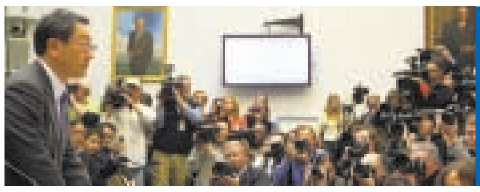

Toyota chief 'confident' there's no throttle design problem
BUSINESS & FINANCE 17

Checked out: U.K.'s Dubai island scheme marooned
NEWS 3

THE WALL STREET JOURNAL.

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Associated Press

Demonstrators turned out in Athens on Wednesday to protest the government's austerity measures.

Greek strikers assail efforts to cut budget

By Sebastian Moffett And Costas Paris

ATHENS—Tens of thousands of Greeks took to the streets Wednesday as much of the country went on a 24-hour strike against government austerity measures.

The demonstrations put pressure on Greek government bonds, and may complicate Athens's hopes of placing a new 10-year issue as early as this week.

But concerns about the risk of contagion in the euro zone didn't derail demand Wednesday for a €1 billion ($1.35 billion) offering by Portugal, another highly indebted euro-zone country, of five-year bonds.

In Athens, during the protests, a small group of youths threw Molotov cocktails at police, who responded with tear gas. However, the 20,000 people—a relatively large crowd for a Greek strike—mostly limited themselves to chanting antigovernment slogans as they filed through the capital city's downtown.

Public- and private-sector unions called the strike to protest a range of measures aimed at reducing Greece's budget deficit. The government has announced a freeze on civil-service wages, cuts in public-sector entitlements, and the closing of tax loopholes for certain professions, including some civil servants. It also announced a fuel-tax increase.

"There is an all-out war against public servants, those who earn the least," said Spyros Papaspyros, president of ADEDY, an umbrella union for public-sector workers. "We will fight to keep the little we have. The government and the EU must understand the crisis must be paid by the rich."

The government moves are aimed at cutting Greece's budget deficit, which at about 13% of gross domestic product last year was well over the European Union's 3% limit. This has raised the interest rate Greece pays to borrow money. Brussels has ordered Greece to bring the deficit within the EU limit by 2012.

The strikes came amid more gloomy news for Athens. Standard & Poor's Ratings Services warned Wednesday that it could downgrade Greece by one or two notches within the next month, which could put the country's long-term rating on the brink of "junk" territory. The country's rating last fell by a notch to BBB+ in December.

Fitch Ratings also downgraded Greece to BBB+ in December and kept a negative outlook on the rating. Earlier

Please turn to page 4

Blast from past

The Quirk

World Watch

Editorial & Opinion

Obama advisers to aid Tories' election TV battle

By Iain Martin

Advisers close to U.S. President Barack Obama have been drafted by David Cameron to help the Conservatives in their election campaign against Gordon Brown and Labour.

The Tories have signed a contract with Squier, Knapp, Dunn Communications—a Washington-based Democrat-leaning political consultancy—to help them prepare for the first-ever television debates between leaders during a British election campaign.

The firm also is expected to offer some advice broadly to the Tory leader on the Conservative campaign in the lead-up to voting, likely to take place on May 6.

Opinion polls have suggested a narrowing of the gap between the two main parties—with the Conservative lead cut to between six and seven points in the two most recent polls earlier this week.

A Conservative spokesman confirmed Wednesday night that Squier, Knapp, Dunn will act as consultants for the television debates.

Anita Dunn, one of the firm's senior partners, was hired by Mr. Obama in 2006 ahead of his run for president and was the communications director at the White House until November. Bill Knapp, another senior partner and veteran of the successful Obama campaign, is a close adviser to the mayor of New York City, Michael Bloomberg.

Tory campaign insiders say they have been talking to the firm for several months after a recommendation from Mayor Bloomberg, who retains close links with the British Tory leadership.

He was a lifelong Democrat who switched to the Republicans when he first ran for mayor.

The British general election is taking on a particularly American flavor, with the prime minister also understood to be seeking advice from a consultant based in

Please turn to page 3

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Words alone don't lead to credibility

[Agenda]

By Simon Nixon

The financial crisis is becoming a political crisis, not just in Greece, where a nationwide strike has paralyzed the country, but potentially across many other highly indebted countries.

Governments made extravagant promises to their citizens in past decades. Now those commitments risk coming into conflict with promises made to bondholders.

Ultimately, promises to bondholders will have to be met in some form, as without their confidence, the promises to voters will be impossible to fulfill for any length of time. But elected politicians face a challenge to persuade skeptical markets that they can be trusted to deliver—a challenge made harder by their track records.

Take Europe. The Maastricht Treaty included a commitment by member states to limit budget deficits to 3% of GDP and total debt of 60% of GDP. These rules were more honored in the breach than the observance, not least by France and Germany which suffered no penalty in response.

Similarly, the U.K. government tried to win fiscal credibility by introducing a "golden rule": It wouldn't borrow to fund current spending over the course of an economic cycle and that borrowing wouldn't exceed 40% of GDP. But the pledges weren't worth the paper they were written on. The government fudged its assessment of the economic cycle and shoved borrowing off balance sheet to enable it to keep spending.

That hasn't stopped governments from continuing to try similar tactics to reassure markets. The euro zone has promised a tougher application of its rules on deficits, demanding member states set out plans to bring budget deficits back below 3% of GDP by 2013. The U.K. government has introduced a new Fiscal Responsibility Act,

Agence France-Presse/Getty Images

Protesters clash with riot police during a demonstration in Athens

committing itself to halving the budget deficit, currently on course for 13% of GDP in 2010, over four years. Some countries are proposing to go even further: Georgia is proposing a "Liberty Act" that would enshrine into its constitution a commitment not to borrow more than 60% of GDP, to limit the budget deficit in any one year to 3% of GDP, and, most remarkably, to require the

Perhaps this timidity isn't surprising, given growing social unrest as the recession continues to bite

government to put any decision to raise taxes to a referendum.

Why should investors take the commitments more seriously than previous assurances? Fine words are no longer enough; action is needed if governments are to re-establish credibility. After all, Greece is resisting pressure to accelerate its fiscal cleanup, while pleading with its European partners for more support. The U.K.'s latest commitment to fiscal responsibility hasn't been accompanied by anything other than the sketchiest policies to actually reduce the deficit. Even Georgia's show of bravado is undermined by a clause stating that the Liberty Act wouldn't apply in a recession.

Elected politicians can deliver fiscal improvements. They have done so in recent years in Canada and Sweden and may be doing so in Ireland and the Baltic states. But this requires determined leadership. Most European governments today seem more scared of alarming skittish voters than alienating vital investors. They refuse to sell austerity to their voters, gambling instead on a return to vigorous economic growth bailing them out of their fiscal problems, while using the need to rekindle growth as a cover for continued spending.

Yet if markets lose confidence, the necessary adjustments become even more painful and rapid. Europe's apparent lack of political leadership could cost it dearly.

Perhaps this timidity isn't surprising, given growing social unrest as the recession continues to bite. Yesterday's huge demonstrations in Greece coincided with protests by Spanish trade unionists against a planned rise in the retirement age and a disruptive strike by French air-traffic controllers. Politicians are in the business of getting and staying elected and are reluctant to risk confrontation. But they contributed to current tensions by cynically raising expectations with unaffordable spending promises during the boom. For example, the U.K.'s Gordon Brown raised public spending faster than the rate of economic growth every year since 1999, including the current year, while claiming to have abolished boom and bust, with the result the U.K.'s total liabilities, including those kept off balance sheet, are now an estimated 4.5 times GDP. That makes it far harder for him—or for his political opponents who offered little resistance to his spending—to explain why cuts are needed now. Most of Europe's political class is similarly compromised.

No wonder there is half-joking talk in the U.K. that if the Conservatives win this year's election, they should call in the International Monetary Fund immediately to provide cover for unpopular decisions. That may not be such a bad idea: The last time the IMF was called in to help out the U.K. in 1976, borrowing costs remained stable, suggesting the markets wouldn't necessarily penalize this as an act of weakness. The Conservative party has already proposed establishing a fiscal-policy committee if it wins power to provide independent external validation for its policies.

In Greece, the prospect of handing over fiscal sovereignty to unelected bureaucrats is, of course, no longer even half a joke. Officials from the European Commission and IMF are already poring over the country's accounts, passing judgment on its plans.

Like the banks, governments may discover the price of this crisis is closer monitoring as some are forced to surrender some power to new independent oversight bodies, whether homegrown or external. That may seem like a defeat for democracy. In reality, it is a logical extension of the shift over the previous two decades to grant independence to central banks, recognizing that weak politicians responding to a short-term electoral cycle can present as big a threat to a nation's prosperity as any reckless banker. Besides, the alternative is likely to be far worse.

—Simon Nixon is European editor for Heard on the Street

What's News

■ **Fed Chairman Bernanke** said the U.S. economy still needs record-low interest rates because its recovery from recession is expected to be slow. He expects the job market to remain weak and inflation to be subdued over the next couple of years. **7**

■ **The EBRD reported** a record annual loss for 2009, but the development bank said it remained "very well capitalized." **6**

■ **Three Google executives** were convicted in Italy of privacy violations for allowing a video of students bullying a disabled boy to air on a now-defunct Google site. **19**

■ **Commerzbank's CEO said** the lender needs more time to consider steps to repay German aid, and that a 2010 loss is "quite realistic." **21**

■ **The Swiss government** will turn to Parliament to try to keep a landmark deal with the U.S. on confidential client data at UBS from derailing. **6**

Inside

Giving a name to workplace harassment: bullying. **27**

The overall winner of Winter Olympics medals: Norway. **28**

ONLINE TODAY

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1. The Mystery of Norway
2. Four Biggest Greek Banks Downgraded
3. How a Texan Bagged Europe
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The Source

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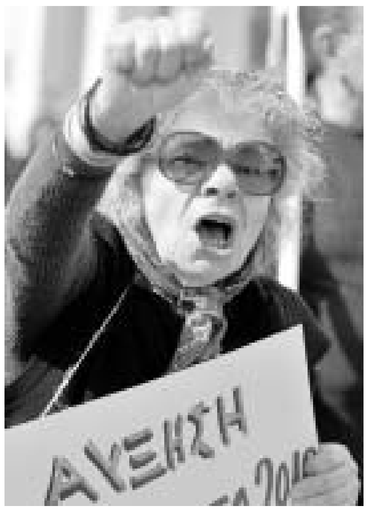
"The reality is that right now banks are all being put in the same bag when it comes to pay."

Patricia Kowsmann on why the CEO of HSBC should kiss his bonus goodbye

Continuing coverage



Follow events in Greece, from market movement to public demonstrations, at **europe.wsj.com**

Question of the day

Vote and discuss: How many sudden acceleration claims would you attribute to human error?

Vote online and discuss with other readers at **wsj.com/dailyquestion** and follow the latest developments in the Toyota case at **wsj.com/business**

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Q: Will Akio Toyoda's congressional testimony help the auto maker?

No	69%
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NEWS

Agence France-Presse/Getty Images

The other Great Britain credit crisis

A portion of Dubai's 'The World' project is stalling after the owners allegedly bounced a $54.4 million check

By Alex Delmar-Morgan
And William Lyons

DUBAI—The development of the Great Britain island on Dubai's "The World" project has been thrown into doubt as its owners languish in jail awaiting trial for allegedly bouncing a check worth more than 200 million dirhams ($54.4 million).

London-born businessman Safi Qurashi and his business partner Mustafa Nagri, bought the Great Britain island in May 2008 for $60 million at the height of Dubai's boom through their property company **Premier Real Estate Bureau**.

The island was part of an archipelago of 300 man-made islands reclaimed from the azure waters off the Arabian Gulf designed to replicate a map of the Earth and make Dubai the envy of the world.

But as work has stalled at the man-made lagoon, simply known as The World, Mr. Qurashi's dream to create a paradise on the island of Great Britain has also ground to a halt.

For the past six weeks Messrs. Qurashi and Nagri have been languishing in Port Rashid prison in the heart of Dubai.

"We have done nothing wrong," Mr. Qurashi told Zawya Dow Jones via a prison telephone from his cell in Port Rashid prison. "We're not criminals, we are victims of the system."

Mr. Qurashi confirmed that his business partner Mr. Nagri was also being held in the same jail for the same alleged offense.

The alleged bounced check relates to a land sale, he said, while denying any wrongdoing in the matter. **Hussain Lootah & Associates**, attorneys representing Messrs. Qurashi and Nagri, declined to comment when called. Zawya Dow Jones was unable to contact in Mr. Nagri in jail.

Bouncing checks is a criminal offense in Dubai. A spokesman for Dubai Public Prosecution declined to comment when called.

The rise of Mr. Qurashi has been as spectacular as the plans for the island he intends to transform. The son of a store owner from south London, he moved to Dubai in 2004 where he founded Premier Real Estate Bureau, which specializes in developing luxury waterfront properties.

The company grew as the oil-rich Middle Eastern states seemed immune to the effects of the banking crisis and the global economic slowdown.

Shortly after buying the island of Great Britain, he said he wanted to transform it into a series of luxury apartments that were unmistakably British in feel.

But since late 2008, the credit crunch has hit Dubai's economy and sent its property market into steep decline. Prices have fallen by around 50% from their peak and projects once valued at hundreds of billions of dollars have been delayed or canceled. Many investors pulled their money out of Dubai property and foreign investment in the market has stalled.

Nakheel

Nakheel plans for The World to be a luxury network of reclaimed property, just above, although for now it remains mostly a disjointed collection of sandy islets, top of the page.

The World, now a disjointed collection of sandy blocks just out of sight of Dubai's shore, was caught in the storm. Launched by Dubai's ruler, Sheik Mohammed Bin Rashid Al Maktoum, in 2003 as part of several ambitious property projects, the initial engineering project included land reclamation requiring 320 million cubic meters of sand dredged from the sea and the creation of the breakwater that surrounds the 9-kilometer-wide and 7-kilometer-long island destination.

When eventually completed, the project would add 232 kilometers of beachfront to the emirate's coastline, and form a miniaturized replica of the Earth's major land masses in the Persian Gulf off Dubai's coast.

The global financial crisis has gripped the project's master developer, Nakheel Properties, that is at the center of Dubai World's problems to restructure $22 billion of debt with more than 90 creditors.

Nakheel, which posted a 2009 first-half loss of 13.43 billion dirhams, said it would pay off a $3.52 billion Islamic bond that was due on Dec. 14, averting a default after neighboring Abu Dhabi stepped in with a $10 billion bailout late last year.

"Quite frankly [The World] project doesn't make much sense in the near term," said Saud Masud, head of Middle East research at UBS AG. "In addition to financing, setting up infrastructure is going to be a massive challenge. Plus Nakheel is in a fight for its survival. Management may get spread too thin if it starts negotiating with individual investors at a time when they have to appease the bondholders, lenders and contractors."

But in December a German investor, **Kleindienst Group**, said it was seeking funding to finish a 3.1 billion dirham project to build luxury housing on six islands constructed from reclaimed land in the Persian Gulf.

It has started work on The "Heart of Europe" islands that will be part of the World project, a follow-up to Dubai property developer Nakheel's nearby palm island, another reclamation and real-estate project that was completed in 2007, becoming the world's largest man-made island.

Cameron turns to Obama advisers for election

Continued from first page

the U.S. It has been reported that Joel Benenson, a polling and strategy adviser who worked in the team that readied Mr. Obama for the American TV debates, is helping Mr. Brown.

None of the British parties has experience of leaders' debates and as a consequence are looking outside for help.

However, it is the decision of the Tories to reach out across the traditional ideological divide to senior Democrats that is surprising. Their party usually has looked to Republican strategists for advice, with Labour and the Democrats retaining close links.

Ms. Dunn is a veteran of Democrat politics, beginning her career in Jimmy Carter's administration and subsequently working as a consultant on many election campaigns. She returned to the White House with President Obama but left late last year when her husband, Robert Bauer, the president's personal attorney, was unveiled as the incoming White House counsel.

Mr. Knapp made television ads for the Obama campaign, has worked on five presidential campaigns and played a leading role in Mayor Bloomberg's three election wins.

The pre-election atmosphere in the U.K. has become increasingly fraught, with the parties trading blows on allegations of bullying inside No. 10 made in a new book on the Labour government by journalist Andrew Rawnsley.

In the latest developments, the prime minister Wednesday denied that he had known about briefings by some of his aides against his chancellor of the exchequer, Alistair Darling.

In a remarkably frank interview, Mr. Darling had said on Tuesday that when he remarked in the summer of 2008 that the worst global recession in 60 years was underway, Number 10 had "unleashed the forces of hell."

Mr Brown said: "I was never part of anything to do with this. Look, this was the most amazing time…and lots of things were happening in this time. But I would never instruct anybody to do anything other than support my chancellor, and I think Alistair will confirm that."

Greek-German tensions rise

World War II occupation raised by minister as back-and-forth over bailout heats up

By Vanessa Fuhrmans

Greece's deputy prime minister injected Nazi-era grievances into the debate over a possible German-led bailout of his country, fueling tensions that could complicate efforts to resolve Athens' credit crisis.

Deputy Prime Minister Theodoros Pangalos lashed out at pressure from Germany to undertake painful austerity measures, accusing it of never paying adequate reparations for the Nazi's World War II invasion and occupation of Greece.

"They took away the Greek money, and they never gave it back," he said in an interview with the BBC's World Service broadcast on Wednesday. "This is an issue that has to be faced."

A German foreign ministry spokesman dismissed his comments, adding that "a discussion about the past is not helpful at all to solve [today's] problems."

Mr. Pangalos's remarks will likely prove particularly galling to many Germans who believe their country has helped subsidize Greece for years through European Union subsidies and gotten nothing in return.

The cover of this week's German weekly Focus—a Greek statue of the Venus de Milo making an obscene gesture and titled "Fraudsters Inside the Euro Family," echoes the popular sentiment in Germany that Greece got itself into fiscal trouble with creative budget accounting. Polls show nearly two-thirds of Germans are staunchly opposed to participating in a Greek bailout.

In response, some Greek publications have used swastikas in critiques of what they see as Germany's highhandedness in criticizing their country's finances.

The bitter back-and-forth is fueled in part by Greece's long and complicated history of entanglements with Germany, and memories of Greece's wartime occupation run deep.

Most Greeks believe Germany paid far too little in compensation, a sentiment quickly echoed by politicians of various stripes over the past week.

The German foreign ministry spokesman said Germany paid 115 million Deutsche marks by 1960 as World War II reparations to Greece, and that it has paid around 33 billion marks in aid to Greece bilatterally and in the context of the European Union since 1960. The mark was subsumed when the euro was launched.

Many analysts say Germany and France, despite their brinksmanship, will have to ultimately intervene to help Greece to avert greater damage across the euro zone.

Bloomberg News

A protester reads a newspaper during a demonstration outside the Athens stock exchange on Tuesday.

Stat agency pushes for more power

By Charles Forelle

European accounting foibles

Between 1997 and 2003, Greece underreported military spending by €8.7 billion.

Portugal nearly doubled its 2001 deficit to €5.1 billion after improperly accounting for subsidies to state companies.

Italy structured a currency-swap deal giving it cash advances that trimmed its deficit by 0.05% of GDP in 1997.

In 1997, France slashed its deficit by more than €5 billion by taking a one-off cash payment to assume the pension liabilities of a to-be-privatized company.

BRUSSELS—The European Union's statistical authority, Eurostat, said Wednesday it had received "incomplete" information from Greece about a controversial 2001 derivatives transaction, a failing it said revealed the need for it to have new powers to audit governments.

As questions swirl in international markets about the finances of EU countries, Eurostat said in a statement that the transaction, which reduced Greece's reported debt by €2.4 billion ($3.2 billion), pointed up the need for it to be granted audit powers to "directly examine public accounts." It said the 2001 currency swap would increase Greece's debt from "2004 onwards."

Eurostat's request underscored a broader problem of in the euro zone that has come to light amid news that Greece fudged key numbers in its reporting to the EU: No central authority has any real power to drag profligate countries into line. Eurostat does some accounting rulemaking, but it isn't a regulator. The European Commission, the EU's executive arm, can scold countries that breach debt and deficit limits but has limited authority to prescribe fixes.

The result is an almost voluntary obedience to EU fiscal rules. As the Greek trouble has made clear, Europe has operated a sort of trust-but-verify regime, with little verify.

The core of Greece's problem goes beyond numbers: For years, the government spent too much, took in too little and financed the gap with ever more debt. But the troubles were exacerbated in investors' eyes by gargantuan errors in the Greeks' reported national statistics—most seriously in reporting its deficit size that helps bondholders assess how likely they are to be paid back.

In April 2009, Greece projected its deficit for the year would equal 3.7% of gross domestic product—above the EU's 3% limit, but not bad given the financial crisis. Then in October, Greece revised the estimate from 3.7% to 12.5%.

The shock has led to scrutiny of EU financial data, a backbone of the common currency. Monetary policy is set centrally by the European Central Bank, but each nation handles its own fiscal affairs and shares data to show it isn't overspending.

Last week, the European Commission proposed giving Eurostat broad audit powers including "access to the accounts of government entities at central, state, local and social security levels."

The statistical problem "seems to give to the EU reasons to interfere in matters that are usually the competence of sovereign governments," says Cinzia Alcidi, a researcher at the Centre for European Policy Studies, a Brussels think tank. "There is need for a response at the EU level—being tough on cheaters."

This isn't the first time Eurostat has sought to beef up its role. Five years ago, another scandal over shoddy Greek accounting spurred a similar push. Europe's finance ministers shot it down.

Jean-Claude Juncker, the president of the council of euro-zone finance ministers, said last week that he and his colleagues were "wrong" in 2005 to squelch closer auditing. Countries once squeamish about EU bureaucrats rummaging through their accounts may be warming up. "The more reliable the figures are, the better," says one EU diplomat.

Constantinos Papadopoulos, the secretary-general for international economic relations in Greece's foreign ministry, says the country has set up a committee of experts to improve statistics, and the parliament is debating a bill to give the Greek statistics authority independence. "It's a significant step toward making the national statistical service less prone to influence," he said.

Particularly in the early years of European monetary union, countries burnished their numbers using one-off asset sales, securitization of payments and derivative transactions. Eurostat pushed back on some, but let others go. Though the agency was sufficiently aware of how countries were using derivatives to publish guidance changing their accounting in 1997, it said it didn't know about the controversial currency swap structured by **Goldman Sachs Group** Inc. for Greece in 2001, and that it wasn't its place to "determine if government operations are illegal or not."

A Greek official said that the country had provided all of the necessary information about the swap to Eurostat, and that it would provide more if requested.

These days, EU countries twice a year report data on spending, receipts and debt to Eurostat. The agency tabulates and disseminates the data, producing reports that have become key for markets' assessments of Europe's macroeconomic conditions.

But Eurostat has little power to dig into the numbers. It can ask questions of a country's statistics agency but has no authority to look through the figures on which debt and deficit calculations are based.

Eurostat, with a staff of 870, has occasionally shaken governments. In 2004, it delivered a blistering report detailing years of obfuscation and error in Greek statistical reporting. Besides underreporting military expenses, Eurostat alleged, Greece overestimated its 2003 tax take by €1.4 billion, failed to record debt it had assumed, and counted as government revenue some of the billions in EU grants that Greek nongovernment entities received. Greece pledged to fix the problems.

Greek strikers set out to avoid austerity plan

Continued from first page

this month, Moody's Investors Service warned that its rating on Greece, which it downgraded one notch to A2 in December, was likely to face another downgrade. Moody's rating is two notches above those of its peers.

The timing of Greece's planned 10-year bond remains unclear, prolonging the uncertainty ahead of a key test of the government's credibility with investors. In Wednesday trading, the spread between the yields on Greek 10-year bonds and euro-zone benchmark German bunds widened to more than three percentage points.

Despite the protests, which follow strikes in recent weeks, Greece appears determined to press ahead with measures to pare its budget deficit. An opinion poll published Sunday by Greek newspaper Ethnos showed that 76% of Greeks opposed strikes for the time being, and 58% thought the government's austerity measures were in the right direction.

Following a visit Tuesday by EU and International Monetary Fund officials, the Greek government is due to announce more austerity measures, possibly as early as next week. On March 16, EU finance ministers will meet to review Greece's progress.

ADEDY, the union, said about 80% of its members were on strike Wednesday. Government offices, schools and universities were closed, as was Athens International Airport. Train, bus and ferry services were canceled nationwide, though a minimum level of service was maintained in Athens.

The journalists' union also took part, so there were no reports of the strike on Greek television, and no newspapers were scheduled to be published Thursday.

Many demonstrators said they hadn't yet suffered the effects of the cutbacks—but were fearful of what the future held.

"Up until now I haven't seen my income drop," said Christos Marinis, a 45-year-old accountant. "But all this talk of catastrophes has hurt my company's business, and there will be a drop in workers' and pensioners' incomes."

Though many Greeks recognize that their country needs to take drastic measures to fix its problems, resentment against outsiders is growing.

"The capitalist crisis is both the cause of global turmoil and the excuse for our rights to be taken away," said Panos Bikos, a 31-year-old electrical engineer.

A group of primary-school teachers carried a banner reading, "No to economic subjugation by the government, the EU and capital markets."

The demonstrations began peacefully. But as the march reached Syntagma Square, location of the Greek parliament, about 20 youths broke away and threw missiles, plastic bottles and pieces of marble at police. Some bus stops were damaged. The police tear gas broke up the scuffles and sent customers fleeing from the outdoor terraces of some cafés around the square.

Greece's unemployment rate was around 9% at the end of last year but is expected to exceed 10% this year.

—Emese Bartha contributed to this article.

EUROPE NEWS

Milan feels snubbed by Wintour

A tight fashion-week schedule makes it hard for designers to get the much-coveted presence of U.S. Vogue's editor

By Christina Passariello

Milan, home of illustrious labels such as Gucci, Versace and Armani, perceives it has been snubbed, by the fashion industry's most powerful player.

Dozens of the world's most-exclusive fashion houses have been jockeying for a spot on Milan's official Fashion Week calendar during the four-day period when Anna Wintour, Vogue magazine's influential editor, is expected to descend upon the city. The schedule, which starts Thursday, has been reshuffled three times since the beginning of the year to mesh with Ms. Wintour's expected travel plans.

The result is a whirlwind agenda of 88 runway shows crammed into 96 hours—a potential nightmare scenario that risks further undercutting Milan's already-fading profile as a fashion show venue vis-à-vis its international rivals Paris, London and New York.

"Instead of Milan fashion week, they could call it Milan fashion long-weekend," says Lavinia Biagiotti, vice-president of Laura Biagiotti, one of the few houses showing on Monday, when most press and buyers will have moved on. During the busy four days, "it won't be easy for anyone to work, with models running from one show to the next and the traffic jams."

Fashion houses clamor for Ms. Wintour's presence at their shows. Her endorsement of a collection can mean that it will be used in photo shoots in Vogue, lent to celebrities, and picked up by retailers. It's a rare fashion show that starts before she has slid into her front-row seat.

"It's always important that Anna comes to your show," says Marco Bizzarri, chief executive of Italian fashion house Bottega Veneta, a unit of France's **PPR** SA.

Ms. Wintour declined to comment on Milan's decision to squeeze its calendar. Answering questions at a fashion show in London this week, she said she was "going to Italy to cover all the shows that I normally cover. I'm really looking forward to going to Italy as always." Italian fashion house Fendi, whose show is on Thursday, said Ms. Wintour would be present.

Milan has reshuffled its schedule three times in view of Ms. Wintour's plans, according to Mario Boselli, head of the Camera Nazionale della Moda Italiana, the federation of Italian fashion houses which organizes Milan fashion week. Mr. Boselli circulated the first draft schedule–which spread shows over a full week—among the 78 participating fashion houses in mid-January.

Soon after, he says, he began getting phone calls from fashion houses wanting to change dates because they had heard that Ms. Wintour would come only for three days. Under pressure from labels such as Gucci and **Giorgio Armani**, a reluctant Mr. Boselli in late January squeezed the major houses into three packed days – Friday to Sunday.

"One woman can stay as many days as she wants, but don't terrorize us by saying she'll only stay three days," says Mr. Boselli. "Otherwise it's better to stay home."

Michael Burke, chief executive of Fendi, worried that Milan would repeat what he called the "pandemonium" of last September's fashion week, when the most prominent shows were crunched into three days to work around the Jewish holiday Yom Kippur. "We didn't want to repeat September," says Mr. Burke. "The buyers were very unhappy, the press was miserable, mannequins, makeup artists and hairdressers were all miserable."

So on February 4, Mr. Boselli called the fashion houses to an emergency meeting for yet another change. Fendi agreed to give up what had originally been a plum Saturday spot and show on Thursday, provided another house joined it. Prada volunteered.

The final schedule, which stretched to four main days, was published on February 8. On the busiest day, Friday, 18 fashion shows are scheduled over 12 hours, compared with 12 on Paris' busiest day. Though some new designers showed Wednesday before the big names, and others will show Monday, most international press and buyers are only staying for the four main days.

Milan's shrinking calendar is a symptom of the city's declining status as a global fashion capital. The semi-annual Milan fashion week is the most important showcase for Made in Italy products. For decades, Milan vied with Paris and New York for the attention of the international fashion press and buyers, an essential week-long stop.

Yet few young designers have emerged from Milan's industry in recent years, and new cutting-edge European designers such as Russia's Chapurin are drawn to Paris instead. London, which had lost its status as an essential fashion week destination last decade, has made a comeback in the last year particularly with the rise of young designers such as Christopher Kane. A sign of London's renewed importance: Ms. Wintour began attending last year.

Now, Milan's calendar crunch is shining a spotlight on the Italian fashion industry's troubles, which have been exacerbated by the global economic downturn. Several homegrown names – including **Gianfranco Ferre** and Mariella Burani – have declared bankruptcy. Last October, Versace announced plans to cut a quarter of its workforce. Italian textile manufacturing plummeted by 20% in the first nine months of last year, according to Sistema Moda Italia, an Italian fashion federation.

This season, with editors and buyers rushing through in four days, the industry is worried about losing even more visibility. "It's unacceptable because designers work for months and deserve the attention," says Mr. Boselli, the fashion federation "It's not possible for people to see 200 collections in so few days."

Ms. Wintour often curtails her stay in Paris, too – but the French capital has not changed its plans as a result. The Paris shows are due to last nine days, as usual.

"What's important is that her team is there," says Didier Grumbach, the president of the **French Couture Federation**, which plans Paris fashion week. "It's totally natural that an editor-in-chief doesn't see all the shows. You can't set a calendar according to the schedule of one person."

Mr. Boselli promises a better organization for the next fashion week in September. He plans to gather executives from all the fashion houses in one room, and no one will leave until there is agreement on a seven-day schedule – a session he compares to the conclave to select a new pope.

"Making the calendar is difficult like choosing a pope," Mr. Boselli says, comparing the meeting with fashion houses to the conclave used to elect a new pontiff. "Until there's a pope, no one can leave the room."

—Beth Schepens in London contributed to this article.

Reuters

Anna Wintour arrives for the Burberry show this week in London.

EU backs membership talks with Iceland

By Carolyn Henson

BRUSSELS—Europe's Executive Commission on Wednesday recommended opening membership talks with Iceland that could lead to the country joining the bloc as soon as 2012 or 2013.

The negotiations still need the backing of the European Union's 27 member governments.

Unlike other EU hopefuls, Iceland is earmarked for fast-track entry because it has already adopted a large chunk of EU rules as part of its membership in the European Economic Area.

EU Enlargement Commissioner Stefan Fule said work is still needed in such areas as independence of the judiciary, free movement of capital, financial services, and agricultural, fishery and environmental matters.

"I cannot see any dramatic problem that cannot be handled in the framework of the talks," Mr. Fule said.

A spat with the U.K. and the Netherlands over losses incurred by British and Dutch depositors after the collapse of Icelandic bank Icesave could muddy the waters.

Iceland's finance ministry this week rejected calls for compensation and the matter is being investigated by European Free Trade Area surveillance teams. Iceland, Norway, Liechtenstein and Switzerland had long remained on an outer ring of the EU, selectively signing up to some of the EU's single-market rules and staying clear of others.

The island's large fish stocks have been a particular sticking point. Under EU rules, the country would lose its exclusive fishing rights.

But the economic crisis highlighted the benefits of a larger economic union. Iceland's three main banks collapsed in the crisis and it was forced to seek a $2.1 billion emergency loan from the International Monetary Fund. The country applied for membership in July.

Mr. Fule suggested the talks, once they start, could take around 14 months to complete, with the ratification process likely to take an additional 12 to 18 months.

Reuters

A worker walks through an underground tunnel during construction work on Budapest's fourth metro line

EBRD posts record loss

Bank stays upbeat on lending levels; ex-IMF chief suggests merger

By Joe Parkinson
And Adam Cohen

The European Bank for Reconstruction and Development reported a record annual loss for 2009, reflecting the severity of the impact of the financial and economic crisis on Eastern Europe and the former Soviet Union, in which it invests.

However, the development bank—which was founded in 1991 to help countries in Eastern Europe make the transition to market economies from centrally planned ones after the collapse of Communism—said it remained "very well capitalized," forecasting that lending would rise above last year's record €7.9 billion ($10.7 billion) over the next five years to underpin an economic recovery across the region.

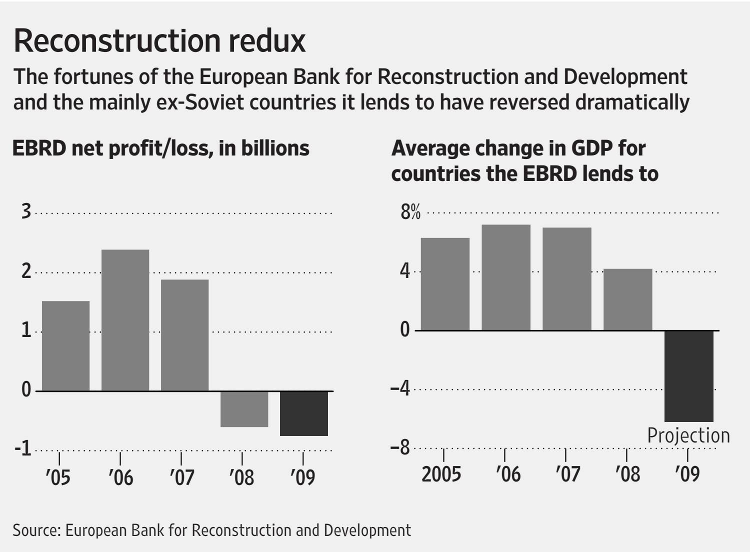
The report came as a committee headed up by former International Monetary Fund Managing Director Michel Camdessus said future funding constraints mean the European Union should consider merging its lending-and-development work in countries outside the bloc with the EBRD.

Manfred Schepers, the EBRD's vice president for finance, stressed that the bank was "ready to support Eastern Europe during these difficult times" as the global economic slowdown drags on the region. "The recovery will be slow and varied across the region and private investment flows will continue to be scarce," he said.

Until last year, the EBRD had helped to oversee a fairly smooth transition, despite occasional setbacks such as Russia's financial crisis in 1998. Economies in the region boomed as foreign direct investment flooded in to take advantage of relatively low labor costs and access to the EU's large market, while bank credit was readily available. A few years ago, some were questioning whether the EBRD's support was even necessary.

But the global financial crisis exposed fundamental weaknesses in many of the region's economies. Foreign investment dried up, as did euro-zone demand for cheap products and labor.

Expectations of a regional slowdown weighed on the EBRD's bottom line. An increase in provisions against future potential losses on the bank's loan portfolio was the main reason the bank's net loss for 2009 widened to €746 million from €602 million a year earlier. However, the value of the bank's equity investments rose last year, mirroring the gains in global equity markets.



Mr. Camdessus told reporters in Brussels that a merger of the European Investment Bank with the EBRD could make the EU's foreign lending more efficient, helping the bloc achieve its foreign-policy goals while "doing more with less."

"The situation in Greece and in all other countries in the EU for which the crisis has had a tremendous effect" will limit the resources of these governments, he said.

The EIB's foreign projects could be combined with development funds administered by the European Commission, the EU's executive arm, as well as the EBRD.

But the merger could face resistance from major EBRD shareholders—including the U.S. and Japan—which don't want to lose a key economic foothold in Eastern Europe and Russia. EU countries compromise about two-thirds of the EBRD's shareholders, while the U.S. is the bank's single largest owner.

Mr. Schepers said the EIB and the EBRD already cooperate effectively, but that there is room for further integration. He said the EBRD's non-EU shareholders would be consulted throughout the decision-making process.

EU finance ministers will discuss the group's proposal in May and June. If they support this merger, they could create one of the world's largest international lenders.

The EIB, set up in 1958 to be a long-term lending bank of the EU, last year provided about €8.8 billion in financing outside the EU. The commission administers a development budget of €55.9 billion for the period covering 2007 to 2013.

"I want to emphasize the role that our non-EU shareholders play in this. It's very important that they're actively engaged in any decision that is made," Mr. Schepers said during a London news conference.

He added that there is a general consensus among EBRD shareholders that they will boost the bank's capital by 50% this year to help meet the region's funding needs.

"We're looking at the technical details now—but on the principle of the 50% raise in capital, we've arrived at that point," Mr. Schepers said.

EBRD President Thomas Mirow said last month that he was "optimistic" that the bank's shareholders would agree at a May meeting in Zagreb to increase the bank's lending operations to between €8 billion and €9 billion a year until 2015.

Swiss try to keep UBS deal on track

By Deborah Ball

ZURICH—The Swiss government will propose a special law enabling it to hand over data on U.S. tax dodgers, a move aimed at circumventing a court decision last month that blocked last year's historic tax settlement with U.S. authorities.

Bern has been seeking to rescue the agreement with the U.S. that aimed to resolve accusations that Swiss bank **UBS** AG deliberately helped thousands of U.S. taxpayers hide money from the Internal Revenue Service.

That agreement risked falling apart after a Swiss court ruled in January that the deal violated the law in Switzerland, where tax fraud is a crime, while tax evasion isn't. The court found the efforts by some UBS clients to hide from the IRS weren't serious enough to constitute tax fraud.

In response, the Swiss government will package the UBS agreement as an ad hoc law and put it up for vote by Parliament. By making the U.S. agreement law in Switzerland, Bern is hoping to lay the legal groundwork for it to hand over UBS account details in cases of tax evasion, and not just tax fraud.

The government will send the bill to Parliament by the end of March, but a vote isn't likely until June. Nonetheless, Bern expressed confidence that it could meet the deadline of handing over the details of 4,450 UBS accounts to the Americans by the end of August. Bern has yet to hand over any of the account details and will hold off on doing so until the new law is passed.

It is far from clear, however, whether the new law will resolve the impasse. Switzerland's largest political parties have already expressed opposition to a special law aimed at pushing through the UBS agreement. Opponents could also try to gather signatures to put the law to a popular referendum. The Swiss Justice Ministry argued Wednesday that because the law applies only to a specific case, it would be ineligible for a referendum. Swiss courts could also challenge any law that passes.

Recent polls, however, show broad popular support for greater efforts by the Swiss to help foreign authorities chase tax dodgers here. "We are persuaded that Parliament appreciates the importance of this case and will act responsibly," said a government official who declined to be identified.

A spokesman for the U.S. Department of Justice had no comment.

In a statement, UBS said it intends to fulfill its commitments under the U.S. agreement. The bruising battle with U.S. authorities has cast a shadow over the bank and driven many wealthy clients to close their accounts. The renewed uncertainty around the U.S. agreement has weighed on UBS's stock in recent weeks and made it tougher for management to project a new image for the Swiss banking giant.

Switzerland is the world's largest offshore center, with an estimated $1.8 trillion of foreign wealth. Switzerland's system of bank secrecy is under heavy assault by the U.S. as well as its European neighbors, who are anxious to undermine the country's status as a haven for tax dodgers. German officials are considering using stolen data on Swiss bank accounts to pursue German tax dodgers. While the Swiss have decried the move, it has opened a deep debate about whether the country should relax its resistance to helping foreign governments track down tax evasion.

"We have to realize that if governments are in the market of buying illegal data, that changes the world," said UBS Chief Executive Oswald Grübel at a presentation recently. UBS has said it doesn't know whether UBS client data are among the stolen records.

Osborne pledges to cut U.K. deficit right away

By Natasha Brereton

LONDON—The Treasury chief of the U.K. opposition Conservative Party said Wednesday that his party would start trying to cut the U.K.'s deficit immediately if it wins the upcoming election.

In a speech in London, George Osborne stressed that action to start narrowing the budget deficit—which the government expects to hit 12.6% of gross domestic product this year—would need to start in 2010 in order to be credible.

He didn't give specifics on fiscal measures, but gave a three-step plan that would see the creation of an independent Office for Budget Responsibility "within days" of taking office. He said that after that would come a budget within 50 days and a spending review by the fall.

"The budget will set out some of the cross-cutting measures on pay, the cost of Whitehall, the pension age, and the largest public sector pensions. That will help to put our public finances on a sustainable footing," he said.

He also said he had no intention of altering the Bank of England's inflation target if his party wins the election. He reiterated that the Conservatives would review—in cooperation with the Bank of England—what changes might be necessary to reflect house prices in the targeted measure, and that they would task the central bank with regulating with an eye on macroeconomic risks. But they wouldn't meddle with the inflation target, he said.

Mr. Osborne's comments came after a recent International Monetary Fund paper that said central banks should consider aiming for a higher inflation rate to get greater flexibility in dealing with shocks.

"I don't want there to be the slightest suspicion that the next Conservative government might try to inflate its way out of the previous government's problems," said Mr. Osborne.

The Conservative Party is ahead in the polls to win an election that must take place by June 3.

—Joe Parkinson contributed to this article.

U.S. NEWS

Agence France-Presse/Getty Images

Fed Chairman Ben Bernanke, in front of the House Financial Services Committee Wednesday, said bank officials expect the key short-term interest to remain near zero for an extended period.

Bernanke says low rates still needed

Fed chief sees slow U.S. recovery, continued weakness in jobs market; 'unemployment is the biggest problem'

By Luca Di Leo
And Tom Barkley

WASHINGTON—Federal Reserve Chairman Ben Bernanke Wednesday said the U.S. economy still needs record-low interest rates for several months at least because the recovery from its deep recession is expected to be slow.

In his semiannual monetary policy testimony to the House Financial Services Committee, the Fed chief said the U.S. central bank is actively looking at what tools to use once the economy will need higher rates.

During the next couple of years, Mr. Bernanke said, the jobs market is expected to remain weak and inflation subdued.

"Of particular concern, because of its long-term implication for workers' skills and wages, is the increasing incidence of long-term unemployment," Mr. Bernanke said in prepared remarks to lawmakers.

In the question and answer session following his testimony, Mr. Bernanke said most economists agree that the stimulus passed last year has created jobs and that further action could be useful given "unemployment is the biggest problem we have."

In response to a question from House Financial Services Committee Chairman Barney Frank (D., Mass.) about the need for a jobs bill, Mr. Bernanke said there are "difficult trade-offs" that need to be considered given the high budget deficit.

Mr. Bernanke said that by simply holding mortgage-backed securities on its books the Fed will continue to support the housing sector and the wider economy. He added that the Fed would stick to plans to end buying $1.25 trillion in mortgage-backed securities by the end of March. Some economists worry that the end of the purchases could lead to higher mortgage rates.

Mr. Bernanke indicated that merely keeping the securities on the Fed's balance sheet would be enough to support the market. Some Fed officials have called for selling the mortgage holdings later this year, but Mr. Bernanke has said that no sales are foreseen in the near term.

Meanwhile, the commercial real-estate market presents the greatest risk to credit markets, Mr. Bernanke said, while noting some recent improvements. "We are seeing a few rays of light in this area, but it does remain a very difficult category for credit, particularly for the small and medium-size banks in this country," he said.

The commercial real-estate market is being hurt by both fundamentals and limited financing, he said, although the Fed's Term Asset-Backed Securities Loan Facility, or TALF, has helped bring down spreads in securities backed by commercial real-estate debt.

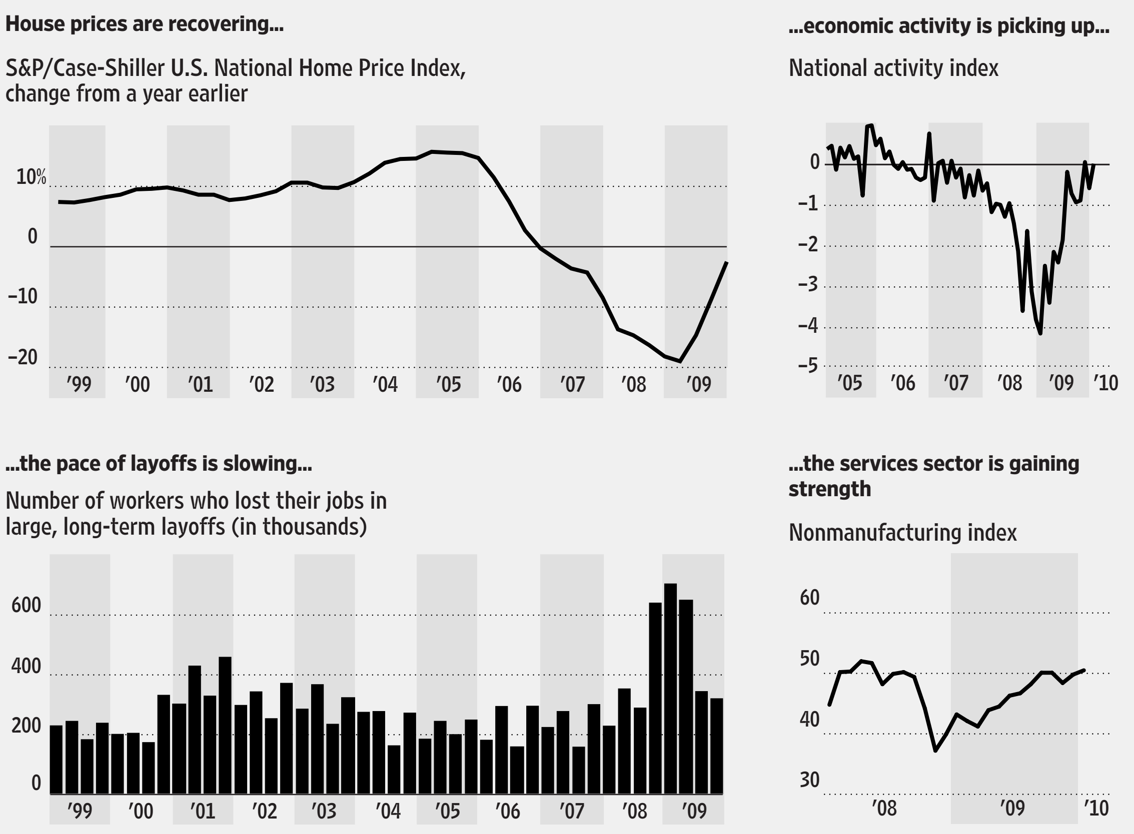
When asked about the growing debt woes in Greece, Mr. Bernanke said there are "very serious challenges" but that the European Union is focused on solving the problem. "We're keeping an eye on it," but the issue is more relevant to the EU, he said.

Mr. Bernanke reiterated that central bank officials expect the Fed's key short-term interest rate to remain at a record low near zero for an "extended period"—generally understood to be for at least several months.

He said last week's increase in the emergency-lending rate to banks doesn't mean wider borrowing costs for consumers and companies will also rise any time soon. Mr. Bernanke added that the increase was made "to discourage banks from relying on the discount window rather than private funding markets for short-term credit." He views this as a move to normalizing lending to commercial banks.

Coming out of its worst downturn in decades, the U.S. economy grew sharply at the end of 2009 as business inventories surged, but a key growth engine like consumer spending is expected to remain constrained by high unemployment throughout 2010. Concerns over consumers' spending power grew Tuesday after a measure of consumer confidence unexpectedly fell sharply this month.

State of the economy | A snapshot of the fragile U.S. recovery



Sources: Standard & Poor's (Home price index); Fed. Reserve Bank of Chicago (National activity index); Labor Department (layoffs); Institute for Supply Management (Nonmanufacturing index)

Mr. Bernanke said the Fed expects the economy to expand by between 3% and 3.5% this year and between 3.5% and 4.5% in 2011. Due to moderate economic growth, the unemployment rate is seen falling only slowly, to around 7% by the end of 2012. The jobless rate fell to 9.7% in January from 10% in December, a government report showed earlier this month, but a separate government survey showed the economy continued to shed jobs last month.

Mr. Bernanke said "most indicators suggest that inflation likely will be subdued for some time," adding that most measures show that long-term inflation expectations have remained stable.

Consumer prices net of volatile energy and food items in January dropped for the first time since 1982, a sign of weakness for the economy at the start of 2010.

Mr. Bernanke said that while the current U.S. budget path isn't sustainable, he doesn't expect the country's credit ratings to be downgraded. He said the record U.S. budget deficit could lead to higher market interest rates on bond investors' concerns.

The Fed chief said the U.S. budget deficit should be around 2.5%-3% of gross domestic product instead of the current record level of around 10% of GDP. Still, Mr. Bernanke said he doesn't expect the U.S. to lose its top triple-A credit-rating level. "It's very difficult, but it would be helpful if there were a sustainable, credible plan for fiscal exit," the Fed chairman said.

Although Mr. Bernanke said the economy still needs the Fed's support via low rates, he said the central bank is prepared to tighten credit when the time comes to prevent inflation.

A first step could involve the Fed draining the more than $1 trillion in excess reserves banks have accumulated after the central bank bought mortgage-backed securities and U.S. Treasurys to combat the crisis.

Move to curb risky trading hits wall

'Volcker rule' stalls in Senate amid resistance from lawmakers; measure expected next week to stop short of ban

By Damian Paletta

Key senators are expected to scrap President Barack Obama's proposal to prohibit commercial banks from certain risky trading activities, people familiar with the matter said, a setback for the administration's bid to limit the size and scope of the largest U.S. banks.

The proposal, dubbed the "Volcker rule" after former Federal Reserve Chairman Paul Volcker, would have essentially prevented any commercial bank with federally insured deposits from owning a division that makes speculative bets with its own capital.

But after resistance from lawmakers from both parties, Senate Banking Committee Chairman Christopher Dodd (D., Conn.) and other legislators are expected to introduce a plan next week that would give regulators more discretion to limit and potentially ban risky trading at banks, especially if it poses a risk to the broader economy. The measure would stop short of banning such trading outright.

The Senate bill is expected to direct regulators to pay particular attention to "proprietary trading"—whereby a bank trades stocks, bonds or other financial instruments with its own money—which the White House wants to ban at commercial banks.

Under the proposal, regulators would examine banks on a case-by-case basis and would be able to direct them to limit or halt certain activities they felt were a systemic risk.

Such activities were banned under Depression-era laws requiring the separation of commercial and retail banking activities but those rules were rolled back in the 1990s.

Mr. Volcker, who has advised Mr. Obama on economic policy, has said allowing banks to make bets with capital subsidized by the federal government could pose such a risk. Mr. Volcker didn't return a message seeking comment. A spokeswoman for Mr. Dodd said a final decision hasn't been made yet.

The White House introduced the Volcker rule in January as part of its broader proposal to overhaul financial regulations in the wake of the financial crisis, but that package is now being dialed back by lawmakers.

As part of that broader plan, the White House wants to create a Consumer Financial Protection Agency to police mortgages and credit cards.

Sen. Bob Corker (R., Tenn.), also a member of the Senate Banking Committee, has opposed the agency, and Mr. Dodd is exploring whether a new consumer division could instead be created within the Treasury Department, people familiar with the matter said.

Mr. Dodd is negotiating a range of issues with Mr. Corker including how to address troubled financial companies and regulating financial derivatives. Several people close to the negotiations said both lawmakers are optimistic a broader deal could be reached.

But Mr. Corker has raised reservations about the proposed Volcker rule, saying it was introduced to satisfy populist anger against Wall Street and not because the White House thought it was good policy.

The White House proposal came two days after voters in Massachusetts elected Scott Brown to the Senate seat once held by Edward Kennedy.

But few people now expect the concept to be included in the financial-overhaul legislation, in large part because the White House hasn't spelled out to Congress exactly how a ban on proprietary trading would work, said people familiar with the process.

The provision in its original form, if enacted, could force companies such as Goldman Sachs Group Inc., Morgan Stanley and J.P. Morgan Chase & Co. to shed certain divisions or reorganize their business practices. It has won support from several former Treasury secretaries but triggered a violent reaction on Wall Street, helping send the Dow Jones Industrial Average into a three-day slide after its announcement.

White House and administration officials say they stand by the proposal as originally presented. There's still a chance lawmakers could add amendments later in the process.

"As an administration, we're as committed to the rule as the day the president announced it," White House senior adviser David Axelrod said, echoing a comment from the Treasury Department.

"It was presented as a solution to address a problem that the president perceived. There's no diminution of concern about the problem" of proprietary trading by banks.

The modified language senators are considering is similar to a rule in financial-overhaul legislation passed by the House last year. Banks contend the language is unnecessary, in part because regulators already have discretion to stop banks from certain practices.

—Bob Davis contributed to this article.

Agence France-Presse/Getty Images

President Barack Obama, with former Fed Chairman Paul Volcker at his side, proposed curbs on banks last month.

Obama courts business as he assails excess

By Elizabeth Williamson and Henry J. Pulizzi

President Barack Obama has faced a delicate balancing act during meetings with business leaders this week, as he works to win corporate support for his battered economic agenda while maintaining his populist stance against Wall Street excess and business "special interests."

On Wednesday, Mr. Obama defended a proposal to raise taxes on multinational firms in remarks prepared for delivery to the Business Roundtable, a group of chief executives from the U.S.'s biggest companies.

"As president of the United States, my interest is to reward—or at least not disadvantage—companies who are creating more jobs and doing more business within the borders of this country," Mr. Obama said. "That's not anti-business, it's pro-America, and I don't apologize for it."

The address touched on every aspect of his economic agenda, seeking to rally a constituency that has been skeptical of many of his proposals. One particular sticking point: the administration's plan to raise $122 billion by rolling back a provision allowing U.S. companies to defer paying taxes on profit earned abroad.

Mr. Obama's speech Wednesday marked his latest attempt to reach out to big business. He hosted 17 top CEOs at a White House dinner on Tuesday night, including J.P. Morgan Chase's Jamie Dimon and Boeing's Jim McNerney.

The administration's renewed outreach, business leaders approached by the White House say, coincided with the Democrats' loss of their filibuster-proof hold on the Senate last month, which put initiatives from climate-change legislation to a health-care system overhaul in limbo.

Administration officials emphasize that they have been inviting chief executives to the White House for months, and prefer meeting company leaders to their lobbyists.

In a speech in Elyria, Ohio, days after Republican Sen. Scott Brown won the Massachusetts Senate seat occupied by the late Sen. Edward Kennedy, Mr. Obama came out swinging, renewing his attacks against bankers, insurers and "special interests" bent on thwarting government regulation for financial gain.

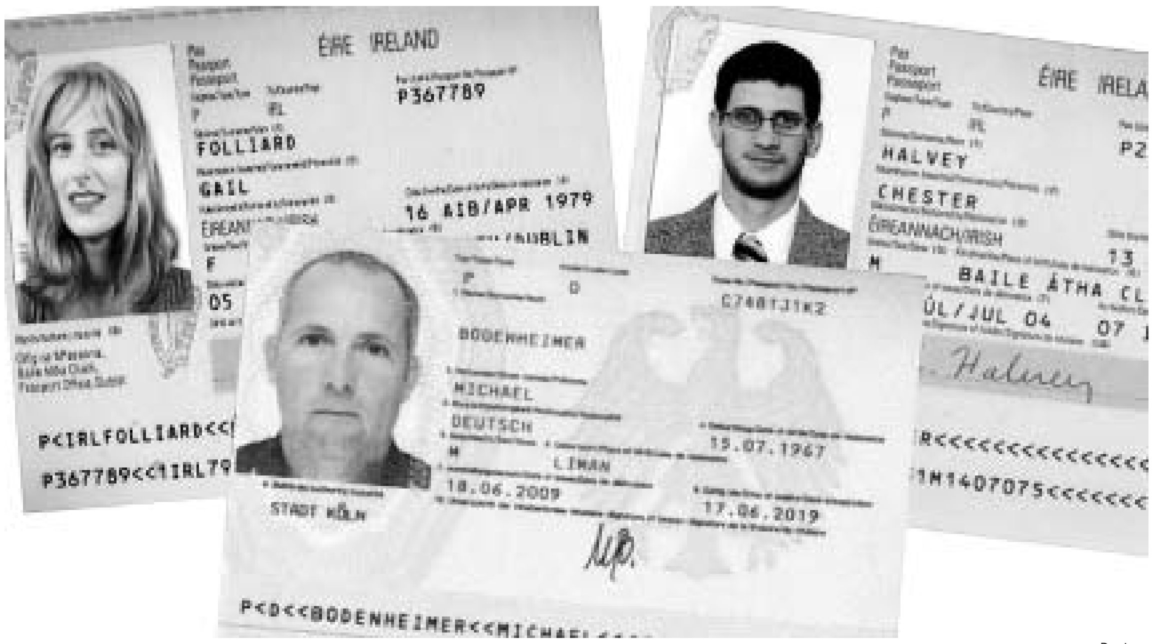
But the same day brought signs the populist tone could backfire, as Democratic senators began withdrawing their support for the renomination of Federal Reserve Chairman Ben Bernanke, who despite Mr. Obama's strong backing was being criticized by lawmakers for doing too little to avert the financial crisis. The White House enlisted bankers to lobby Capitol Hill, and Mr. Bernanke was confirmed.

Since then, the White House has ratcheted down its anti-banking rhetoric and reached out anew to businesses, inviting 10 CEOs to lunch earlier this month to discuss job creation, including Microsoft Corp.'s Steve Ballmer and American Express Co.'s Ken Chenault. It was the latest in a series of lunches hosted by the president for chief executives. Afterward, Mr. Obama named some of the attendees—including Republican Fred Smith of FedEx—as among his favorite corporate chieftains.

Bloomberg News

Xerox CEO Ursula Burns was among those invited to a White House dinner.

WORLD NEWS



Reuters

Three passports are shown of people Dubai police have named as suspects in the death of Mahmoud al Mabhouh.

Dubai broadens probe

Police name 15 new suspects in death of a senior Hamas leader

By Chip Cummins

DUBAI—Dubai police on Wednesday identified 15 new suspects in their probe of the January death of a senior Hamas leader here, and released a mountain of fresh, often-cryptic clues that authorities say they have picked up in the investigation.

The new suspects bring to 26 the number of people Dubai has identified as connected to the alleged murder of Mahmoud al Mabhouh, a senior leader of Hamas, the Palestinian militant group. The new information released Wednesday raises a host of fresh questions, including over the involvement of two U.S. financial companies, one of which has offices in Tel Aviv.

Police officials weren't available to comment. Some of the material was impossible to definitively interpret, and some information appeared contradictory.

The release of the passport details triggered a diplomatic uproar in Europe, with the U.K. promising a probe into how its passports were able to be used fraudulently.

In a statement and multimedia presentation on Wednesday, Dubai's government released passport details, flight itineraries and credit-card information related to the 26 suspects. The police said many of them had flown in and out of Dubai several times, one as early as March 2009. At one point in November, police said, nine of the suspects converged on Dubai from several European cities, leaving a few days later.

Dubai police said Wednesday they had identified credit cards used by 14 of the suspects to book hotel rooms and pay for air travel. Police named the issuing bank as MetaBank, a unit of **Meta Financial Group** Inc., a financial company based in Storm Lake, Iowa.

The bank said it had no comment "because we are trying to confirm the accuracy of statements by the press."

Dubai police identified cards issued by Britain's **Nationwide Building Society**, **IDT Finance of Gibraltar**, and Germany's **DZ Bank** AG. A Nationwide spokesman told the Associated Press that bank officials were "investigating the reports and have no further comments." The other European companies weren't reachable late Wednesday.

Dubai also identified a company called **Payoneer** Inc., based in New York, though it wasn't clear what precise role authorities believe that company played. In a chart released to reporters, authorities suggested the company distributed the cards on behalf of MetaBank.

According to its Web site, Payoneer offers online payment solutions, including arranging for employers to pay overseas workers through money transfers into prepaid MasterCard debit-card accounts. Payoneer is based in New York, but has offices in Tel Aviv.

The company's chief executive, Yuval Tal, appeared as a commentator on the Lebanon war in 2006 on Fox News, identifying himself as a former Israeli special-forces soldier. Mr. Tal wasn't available to comment.

The company is privately held, according to a news release issued by the firm earlier this week. The company said: "We are aware of the news reports. We are cooperating with the bank and the authorities to explore the matter."

United Arab Emirates officials have contacted U.S. authorities for assistance in the probe, according to a person familiar with the situation. (Dubai is one of seven emirates that make up the U.A.E.) A spokesman for the U.S. Embassy in Abu Dhabi declined to comment.

Dubai police also said, without elaborating, that two suspects flew from Hong Kong to Dubai in August 2009 and left a few days later, via boat. Their destination: Iran.

Last week, Dubai identified 11 holders of European passports as suspects in the case. Dubai released detailed closed-circuit-television footage of 10 men and one woman landing in Dubai's airport and checking into hotels. At one point, two suspects shared an elevator ride with their alleged victim, Mr. Mabhouh, the video showed.

The 11 initial suspects quickly emerged, saying they were victims of identity theft. Governments in Britain, Ireland, France and Germany said they suspected the passports were issued fraudulently. On Wednesday, Dubai released details about the additional suspects, identifying them as British, Irish, French and Australian passport holders.

A spokesman for Britain's Serious Organised Crime Agency, which has been charged with investigating the misuse of British passports, said it was trying to track down the passport holders. So far, it is unclear whether these passports were "genuine," the spokesman said. Ireland's Ministry of Foreign Affairs said it was trying to contact the holders of the passports concerned.

The release of the passport details last week triggered a diplomatic uproar in Europe, with the U.K. promising a full investigation into how its passports were able to be used fraudulently.

Dubai's police chief said last week he was "99%" certain of involvement by the Mossad, Israel's intelligence agency. But other U.A.E. officials appear more circumspect. One person familiar with the situation said the focus of the probe is simply to identify and apprehend the suspects caught on video.

Israel's foreign minister, Avigdor Lieberman, said earlier this week that there was no evidence linking Israel with the case. And several pieces of information released by Dubai police aren't consistent with Israeli involvement.

Dubai has said it had two Palestinians in custody related to the case. Palestinian officials identified them as former security officials who worked in the Gaza Strip, but who fled when Hamas forcibly took over the territory in 2007. That raised suspicion of involvement by Palestinian rivals of Mr. Mabhouh, or of Hamas itself.

Wednesday's disclosure that two suspects left Dubai in August by boat to Iran is also inconsistent with Israeli involvement. The two countries are bitter enemies.

Still, suspicion has broadly fallen on the Mossad, ever since Mr. Mabhouh's body was found in a Dubai hotel room on Jan. 20. Last week, several European governments called in their Israeli ambassadors to discuss the matter. European government officials have called on Israeli counterparts to disclose any information Israel might have about the case.

—Alistair MacDonald in London and Maria Abi-Habib in Dubai contributed to this article.

Asia leads the way out of economic recovery room

[CAPITAL]

By David Wessel

The global recession was made in America. The recovery is being made in Asia.

This week's headlines well illustrate the striking contrasts: Thailand said its economy expanded at a 15.3% annual rate in the fourth quarter, and Taiwan said its grew at an 18% pace. But Germany said its economy didn't grow at all in the quarter, and the only reason it didn't contract was that German industry managed to boost exports to healthier economies.

"The slump was very synchronized. The recovery? Increasingly less so," says Olivier Blanchard, chief International Monetary Fund economist.

Take a quick tour of the world economic recovery room. First stop is the rich, mature economies—the U.S., Europe and Japan. None are healthy yet, but the U.S. is doing better than the others.

The U.S. economy is growing, helped by a mix of insulin (the fiscal and monetary stimulus) and sugar (the eagerness of businesses to rebuild depleted inventories). By the standards of past recoveries, though, it isn't growing very fast.

American consumers, turning thrifty, are reluctant to spend. Banks are reluctant to lend. Employers are reluctant to hire. Government is reluctant to administer more stimulus. Yet forecasters at J.P. Morgan Chase, more optimistic than some others, predict that U.S. output of goods and services, its gross domestic product, will be back at prerecession levels by mid-2010. Europe and Japan won't reach that point until well into 2012.

Europe still looks ill. The recession was deeper there, and fiscal and monetary stimulus less aggressive than in the U.S. and China. Its businesses are more dependent on banks than U.S. firms, and European banks haven't been—or haven't been forced to be—as open about their losses or as quick to bolster capital cushions.

And now the sinners of Europe, economies that were living and borrowing well above their means, are being forced to repent: Greece, Spain, Ireland, Portugal. Because they share a currency, the euro, and have surrendered interest-rate setting to the European Central Bank, they can't cut tweak interest rates or let currencies fall to goose exports, and now their ability to keep borrowing cheaply to cushion weak economies is in doubt.

The only options are painful: austere government budgets and cuts in wages to make prices of exports more attractive. The U.K. has the luxury of allowing the pound to slide, but, as central banker Mervyn King noted this week, exporting its way out of its woes depends on the willingness of Europe to buy.

Japan is harder to read. Like other export-dependent economies, it took a hit when the U.S. stopped buying. U.S. imports from Japan fell 31% in 2009 from 2008. But it's now benefiting from its proximity to China. Japan's exports to China, which surpassed the U.S. as its biggest market last year, were 80% higher in January than in the same month last year, the Ministry of Finance said Wednesday. That was three times the increase in exports to the U.S. in the same period. Japan's fourth-quarter performance was encouraging, but the persistent threats of deflation and political paralysis cloud its outlook.

The big question hanging over all these economies, despite all these differences: As fiscal stimulus wanes and central banks inch toward the exit from extraordinarily low interest rates, will consumer and business demand revive and sustain the recovery?

Wander now to the new wing of the recovery room, the emerging markets of Asia. They're not only out of bed, they're back at work and doing push-ups.

China led the way, demonstrating that one advantage of an authoritarian government is that it can inject massive doses of stimulus quickly and order banks to lend. The policy has been so successful that the Chinese central bank now is restraining bank lending to avoid over-stimulating the economy and provoking bubbles in asset markets.

The other countries in the neighborhood are benefiting, offsetting some of the weakness in exports to the U.S. by exporting more to China or drawing more tourists from China. Among Asian economies, those more tightly linked to China—such as Taiwan, Malaysia, Singapore—have been growing fastest.

But Asian consumers are doing their part, too. Auto sales in Malaysia in January were up 33% from a year earlier, for instance; India's were up 50%. In contrast, U.S. vehicle sales were up only 6% in January.

Indeed, one milestone passed without much notice during the crisis. Emerging-market consumers, more numerous and better off than they were a couple of decades ago, outspent American consumers for the first time in modern history.

Emerging-market consumers will account for 34% of global consumption and U.S. consumers 27% this year, J.P. Morgan calculates. Twenty years ago, the shares were 23% and 29%, respectively.

"It's not too much of an exaggeration to say emerging-market consumers did for the world in 2009 what U.S. consumers did in 1998 [during the Asian financial crisis]," says J.P. Morgan economist Bruce Kasman.

Asia cannot propel world growth by itself, though. Its economies remain dependent on exports, and that means they, too, are watching, waiting and hoping for a revival of consumer spending and business investment in the mature-economies recovery room.

WORLD NEWS

Ailing leader back home in Nigeria

After Saudi hospital stay, president is not well enough to govern; support for deputy as political crises grow

By Will Connors

ABUJA, Nigeria—Nigeria's ailing president returned home early Wednesday, a presidential spokesman said, ending a long absence that had pushed Africa's most populous country into a period of political limbo.

President Umaru Yar'Adua, who had been receiving medical treatment in Saudi Arabia, remains too ill to govern, according to the spokesman.

Upon his return, Mr. Yar'Adua, who didn't make a public appearance, offered a message of support for his vice president, who is now running the country in his place.

"President Yar'Adua wishes to reassure all Nigerians that on account of their unceasing prayers and by the special grace of God, his health has greatly improved," presidential spokesman Segun Adeniyi said. "However, while the president completes his recuperation, Vice President [Goodluck] Jonathan will continue to oversee the affairs of state."

Mr. Yar'Adua, 58, suffers from kidney and heart problems and hasn't been seen in public since November. While he was gone, Nigeria entered rough political waters, and critics say its troubles were compounded by a rudderless government.

After a young Nigerian man allegedly tried to bring down a Detroit-bound plane on Christmas Day, the U.S. placed the West African nation on a list of 14 countries whose air passengers will face extra security checks; an amnesty deal with militants who have attacked oil pipelines also frayed as one of the biggest groups pulled out of a cease-fire; religious violence in the Nigerian city of Jos claimed several hundred lives; and a domestic fuel shortage stoked public anger.

Bloomberg News

Umaru Yar'Adua, president of Nigeria, in a 2008 photograph.

Meanwhile, multinational oil companies criticized stalled government decision-making in a country that already has one of the world's toughest business climates. Nigeria is the fifth-biggest supplier of oil to the U.S.—and has the 10th-largest oil reserves in the world—but chronic government corruption and violence in the oil-producing Niger Delta region have hampered the country's growth and reduced international oil companies' production levels.

On Wednesday, the U.S. government expressed concern. "We hope that President Yar'Adua's return to Nigeria is not an effort by his senior advisers to upset Nigeria's stability and create renewed uncertainty in the democratic process," said U.S. Assistant Secretary of State Johnnie Carson, the U.S.'s top diplomat for Africa.

"Nigeria is an extraordinarily important country to its friends and partners, and all of those in positions of responsibility should put the health of the president and the best interests of the country and people of Nigeria above personal ambition or gain."

Earlier this month, Mr. Jonathan was appointed acting president by the Nigerian National Assembly. He has reshuffled the cabinet, made long-delayed government appointments and has held meetings with foreign oil companies to calm international investors and the public.

Oil companies operating in Nigeria, including **ExxonMobil** Corp., **Chevron** Corp. and **Royal Dutch Shell** PLC, have worried that Mr. Yar'Adua's absence would imperil a shaky peace process in the Niger Delta and further delay long-awaited oil industry legislation.

U.S. oil companies are joined by other energy firms that have billions of dollars invested in Nigeria. An executive from French oil company **Total** PLC said Wednesday that it had no plans of pulling out of Nigeria and was committed to its $20 billion of investments here.

"We actually invest about $10 billion a year in Nigeria," Alex Musa, Total's deputy managing director for exploration and production, said on the sidelines of an industry conference in Abuja. "We're here to stay."

Just two days after taking over acting presidential duties, Mr. Jonathan urged oil-company executives to meet with senior government officials and address the peace process for militants from the delta. That suggestion led to the formation of an oil-industry committee given the task of addressing militancy.

An announcement of the committee's plans was expected within days, according to an oil-company executive, but that may be delayed due to the return of Mr. Yar'Adua.

Mr. Jonathan also made efforts to push through oil-industry legislation that would drastically overhaul the industry by increasing tax and royalty rates for companies, among other measures.

During an oil industry conference in Abuja this week, Royal Dutch Shell Africa Vice President Ann Pickard warned that the petroleum industry bill would make a bad situation worse and could scare away as much as $50 billion in deep offshore oil investments.

Ms. Pickard on Tuesday called the bill a "cumbersome document that lacks insight into the very basics of our industry."

Pakistan offers Taliban official to Afghans

By Zahid Hussain

ISLAMABAD—Pakistan offered to hand over a detained senior Taliban leader to Afghan authorities, as officials from the two nations discussed broadening their cooperation in fighting the insurgency.

Pakistan's Interior Minister Rehman Malik said after a meeting here with his Afghan counterpart, Mohammed Hanif Atmar, that Islamabad was expecting a formal request from Kabul to extradite Mullah Abdul Ghani Baradar, the Afghan Taliban's operations chief.

"When we receive a formal request from the Afghan government, we will honor it," Mr. Malik said Wednesday.

Mullah Baradar was captured this month in Pakistan's southern port city of Karachi. Mullah Baradar, a close associate of Mullah Muhammad Omar, the Islamist movement's supreme leader, was the day-to-day leader of the so-called Quetta Shura, the main Taliban body that dominates the insurgency in southern Afghanistan, and is believed to be based in Pakistan.

Mullah Baradar's arrest was the result of cooperation between Pakistani and U.S. intelligence agencies, and indicated a possible new willingness by Pakistan's Inter-Services Intelligence to crack down on Afghan Taliban in Pakistan. Mullah Baradar is now in ISI custody.

Pakistan detained several other senior Afghan Taliban leaders this month, including Mullah Abdul Kabir, a deputy prime minister in the former Taliban regime and a member of the movement's leadership council.

Mr. Atmar, the Afghan interior minister, said in Islamabad that he hoped these arrests represent the beginning of a "large-scale" Pakistani operation against the Taliban.

Afghan officials have long complained that the Taliban insurgents receive covert support from elements of the Pakistani establishment, including parts of the ISI—accusations that the Pakistani government denies.

Mr. Malik said last week that Pakistan wouldn't transfer detained Taliban leaders to U.S. authorities, but would return them to their countries of origin if there was no proof they had committed crimes inside Pakistan.

No agreement has been reached between Pakistan and Afghanistan regarding Mullah Baradar's fate, said Ahmad Zia Siamak, a spokesman for Afghan President Hamid Karzai. Mr. Siamak wouldn't say whether Afghanistan had asked Pakistan to extradite the Taliban official.

Also on Wednesday, the director of the U.S. Federal Bureau of Investigation, Robert Mueller, held talks with Pakistani security officials, the U.S. Embassy said. Missiles fired by a U.S. pilotless aircraft on Wednesday hit a compound in Dargah Mandi village in the North Waziristan tribal area bordering Afghanistan, killing four people, according to a Pakistani security official.

European Pressphoto Agency

A Pakistani soldier stands guard at a checkpoint at the border with Afghanistan on Tuesday.

The identity of the victims wasn't immediately confirmed.

—Matthew Rosenberg in Kabul contributed to this article.