the Gulf of Mexico and defining itself as the can-do capital of the American heartland.

Today, that engineering feat is coming under growing scrutiny, as scientists and politicians intensify their battle against a voracious flying fish that has been traveling up the Mississippi for 20 years. Amid signs that Asian carp have breached the last defensive barrier, calls are mounting for a massive do-over.

“We know these barriers aren’t working,” said Joel Brammeier, president of the Alliance for the Great Lakes and the lead author of a 2008 report that laid out how this project might look. “An ecological separation is the only permanent solution.”

Six Great Lakes states and the Canadian province of Ontario have petitioned the U.S. Supreme Court to separate the water basins in a last-ditch effort to keep the Asian carp from decimating the \$7 billion Great Lakes fishing industry.

The Army Corps of Engineers has launched a \$10 million, five-year feasibility study of the idea. The plan became the focus of a hearing on the Asian carp problem on Capitol Hill last week.

Rep. Jim Oberstar (D., Minn.), chairman of the House Transportation and Infrastructure Committee, said at the hearing that he hadn’t seen such public alarm about a Great Lakes issue since the Cuyahoga River caught fire near the shores of Lake Erie in 1969. That incident spurred the creation of the Environmental Protection Agency and, later, the Clean Water Act. “We must do everything within our power to prevent the Asian carp from entering the lakes,” he said.

Any effort to cut ties between the waterways faces big hurdles. The shipping industry says closing down locks that grant access from Lake Michigan to the Mississippi would be a devastating blow to the local economy. And flood control in Chicago, which currently involves dumping large amounts of water via Chicago waterways into Lake Michigan on a semi-regular basis, would require a huge, multi-billion-dollar infrastructure fix.

Back in the 1870s, the Chicago River was the dumping ground for the city’s considerable industrial refuse. The river resembled pea soup, stank and was “greasy to the touch,” wrote Donald L. Miller, author of “City of the Century,” a history of Chicago. Since the river drained into



Paulie Perez of Illinois Marine Towing cleans the deck of the Windy City as it pushes a barge through downtown Chicago on Jan. 14.

Lake Michigan and the public drinking water supply was drawn from the lake, the water was often contaminated. Cholera, typhoid and dysentery killed thousands almost every year.

With the city teetering on the brink of disaster, leaders set in motion a 50-year project that reversed the course of the Chicago River by dredging it, installing massive pumps and building more than 70 miles of canals to channel the water away from the Great Lakes and into waterways that connect to the Mississippi. The result was hailed as a modern miracle. Chicago was transformed from a fetid, disease-ridden city of 300,000 to the business and cultural capital of the Midwest.

But the unintended consequence of the project, along with the completion of the St. Lawrence Seaway in 1959, was that this new water superhighway became a conveyor for invasive species between the Great Lakes and the Gulf of Mexico. A series of critters, including Zebra mussels and round goby, have spread to waterways across the country, causing billions of dollars in damage to local ecosystems.

But none have caught the public’s attention like the recent inva-

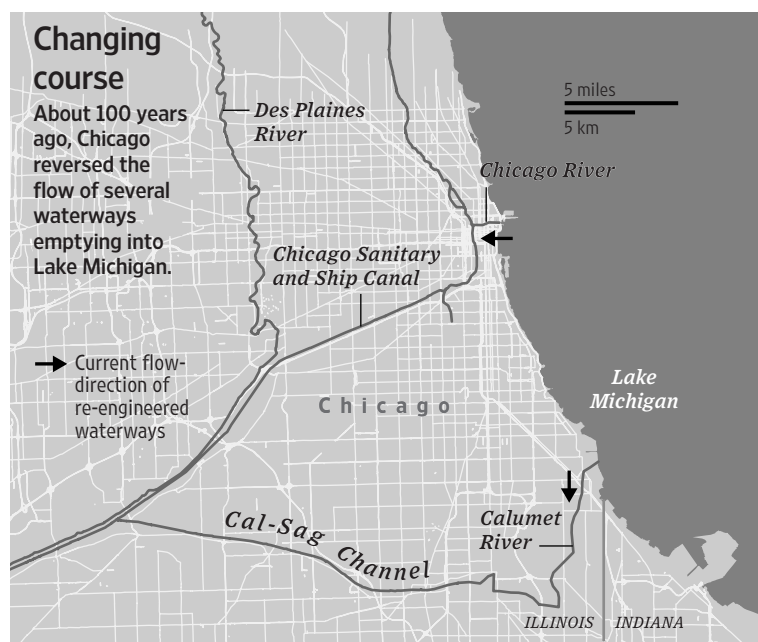
sion of Asian carp. The fish were imported to clean the muck from fish farms in the Deep South in 1970s. In the early 1990s, they escaped into the Mississippi River in a flood and have been migrating north through Midwest rivers since.

Asian carp have few natural predators and can grow 122 centimeters long and weigh 45 kilograms. They reproduce several times a year and out-compete native fish for food. They blindly leap up to 2.5 meters out of the water at the whining sound of high-speed propellers, injuring boaters.

In 2002, the government built what it hoped would be a last backstop to the keep the fish at bay—an electric fence near the Chicago Sanitary and Ship Canal about 48 kilometers south of Lake Michigan. This fall scientists found genetic material of the fish beyond the barrier. Last month, the same type of testing showed genetic material in Lake Michigan itself.

Great Lakes states have demanded that navigational locks that allow ships to travel between the Mississippi waterway and Lake Michigan remain closed to keep the carp out.

The barge industry, which moves



about 18 million metric tons of cargo through the Chicago area each year, has pushed back, saying even a temporary closure would destroy thousands of jobs and cripple regional commerce. They have called basin separation unnecessary.

The Obama administration last

week tried to find middle ground by offering a \$78.5 million response to keep the fish at bay. It proposes to add electric barriers, close navigation locks a few days a week and test more frequently for carp. So far, that approach appears to have made no one happy.

U.S. NEWS



Associated Press

Amy Bishop, charged with capital murder, is detained by Huntsville police Friday on the University of Alabama campus.

How tenure fight rankled

Quest consumed suspect in Alabama campus shootings that killed 3

At turns brilliant, quirky and aggressive, the assistant professor of biology accused of fatally shooting three colleagues and wounding three others during a faculty meeting was described Monday by her husband as demoralized over her failed battle to win tenure at the University of Alabama in Huntsville.

By Chris Herring in Huntsville, Ala., Jennifer Levitz in Atlanta, Steve Stecklow in Boston and Gautam Naik in New York

The alleged shooter, Amy Bishop, was a second-generation academic who had received her doctorate at Harvard University and had hopes of successfully marketing a new cell incubator she developed with her husband, Jim Anderson.

Mr. Anderson said Ms. Bishop's unsuccessful bid for a permanent faculty position was horrible and unfair. "I'd rather go three rounds with Mike Tyson than go through tenure, it's that demoralizing," he said, "and when you're done, you're done." But he said he didn't know what triggered the violence. And he said he didn't know where Ms. Bishop obtained the 9-millimeter gun allegedly used in the attack. They are among a growing list of questions being asked about the 44-year-old mother of four.

Authorities said Ms. Bishop may have hidden a history of violent behavior, including the fatal shooting of her brother when they were both teenagers. It was ruled an accident at the time. In 1993, she was questioned about a mail bomb attempt on a former colleague in Boston.

Ms. Bishop was charged with capital murder and attempted murder following Friday's shooting of the biology department's chairman, four other professors and an assistant. The name of her attorney hasn't been released. She is being held without bail in a Madison County, Ala., jail. In Alabama, murder is punishable by the death penalty or life in prison.

A survivor of the shooting said in an email that the accused professor pulled out a gun in the middle of a routine faculty meeting and shot at her victims one by one.

Joseph Ng, an associate professor who attended the meeting along with 11 colleagues, wrote that about 30 minutes into the meeting, Ms. Bishop "got up suddenly, took out a gun and started shooting at each

one of us." Faculty attendees were sitting around an oval table in a conference room, he wrote to a colleague at the University of California, Irvine, who confirmed receipt of the email and its contents.

No link has been established between the killings and Ms. Bishop's fight for tenure, but colleagues said the quest consumed her.

Krishnan Chittur, a chemical and materials engineering professor who worked with Ms. Bishop, said she approached him last year about him writing a letter supporting her tenure. "I just kind of got the impression she was talking to any and every one face to face about getting a letter of support," he said. "And in my 20 years, I've never seen or heard of anyone badgering people like that for support."

This semester was to be her last at the Huntsville campus, said a university spokesman.

Mr. Anderson said his wife had appealed her tenure denial and had won, but the provost overruled the decision, and the university's president concurred. He described the tenure process as arbitrary and political.

University President David Williams said "the content of her [tenure] dossier did not meet the criteria of the department of which she was a member." He denied that the school had ever granted her tenure, outright or through an appeal, and said he reviewed the appeal to ensure it was fair. He said it wasn't unusual for faculty members to be denied tenure.

—Mike Esterl
contributed to this article.

Matchy matchy marks its return at Marc Jacobs

[Heard on the runway]

NEW YORK'S FASHION WEEK

One nearly could have mistaken Marc Jacobs's hot-ticket show at New York fashion week for one in Milan, what with all the finely constructed, entirely wearable clothes that were on display.

There were so many pretty winter dresses on the catwalk Monday night that I almost lost count. Golly gee, there were business suits—matchy matchy, with the jackets paired with the pants. Given Mr. Jacobs's ability to influence the direction of fashion, I'm preparing for the return of matchy-matchy.

There was a whole spread of woolen dresses in taupe and gray that any woman on Wall Street could wear to the office. And later in the show, a spread of pretty silk dresses and sheaths, with a touch of granny underwear showing through (easily fixed with a slip). There were even princess gowns, draped and flowing and fit for a girlish fantasy.

What a shocker, a complete left turn—there was nothing subversive about this show. Coming from Mr. Jacobs—the man who mainstreamed heel-less high heels, granny-pant underwear as outerwear, and fluorescent power-shouldered '80s jackets—the lack of subversion felt subversive. There were even princess gowns, fit for a girlish fantasy.

It seemed a gift to the uninitiated who look at fashion shows and wonder what on earth is going on with the weird hairdos, masks and other paraphernalia that can make it hard to see the underlying clothes.

—Christina Binkley



A model at the Marc Jacobs show

points down, in a bid to appeal to still-cautious consumers. "It doesn't always have to be crazy luxe," he said.

Neiman Marcus fashion director Ken Downing, seated in the front row, was delighted by the fringes, the Native American-style embroidery, and the suede "done in a very chic, very urban way," he said. Because leather has been such a strong seller in the past couple of seasons, he predicts that Mr. Lam's leather and suede-heavy collection will also do well at retail. "We've seen more of this in New York [than in Europe] but I feel somewhere in the very near future we are going to have another Southwest moment, a bit of Santa Fe."

Like the UFO that visited Roswell, New Mexico, the Southwestern trend is coming, Mr. Downing said. "It's out there, hovering in the distance," he said. But why? "Fashion loves a sojourn. It just feels right!"

—Rachel Dodes

Lam's Wild West fantasy

It may have been snowing outside—and faux snowing on the runway—but for Fall 2010 designer Derek Lam's mind was in a warmer, happier place.

"I think every person has a fantasy of being a cowboy or a cowgirl," said Mr. Lam of his collection of luxurious fringed leather skirts, chunky boots—some of which were made of denim—and neatly tailored jackets with touches of fur, which he unveiled this Tuesday morning in a downtown event space. Many models walked around the fake snow gathering in the center of the runway wearing felt cowboy and bowler hats that wrapped neatly around their chins. If there was any confusion regarding Mr. Lam's inspiration, the show notes were labeled "The Myth of the West."

The whole scene was an effort to "be more upbeat," said Mr. Lam. "We're still in the middle of a recession but everybody is getting more positive, and I wanted to keep that feeling."

Mr. Lam said that by diversifying fabrics—using what he called "honest cottons" and "honest materials" like merino wool—he was able to keep price

Halston's future shock

Halston—the brand known for 1970s disco ensembles worn by Liza Minelli at Studio 54—did the hustle into the future Monday. The label, which has had a revolving door of owners and designers since Roy Halston Frowick died in 1990, has struggled to articulate a cohesive vision following the acquisition of the brand in 2007 by Harvey Weinstein and private-equity fund **Hilco Consumer Capital**.

Marios Schwab, a young London-based designer hired last year, moved Halston forward with his modern Fall 2010 collection. It featured sculpted, draped dresses in luxurious fabrics, slit-front suede boots, and liquid-like gowns in a mix of neutrals and eye popping crimson and aubergine. Some of the looks had modern details like studs and crystals, which were formed in a subtle H-shape, which would look perfect on a red carpet.

"I wanted to make something modern, shrinking the proportion a little bit, showing the leg, and giving hints of a mysterious woman," said Mr. Schwab. "She is open minded. She is the daughter of the original Halston woman."

—Rachel Dodes

THE WALL STREET JOURNAL.

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WORLD NEWS

U.S., Afghans advance in Marjah

Forces seize site of government offices in fourth day of offensive, setting stage for Kabul to try to reassert authority

By MICHAEL M. PHILLIPS

MARJAH, Afghanistan—U.S. Marines and Afghan soldiers seized the site of Marjah's government offices, setting the stage for Kabul to attempt to resume its authority in a town long run by the Taliban.

In a full day of skirmishing, the troops took a former police station in central Marjah, as well as the ruined foundations of the former government center.

"The government will return to Marjah, and in short order," predicted Lt. Col. Calvin Worth, commander of 1st Battalion, 6th Marine Regiment.

Progress continued to be deliberate—at times slow—in the fourth day of what the U.S.-led coalition bills as its biggest offensive since the Taliban's fall in 2001, and a grand effort to oust insurgent fighters while restoring the credibility of the Afghan government.

On Tuesday, eight more civilians were killed in fighting in southern Afghanistan.

Three died in shooting incidents in the assault on Marjah, while five others were killed in the province of Kandahar, where coalition troops erroneously decided that a group of Afghans were planting an explosive device along a trail.

On Tuesday, officials said that human error apparently led to a deadly missile strike on the outskirts of Marjah Sunday, killing 12 people, half of them children.

The first contingent of Afghan National Civil Order Police is expected to arrive in town and report for duty on Wednesday, weeks ahead of what coalition commanders envisioned. The force—considered more able and honest than the regular na-



A group of U.S. Marines take positions during an operation in Marjah, Nad Ali district of Helmand province, Afghanistan, on Tuesday.

tional police—will be the first evidence of Kabul's civil authority.

The U.S. and Afghan troops raised the Afghan flag above the old district center, which is now used as stalls for a weekly bazaar thought to bring the Taliban large amounts of tax revenue.

Still, the fighting involved suggests that insurgents in southern Marjah are moving north to confront the coalition forces. "We still have a large number of enemy fighters in southern Marjah," Lt. Col. Worth said.

Meanwhile, British Major General Nick Carter, the allied commander of forces in southern Afghanistan, said the phase of Operation Moshtarak, as the massive offensive is known, is at as the "end of the beginning."

Maj. Gen. Carter said Marjah was two-thirds secured and cleared of insurgents. He said it will take "sev-

eral days" to complete the operation and "days" to clear the area of improvised explosive devices.

"We have had some significant resistance from isolated groups of fighters," he said, adding that allied forces had found foreign fighters in the area, including Pakistan-based insurgents.

Speaking from Afghanistan via a video link, Maj. Gen. Carter said British and Afghan forces had now fully secured what he referred to as the 31 West and 31 East districts in the northeast part of the operating zone. Still, clearing IEDs was "a work in progress and will take some time to conclude," he said.

Farther north, the arrival of reinforcements allowed the Marines on Tuesday to break the insurgents' stranglehold on an isolated U.S. outpost with relative ease.

Marines from the 1,500-strong

1st Battalion, 6th Marine Regiment, moved methodically through an insurgent warren, picking their way through homemade mines and ending the day in control of about one third of the neighborhood of low homes surrounded by cracked mud-brick walls.

At one point in a nearby bazaar, a lieutenant noticed new wire on an old pole. Further investigation revealed it was connected to eight mortar shells buried beneath 100 yards of road, intended to destroy multiple vehicles in a military convoy. Explosives teams detonated the booby-trap safely.

Just a day earlier, the area, called the Pork Chop for its shape on the map, had been a haven for insurgents, who used positions there to pepper the Marine outpost with sniper fire and rocket-propelled grenades. Since the offensive began on

Saturday, insurgents had been moving each morning to fighting positions in the Pork Chop.

On Tuesday, it appeared that the large number of coalition troops and vehicles with heavy weapons prevented the insurgents from making their way there.

The Marine outpost abutting the Pork Chop and a neighboring bazaar, which had been virtually besieged on Monday, was peaceful the following day.

At day's end, the Marines fortified a new front line in the Pork Chop, to avoid risking mine injuries after dark. "I don't want to get into a situation I can't finish tonight," said Capt. Ryan Sparks, commander of the battalion's Company B.

—Alistair MacDonald in London and Alan Cullison in Kandahar, Afghanistan, contributed to this article.

Taliban No. 2 is captured in Pakistani city

By MATTHEW ROSENBERG

KABUL—The Taliban's top military leader was captured this month in a joint Pakistani-U.S. operation, dealing a setback to militants and providing the clearest indication to date that Pakistan appears willing to aid U.S. efforts to suppress the Afghan insurgency.

Mullah Abdul Ghani Baradar was the day-to-day leader of the Taliban, overseeing its political and military efforts and helping run its leadership council, known as the Quetta Shura for the southwestern Pakistani city where it is said to be based.

He was captured in a joint operation by Pakistani and American intelligence agents, said officials from both countries.

He is being held by Pakistan's Inter-Services Intelligence agency, and being interrogated by both Pakistanis and Americans, officials said. They indicated Mullah Baradar was talking, but wouldn't provide details of what he was telling them or if he had provided any valuable intelligence.

A U.S. official in the region claimed the significance of his capture was comparable with the 2002 arrest of al Qaeda operative Khalid Sheikh Mohammed, who is alleged to have been a key architect of the Sept. 11, 2001, attacks.

Officials say Mullah Baradar's capture is likely have at least short-term effects on the Taliban and will bolster U.S. efforts to reverse the tide of the war.

"He was the brains—he was pulling the strings" in the Taliban, the official said. "Guys like that are hard to replace. You can't do it quickly."

The Taliban have had to replace senior leaders before, although none as senior as Mullah Baradar. They remain a potent force in Afghanistan, controlling swaths of the south and other regions.

Even without their top military commander, the militants have skirmished effectively with North Atlantic Treaty Organization troops, using hit-and-run tactics and buried bombs to contend with vastly superior forces in the current offensive in the town of Marjah. Their fighters can strike opportunistically, with suicide bombs and other weapons, regardless of who occupies their top military post.

Still, the arrest comes as the Taliban are under greater pressure than they have faced in years on both sides of the border between Afghanistan and Pakistan.

A series of well-publicized offensives in Afghanistan, including this week's Marjah assault, has pushed the Taliban from much of Helmand River Valley, a region of southern Afghanistan that had been largely



A policeman searches a pedestrian at a security checkpoint in Karachi, Tuesday.

under insurgent control for years.

More quietly, U.S. and allied special forces have in recent months stepped up secretive operations and killed or captured at least a half-dozen midlevel military and political leaders in southern Afghanistan, said a senior U.S. commander in Afghanistan.

The situation in southern Afghanistan—the Taliban's spiritual and, until recently, geographical heartland—has become so tenuous for the militants that their field commander in the region, Abdullah Gulam Rasoul, better known as Mullah Zakir, is now working from Paki-

stan and rarely ventures across the border.

Beyond the south, coalition forces also recently captured the Taliban's so-called shadow governor of Laghman province, the official said. "A lot of these guys are talking," he said.

The Taliban, for their part, are denying that Mullah Baradar has been arrested.

The Pakistan Taliban, an offshoot of the Afghan movement that is loosely tied to the Quetta Shura, is similarly under pressure. It lost the Swat Valley and much of the South Waziristan tribal area, two major

strongholds, in Pakistani military offensives last year.

The Pakistan branch also saw its founder killed in an August missile strike by a U.S. drone aircraft. His successor may have been killed in another drone strike in January, although U.S. and Pakistani officials haven't been able to confirm the death.

The biggest surprise for many U.S. officials—and possibly for the Taliban, too—was Pakistan's lead role in seizing Mullah Baradar.

U.S. officials have long complained that Pakistan consistently refused to act on American-provided intelligence about the whereabouts of the Taliban's supreme leader, Mullah Muhammad Omar, as well as Mullah Baradar and other Taliban leaders.

Pakistan's reluctance to act led many U.S. officials to believe it viewed the Taliban as a potential proxy to help combat the growing influence of archrival India in Afghanistan, especially for after an eventual American withdrawal.

Mullah Baradar was caught in the teeming Arabian Sea port of Karachi, a city of 16 million people, where many Taliban leaders are believed to have taken refuge in recent months, fearing the U.S. was preparing to strike in Quetta.

—Zahid Hussain in Islamabad contributed to this article.

WORLD NEWS

Remarks could bolster U.S. on Iran

BY PETER SPIEGEL
AND CHIP CUMMINS

WASHINGTON—U.S. Secretary of State Hillary Clinton's accusation this week that Iran is becoming a military dictatorship run by elements of the militant Islamic Revolutionary Guard Corps is the public expression of conclusions privately drawn by U.S. officials and administration advisers for months.

Senior U.S. officials and Iran analysts said, however, that by going public with those findings at a high-profile event in the Persian Gulf, the administration may be able to rally world opinion against the elite military group in a way it has yet to manage against the religious leaders who sit atop the regime.

Gordon Duguid, a State Department spokesman, continued to press the administration's case on Tuesday, saying the Islamic Revolutionary Guard Corps, or IRGC, is "currently in control" of nine of 22

cabinet ministries, "an unprecedented level since the Islamic Republic was established" in 1979.

U.S. officials acknowledge that focusing on the Revolutionary Guards also allows Washington to target an organization that is—through its paramilitary militia, the Basij—primarily responsible for the violent crackdown against demonstrators in the wake of June's presidential elections.

The U.S. administration has faced months of criticism from human-rights advocates for not backing Iranian dissidents more vociferously.

"The IRGC is a convenient target because it's the entity that manages Iran's nuclear program, it's the entity that liaises with extremist groups throughout the Middle East, and it's the entity which is overseeing the brutal

crackdown on the Iranian people," said Karim Sadjadpour, an Iran expert at the Carnegie Endowment for International Peace.

Iran's president and foreign minister both criticized Mrs. Clinton's remarks on Tuesday and vowed to continue efforts to enrich uranium to a higher grade than before.

Foreign Minister Manouchehr Mottaki took on Mrs. Clinton directly, saying it was the U.S. that has been acting like a military dictatorship in the Middle East, citing civilian casualties in Iraq and Afghanistan.

"We recommend Clinton and other U.S. statesmen open their eyes to realities in the region, even one time," Mr. Mottaki said, according to Iran's Press TV.

Later Tuesday, President Mahmoud Ahmadinejad said Western powers would "regret" any sanc-

tions move against the country. It was unclear whether Mr. Ahmadinejad was talking specifically about retaliation for economic sanctions, but state media late Tuesday suggested that is what he meant.

Press TV, the English-language, state-run news agency, ran a headline saying, "Ahmadinejad Warns Sanctions Would Have Consequences."

"If anybody seeks to create problems for Iran, our response will not be like before," the Iranian president told a news conference in the capital, Tehran, on Tuesday.

"Something will be done in response that will make them regret it," he added.

Senior U.S. officials from agencies ranging from the Treasury Department to the Pentagon have increasingly argued that, while the IRGC has grown in influence in Tehran for decades, the large-scale public protests following last year's disputed presidential elections has

forced Iranian leaders to lean more heavily on the elite security forces to maintain their hold on power.

Just last month, in an address to the Institute for the Study of War in Washington, the commander of U.S. forces in the Middle East, Gen. David Petraeus, argued that Iran has transformed from a "theocracy" into a "thugocracy", as the IRGC and its subordinate elements—including the Basij domestically and Qods Force abroad—have used their influence to burrow even deeper into Iran's power structures.

"Because of the unrest in the wake of the hijacked elections this past year, the security apparatus has been able to grip even more of the power because the Supreme Leader has had to turn to the Revolutionary Guard Corps, the siege militia, and to the Qods Force far greater than before," Gen. Petraeus said.

—Farnaz Fassihi
contributed to this article.

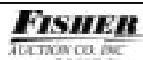


Mahmoud Ahmadinejad

BUSINESS REAL ESTATE

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Tin Oo, the National League for Democracy's deputy leader, met journalists at party headquarters on Monday.

Myanmar election doubts

BY A WALL STREET JOURNAL REPORTER

The release of a leading dissident in Myanmar over the weekend has intensified questions about whether the military regime will keep its promise to hold free and fair elections this year, and about what form the opposition will take.

The concerns deepened on Tuesday, amid reports that the government sentenced four women activists to prison terms with hard labor and the release of an Amnesty International study detailing cases of torture and other abuses against activists in recent years.

These developments cast a shadow over a visit by United Nations envoy Tomás Ojea Quintana, who is touring Myanmar to study progress on human rights. Advocacy groups have long accused Myanmar's regime of abuses including the incarceration of more than 2,000 dissidents, notably famed Nobel laureate Aung San Suu Kyi.

The regime has tried to appear more conciliatory recently. On Saturday, it released a prominent dissident, Tin Oo, from house arrest,

ending a period of detention that began in 2003. Mr. Tin Oo helped to found the country's main opposition party, the National League for Democracy, along with Ms. Suu Kyi in 1988. The NLD easily won elections two years later, but the government ignored the results and imprisoned many senior NLD leaders, including Ms. Suu Kyi and Mr. Tin Oo, the organization's vice-chairman.

Ahead of the planned first national election since 1990, the regime has also allowed Ms. Suu Kyi to meet top officials of her party. Analysts say the military wants to hold the vote to enhance its legitimacy and needs some measure of opposition participation to lend it credibility. Although dissidents and exiles welcomed Mr. Tin Oo's release, they questioned whether it represented real progress, given that Ms. Suu Kyi is still held.

Leaders in the U.S. and elsewhere say her release is a precondition of a free and fair election. Some dissidents suspect military officials released Mr. Tin Oo because they may consider him to be too old, at age 82, to stir up serious trouble. "It

is expected that the junta will launch such a charm offensive to improve its image before the elections," said Soe Aung, a spokesman for the Forum for Democracy in Burma, a Thai-based group. "The junta will make sure at all costs that the opposition will be weakened if not paralyzed before the elections."

Attempts to reach the Myanmar government, which rarely talks to foreign journalists, were unsuccessful. It remained unclear what progress the U.N. envoy can achieve. He is expected to meet government officials but it is uncertain whether he will be allowed to meet Ms. Suu Kyi.

The Associated Press, citing an opposition spokesman, said the women sentenced to hard labor on Monday were accused of offering Buddhist monks alms that included religious literature.

The Amnesty International report, which covered two years ending in August 2009, alleged that authorities targeted ethnic minority activists and in some cases tortured or executed them. It called on the government to release political prisoners, among other steps.