U.S. bailout anger undermines Geithner's clout with Congress

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Autobahn gas-guzzlers join race to turn green

BUSINESS & FINANCE 20

THE WALL STREET JOURNAL.

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U.S. airstrike faces scrutiny from coalition

By Matthew Rosenberg

KABUL, Afghanistan—U.S. Special Operations Forces ordered an airstrike that killed at least 27 civilians in southern Afghanistan and the soldiers may not have satisfied rules of engagement designed to avoid the killing of innocents, Afghan and coalition officials said.

The airstrike Sunday hit a group of minibuses in a remote part of the south near the border between Uruzgan and Daykundi provinces. The area is hundreds of miles from Marjah, where the largest allied offensive since 2001 is now in its second week. But the airstrike illustrated one of the major problems for coalition forces as they try to win over civilians in Marjah and across Afghanistan: figuring out who is a civilian and who is an insurgent—and not killing the civilians.

It also underscored the risks of the expanding use of Special Operations Forces, whose core mission is hunting down hard-core Taliban, as the leading edge of the fight against the insurgents. Many Special Operations missions by their nature emphasize the use of violent force, and coalition officials say they have led to a string of recent successes against valuable targets.

By contrast, operations now being carried out by conventional forces, such as the Marines fighting in Marjah, place a greater emphasis on protecting ordinary people.

Afghanistan's Cabinet called the latest airstrike "unjustifiable." Afghan and North Atlantic Treaty Organization officials ordered an immediate investigation into the incident, and both sides dispatched investigative teams to the site, officials said.

A North Atlantic Treaty Organization spokesman said he couldn't confirm that U.S. Special Operations Forces called in the strike.

A large proportion of the thousands of civilians killed by coalition forces since 2001 have been slain in errant airstrikes, and the anger over such deaths runs deep here.

Afghans can often recite from memory the deadliest coalition mistakes: the bombing of fuel tankers in the northern province of Kunduz in September that killed up to 142 people, many of them civilians; the 2,000-pound bomb dropped by a B-1 bomber during a battle in western Farah province in May that left dozens of civilians dead; the No-

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Raining on their parade

Getty Images

U.K. Prime Minister Gordon Brown and Business Secretary Peter Mandelson arrive at a conference as a furor surrounding Mr. Brown's temper led to scrutiny of an antibullying charity. Article on page 8

The Quirk

Michelin Man meets Stonehenge to birth an Olympic rock star Page 33

Editorial & Opinion

Some clunkers just won't die. Page 13

Pressures rise over Greece deficit problem

By Marcus Walker And Charles Forelle

A standoff between Greece and its euro-zone partners over the timing and terms of a potential rescue is nearing a crucial juncture as the cash-strapped country faces a key test of investor willingness to keep funding its ballooning deficit.

Greece faces several important challenges in the coming days, including an expected bond auction as soon as this week, a planned general strike on Wednesday, and a visit from European Union officials that began Monday, demanding that the country take tougher steps to rein in its budget deficit.

Euro-zone leaders have so far offered only a deliberately vague promise of "determined and coordinated action, if needed" to help Greece, and only under the condition that Greece imposes more painful fiscal measures than it has so far agreed to, including a sales-tax increase and deep cuts to public-sector pay.

The haggling over possible European aid for Greece has become a game of chicken between Athens and the core economies of the euro zone, led by Germany and France.

Germany and France are deeply reluctant to pay for Greece's free-spending ways and want to keep up the pressure on Athens to enact far-reaching overhauls of taxes and public spending.

The Greek government wants its euro-zone peers to say more explicitly that they will bail out Greece if needed, and how. That would give financial markets more confidence that Greece won't default on its debts, bringing down the yields on Greek bonds and helping the government to raise funds on the market without paying punitive interest rates, Greek officials argue.

The question is who will give in first.

Many analysts say Germany and France, despite their tough talk, will ultimately

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Still jittery

Spread between 10-year Greek bonds and comparable German bonds, in pct. points

Source: Thomson Reuters

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

PAGE TWO

Special relationships and tax lures

[Agenda]

By Patience Wheatcroft

A special relationship that has nothing to do with the U.S. was much in evidence Friday.

Spanish Prime Minister José Luis Zapatero had flown to London for what was little short of a love-in with U.K. Prime Minister Gordon Brown. "The British and Spanish governments are having the best relationship we have ever had in our history," Mr. Zapatero declared.

Since Spain is currently classified as one of the PIIGS—the group of most overstretched European economies that, were it not for the sake of a good acronym, might also include the U.K.—and since Mr. Brown has plenty of problems of his own, the pair might be grateful for any friends they can find.

On Friday, they were stressing the two countries' economic interdependence, with Mr. Zapatero—*"mi amigo,"* as Mr. Brown called him—citing the millions of British holiday makers who head to Spain every summer and Mr. Brown pointing out that U.K. exports to Spain are double those to China.

Given the very special nature of this relationship, the two prime ministers announced they were launching a four-point plan to drive job opportunities for young people. Such opportunities are desperately needed in both countries but particularly in Spain where, among under 24 year olds, the unemployment rate is now close to 40%. Whether this initiative will have much impact on that problem is debatable. A competition for young entrepreneurs to "promote creative thinking in the low-carbon, high-technology new industries of the future" sounds more like something designed to produce photo opportunities than cut the dole queues.

Yet what really seemed odd was that the display of this "special relationship" came just a couple of days before Mr. Brown staged his Global Investment Conference, an attempt to encourage companies from all round the world to invest in the U.K. and help rebuild its badly dented economy.

Agence France Presse/Getty Images

Spanish Prime Minister José Luis Zapatero (right) with the U.K.'s Gordon Brown

While Mr. Brown had been lauding the scale of his country's exports to Spain, the U.S. followed by Germany are the U.K.'s biggest export markets. And though some Spanish firms have established a major presence—with Santander employing about 26,000 and Ferrovial sustaining heavy losses running airports in Britain—companies from 53 countries are established in the U.K.

Why commit to a special degree of cooperation with one country before trying to woo the rest of the world?

Why commit to a special degree of cooperation with one country just before trying to woo the rest of the world?

But wooing was what the prime minister was intent on doing as he addressed the representatives of 250 companies at yesterday's conference. He announced "an investors charter" that promised a commitment to providing a skilled work force on tap, no mean feat considering the current skills shortage.

Another of the enticements he proffered related to that tricky area of tax.

In a global market, a degree of tax arbitrage is inevitable. Companies have been leaving, or threatening to leave, the U.K. because of what is perceived as an increasingly inhospitable tax regime. So Mr. Brown announced that his chancellor was issuing the first ever "tax framework for business."

It would, however, be a foolhardy finance director who took much comfort from this document, which, said the prime minister, would guide future tax policy. Consisting of just four pages, the front bearing only its title and the back its copyright details, this amounts to nothing more than a statement to try to be reasonable when it isn't difficult to be so.

Even the promise to consult ahead of proposed tax changes is prefaced with the telling phrase "where possible."

This skeletal document does acknowledge that business values stability and certainty and competitiveness when it comes to tax. Failure to deliver on these has persuaded companies to quit the country. One particular issue has been the taxation of overseas profits, where planned changes are causing a degree of unrest.

Aware of anxieties, it seems that HMRC, the U.K. government's tax collectors, may have been more emollient than usual in recent conversations with larger businesses, persuading them that their bills against overseas profits may not be as onerous as they feared.

It would be invidious for different levels of taxation to be agreed with different companies but, as tax lawyers know only too well, no matter what pledges the document makes on "simplicity," U.K. tax is anything but that. So it may be that fruitful negotiations are possible if the result is that the business remains headquartered in the U.K. rather than carrying out a threat to leave.

Europe fails to take off

Lufthansa pilots have postponed their strike action, but British Airways staff have voted again in favor of industrial action. Staff in both airlines seem reluctant to recognize the new realities of airline economics.

Last year, according to the International Air Transport Organization, saw the worst decline in passenger traffic in the postwar era.

In an environment in which recession-scarred companies are cutting back their travel budgets, airlines have no option but to curb their costs. Yet Lufthansa's pilots are demanding a 6.4% pay rise and at BA, unions are resistant to the company's proposed pay freeze.

For Willie Walsh, the BA chief executive, a full-scale battle with the unions has long had a feeling of inevitability about it. Too many outdated practices remained entrenched.

The unions need to realize that, increasingly, business customers can cut back the amount of time they spend flying. Vast improvements in video conferencing now make virtual meetings perfectly workable.

If canceled flights cause major disruption to travelers, the strikers will be driving those executives to look at just how they might avoid such inconvenience in the future.

ONLINE TODAY

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Iain Martin on Politics

blogs.wsj.com/iainmartin

"Questions about character will be back center stage right in front of the watching voters."

Iain Martin on allegations that Gordon Brown acted aggressively toward staff

Continuing coverage

London fashion week continues with Jonathan Saunders and Burberry at **wsj.com/runway**

Question of the day

Vote and discuss: How will strikes at Lufthansa and British Airways affect your travel plans?

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52%
Yes
48%

What's News

■ **The U.K. pledged** to maintain a competitive regime of business taxes as the government, which has faced criticism from some in the business community over its tax decisions, wooed global executives at an investment conference in London. 8

■ **U.S. lawmakers said** Toyota made misleading public statements about its recent recalls. Separately, the company said it received subpoenas from a U.S. grand jury and the SEC. 19, 36

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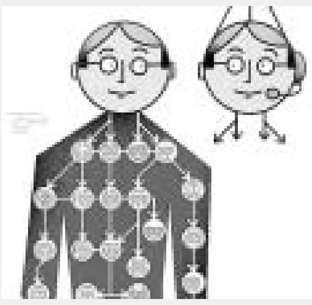

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NEWS


Reuters (left); Getty Images (right)

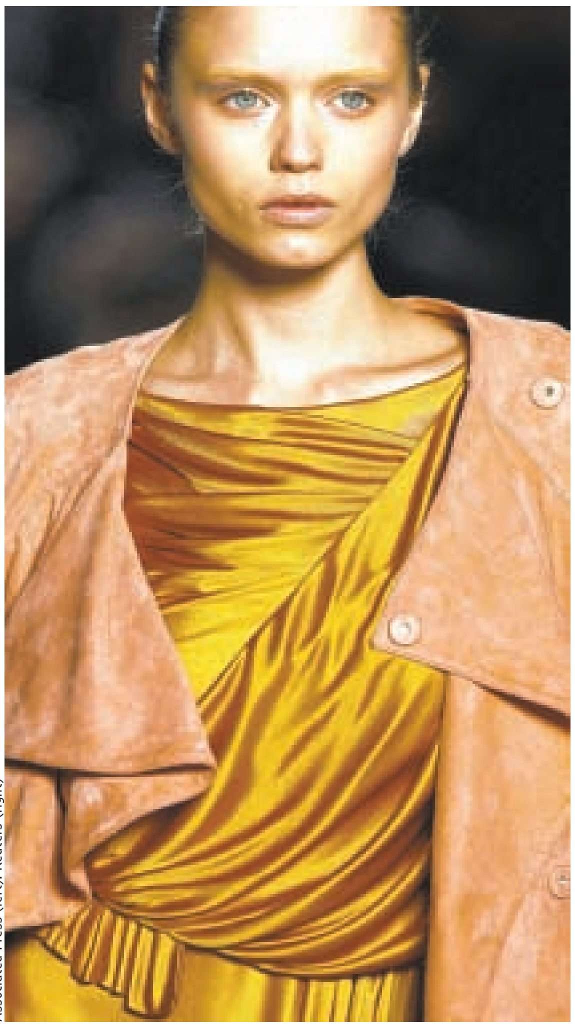
Vivienne Westwood's Sunday show: a model, left, shows off the designer's trademark mix of playfulness and expert tailoring; Ms. Westwood, right, says she has stopped buying clothes.

London is quieter but still confident

[Heard on the Runway]

By Beth Schepens

After last year's big anniversary celebration of London fashion week, the fall 2010 season has been a more subdued, relaxed affair. Burberry, as last year, is expected to be the big closer, drawing U.S. Vogue editor Anna Wintour back across the pond ahead of the Milan and Paris shows. The presence of heavy hitters like Burberry, Pringle and Matthew Williamson are giving the city an industry edge it didn't have several years ago.




Associated Press (left); Reuters (right)

Left, Matthew Williamson's clothes push against luxury's upper limit; right, Nicole Farhi is cool but accessible.

Farhi: cool and wearable

Like a Saturday morning at Nicole Farhi's 202 cafe and concept store on fashionable Westbourne Grove in Notting Hill, the French-born designer's autumn/winter 2010 collection was packed with the cool and the beautiful.

It was infinitely wearable and sure to make your work wardrobe a little more effortlessly sophisticated. The shapes were modern and architecturally influenced by Frank Gehry.

Black cigarette pants came in flannel or a patent leather-wool combination. Skirts were asymmetrically pleated, wrapped and gathered. We were especially enamored with a drawstring camel skirt that would be boardroom ready with the matching tailored jacket with three-quarter-length sleeves.

There were floral-print, draped-leather and knit dresses that were ready for a night on the town. We loved a black flapperesque macrame dress with an abstract design.

But, as at other shows, the coats stood out. A belted camel coat with blue piping was especially lovely, as was a chunky plaid boxy number in bold colors.

And thankfully, it will be much easier to get into these designs than it is to score a table at 202 on the weekend.

Buy it because you like it

It will come as no surprise to learn that we live in an age of consumerism—even one tamed somewhat by this recession.

But it may seem a strange juxtaposition for a fashion designer to talk about the need for people to curb their consumer appetite. Fashion is, after all, about selling clothes. And usually not just when you need a blouse to replace one that is falling apart at the seams, but because there's a new season or a new look—or, more often than not, just because.

Then again, Dame Vivienne Westwood has never been too concerned about fitting into anyone else's ideas of what something should or shouldn't be.

"What you're saying is that fashion isn't part of living," Britain's reigning queen of fashion said Sunday after her show at the Royal Courts of Justice in London. And Ms. Westwood begs to differ.

It is fashion that has given the activist designer a voice in issues that are important to her—such as climate change and consumerism. "I have an advantage and I use it," said Ms. Westwood, who will start working on a TV series about art and the climate next month.

She says she has stopped buying clothes and hopes others will do the same. Mostly. "I don't want to defend it, but I don't think my stuff is crap. Buy it because you really like it."

There was plenty on display Sunday night to like, especially for the more daring and playful. The coats, suits and one strapless animal-print dress in particular showed off Ms. Westwood's signature expert tailoring, while sweaters and beaded pieces added texture and tartan plaids gave a splash of color.

Time for luxury

"Luxury!" Matthew Williamson seemed to declare with his autumn/winter 2010 collection.

It was everywhere. In the fabrics—the fur, the silk, the leather, the wool—and the sheer volume of fabric. Dresses draped and dripped with it. It was also in the designs—intricately beaded dresses, his signature graphic prints, long evening gowns. The more structured styles continued Mr. Williamson's move away from the bohemian look that first shot the British designer to fame.

But it's been over 12 years since his debut and the luxury market has changed along with consumers and, no doubt, Mr. Williamson himself. His push toward an ever-higher high end is part of retailers' war on recession world-wide: offering clients more luxury and more unique items in the hopes of wooing them to shop. With a market that's beginning to show signs of recovery, it seems prescient.

Burstein's picks

We caught up with Joan Burstein—the legendary founder of fashion-forward luxury store Browns, whose backing has helped foster much of London's design talent and brought big international names to the city—to get her views on the shows. The petite 83-year-old said of the Christopher Kane show: "He always comes up with something new and something desirable, like must-haves."

This season, Mr. Kane combined lace with leather and embroidery, in a collection Ms. Burstein called exquisite. "Beads all over the place," she said. "Stunning."

She also liked David Koma, who showcased his designs at a highly anticipated show on Friday. "He's young and he's moved forward," she said. His fall 2010 show mixed leather with wool and other fabric. "Excellent," Ms. Burstein said. "Really excellent."

As for Roksanda Ilincic, who sent down rows of elegant evening wear reminiscent of 1970s Halston and some more modern day wear in mixed fabric and sharp tailoring, "it was lovely."

EUROPE NEWS

NATO chief sees a steady alliance

Rasmussen says the expected pullout of Dutch troops won't affect the military commitments of other nations

By Peter Spiegel

WASHINGTON—The civilian chief of the North Atlantic Treaty Organization said he doesn't believe a Dutch decision to withdraw its nearly 2,000 troops from southern Afghanistan this year will lead other European allies to follow suit.

Anders Fogh Rasmussen, the NATO secretary-general, said that the collapse of the Dutch government on Saturday, which will likely prevent the Netherlands from extending its troop presence beyond this summer, was a unique situation and that the rest of the alliance remained committed to the Afghan mission.

"The political situation in the Netherlands is so particular that it should be seen as an isolated political event that will not have an impact on other allies and partners," Mr. Rasmussen said in an interview Monday. "I have a sense of strong solidarity within the alliance."

Other European governments gave no sign Monday they would use the Dutch developments as a pretext to pull out their troops from the country.

The Dutch presence in Afghanistan was both symbolically and strategically important for the NATO alliance. With opposition to the Afghan war growing in Europe, getting governments there to maintain and increase their presence in the country has been a key focus of U.S. officials.

Senior U.S. officials had made extending troop deployments by the Dutch and Canadians, who have vowed to withdraw next year, a central part of their new Afghan strategy.

Dutch forces have been deployed in southern Uruzgan province, one of the most violent in the country, since 2006. Although British and Danish troops have been in the south for years, it has been difficult to find countries besides the U.S., which is currently flooding the south with thousands of troops, to deploy to the region.

The Dutch approach to building relationships with local people also has been held up as a model by the U.S. State Department and others.

The collapse of the Dutch government—after a key coalition partner withdrew, demanding a pullout from Afghanistan—comes after Germany and France agreed to increase their troop presence by far fewer than the U.S. had hoped.

Dutch Prime Minister Jan Balkenende, who Monday sought permission from Queen Beatrix to form an interim government until likely elections in the spring, said Sunday that Dutch troops would probably pull out in August because no mandate exists to extend their mission. Dutch government consultations are continuing.

In the interview, Mr. Rasmussen acknowledged he had pressed the Dutch to stay, even if in smaller numbers. He didn't rule out a change in policy in the Netherlands, but said the uncertainty following the collapse made it difficult to predict.

"It's a very complicated political situation," he said. If there were elections, he said, "we know from experience that it takes quite some time to establish a new government in the Netherlands."

Mr. Rasmussen defended the recent German and French decisions, saying that the German commitment of 850 new troops was "significant" and noting that the French forces have been fighting alongside U.S. troops in the volatile eastern parts of Afghanistan.

Separately, Mr. Rasmussen said he "strongly" regretted the killing of at least 27 Afghan civilians Monday in a NATO airstrike in Uruzgan province, and offered his condolences to the families involved. At the same time, he said that Taliban fighters have been responsible for the "huge majority" of civilian deaths in the country, and that NATO views its main mission as protecting the Afghan population.

"We have evidence that they use women and children, innocent civilians, as human shields on roofs and windows," he said. "They even disguise themselves as women and hide weapons under the burqas."

In the United Kingdom, the second-largest contributor of forces after the U.S., the Dutch move has passed almost unnoticed by a media focused on the continued political troubles of Prime Minister Gordon Brown. But support for the war already is weak among a population in which many believe that its overstretched military is being asked to shoulder more than its share of responsibility.

A spokesman for Mr. Brown said the U.K. has consistently argued for burden-sharing in Afghanistan. In terms of whether the Dutch decision will affect British resolve, "the government has made its commitment very clear and recently increased the number of troops" it has in the country, he said.

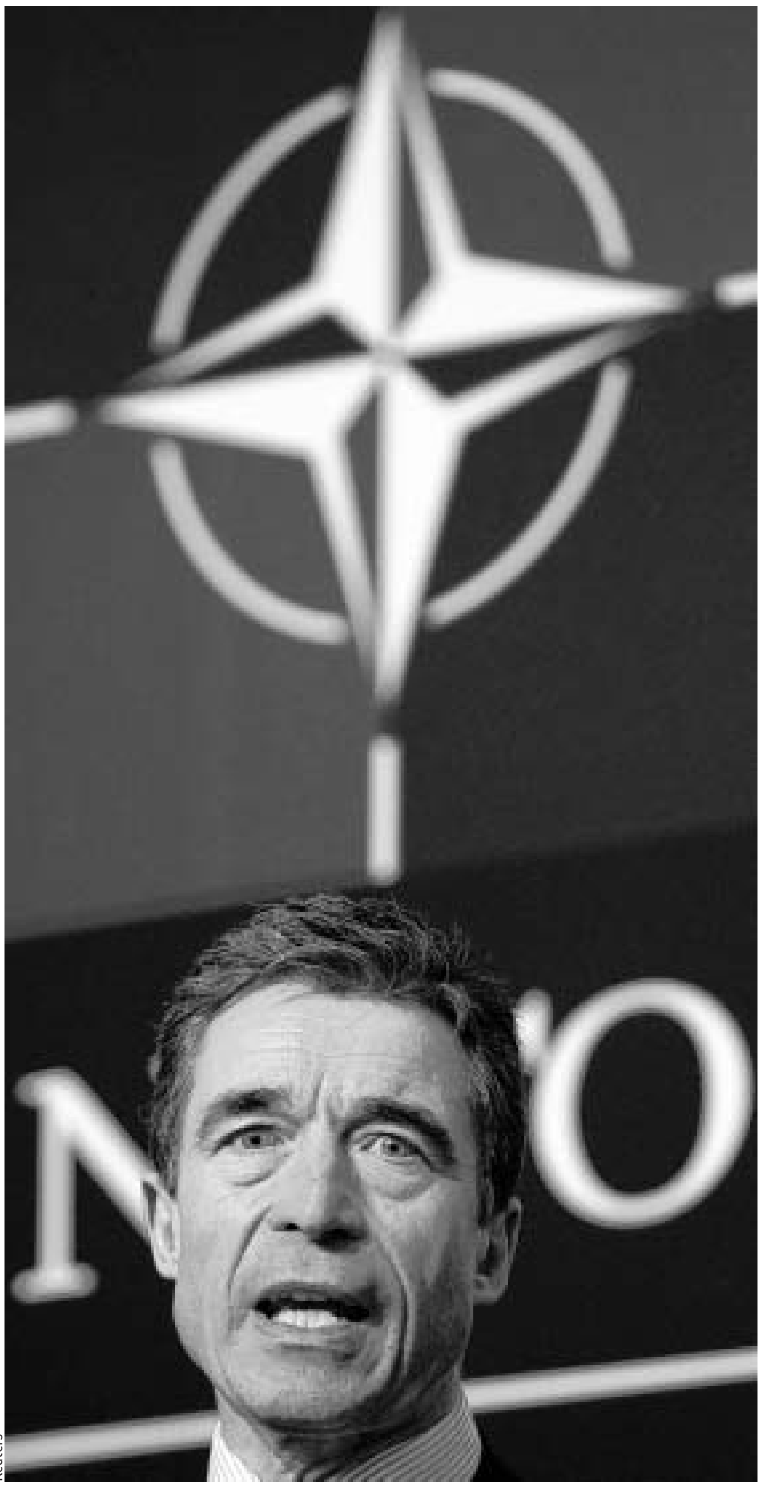
The Dutch government's collapse is unlikely to affect the Afghanistan policy of Germany, the third-biggest troop contributor. In recent months Germany has held an intense public debate over its Afghanistan engagement in the wake of an errant German-ordered airstrike in September in Kunduz province that killed more than 100 civilians.

Even though opinion polls suggest a solid majority of Germans oppose their country's continued involvement in Afghanistan, Germany's mainstream political parties continue to support the operation.

Germany's parliament recently extended the army's mandate to take part in the NATO operation, and Chancellor Angela Merkel's government has pledged an extra 850 troops.

The picture is similar in France, which has 3,800 troops in the country, and where public opinion also is generally opposed to the continued military involvement in Afghanistan. Paris has supported the U.S. surge. Last month, President Nicolas Sarkozy said the conditions for withdrawal of French troops didn't exist yet, and he hasn't given a date for their departure.

—Alistair MacDonald in London, Marcus Walker in Berlin and Alessandra Galloni in Paris contributed to this article.



Reuters

NATO's Anders Fogh Rasmussen at a news conference in Istanbul on Feb. 5

Madeira authorities hunt for the missing

Associated Press

A rescue worker in downtown Funchal, Madeira, on Monday. Streets were buried by rocks and debris from flash flooding Saturday on the Portuguese island. that killed 42 people over the weekend.

Associated Press

FUNCHAL, Madeira Islands—Authorities on the Portuguese island of Madeira scrambled Monday to repair storm drains and clear debris from riverbeds, attempting to prevent a repeat of the landslides that killed 42 people over the weekend.

Rescue teams used sniffer dogs to search for at least four people still missing since flash floods and rock slides crashed through hillside villages and coastal towns. The Portuguese government announced three days of mourning for the victims of Madeira's worst disaster in living memory.

Crews in the capital, Funchal, pumped water out of a shopping mall's underground parking lot, where they feared they might find more bodies. The lot's two levels were submerged Saturday, when the rainfall of a typical month poured down in just eight hours.

Rescue teams dug cars out of mounds of sludge to see whether anyone was inside. Sniffer dogs scoured debris blocking the streets. Emergency crews used bulldozers and front-loaders to remove tons of caked mud, boulders and snapped trees from drains and rivers, hoping to speed water runoff.

"We've been going flat-out for 48 hours and we'll keep going till the job's done," Funchal Mayor Miguel Albuquerque said.

Seven members of an eight-member family died when their hillside home was swept away.

Locals were jittery as showers swept in, dumping more water on sodden hillsides. Conceição Estudante, the regional head of tourism and transport, told a news conference that 18 victims still hadn't been identified. She asked family members to go to a makeshift morgue at Funchal airport.

Seven members of an eight-member family died when their hillside home was swept away, public broadcaster Radiotelevisão Portuguesa reported. Officials said 18 of 151 people admitted to Funchal's main hospital were still being treated. Some 150 were homeless.

Rui Pereira, minister for internal administration, said in Lisbon that the government was sending a second batch of aid to the island. A plane was heading to Madeira with more sniffer dogs, high-powered pumping equipment and equipment to replace collapsed roads and bridges, Mr. Pereira said. He said Madeira's financial needs were still being calculated. Madeira, a tourist destination, is the main island of a Portuguese archipelago of the same name in the Atlantic Ocean 480 kilometers off the west coast of Africa.


50% engineer
50% entrepreneur
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EUROPE NEWS

Real problem for Europe over loans

Investors re-examine the complex financial maneuvers used to hide borrowing by governments

By Charles Forelle and Susanne Craig

Concerns that Greece and other struggling European nations may not be able to repay their debts are focusing investor attention on another big worry: Economies across the Continent have used complex financial transactions—sometimes in secret—to hide the true size of their debts and deficits.

Investors long turned a blind eye to European governments' aggressive bookkeeping, aimed at meeting the euro zone's fiscal ceilings. Countries using the euro currency have a rich history of exotic maneuvers aimed at meeting rules requiring members to cap debt levels at 60% of their gross domestic product and their annual budget deficits to no more than 3%. Despite criticism, European leaders deemed many of these moves acceptable as they sought long-planned currency union.

To try to meet the targets, which were aimed at building trust in the stability of the euro, governments over the years have sold state assets, bundled expected future payments into securities to hawk and even, in the case of Greece, insisted to the Eurostat statistics authority that large portions of its military spending were "confidential" and thus excluded from deficit calculations. In 2000, Greece reported that it spent €828 million ($1.13 billion) on the military—about a quarter of the €3.17 billion it later said it spent. Greece admitted to underreporting military spending by €8.7 billion between 1997 and 2003.

Portugal classified subsidies to the Lisbon subway and other state enterprises as equity purchases. After learning that, Eurostat made Portugal redo its accounting in 2002. The country revised its 2001 deficit from €2.76 billion, or 2.2% of GDP, to €5.09 billion, or 4.1%—well over the limit.

France arranged a deal with the soon-to-be privatized **France Telecom** in 1997 under which the company paid the government a lump sum of more than €5 billion. In return, France agreed to assume pension liabilities for France Telecom workers. The billions from France Telecom helped narrow France's budget gap to around €40 billion in 1997; it reported a deficit for that year of 3% of GDP—right on the target, and helping it to join the euro.

Even Germany, Europe's largest economy, tried to reappraise gold reserves for a fast fix in 1997, though it backed off after resistance from the country's central bank.

Countries "look for things because it helps their arsenal of techniques used to reduce their budget deficits", says James D. Savage, a University of Virginia professor and authority on EU budgeting. "The problem for Eurostat is the flourishing of new financial instruments and techniques. Member states are going to try to take advantage."

Contagion issues have concerned both policy makers and investors as the Greek debt crunch has unfolded over the past weeks. The cost to insure against a Greek default remains near records. Moreover, bond offerings from Spain, Ireland and Portugal succeeded largely because they paid higher-than-usual yields.

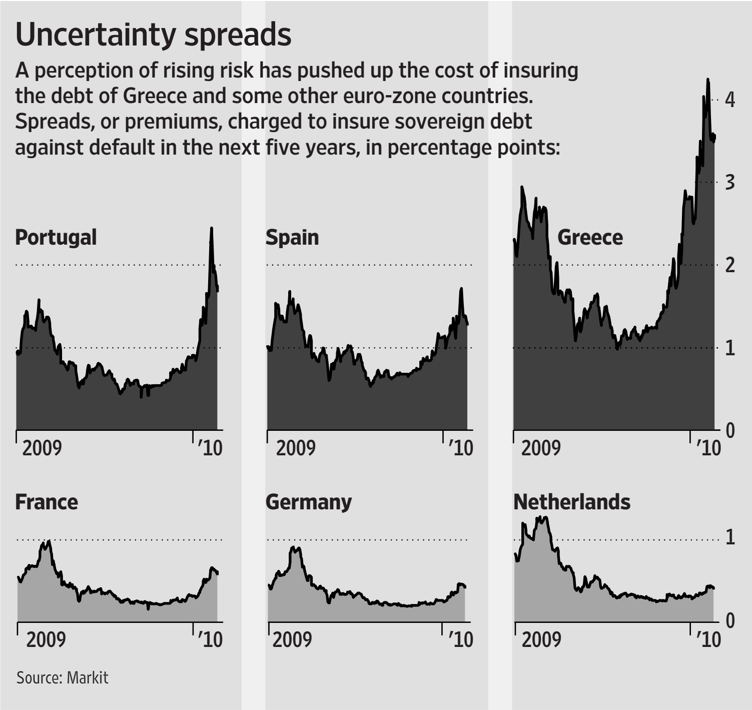
Last week, such worries exacerbated market jitters over Europe's debt woes and could complicate Greece's plan this week to sell more debt, bankers and investors say.

In currency swaps, countries might borrow in a currency not their own and use a derivative to offset the risk of currency fluctuations. But these instruments can also be used to artificially massage cash flows and liabilities, to meet debt and deficit thresholds.

Investors paid little attention to the often-opaque derivative deals until concern of a Greek default began to rattle markets, with about the stability of the euro.

Euro-zone governments are under no obligation to disclose the precise nature of their derivative agreements, making it nearly impossible for investors to discern the potential risks. Eurostat permitted the use of such transactions to adjust debt figures until 2008.

A poster calling for a nationwide strike on a pole in front of the Parliament



While other maneuvers may have had more impact on debts and deficits, swaps are one tool countries have used regularly to help meet the euro-zone requirements. In some cases, they undertook numerous such transactions, often without publicly disclosing them, making it difficult for investors to gauge the impact on a country's finances. **Goldman Sachs Group** Inc. did 12 swaps for Greece from 1998 to 2001, according to people familiar with the matter. Credit Suisse was also involved with Athens, according to people familiar with the matter.

Deutsche Bank executed currency swaps on behalf of Portugal between 1998 and 2003, according to spokesman Roland Weichert. Mr. Weichert said Deutsche Bank's business with Portugal included "completely normal currency swaps" and other business activity, which he declined to discuss in detail. The currency swaps on behalf of Portugal were within the "framework of sovereign-debt management", Mr. Weichert said. The trades weren't intended to hide Portugal's national debt position, he said.

The Portuguese finance ministry declined to comment on whether Portugal has used currency swaps such as those used by Greece, but said Portugal only uses instruments that comply with EU rules.

European officials said last week that EU regulators didn't know about a particularly controversial "off-market" currency swap structured in 2001 by Goldman Sachs for Greece. Officials say they believe the problem isn't widespread but a number of prominent politicians, including German Chancellor Angela Merkel, have called for a closer look at the transactions and whether banks helped governments distort their books.

Gikas Hardevoulis, a former advisor to the then-prime minister of Greece, said the trade "was done to dress up the debt figures by some smart idiot in the finance ministry" .Greece's remaining exposure to the arrangement remains unclear.

—David Crawford, Robin Sidel, Jonathan House and Deborah Ball contributed to this article.

Greece faces big tests amid haggling with EU

Continued from first page
mately have to help Greece to avoid wider damage to the euro zone.

"The Greeks have the stronger hand, because they can say: 'Do you really want to make us bankrupt?'" says Daniel Gros, director of the Centre for European Policy Studies, a Brussels think tank.

A Greek default would create too great a risk of financial-market panic spreading to other struggling economies including Portugal, Spain and Italy, threatening major German and French export markets as well as the financial health of many euro-zone banks exposed to Southern European debts.

In addition, Greece still has the option of asking the International Monetary Fund for aid, bypassing other euro-zone governments. "As an IMF member Greece is entitled to do so," says Jakob von Weizsäcker, a fellow at Brussels think tank Bruegel. "The euro zone can't tell Greece: 'Comply with our demands, or you're in trouble,'" Mr. von Weizsäcker says.

Euro-zone officials want to show they can handle Greece internally, limiting IMF involvement to technical advice only. But the IMF, which offered Hungary and Latvia relatively generous bailouts during the financial crisis, has said it would offer Greece aid if asked. Greek officials have said they haven't asked anyone for money.

Still, Greece is anxious to extract a clearer pledge of support from the euro zone quickly. Prime Minister George Papandreou has complained that Greece is having to pay too-high interest rates to borrow due to markets' lack of confidence, making the task of cutting its deficit harder.

Greek officials expressed willingness on Monday to discuss Europe's demands for extra fiscal steps, and said Athens might agree to extra measures before the March 16 meeting of EU finance ministers, which will review Greece's progress.

Greek officials say they are considering raising between €3 billion ($4.1 billion) and €5 billion possibly through a bond issue perhaps as early as this week. The bond issue hasn't been confirmed. The interest rate that Greece has to offer to attract investors will be closely watched as an indication of whether Greece can meet its funding needs in the next few months without a bailout from other euro-zone countries.

A team of EU and IMF officials arrived in Athens on Monday to discuss extra tax increases and spending cuts on top of Greece's existing measures to rein in a budget deficit that has raised financial-market fears of a possible debt default.

Meanwhile, Greece's main labor unions are planning a one-day general strike on Wednesday to protest the government's measures announced so far, which include cutting public-sector pay and perks.

Luxembourg's Prime Minister Jean-Claude Juncker, who runs meetings of euro-zone finance ministers, said last week that Greece should haul in more revenue by raising sales taxes, imposing excise taxes on luxury goods including cars, and increasing levies on fuel. All of these measures would come from the pockets of Greek consumers.

European officials say they also want Greece to cut public-sector pay by more than Athens has pledged to so far, and stress that Greek action to implement these measures—rather than merely announce them—is a precondition of any euro-zone aid.

German and French policy makers view aid to Greece as hard to justify to their domestic voters, at a time when money is tight at home and the pain of the past year's recession is still being felt.

Brussels is also trying to make Greece report details of a controversial 2001 currency swap transaction with **Goldman Sachs Group** Inc. that shrank Greece's reported debt number.

The EU had set a deadline of Friday for a response, but as of Monday afternoon in Europe, it was unmet. An EU spokesman said the Greeks had sent some documents Friday, but they related to a separate Greek accounting problem and not the swap.

A Greek government official in Brussels said that the finance ministry, which is in charge of gathering the information, was hampered by strikes among its own personnel last week. Greece has asked for more time.

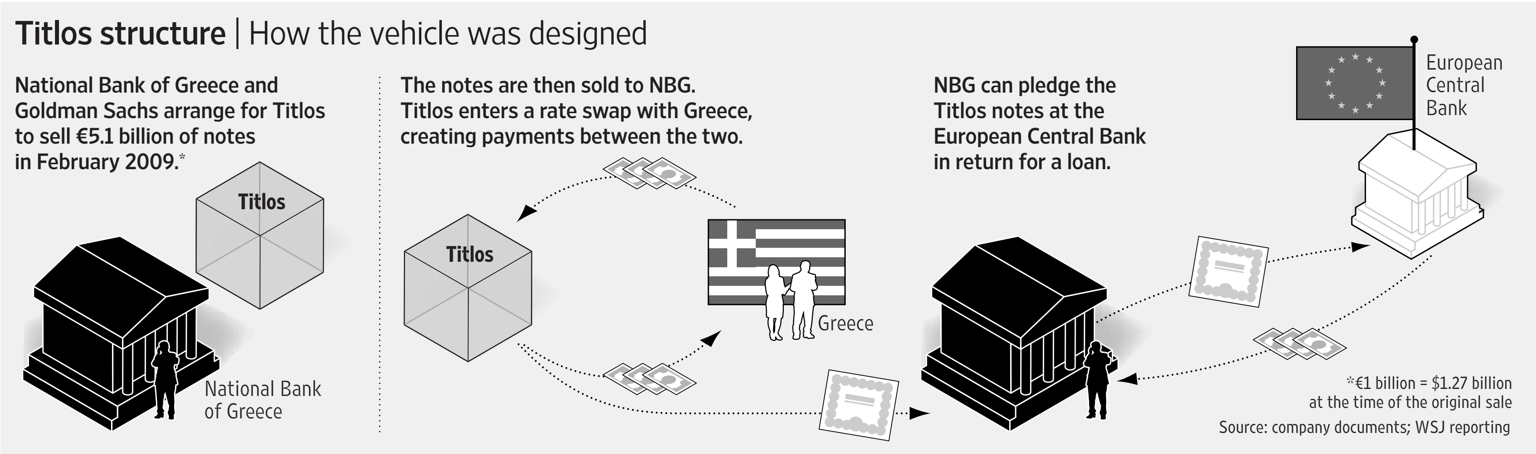
—Costas Paris and Alkman Granitsas in Athens and Adam Cohen in Brussels contributed to this article.

EUROPE NEWS

Goldman, Greece met at Titlos PLC

A firm run out of a small office in London was the hub for complex transactions designed to hide debt

By Carrick Mollenkamp



Greece's fiscal woes, the exposure of the European financial system to them and the role played by Wall Street in hiding the problems all converge in a fifth-floor office near London's Liverpool Street station where a company called **Titlos** PLC was created in early 2009.

Just 22 days after Titlos was born, the **National Bank of Greece** SA and **Goldman Sachs Group** Inc. arranged for the company to sell €5.1 billion, or about $6.96 billion, in notes, according to U.K. and U.S. documents.

But Titlos wasn't a real company and the notes weren't designed for ordinary investors. Titlos doesn't make anything and its only directors are two British executives who work for a firm that specializes in the formation of corporations and the sale of pooled assets.

Instead, Titlos, descendent of a 2001 deal to help Greece hide debt, was set up to take advantage of a European Central Bank effort to inject cash into a banking market hobbled by the financial crisis. Titlos's notes were designed to be pledged for that program, according to filings by Titlos and the National Bank of Greece, and the buyer was the bank itself.

Behind Titlos and the notes sale are Goldman and the National Bank of Greece, a 169-year-old institution whose operations span Eastern Europe into Turkey, Serbia and Romania. The bank isn't the country's central bank, though the government owns a 12% stake through its pension system.

Titlos's origin dates to 2001 and a complex transaction that at its crux called for Goldman to loan Greece €2.4 billion. The structure permitted Greece to lower the debt it had. Over the next decade, the structure would prove to be malleable—and legal. In total, from 1998 to 2000, Goldman structured 12 currency-swap agreements with Greece, leading up to the 2001 transaction.

Greece's finance minister last week said the original transaction met with the legal standards of the European Union's statistics watchdog. Moody's Ratings Service rated the 2009 deal.

"This was a unique deal," says Christoforos Sardelis, the head of Greece's debt-management agency from 1999 to 2004. "It was made public, and there was no violation of any rules."

To hedge its credit risk, Goldman carried out a transaction with a small Dublin firm. The investment bank also agreed to a new deal with Greece that was structured as a way to hedge interest-rate risk. That deal compensated Goldman for losses it was experiencing from the currency swap, according to a person familiar with the transaction.

Goldman then exited from the interest-rate-swap deal in 2005 when the National Bank of Greece replaced Goldman as Greece's trading partner, according to people familiar with that transaction.

In late 2008, with the financial crisis peaking and banks struggling to borrow from one another or sell pooled assets, Goldman and the National Bank of Greece identified a way to turn that interest-rate transaction into an asset that could be pledged at the European Central Bank for money as part of a program the ECB had set up to exchange bank collateral for billions of euros in loans. The program ended up offering a way for banks to easily make money because they could use the ECB's cheap money to obtain or hold higher-yielding assets in what is known as a carry trade..

"There were a very large number of securitizations done during the financial crisis, of toxic waste, that were designed precisely for the purpose of creating collateral for ECB repo loans," said Darrell Duffie, a Stanford University finance professor and derivatives expert. "The ECB knew this was happening and decided that they wanted to play along in order to get liquidity out there." An ECB spokeswoman declined to comment.

U.K. documents show that Titlos, which filed its incorporation records on Feb. 4, 2009, is housed in a London financial district office occupied by **Wilmington Trust SP Services (London)** Ltd., a firm that caters to corporation formations and securitizations. Both Titlos directors work for U.S. bank Wilmington Trust.

To finalize the deal, the National Bank of Greece transferred, or novated, its role as counterparty to Greece to Titlos, which now meant that cash flow from Greece would be running through Titlos and that Titlos would sell notes that then could be pledged to the ECB.

On Feb. 26, just 22 days after Titlos filed corporation records with the U.K., Titlos sold €5.1 billion in notes maturing in 2039. The notes, rated "A1" by Moody's Investors Service, then were repurchased by the National Bank of Greece through a private placement, according to a National Bank of Greece securities filing.

According to that report, "the notes will be used as security for obtaining liquidity from the ECB." It isn't known if the notes currently reside at the ECB. Those collateral pledges have been subject to a haircut, or charge, levied by the ECB.

One question today is whether a party to the transactions remains at risk of a large collateral payment following a ratings-agency downgrade. That concern stems from what happened in 2008 when U.S. insurance giant **American International Group** Inc. nearly failed because its own counterparties, including Goldman, demanded payments AIG couldn't cover.

A Titlos prospectus indicates that Greece isn't on the hook for a collateral payment to Titlos if Greece is downgraded. The National Bank of Greece, which remained in the transaction to provide hedges for Titlos, is responsible for collateral payments if the bank is downgraded to certain levels, according to Moody's. The notes remain intertwined, though, with Greece. In December, Moody's downgraded the notes to "A2," midway between the ratings agency's highest triple-A rating and its first junk-bond grade, from A1 after the ratings agency had downgraded Greece to A2 from A1.

—Charles Forelle, Alkman Granitsas, David Crawford and Susanne Craig contributed to this article.

The woman who set up Greece's debt deal

The architect of **Goldman Sachs Group** Inc.'s controversial 2001 trade with the Greek government is a top executive in the bank's London office with a yen for yoga and a command of Greek.

*By **Kate Kelly** in New York and **Cassell Bryan-Low** and **Dana Cimilluca** in London*

Colleagues say 46-year-old Antigone Loudiadis, who has a given name from classical literature but goes by the nickname "Addy," was the woman behind the deal.

A complex and long-dated arrangement, the trade she set up allowed Greece to reduce its outstanding debt by converting the debt into euros and then restructuring the debt at more favorable rates. For Goldman, the trade generated fees of as much as $300 million, according to the people familiar with the matter—a windfall that left traders in the firm's London office marveling at Ms. Loudiadis's deal-making prowess.

Ms. Loudiadis became a Goldman partner in 2000. A cerebral Oxford University graduate, she was eventually named co-head of the company's investment-banking group in Europe, making as much as $12 million in annual compensation, according to someone familiar with the matter. She lives an exclusive neighborhood in West London known for its white stucco homes.

Ms. Loudiadis was feared by some London employees, who would occasionally pretend to be on the phone when she passed by their desks so she wouldn't dress them down, say people who were there at the time.

Ms. Loudiadis, now chief executive of Rothesay Life Ltd., a Goldman-owned insurance company, couldn't be reached for comment for this article. Bank Vice Chairman Michael Sherwood, who sits on Rothesay's board, praised her. "Addy is a consummate professional," he said in a statement.

Educated at the Cheltenham Ladies College, a private girls' school outside London, Ms. Loudiadis came to Goldman from J.P. Morgan in 1994. Though she had spent years in Britain, where she is a citizen, she also had ties to Nigeria, where she was born, and Greece, where she had family roots, say people familiar with her background.

Selling derivatives, complex products based on underlying securities like bonds, Ms. Loudiadis quickly impressed her superiors—including


Reuters

Goldman earned millions from helping Greece. Above, the bank's London office.

Tom Montag, who ran Goldman's global derivatives business until 1999 and became a key advocate, say people who were there at the time. She was quickly promoted to run derivatives marketing in London and, later, the entire sales force that pitched securities to clients around Europe.

Guided by Ms. Loudiadis in the 1990s, Goldman set up a series of currency "swap" trades for Greece, enabling the country to use favorable exchange rates to record some of its debts. By 2001, when those rates had become unattractive, Ms. Loudiadis helped Greece structure a different trade that enabled the government to continue using advantageous rates for accounting purposes. Goldman pocketed as much as $300 million, say people familiar with the matter, for structuring the trade and a group of related transactions over a period of years.

That score helped propel Ms. Loudiadis's career. People familiar with the matter say that was because it wasn't easy to pull off and it involved Goldman taking $1 billion of Greek credit risk. Such an amount would be high by current standards but was far riskier a decade ago, when the sovereign credit-default-swap market, which is used to hedge such risks, was far thinner.

By 2005, Ms. Loudiadis was a busy senior executive in Goldman's European operations. In an interview with The Wall Street Journal that year about her yoga practice, she described herself as "your typical Type A workaholic smoker" with a "stressful schedule."

Shortly thereafter, she joined Rothesay Life, a Goldman subsidiary that helps corporations structure their pension funds to account for policy holders who live longer than expected. One of their main products is also a complex derivative called a "longevity swap," which pays the holder when a pensioner's lifetime exceeds expectations.

Around the time Ms. Loudiadis transitioned out of Goldman's trading and banking business, oversight of its relationship with the Greek government was shifted to Harry Eliades, another London employee with Greek roots. Mr. Eliades, a managing director in the investment bank, didn't respond to a request for comment.

EUROPE NEWS

Getty Images

Christine Pratt, head of the National Bullying Helpline, arrives at BBC studios in London on Monday.

Backtracking on Brown

Antibullying charity's head says calls didn't name prime minister

By Alistair MacDonald

The head of a British antibullying charity came under scrutiny Monday when she appeared to backtrack from her suggestions that members of U.K. Prime Minister Gordon Brown's staff had complained to her charity about being bullied.

Christine Pratt, the founder of National Bullying Helpline, told the British Broadcasting Corp. that none of the individuals who called her charity to complain about bullying at Downing Street mentioned Mr. Brown specifically.

Meanwhile, several of the charity's patrons resigned, alleging that Ms. Pratt's public statements had breached client confidentiality.

Ms. Pratt's claims came as Mr. Brown—often described as moody and tempestuous—faced an outbreak of questions from other parties and the media over his allegedly temperamental behavior and opposition leaders called for an inquiry into accusations of bullying.

Mr. Brown, facing a tough election battle this spring, has recently sought to soften his brittle image in public appearances and interviews. This effort appeared to pay off, as some recent polls showed Mr. Brown narrowing Conservative leader David Cameron's lead in the run-up to an election that must be held by June 3.

On Sunday, Ms. Pratt entered the debate by claiming that her charity—which operates a hot line offering advice to people who have been bullied—had received "three or four" calls from staff within Downing Street over the past "three of four" years. She added that staff in the prime minister's office "working directly with him have issues, and have concerns" about his behavior.

Mr. Brown's office immediately protested that it had never been contacted by the charity regarding the allegations.

Then on Monday, Ms. Pratt told the BBC that while she had received complaints from at least two Downing Street staffers, none of them named Mr. Brown.

The situation prompted the resignation of several of the charity's patrons. Cary Cooper, a professor of organizational psychology and health at Lancaster University, said the disclosures breached client confidentiality by revealing that Downing Street staffers used the hot line. "The whole purpose of this hot line was it is supposed to be confidential," he said Monday.

The charity's Web site references training offered by a human-resources company called HR & Diversity Management run by Ms. Pratt and her husband, David Pratt. The firm offers a "high-quality, low-cost, dispute-resolution service" to corporate human-resources departments, specializing in bullying cases, according to the Web site. Ms. Pratt, Mr. Pratt and National Bullying Helpline didn't return calls seeking comment.

Ms. Pratt has also faced questions about whether she supports the opposition Conservative Party. Two of the charity's patrons are Conservative politicians, and the Web site features quotations from leading Tories, including Mr. Cameron, about bullying.

In an answer to a question on the BBC, Ms. Pratt said she had been contacted by the opposition Conservative Party's central office over her allegations of bullying, later changing her statement to say one Conservative member of Parliament had contacted her after she had gone public. The Conservative Party denied it had links with the National Bullying Helpline.

Despite the backpedaling, Mr. Brown was far from being in the clear as opposition politicians sought to maintain the pressure from a weekend of speculation about whether he used "bullying tactics."

The leaders of the Conservative and Liberal Democrat parties called for an investigation into claims of bullying made in a book by Andrew Rawnsley, the Observer's political commentator, excerpts of which ran in the newspaper.

Mr. Rawnsley alleged that the prime minister has acted aggressively with staff and that Sir Gus O'Donnell, the head of the civil service, was so concerned that he warned Mr. Brown about his attitude toward staff. Downing Street and Sir Gus's office have denied the accusations, and a Downing Street spokesman said there won't be an inquiry.

Underscoring how the debate over bullying is likely to continue, the FDA civil-service union said, without commenting on accusations made against Mr. Brown, that the "behavior of some ministers and special advisers does fall short of what is acceptable on occasions."

U.K. tries to calm businesses on taxes

By Laurence Norman

LONDON—The U.K. pledged to maintain a competitive regime of business taxes on Monday as the government wooed global executives at an investment conference in London.

"We have very competitive tax rates....We intend to keep it that way," U.K. Business Secretary Peter Mandelson said at a news conference at the gathering.

The government has faced criticism from some in the business community over its tax decisions in recent months, which have included moves to lift the top level of income tax back up to 50%, impose a tax on bankers' bonuses and increase companies' social-security tax.

The government has said those measures are needed to pare soaring budget deficits as the U.K. emerges from its deepest recession in decades.

The U.K. corporate tax rate currently stands at 28%, although the opposition Conservative Party has said it would cut that to 25% if it wins the coming election.

Lord Mandelson said the Labour government isn't planning to change that tax rate and attacked the Conservative proposal for being funded by reducing investment allowances and incentives that businesses currently receive. "Business wants to see greater incentives and rewards for the investments that they carry out," he said.

In a bid to win over global businesses, the Treasury published a draft document Monday laying out a set of guidelines to provide greater certainty and fairness on tax, including a commitment to consult companies on planned changes where possible.

The U.K. also touted other actions it is taking, such as a streamlined visa process for skilled overseas workers who are sponsored by highly trusted companies. The new visa procedure is due to be introduced in the autumn.

One of the Treasury's recent initiatives—reducing the tax rate on revenue received from patents launched in the U.K.—bore some fruit Monday, as **GlaxoSmithKline** PLC said it will build a new biotechnology plant in the U.K., which will create as many as 1,000 jobs.

Meanwhile, the government said it is earmarking £200 million ($309.4 million) from a £325 million government investment fund for projects in life sciences and digital and advanced manufacturing.

The conference comes as the U.K. gears up for a general election in which Prime Minister Gordon Brown's Labour Party will face a resurgent Conservative Party. An election must be called by June 3.

After years of close ties, Labour's relationship with some leaders in the business community has frayed more recently, while Conservative leader David Cameron has actively wooed these people. In a speech at the World Economic Forum in Davos last month, Mr. Cameron said "British business is in my blood."

In his remarks Monday, Lord Mandelson promised the government would be "constantly vigilant" to ensure it does nothing to encourage U.K.-based multinational companies to move their headquarters elsewhere.

Several high-profile businesses, including pharmaceutical company **Shire** PLC, have moved their headquarters out of the U.K. in recent years because of concerns about changes in tax law.

Speaking alongside Lord Mandelson, Michael Porter, a professor at Harvard Business School, said the U.K.'s soaring debt burden is the "greatest challenge" the country's economy faces. He warned that raising tax rates to cut the deficit could hurt the country's long-term competitiveness. "I think the tax policy is a point of risk," Mr. Porter said.

The draft tax principles drew mixed reviews. While no one could object to the principles, "stating them in this fairly noncommittal way doesn't move things forward," said Barry Murphy, international business tax partner at PricewaterhouseCoopers LLP. "What will be compelling is how actions over the coming months match up to the real core of these principles," he said.

Earlier Monday, the prime minister told business leaders that the government is working to improve the U.K.'s financial footing, including action to cut the debt burden.

Wooing business

The U.K. Treasury published a draft document Monday setting out principles it will apply to tax policy in an effort to prevent companies from leaving the country, including:

- Maintaining the U.K.'s competitiveness
- Avoiding unnecessary tax-legislation changes
- Avoiding unnecessary complexity
- Keeping compliance costs low
- Consulting with businesses on tax changes when possible

Turkish military officers arrested over 'Sledgehammer' plot

By Marc Champion

ISTANBUL—Turkish anti-terrorism police Monday arrested more than a dozen senior retired and serving military officers in a sweep linked to a massive case against the country's so-called deep state, which for decades wielded power over elected governments.

Chief of the General Staff, Ilker Basbug, delayed a visit to Egypt in response to the arrests, according to Turkish news-agency reports. The 40-plus detentions in major cities across the country included former heads of the air force and navy, and were made in connection with an alleged 2003 coup plot codenamed "Sledgehammer." Among those arrested Monday were Gen. Ýbrahim Fýrtýna, former Air Force commander, according to Anadolu Ajansi, the state news agency.

The 2003 plot, as outlined by the liberal daily newspaper Tarat in a January report, included plans to blow up mosques and to down a Turkish aircraft over Greek airspace.

The sledgehammer allegations and the much wider ongoing Ergenekon case, to which Monday's arrests seem to be related, have split the nation. Many Turks see the case as a long overdue effort to bring into account unelected officials who carried out coups, assassinations and repression. Others, however, see the allegations as a tool for the government to undermine institutions that protect modern Turkey's secular foundations. They note the age of the sledgehammer plans, and the uncertain reasoning behind the belief that Turkey's religious faithful would turn against the government, which has Islamist roots, in the event of attacks on mosques.

A spokesman for Gen. Basbug couldn't be reached Monday. However, he dismissed the allegations in a recent newspaper interview, warning that their publication was demoralizing the military.

Prime Minister Recep Tayyip Erdogan interrupted a speech he was delivering Monday in Spain with a lengthy pause to receive news of the arrests from an aide.

"We all have to remember the principle of division of powers" regarding the Sledgehammer investigation, President Abdullah Gül said Monday, according to Anadolu Ajansi.

U.S. NEWS

Bloomberg News

U.S. President Barack Obama, at the White House Monday, is prepared to incorporate Republican ideas into the plan.

Obama offers health bill

Proposal costs $950 billion and delays tax on high-end plans

BY LAURA MECKLER

Trying to revive languishing health-care legislation, the White House proposed Monday that a tax on high-end health plans be delayed for all workers, not just those in unions, and suggested new taxes to help make up for the lost revenue.

President Barack Obama will carry the proposal, an attempt to bridge differences between bills passed by the House and Senate last year, into a bipartisan meeting with congressional leaders on Thursday, as Democrats try to regain momentum and push their legislation through final passage in Congress.

Republicans are planning to bring their own ideas to the meeting, and aides said last week they are prepared to incorporate Republican proposals into the Democratic plan.

But White House officials made clear again Monday that they have no intention of scratching their legislation and starting over, as Republicans are demanding.

The new White House proposal would cost $950 billion over 10 years, more than the bill approved by the Senate but less than the House measure. It was posted on the White House Web site Monday morning.

The proposal increases penalties on business that fail to insure their workers and individuals who fail to get health insurance, as would be required under the new law.

The Obama plan calls for giving the federal government authority to block insurers from making premium-rate increases. A new Health Insurance Rate Authority would lay out what it viewed as reasonable rate increases, and those considered unjustified could be blocked.

Efforts to pass the bill came to a halt after Democrats lost their filibuster-proof 60-seat majority in the Senate. The new White House proposal recognizes that the only viable path to passage of the sweeping bill is for the House to pass the Senate bill, and then for both houses to amend that new law through a process called reconciliation, which only requires a majority vote in the Senate.

The president's new plan takes the Senate bill as its starting point and suggests a basket of changes.

The proposal doesn't incorporate any major Republican ideas that weren't already in the Senate bill, although aides have said the president is open to doing so.

The Senate bill included a new tax on high-end "Cadillac" health-insurance plans, an effort to raise money for the bill and to discourage those plans, which economists say lead to higher health spending. Unions and many Democrats opposed the measure.

Last month, union leaders negotiated changes to lessen the impact of the new tax, including a delay in its effective date until 2018 for those with union contracts—a plan that came under fire as a special deal for labor, a key Democratic constituency.

The White House is now backtracking, saying that the tax should be delayed for all workers until 2018. The president also proposed raising the threshold for the tax to plans valued at $27,500 for a family. Under the Senate bill, plans valued at $23,000 and above would be affected.

The proposal would increase the value of the subsidies available to people to buy coverage. It increases aid to seniors buying prescription drugs through Medicare, and it increases funding for states to pay for expansion of the Medicaid program.

The changes will increase the cost of the Senate bill by about $75 billion, bringing the total price tag to about $950 billion, said Nancy-Ann DeParle, director of the White House health-reform office.

To make up for the lost revenue and pay for additional subsidies, the bill would apply the Medicare tax to unearned income for upper-income households and increase cuts to the Medicare Advantage program, private plans that serve some seniors. In addition, the higher penalties on businesses that don't offer coverage and individuals who don't carry it would raise money.

To pay for the additional Medicare drug benefit, the proposal would increase fees on brand-name drug companies by about $10 billion, above the fees on the drug industry already in the Senate bill.

The proposal eliminates special Medicaid funding for Nebraska, negotiated by Sen. Ben Nelson (D., Neb.). Republicans had criticized the deal as the "Cornhusker Kickback."

White House push adds $75 billion

BY LAURA MECKLER

President Barack Obama's health plan adds about $75 billion to the 10-year cost of the Senate health-overhaul bill, and includes new taxes to offset revenue lost by slimming down a tax on high-value insurance plans.

The bill passed by the Senate on Dec. 24 would cost $871 billion over 10 years, according to the Congressional Budget Office. Mr. Obama's plan would cost about $950 billion over that period, the White House said.

The proposed tax on high-value or "Cadillac" health plans would start in 2018 under Mr. Obama's plan, five years later than the Senate bill. As a result, the tax would raise $120 billion less than the Senate bill envisioned—about $30 billion over a decade, compared with $149 billion in the Senate bill. Mr. Obama would also spend more subsidizing lower earners when they buy health coverage and give more support to states to pay for expanding Medicaid for the poor.

To pay for the increased spending, the proposal would make deeper cuts to Medicare Advantage, a program under which some seniors get their Medicare health-care benefit through private insurers. Also, Mr. Obama would increase the fees for companies and individuals who don't comply with the mandates in the bill. Employers who fail to offer coverage would pay a fine of $2,000 an employee, up from $750 an employee. Small employers are exempt from the fine.

Wealthy taxpayers would have to pay Medicare taxes on unearned income such as interest and dividends under the president's plan. Currently, Medicare taxes only apply to earned income. The Medicare tax on unearned income would apply to joint filers making more than $250,000 a year and individuals making more than $200,000 a year.

Don't expect a miracle from Thursday's summit

[Capital Journal]

BY GERALD F. SEIB

Washington wise man Kenneth Duberstein, a former White House chief of staff who has seen many a deal come and go, offers this prediction about Thursday's big bipartisan health-care summit meeting:

"On Feb. 25," he says, "there will be no immaculate conception."

That is to say, the odds are stacked heavily against any bipartisan agreement emerging magically from the televised confab, at which President Barack Obama and congressional leaders will seek, after a year of bickering, some common ground on health care.

It's always possible bipartisan nirvana will break out, of course, particularly because, as both sides like to point out, there are ideas for broad insurance reforms on which they actually agree. But don't bet the rent money on it.

Why? There are two big reasons for all the skepticism.

The first is that the most basic predicate for success in any negotiation—that both sides, at the outset, think reaching an agreement is preferable to failing to reach an agreement—doesn't exist here.

Republicans are fairly sure there's no downside for them in letting Democrats stew in their own juices—either by failing to pass anything or by trying again to sell their general approach to health, which the GOP is convinced is a loser in the U.S.'s political center.

For their part, Democrats are convinced that there are two ways they still can win politically. The first is if they can compel Republicans to say no in a more-explicit and higher-profile fashion. The second is if they force Republicans to stand behind a detailed health plan of their own, which can be sliced and diced as Democrats' plans have been.

The second big reason for pessimism is that a deal requires compromise, and the two sides' very definitions of compromise are poles apart. Democrats think compromise means trimming around the edges of the bills the House and Senate have passed. Republicans think compromise means abandonment of those bills.

"There is no negotiation when it comes to either the House or the Senate bill," said Rep. Eric Cantor, second-ranking House Republican, in an interview. In fact, Mr. Cantor doesn't even describe what is about to come as a bargaining session, but rather as a test. "I don't look at this as negotiation," he said. "I look at this to see if the president wants to come clean and start over."

The White House opened the maneuvering Monday morning by releasing a new version of a draft health bill as the starting point for discussions. Remarkably enough, after a year of high-stakes debate over health care, the draft represented the first time Mr. Obama, who has made health his domestic centerpiece, has put out his own complete plan, rather than rely on Democrats in Congress to do the drafting.

The Obama proposal closely tracks the bill the Senate passed late last year. It costs $950 billion over 10 years to expand coverage through insurance subsidies and broader Medicare and Medicaid coverage. It drops the idea of a government-run "public option" insurance alternative, eliminates any special deals for specific states to help pay for expanding Medicaid, and retains but delays and slims down a tax on high-end health-insurance policies to help pay the bills. The White House says the plan not only wouldn't add to the federal budget deficit but would reduce it over time.

Yet because it traces its lineage, directly and explicitly, to the health bill the Senate already passed with the votes of exactly zero Republicans, the Obama proposal was promptly dismissed by GOP leaders.

That hardly shocked White House officials, of course. In fact, they see the Republican response as evidence that bipartisan support is simply not there to be had. They argue that critics once called on Democrats to give up on the public option, or to deep-six a proposed surtax on high-income Americans as a way to pay for expanding coverage, as two paths to winning Republican support. Both have been jettisoned, with no bipartisan support in return.

It's always possible bipartisan nirvana will break out. But don't bet the rent money on it.

In the end, Democrats and Republicans are making quite different political calculations.

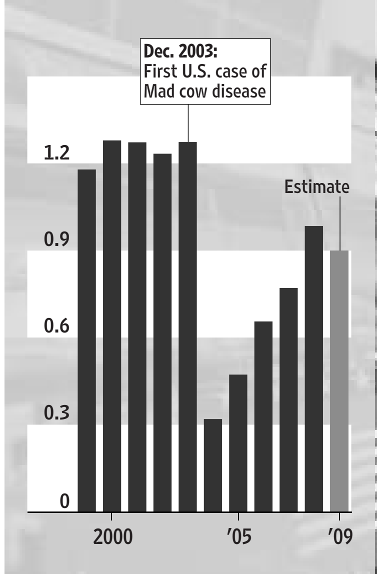
Republicans simply think they have won the battle for public opinion, making standing pat a perfectly good position. "It is not a good state when you have a president and a majority in Congress who are ignoring public opinion," said Mr. Cantor.

For their part, most Democrats still think they have a political imperative to get something passed so they can show results for a year's work, even if that means using budget rules to bypass a Republican filibuster. That means keeping their party united, which argues against backing too far away from what Democrats already have agreed to.

More than that, Democrats are hoping to build a box around Republicans. In Democrats' calculations, Republicans now can be made to look intransigent by refusing to engage. Or they can offer a comprehensive alternative, which then can be picked apart in the court of public opinion. A real alternative plan is easier to fight, Democrats figure, than some idealized vision of an alternative.

It's a fascinating political equation. It's not, however, much of a basis for a deal.

Mad cow's shadow | U.S. beef exports, in millions of metric tons



Source: U.S. Meat Export Federation

Bloomberg News

A customer looks at beef imported from the U.S. at a supermarket in Taipei, Taiwan.

Livestock plan draws fire

States, meatpackers oppose new tack on tracking diseased animals

By Scott Kilman

The meat industry is up in arms over a federal decision to abandon a $120 million livestock-tracking system designed to limit the economic and human-health impact of animal-disease outbreaks.

Meatpackers worry that a narrower program proposed by Agriculture Secretary Tom Vilsack could exacerbate worries abroad about U.S. meat exports, while state officials are concerned the federal government is creating a new regulatory burden for which states have scant resources.

"It will be a headache," said Tony Frazier, state veterinarian of Alabama.

But federal officials say the six-year-old voluntary program being replaced never attracted enough participation from farmers and ranchers to be effective.

Animal-health experts have long argued a national livestock-identification is essential for rapidly containing livestock diseases. Outbreaks across the globe of mad-cow disease, bird flu and foot-and-mouth disease have cost farmers billions of dollars since the 1990s. In the U.S., beef exports have never fully recovered from a case of mad-cow disease in 2003.

Launched shortly after that scare, the National Animal Identification System was designed to allow Washington to track the far-flung movements of tens of millions of cattle and hogs—among other animals—using 15-digit serial numbers, electronic ear tags and tiny transponders implanted beneath the animals' hide.

Regulators hoped the high-tech livestock IDs would make it possible for them to locate the farm from which a sick animal came within 48 hours, instead of the weeks or even months it can take now. Such a rapid trace would allow regulators to quarantine exposed herd mates so they can't infect others or be eaten and pose a threat to people. Australia, Canada, Japan and the European Union have mandatory livestock ID programs.

NAIS was supported by many large producers of milk, chickens and hogs, as well as meatpackers stung in the 2003 mad-cow scare. But many beef ranchers and small farmers spurned the voluntary program over everything from privacy to religious issues, crippling the effort.

Mr. Vilsack said Feb. 5 that he was starting over with a different, mandatory program. Hoping to placate small farmers leery of federal oversight, Mr. Vilsack wants state governments to keep track of livestock—but only those animals moving across state borders.

While many details must be ironed out—including funding—the new approach exempts animals that are slaughtered in the states where they are raised, even if the meat will go into interstate commerce. Federal officials couldn't project what percentage of U.S. livestock would fall outside the proposed program.

John Clifford, the USDA's top veterinarian, said the agency was being practical. "NAIS wasn't effective," he said. "That means rebuilding from the grass roots up."

Many meatpacking executives fear the system won't mollify importing countries that are quick to close borders when animal diseases erupt in the U.S.

Many meatpacking executives fear the new system won't mollify importing countries that are quick to close borders when animal diseases erupt in the U.S. One worry is that identification practices will vary among states, so that tracing back diseased animals will remain cumbersome.

The USDA's switch "fails to meet the need of meatpackers and their customers to swiftly and accurately trace livestock to the farm of origin," said Gary Mickelson, a spokesman for meat giant **Tyson Foods** Inc. of Springdale, Ark.

Some state authorities worry the federal government won't fully fund the mandate. "At best, this is going to be a patchwork system that takes us back to where we were a decade ago," said Scott Stuart, managing director of the National Institute for Animal Agriculture, a Colorado Springs, Colo., nonprofit group of livestock interests.

At big slaughterhouses, government veterinarians and meat inspectors routinely check the health of livestock and the wholesomeness of meat. While that helps to protect consumers, the information rarely gets used to extinguish outbreaks among animals. Livestock change hands so frequently that meatpackers often don't know where they originated.

The lack of a system became an issue in December 2003 when the first U.S. case of mad-cow disease was discovered. Federal regulators were under pressure to find the companions of that Holstein cow, which died in Washington state, because the livestock might have shared rations, the likely source of a brain-wasting disease that can spread to humans who eat infected beef.

Most of the sick cow's herd mates were never identified, and some 50 nations banned imports of U.S. beef. U.S. beef exports sank by about 80% in 2004.

"We are disappointed by the decision," said Ron DeHaven, who was the USDA's chief veterinarian during the mad-cow scare and is now executive vice president of the American Veterinary Medical Association in suburban Chicago. "The ability to trace is only becoming more important to our trading partners."

The USDA's national livestock ID system was in trouble early. Agriculture Department officials initially mulled making it mandatory—a concept backed by meatpackers—but backed off in the face of rural backlash against federal imposition.

Many farmers fear being held financially liable if a diseased animal is traced to their doorstep. For just this reason, critics warned a voluntary system wouldn't attract enough producers to be effective. Only about 500,000 farms and ranches, or 36%, registered with the USDA's national program, far below the 90% participation rate some federal officials say is needed to make such a system effective.

Yet many farmers who participated in the USDA program figured it could help narrow the economic fallout from a disease outbreak by allowing regulators to make quarantines more precise and thus disrupt fewer farm operations, said Dave Warner, a spokesman for the National Pork Producers Council, representing hog farmers.

Federal officials plan to begin meeting with state officials about the new program in March.

Republicans soften immigration rhetoric

By Peter Wallsten

Some high-profile Republicans are adopting a softer vocabulary on immigration and trying to recruit more Hispanic candidates, a response to the party's soul-searching about tactics that many strategists believe have alienated the country's fastest-growing voter bloc.

In Texas, George P. Bush, who is of Mexican-American heritage and the son of former Florida Gov. Jeb Bush, has founded Hispanic Republicans of Texas, a political action committee to promote Hispanics running for state and local offices.

In California, GOP gubernatorial front-runner Meg Whitman, the former eBay Inc. chief executive officer, tells Hispanics she would have voted against a Republican-backed 1994 measure barring illegal immigrants from receiving social services.

And Rep. Tom Price (R., Ga.), chairman of the conservative Republican Study Committee and an opponent of past efforts to create a path to citizenship for illegal immigrants, has been meeting with Hispanic leaders to find a new tone on that and other points of contention between Hispanic groups and conservatives.

For Republicans, such efforts carry risks, especially as conservative activists try to push GOP candidates to be more ideologically pure. Opposition to "amnesty," a buzzword used by critics of proposals to legalize the 12 million illegal immigrants believed to be living in the U.S., remains a reliable applause line. Nonetheless, many in the party have concluded that opposition to immigration legislation, a debate that is sometimes racially charged, has alienated millions of otherwise conservative Hispanic voters.

Republicans won just 31% of Hispanic votes in the 2008 presidential election, according to exit polls, down from more than 40% four years earlier, as the party took a hard line on immigration policy. That was a big factor in handing President Barack Obama his Electoral College victory and a seven-point win over Republican Sen. John McCain (R., Ariz.).

The Republican efforts could prove crucial in Hispanic-heavy states in this year's elections. Party strategists fear a heavily Democratic Hispanic vote could hurt Republican chances in governors' races in Texas, California and Florida, and make it harder for a Republican presidential nominee in the future to win states with fast-growing Hispanic populations.

Former Republican National Committee Chairman Ed Gillespie, who is coordinating some of the party's internal discussions, called the tandem effect of rising Hispanic population and dwindling Republican support an "untenable delta."

Mr. Gillespie blamed the problem on past Republican rhetoric. He said the GOP needed to think about "tone and body language" in discussing the issue. "We have to make clear to Latino voters that we care as much about welcoming legal immigrants into our country as we do about keeping illegal ones out," he said.

The Latino Partnership for Conservative Principles, a group set up by Princeton University Professor Robert George, a leading intellectual voice among Christian conservatives, plans to spend at least $500,000 spread over a handful of races to help pro-immigration Republican candidates, according to Alfonso Aguilar, a former Bush administration immigration official who runs the group. A key position for the group, said Mr. Aguilar, is legalizing illegal workers.

Another GOP-leaning group, the Hispanic Leadership Fund, plans to target about three races this year, supporting conservative Hispanic candidates and promoting other Republicans who back more liberal immigration laws.

Mr. Price, the Georgia lawmaker, said in an interview he began meeting with Hispanic groups in recent months to open a "line of communication so there is a reserve of trust." But he said he wasn't ready to talk about a path to legalization until he was convinced the U.S.-Mexico border is secured.

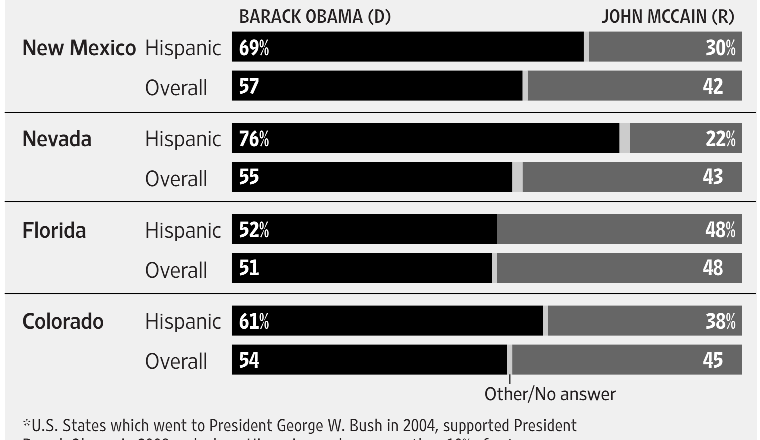
Roy Beck, executive director of Numbers USA, a group that advocates for strict limits on immigration, said strategists who urge a softer stance will be hard-pressed to find "any Republicans who want to stay in office who want to take their advice."

A more conciliatory approach, Mr. Beck said, would turn off independent voters, who tend to support more restrictive immigration policies, particularly at a time of high unemployment.

A coveted vote

Republicans are changing their tactics to try to appeal to Hispanics, who largely voted Democrat in the 2008 U.S. presidential election.

Votes cast in swing states with large Hispanic populations*



*U.S. States which went to President George W. Bush in 2004, supported President Barack Obama in 2008 and where Hispanics made up more than 10% of voters.
Source: William C. Velásquez Institute analysis of election returns and exit polls