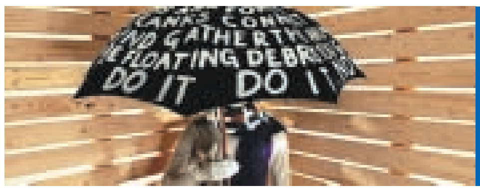

The biggest secret in fashion: Sweden is a retail wonder
WEEKEND JOURNAL

Euro's next battleground is debt-burdened Spain
THE BIG READ 14-15

THE WALL STREET JOURNAL.

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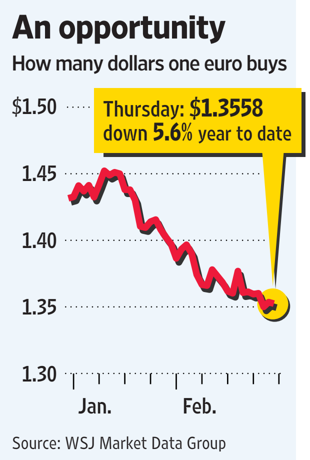
Hedge funds are ganging up on weaker euro

Some heavyweight hedge funds have launched large bearish bets against the euro in moves that are reminiscent of trades at the height of the U.S. financial crisis.

By Susan Pulliam, Kate Kelly and Carrick Mollenkamp

The big bets are emerging amid gatherings such as an exclusive "idea dinner" earlier this month that included hedge-fund titans **SAC Capital Advisors** LP and **Soros Fund Management** LLC. During the dinner, hosted by a boutique investment bank at a private townhouse in Manhattan, a small group of all-star hedge-fund managers argued that the euro is likely to fall to "parity"—or equal on an exchange basis—with the dollar.

The currency wagers signal that big financial players spot a rare trading opening driven by broader market dislocations. The euro, which traded at $1.51 in December, now hovers around $1.3550. With traders using leverage—often borrowing 20 times the size of their bet, accentuating gains and losses—a euro move to $1 could represent a career trade.



If investors put up $5 million to make $100 million trade, a 5% price move in the right direction doubles their initial investment.

"This is an opportunity...to make a lot of money," says Hans Hufschmid, a former senior Salomon Brothers executive who now runs GlobeOp Financial Services SA, a hedge-fund administrator in London and New York.

Through small gatherings, hedge funds can discuss similar trades that can feed on each other, in moves similar to those criticized in the Panic of 2008.

Then, big hedge-fund managers, such as **Greenlight Capital** Inc. President David Einhorn, who also was at this month's euro-dominated dinner, determined that the fortunes of **Lehman Brothers Holdings** and other financial firms were dim and bet heavily against their securities.

In recent weeks, some traders have compared Greece to **Bear Stearns** Cos., the first major U.S. investment bank to falter in 2008, and Portugal as the equivalent of Lehman, which flailed for months before collapsing.

There is nothing improper

Please turn to page 5

The Velvet counter-revolution

Associated Press

Viktor Yanukovych during his inauguration as Ukraine's president. Article on page 7

Berlusconi lawyer's case is thrown out

BY STACY MEICHTRY

ROME—Italy's highest court on Thursday threw out the long-running corruption trial of David Mills, a former lawyer of Prime Minister Silvio Berlusconi, in a move that casts doubt over whether a related corruption trial facing the Italian leader will reach a conclusion.

Messrs. Mills and Berlusconi have been facing separate, but related, corruption trials. At the heart of both cases is a $600,000 payment Mr. Berlusconi allegedly made to Mr. Mills in the late 1990s, so the lawyer would give false testimony to help the billionaire and his Fininvest media empire during two trials of Mr. Berlusconi at the time. Mr. Berlusconi was acquitted in one of those trials; in the other, the statute of limitations ran out, and the case was dropped.

In its ruling, which is final and can't be appealed, the high court said Mr. Mills had received the payment. However, the judges found that lower courts—which had originally convicted Mr. Mills—had improperly interpreted the statute of limitations in the case. Therefore, they threw the case out.

"I am very relieved that this saga has finally now come to an end," said Mr. Mills, the estranged husband of Labour Party politician Tessa Jowell, a former minister in Tony Blair's government.

In February 2009, a lower court found Mr. Mills guilty of corruption, sentencing the lawyer to four and a half years in prison for receiving the payment in 2000—which was years after the alleged false testimony. That ruling was upheld in October 2009.

Mr. Berlusconi has always maintained his innocence in the case, saying he never arranged for any payment.

Palm's phones fall flat with consumers

Palm Inc. bet its revival on a slew of new smart phones. Now that bet is unraveling.

Palm said Thursday that its new smart phones—the Pre and the Pixi, which were launched last year—aren't selling as well as it hoped. As a result, the company warned that revenues would fall short of its forecast, renewing questions as to whether it can compete in a market it helped pioneer. Its shares sank 19% in New York trading.

Palm's warning highlights the tough position it's in as a small company in an increasingly crowded smart-phone market. While Palm helped set the stage for a smart-phone market with products that it acquired from **Handspring** Inc. last decade, it has floundered in recent years as Blackberry maker **Research in Motion** Ltd. and **Apple** Inc. stole the spotlight.

■ Palm's warning sends shares sharply lower 21

Osborne's financial-stability strategy

[Agenda]

By Patience Wheatcroft

With words so carefully chosen that every syllable had probably been weighed, the European Commission yesterday passed its judgment on the state of the region's economy. "With many of the main driving forces being still temporary in the EU and globally, the robustness of the recovery is yet to be tested," it declared.

There is little comfort there for those who had hoped that the commission's forecast of 0.7% growth for the EU this year might be an underestimate. This week, the GfK survey of German consumers registered a steep fall in economic expectations, apparently a reaction to nervousness over the potential fallout from the Greek fiasco. Such expectations have the propensity to be self-fulfilling, and the latest euro-zone retail-sales figures indicate that this is proving to be the case, the index showing its sharpest fall since March last year.

No wonder markets are nervous. They want reassurance that governments are prepared to take strong action to rectify the failings in their economies. A blueprint for how that might be done was offered on Wednesday evening by George Osborne, the U.K. Conservative Party's Treasury chief, who would be in charge of the nation's finances should his party win the forthcoming election.

From monetary and fiscal policy, through banking regulation to public spending, Mr. Osborne laid out a coherent strategy for the financial stability that markets crave. At its core is the formation of an Office for Budget Responsibility, to be headed by the respected economist Sir Alan Budd. It would be charged with producing a truly transparent national balance sheet, one not flattered by financial engineering or the delusion that pension commitments can be ignored. It will not make for comfortable reading. The Bank of International Settlements calculates that once the costs of an aging population are accounted for, U.K. debt will rise to 200% of GDP in just 10 years, higher than any other country except Japan. To pretend that a problem of that scale doesn't exist is tantamount to walking into a lions' den and hoping they will be friendly.

European Pressphoto Agency

George Osborne said the U.K. has the developed world's largest budget deficit

> **Britain is coming to the end of a Parliament in which income per person actually has declined.**

The Office for Budget Responsibility would publish its own fiscal forecasts at least twice a year and advise the government on the scale of fiscal tightening or loosening it deemed desirable. It would, said Mr. Osborne, be a brave chancellor who chose to ignore such advice.

Even without the benefit of the OBR's advice, Mr. Osborne is clear about the need for budget cuts now. While economists have been differing as to whether the cuts should come this year or next, he is adamant that an early start must be made. His party is under pressure, from its supporters as well as its opponents, to detail what those cuts would be.

Sensibly, it is resisting.

The reach of the public sector has become so great in Britain that, in large parts of the country, a majority of voters are employed by it or survive on its handouts. It isn't cynical, merely sensible, to try to avoid alienating too many voters ahead of an election by detailing where the axe must fall. What is crucial is to have the plan that will bring it down sharply and rapidly if the election is won, even in the face of strikes and demonstrations, such as those seen in Greece and Spain.

Mr. Osborne has also been criticized over his plans for reshaping financial regulation in the U.K., but, in his Wednesday evening lecture, he made a strong case for his reforms, which return the central bank at the heart of the country's macro and micro-prudential supervision. The failings in the existing system couldn't have been more graphically demonstrated than by the crisis that was allowed to erupt. The regulators shouldn't be absolved of responsibility for the disaster, but a system that took away the Bank of England's supervisory role had failure "hard-wired" into its design.

He was equally adamant about the need for banking reform, a message echoed yesterday by Bank of England governor Mervyn King, who expressed his fear that debate over banking reform might be allowed to drag on without real change ensuing. Mr. King was clear about the dire consequences that would bring: "It won't actually prevent the next crisis, and the next crisis will be even bigger."

The would-be future chancellor, Mr. Osborne would rein in the riskier activities of retail banks and push for "living wills" that would enable a relatively tidy death for financial institutions that fail.

Should Mr. Osborne's party win the election, which has to come before mid-June, the challenges it will face are enormous. As he pointed out, the country has the largest budget deficit in the developed world. For the first time since the Second World War, Britain is coming to the end of a Parliament in which income per person actually has declined. There are some who expect that figures due to be released today will actually show that the country is still in recession. If it isn't, then it has only barely clambered out of it by a fraction.

Taking over the running of a country in that state of disrepair isn't for the faint-hearted. There has been something of a whispering campaign against Mr. Osborne. Criticism from the government would be expected, but his detractors are as vocal among Conservative supporters. His relative youth and inexperience are cited, and it seems to have become almost fashionable in the City to say he is a weak link in the Conservative team. The fact that he is also in charge of the party's election campaign is certainly not ideal, for dealing with the financial brief would be more than enough to occupy any one individual.

But his speech on Wednesday night should give detractors pause for thought. It dealt with big and important issues in a considered way. Perhaps the time has come for his critics to stage a re-evaluation of the would-be chancellor.

ONLINE TODAY

Most read in Europe

1. The Danger of Daily Aspirin
2. The Mystery of Norway
3. Euro's Next Battleground: Spain
4. Nationwide Strike Paralyzes Greece
5. Denmark Rallies Public Behind Afghan War

Most emailed in Europe

1. The Danger of Daily Aspirin
2. Euro's Next Battleground: Spain
3. The Mystery of Norway
4. Obesity? Big Feet? Blame Darwin
5. Denmark Rallies Public Behind Afghan War

Iain Martin on Politics

blogs.wsj.com/iainmartin

"In the current febrile atmosphere this is a fascinating move by the Tory leader."

Iain Martin on David Cameron's move to hire Obama campaign advisers

Continuing coverage

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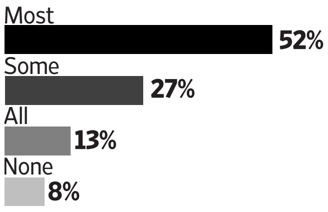
Question of the day

Vote and discuss: The U.K. or Argentina: Who should have oil-drilling rights for the Falklands?

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

Previous results

Q: What percentage of sudden acceleration in vehicles would you attribute to human error?



What's News

■ **Greece delayed** a planned bond offering until next week, after the government announces a new austerity package. Rising concerns abut the issue reignited expectations that Athens will require more than rhetorical support from EU leaders to solve its fiscal crisis. **5**

■ **Stocks fell across Europe** amid rising concerns about Greece's fiscal woes, and the British pound slid as pessimism about the U.K.'s economic outlook mounted. **17**

■ **Coca-Cola will acquire** the bulk of its largest bottler, following a similar move under way by PepsiCo. **17**

■ **RBS reported a loss** of $5.56 billion for 2009 amid a leap in charges on souring loans, but it signaled that the worst of the bad-debt charges may be over. **19, 32**

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NEWS

Bully for you, how future news could look

By Jason Dean
And Ting-I Tsai

Has British Prime Minister Gordon Brown bullied his staff? That is still very much in dispute, but you can watch Mr. Brown—well, a computer animated version of him—in full bully mode, thanks to the latest news innovation from Hong Kong media tycoon Jimmy Lai.

There's Mr. Brown shoving one staffer. There's Mr. Brown pushing another out of her office chair and onto the ground. There's Mr. Brown punching the back of a car seat while yet another aide, in a visualized thought bubble, imagines Mr. Brown punching him.

There are three Browns yelling in three thought bubbles from three operators at an anti-bullying hotline. (Mr. Brown denies bullying staff and the hotline's claims have been disputed.)

Call it "hypothetical news," or "what-if journalism." Apple Daily, the newspaper owned by Mr. Lai's Next Media Ltd. that is running the computer-generated enactments on its Web site, calls it "an Apple Action News animated wrap-up." Whatever you call it, expect more.

The online animated news segments are a big initiative for Mr. Lai, who has a history of shaking things up. He went from founding a successful retail clothing business to starting a newspaper and a weekly magazine that both rank among Hong Kong's most popular, then replicating that success with Taiwanese versions of both publications.

An exuberant iconoclast, he has had run-ins with the rich and powerful in both places (not to mention with China's government), and has made a virtual sport of annoying journalistic purists with his mix of hard news and celebrity gossip.

Since the Apple Action News segments began in November, Mr. Lai's animators have produced more than 1,000 videos, says Chu Wah-hui, Taipei-based Group CEO for Mr. Lai's Next Media. Most of the content is local Hong Kong and Taiwan news, Mr. Chu says in an interview, but in December they started animating foreign news as well.

Since then, Apple Action News has had two more hits: one a speculation of an attack on Tiger Woods's car by his purportedly golf club-wielding wife—Mr. Woods has said no such thing happened—and another illustrated the feud between American late-night TV hosts Jay Leno and Conan O'Brien.

Mr. Chu says Apple bases its international animated news on typical sources like wire reports, and that it follows standard journalistic guidelines. "We do it exactly the way everybody does in the print media," he says. "It is as accurate or inaccurate as a written report. We go through the same process."

Indeed, the Apple video on the allegations against Mr. Brown intersperses its imagined animated footage with actual video and still photos, and the voiceover acknowledges that Mr. Brown has denied the charges. "Brown the Bully?" is the opening headline, allowing for the possibility that what you're about to see may not actually be true.

Apple Action News

Scenes from the "re-enactments" Apple Action News put together for news items on Tiger Woods, left panel, and Gordon Brown (wearing a red tie).

GREEK DEBT CRISIS

Germany should remember what it's got from the euro

[Brussels Beat]

By Stephen Fidler

What has the euro zone ever done for us?

If you're German, the answer to that question is quite a lot. But that doesn't seem to be the way German commentators and politicians think about it.

The popular German narrative, as gleaned from media reports, goes along the following lines. Since the euro's inception in 1999, we have made big sacrifices to maintain the competitiveness of our economy, keeping wages down to boost exports and maintain our trade surpluses. Others in the euro zone, particular the Greeks, made no such sacrifices and built up big debts that they are struggling to repay. Now, they have the temerity to knock at our door to ask for a bail-out.

But, at a conference at Ditchley Park, a stately home in the English countryside, at the weekend of prominent economists, current and former officials and others discussing the lessons from the economic crisis, as much time was devoted to the prospect of Germany leaving the euro zone as there was to the "peripheral" countries of Greece, Portugal or Spain abandoning it.

To be sure, nobody was predicting any such exit is likely, certainly not in the short term. But if Germans feel they got a bad deal in swapping their low-inflation Deutschmark for an arrangement that forces them periodically to transfer enormous sums of money to southern Europe, then that shouldn't be ignored. There was, however, another parallel message from the conference, organized by the London-based **Centre of European Reform**: Germans, get over it. You've been the biggest winners from the euro.

Why? Most importantly, because it's attached to the weaker economies, the euro is at a lower level than the mark would have been. That has been a huge boon to German exporters. Instead of a $1.35 euro, exporters could have been facing $1.55 or higher.

One participant, speaking on the condition he wasn't identified, reeled off six benefits Germany has enjoyed from the euro:

■ Greater seigniorage. This is the difference between what it costs to produce notes and coins and their face value, that accrues to governments.

■ Deeper financial markets. Because there are more euro investors, Germany can issue bonds more cheaply and benefits from lower costs on financial transactions

■ More ability to invoice in its own currency. The ability to bill customers around Europe in euros cuts transactions costs and currency risk.

■ Greater exchange-rate stability.

■ Higher exports within the euro zone, because of the common currency.

■ Higher exports outside the euro zone, because of the weaker euro.

* * *

One trump card that Greece is widely said to hold when it comes to negotiating a bailout with its euro-zone partners is that it always has the option of turning to the International Monetary Fund if it finds the terms from the euro zone too tough.

Many commentators have argued that this is something euro-zone governments would work hard to avoid. It would harm the long-term credibility of the currency and the governments don't want to give the impression they can't fix problems in their own backyard.

But how feasible a fallback alternative is the IMF for Greece? In practical terms, the acquiescence of euro-zone governments would be necessary to push any Greek package through the IMF board. Leaving that aside, there are calculations one can make that suggest that the IMF would be hard pressed to come up with the kind of money necessary to convince enough investors that there wouldn't be a default on Greek debt any time soon.

The size of any IMF rescue package is based on a multiple of that country's shareholding, or quota, in the fund. The quota is set in special drawing rights, the IMF's own monetary unit calculated daily from a basket of the world's major trading currencies.

Greece's quota is 823 million SDRs, currently about €930 million.

Under usual circumstances, the IMF can lend a country up to three times its quota but in special packages such as for Greece, the IMF can stretch its normal rules under what it calls its "exceptional access policy".

The maximum provided to any country under this policy has been 11 times its quota, given to Romania. That suggests the IMF would be hard pushed to provide Greece with substantially more than €10 billion.

How much then would be enough? Greece says it needs to sell €54 billion of bonds this year, €24 billion of that in April and May.

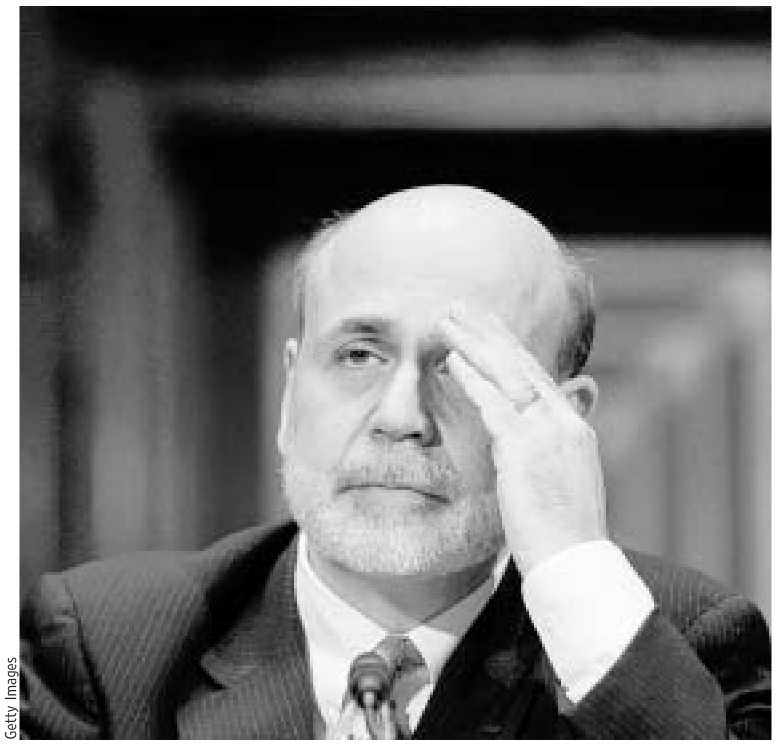
In a research note earlier this month, Paul Mortimer-Lee, head of market economics at **BNP Paribas**, said that any bailout has to have the qualities of "shock and awe". Looking at recent packages for Hungary (19% of GDP), Romania (14%) and Latvia (32%), he settled on 20% of GDP as the threshold.

For Greece, this would mean a bailout of €50 billion. (Ireland would need €35 billion, Portugal €30 billion and Spain €200 billion.) That figure is higher than most guesses about the size of any likely German-led rescue for Greece, which peak about €25billion. But even that number— half of Paribas's "shock-and-awe" estimate— is twice the size of any bailout the IMF is likely to provide unless it stretches lending limits way beyond what it has so far.

Fed will probe deals

Greece's derivatives transactions with U.S. banks to be reviewed

By Luca Di Leo And Tom Barkley



Getty Images

U.S. Federal Reserve Chairman Ben Bernanke testifies on Capitol Hill Thursday.

WASHINGTON—Federal Reserve Chairman Ben Bernanke said Thursday the U.S. central bank would explore derivatives transactions Goldman Sachs Group Inc. and other U.S. banks made with Greece amid concerns they might have been used to help the government hide its debt.

"We are looking into a number of questions related to Goldman Sachs and other companies and their derivatives arrangements with Greece," Mr. Bernanke told the Senate Banking Committee in a second day of congressional testimony.

Mr. Bernanke added that the U.S. Securities and Exchange Commission was also exploring the issue.

The committee's chairman, Connecticut Democratic Sen. Christopher Dodd, asked the Fed chairman whether banks should be banned from using swaps to intentionally enable runs on a country.

Mr. Bernanke said that credit-default swaps can be useful in hedging. But he added that "obviously, using these instruments in a way that intentionally destabilizes a company or country is counterproductive."

After Enron collapsed amid accounting scandals, the Fed cracked down on banks to ensure "they were not creating special structures in order to avoid accounting rules," he said.

Mr. Bernanke said that Greece's swaps were done before that, about 10 years ago, as far as he knows.

"We're looking into that," he said.

The European Commission has demanded details from Greece about the series of complex derivative deals in 2001 that helped conceal its debt. The commission said Monday that Greece had only provided a partial response despite missing the deadline.

Goldman has defended the transactions, saying they were consistent with European Union principles.

Mr. Bernanke on Thursday repeated his warning that U.S. interest rates and the dollar could suffer if the long-term debt burden isn't dealt with.

"I'm not anticipating anything in the near term, but it is conceivable it could lead to a loss of confidence in aspects of the U.S. economy," he told the Senate committee, returning to a subject discussed at length in Wednesday's testimony before the House Financial Services Committee.

Time to link bonds to GDP?

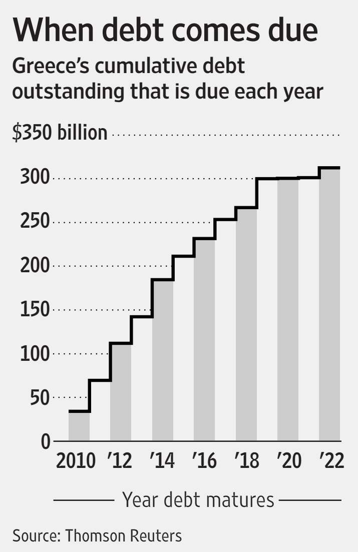
By Natasha Brereton

Europe's debt crisis is giving new life to the idea of bonds linked to economic performance, which would allow borrowers to pay a higher rate of interest when an economy is growing rapidly and a low rate of interest when it isn't.

High levels of public-sector debt are a lasting legacy of the financial crisis, and governments in the years ahead will have to raise taxes and cut spending in order to reduce their borrowings. But doing that will threaten what appears to be a fragile recovery in the global economy, and act as a drag on growth for many years to come.

A key contributor to the buildup in debt is the fact that tax revenue falls when economies contract, or grow very slowly. In the U.S., tax takings shrank by 16% in the financial year ending 2009 alone. That means a larger portion of revenue is spent on interest payments on existing debt, forcing governments to borrow more money if they don't want to cut spending, a move that would deepen the recession. A number of economists are now arguing that it is time for a fundamental rethink of the way that governments borrow, aimed at reducing interest payments when tax revenue falls.

The idea of linking sovereign-debt payments to output isn't new, although it is often associated with restructuring the debt of countries in trouble. But proponents of the instruments say they could also have



significant advantages for developed economies.

"I can't think of a better time to issue them than now. It would not be a sign of weakness, it would be a sign of initiative," said Paul Woolley, founder of the **Centre for the Study** of Capital Market Dysfunctionality at the London School of Economics.

Introducing the bonds wouldn't be without its challenges. Where statistics aren't managed by an independent agency, the government would have to find a way of verifying its data, so it was clear it wasn't fiddling with the figures to reduce its payments.

But probably the biggest hurdle would be the initial lack of a liquid market in the instruments, without which issuers would have to pay a premium, reducing their attractiveness as a way of raising debt.

That's where international coordination could play an important role. "If several countries issued these bonds simultaneously, you could start a liquid market more quickly," said Kristin Forbes, professor of economics at the MIT-Sloan School of Management, and a member of the White House's Council of Economic Advisers from 2003 to 2005. She added that it would also be necessary to ensure the detailed covenants and legal structures are comparable, so you have one liquid market for the bonds, rather than several smaller ones.

A multilateral approach could avoid the risk of investors viewing the issuance of the bonds as a signal that any one government expects the economy to expand at a slower pace in future, she said. Supranational policy-making bodies, such as the IMF and the **World Bank**, could support the process by guaranteeing a certain amount of the bonds, said Robert Merton, a Harvard Business School professor and Nobel prize-winning economist.

"Maybe that would be a good way to do it, because by taking the credit risk off, that's a carrot to the issuing country, it gives the best chance for that new instrument in terms of what it's indexed to, to have a chance to get started," Mr. Merton said.

GREEK DEBT CRISIS

The hard path to austerity | The latest on the Greek Odyssey

- **Oct. 20, 2009** The newly elected Greek government embarks on an austerity plan.
- **Oct. 22** The government reveals 2010's budget deficit will be double previous forecasts.
- **Feb. 2, 2010** The government outlines spending cuts and measures to boost tax revenue.
- **Feb. 3** The EU endorses the austerity program.
- **Feb. 9** Germany considers a plan for EU partners to offer Greece loan guarantees.
- **Feb. 11** European Council President Herman van Rompuy says European leaders have reached a deal on helping Greece.
- **Feb. 15** Euro-zone countries give Greece one month to show it can right its unbalanced budget.
- **Feb. 23** Fitch downgrades the country's four major banks to two notches above "junk" status.
- **Feb. 24** A general strike protests austerity measures.
- **Feb. 25** The government postpones a bond sale.

Greece delays planned bond offering

General strike and S&P's downgrade warning push issue to next week; Athens stock prices plunge by nearly 3%

By Costas Paris

Greece delayed plans to issue a 10-year bond until next week, after the government announced a new austerity package that will reduce spending between €2 billion and €2.5 billion ($2.7 billion to $3.4 billion), people familiar with the situation said. The government hopes to raise €3 billion to €5 billion from the offering.

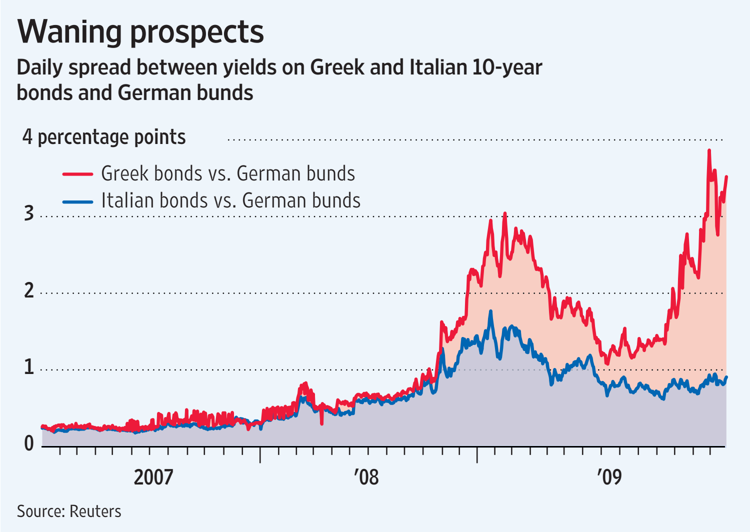
The government initially planned to issue the bond this week, according to a person familiar with the matter, but delayed the offering because of a 24-hour general strike on Wednesday and a warning by ratings agency Standard & Poor's the same day that it could downgrade Greece's sovereign debt within a month.

The delayed offering, along with the S&P warning and widening bond spreads, rattled investors across Europe Thursday and reignited expectations that Athens will require more than rhetorical support from European Union leaders to solve its fiscal crisis.

The new bond deal is widely seen as a test of the Greek government's ability to raise money in the capital markets to finance its operations and retire old debt. A successful bond sale will demonstrate that the market believes either that Greece can fix its fiscal problems or at least that Europe will come up with an effective bailout to solve short-term worries. A failed bond deal would only exacerbate the sovereign-debt fears gripping financial markets and could force other European nations to move more quickly to support Greece.

The Greek stock market slid nearly 3% Thursday and the euro slipped 0.5% against the dollar. This year, the Athens market is down almost 15% and the euro is off 5.5%. More broadly, the Pan-European DJ Stoxx 600 dropped 1.6% to 243.23 and the Dow Jones Industrial Average, having pared earlier losses, was off around 0.5% Thursday afternoon.

In the U.S., Federal Reserve Chairman Ben Bernanke on Thursday told Congress that he would investigate Goldman Sachs over so-called currency-swap transactions it helped Greece engineer. Such swaps, in the case of Greece, typically are used to convert funds from other currencies into euros. The 2002 transaction allowed Greece to keep $1 billion of debt off its fiscal balance sheet. Mr. Bernanke also said the Fed is looking into trades on credit-default swaps, a form of insurance against debt default, in European countries.



S&P said Greece faces a potential ratings cut of one or two notches, which would place the euro-zone nation on the brink of "junk" territory, would almost certainly make it more expensive for Greece to sell debt. S&P also said it didn't expect a euro-zone nation to default, nor did it expect any country to withdraw from the euro in the midterm.

Greece needs to borrow around €54 billion this year. It has so far raised €13 billion. Since about €22 billion of bonds mature in March and April, that amount must be raised from the market before then.

Credit markets also signaled increased nervousness about Greece's debt. Yields on 10-year Greek bonds rose to 3.64 percentage points above safer German bonds but remain shy of the peak 4.05-percentage-point spread reached in late January.

The cost to insure against a possible Greek default also rose, but those figures remain below January highs.

—Mark Gongloff, Emese Bartha and Clare Connaghan contributed to this article.

Hedge funds seek 'career trade' with euro bets

Continued from first page

about hedge funds jumping on the same trade—unless it is deemed by regulators to be collusion.

Regulators haven't suggested that any trading has been improper. Still, the euro action shows that such loosely coordinated trading is roiling markets.

An SAC manager, Aaron Cowen, who pitched the group on the bearish bet, said he viewed all possible outcomes relating to the Greek debt crisis as negative for the euro, people familiar with the matter say. SAC's trading position on the euro is unclear. Mr. Cowen declined to comment.

George Soros, head of a $27-billion fund manager, warned publicly last weekend that if the European union doesn't fix its finances, "the euro may fall apart." Through a spokesman for Soros Fund Management, he declined to comment for this article.

A Greek finance ministry official declined to comment. A European Commission spokeswoman said the Commission doesn't comment on market rumors, adding that the European Union's executive arm is working toward developing rules to tighten regulation and risk.

Few traders expect the value of the euro to collapse in the same the way that the British pound did in 1992 amid a large bearish bet by Mr. Soros. In that famous trade, which traders say led to a $1 billion profit, selling led by Mr. Soros pushed the pound's value so low that the Britain was forced to withdraw its currency from Europe's Exchange Rate Mechanism, which tied currencies together within fairly narrow trading bands, which then caused the pound to drop even more sharply.

Traders estimate that bets for and against the euro account for a huge chunk of the daily $3 trillion global currency market; that's a far cry from 1992, when global daily volume was just $820 billion.

As in the U.S. financial crisis in 2008, derivatives known as credit default swaps are playing a part in the trades. Some of the largest hedge funds, including **Paulson & Co.** Inc., which manages $32 billion, have bought such swaps, which act as insurance against a default by Greece on its sovereign debt. Traders view higher swaps prices as warning signs of potential default.

Since January, the prices of such swaps have nearly doubled, reflecting investors concerns about a default by Greece. Paulson had built a large bearish position on Europe, people familiar with the matter say, including swaps that will pay out if Greece defaults on its debt within five years. But someone familiar with the matter said that more recently, Paulson had become bullish on the euro.

In a statement, Paulson declined to comment "on individual positions," saying it "does not manipulate or seek to destabilize securities in any markets."

Late last year, hedge funds bought swaps that insured the debt of Portugal, Italy, Greece and Spain against the risk of default, and began making bearish euro bets. More recently, the hedge funds have sold these swaps to banks looking to "hedge," or protect, their holdings of European government bonds, traders say.

In the past year, the overall value of swaps insuring default against a Greek debt default has doubled, to $84.8 billion, according to Depository Trust & Clearing Corp. But the net amount that sellers would actually pay in a default rose just modestly over the same period, up only 4% to $8.9 billion, the DTCC says. This suggests that banks and others have bought and sold roughly equal amounts of swaps to hedge their positions, traders say.

The bigger bet against Europe these days is playing out in the vast foreign-exchange markets, which offers a plethora of ways to trade.

The focus on the euro began on Dec. 4, when the currency swooned 1.5% following an unexpectedly strong slowdown in the pace of U.S. job losses that buoyed the dollar.

Between Dec. 9 and Dec. 11, some big European and U.S. banks made bearish calls on the euro by buying one-year euro "puts." Puts give the holder the right to sell an investment at a specified price by a set date.

The pressure on the euro began building. The currency fell another 1.3% on Dec. 16, when Standard & Poor's downgraded Greek sovereign debt. Around that time, some large investors like asset manager **BlackRock** Inc. had bearish bets on the euro, believing that it couldn't sustain the levels at which it was then trading and that Europe's financial recovery would lag that of the U.S., according to people familiar with their position.

The concerns about Greece heightened on Jan. 20, when investors began to worry that the country would be unable to refinance its heavy debt load, causing the euro to fall another 1.3% to around $1.41. By Jan. 22, the cost to insure $10 million of Greek debt against default had risen to $339,000 from $282,000 on Jan. 1.

That same day, Greece announced it planned a five-year, €8 billion ($10.83 billion) bond sale in the coming days. To stave off speculators, Greece and its investment-bank advisors limited what could be allocated to hedge funds, according to a person familiar with the sale.

The sale was completed Jan. 25. But by Jan. 28, the value of the new bond had fallen 3.5%, which left investors unhappy.

At the Feb. 8 dinner in Manhattan, hosted by Monness, Crespi, Hardt & Co., a boutique research and brokerage firm, three portfolio managers spoke about investment themes related to the European debt crisis.

Donald Morgan, head of hedge-fund **Brigade Capital Management** LLC, told the group he believed the Greek debt crisis is an early domino to fall in a contagion that eventually will hit states, municipalities and all forms of sovereign debt. Greenlight's Mr. Einhorn, meanwhile, who was among the earliest and most vocal bears on Lehman, said he is bullish on gold because of inflation concerns. Mr. Einhorn declined to comment.

Three days after the dinner, the euro was hit with another wave of selling, triggering a decline that brought the currency below $1.36.

Last week, traders from Goldman, **J.P. Morgan Chase** & Co., **Bank of America** Corp.'s Merrill Lynch unit, and the British bank **Barclays** PLC were helping investors place a particularly bearish bet on the euro, traders say.

The trade involved an inexpensive put option that will provide its holder a big payoff if the euro falls to the level of a single U.S. dollar within a year. Known as a "tail-risk" trade because its probability is low, the euro-dollar parity put is a cheap way of ensuring that if the euro sinks dramatically within a year, an investor will generate big returns.

In recent days, the parity trade has been shopped around to banks to see which would offer the best deal. A going price for the extremely cheap bet is around 7% of the amount that a parity-trade would pay off. So for an investor seeking a $1 million bet, the cost is a mere $70,000.

This means that the market currently assigns roughly 14-to-1 odds that parity will be reached. In November, the odds were around 33-to-1, said a person who has seen the pricing for the trade.

—Tom McGinty and Jenny Strasburg contributed to this article.

U.K. immigration issue boils

Britain sees fewer foreign workers, more students, in data fueling a hot election issue

By Cassell Bryan-Low

LONDON—The U.K. government has had mixed results in its efforts to tighten entry requirements for foreign workers and students, new data show, as immigration heats up as an election issue here.

The 2009 statistics show fewer foreign workers are coming to the U.K., though the number of student visas issued to non-Europeans continues to rise.

The country has seen a dramatic increase in immigrants since the late 1990s, primarily driven by Eastern Europeans and other foreigners seeking employment during the boom times. As jobs became scarce during the recession and U.K. citizens became increasingly uneasy about opportunities being lost to foreigners, pressure has grown on the government to limit immigration.

Meanwhile, there has been pressure to tighten scrutiny of student visas, in part due to numerous incidents involving terrorism suspects who entered the country with student paperwork.

In response, the government two years ago began introducing new visa rules for non-European workers and students.

Figures released Thursday showed a mixed picture. The number of visas issued to non-European workers and their families declined 21% in 2009 from a year earlier, to 93,690, according to the Office of National Statistics. Most Europeans are free to seek work in the U.K. without obtaining a visa.

Meanwhile, the number of student visas issued to non-Europeans increased 31% from 2008 to 273,610. Overall, the U.K. issued 2 million visas in 2009, including family members and visitors, up 2% from a year earlier.

Immigration specialists say the new rules—which include stiffer financial and qualification requirements—are making it tougher for some people to come to, or stay in, the U.K.

Agence France-Presse/Getty Images

An immigrant to the U.K. receives a certificate of citizenship from London Mayor Boris Johnson in London in November.

Polls show many voters want to see fewer immigrants.

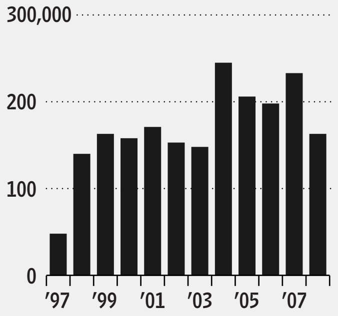
Immigration Minister Phil Woolas said the decline in work visas "is a result" of the new system, rather than the economic downturn. The government hails the new system for issuing work and student visas to non-Europeans as the most significant changes to the U.K.'s immigration rules since World War II. The change, they say, protects British workers by allowing flexibility to prioritize entry for migrants for jobs that are difficult to fill.

The opposition Conservative Party argues that the government has lost control of the borders, putting pressure on jobs and public services. It pledges to cap the number of work visas issued if it is voted into power in the spring election.

The net number of migrants coming into the U.K. has increased significantly to more than 200,000 in some years, up from less than 50,000 in 1997 when the current Labour government came into power, according to the Office for National Statistics. That equates to more than 2 million immigrants—a significant portion due to the inflow following the 2004 enlargement of the European Union to include countries such as Poland.

Net migration

Figures showing the difference between people coming to and leaving the U.K.



Source: U.K. Office for National Statistics

Confidence up amid shaky growth

By Nicholas Winning
And Ilona Billington

LONDON—U.K. consumer confidence strengthened for the second consecutive month in February with retailers reporting the strongest annual increase in sales volumes for more than 2½ years.

Butofficial data showed business investment in last year's fourth quarter posted the sharpest drop in annual terms on record and a Bank of England official warned that a substantial amount of economic slack will keep dragging down on inflation. The investment data and comments damped hopes for a positive revision Friday to the reading of fourth-quarter gross domestic product.

The headline measure of consumer confidence in a survey by polling firm GfK for the European Commission released Friday rose to minus 14 in February from minus 17 the previous month. The index, which was last positive in early 2005, has recovered from a low of minus 39 in July 2008.

A separate survey by the Confederation of British Industry released Thursday showed retail sales volumes grew at the strongest year-to-year rate for 33 months in February, although retailers aren't convinced that the elevated level of sales will continue.

The signs of recovery in the retail sector contrasted with data from the Office for National Statistics released Thursday that showed business investment in the fourth quarter was 24.1% lower than in the final three months of 2008, the sharpest year-to-year drop since records began in 1967.

Business investment totaled £27.1 billion ($41.73 billion) in the fourth quarter of 2009, the lowest level since the second quarter of 1999. Investment in the manufacturing sector fell to £2.3 billion, the lowest level since records began in 1994.

Investment plunges

U.K. quarterly total business investment, in billions

Source: Office for National Statistics

Economists said the figures damped hopes that the second reading of fourth-quarter growth due Friday would be revised higher. The preliminary reading in January showed GDP grew just 0.1%

David Kern, chief economist at the British Chambers of Commerce, said businesses have had little choice but to slash investment and stocks to survive in the face of weak demand and acute financial pressures. "But, such a situation cannot persist over the long term without damaging consequences," he said. "Unless business investment picks up, the U.K. will lack the capacity to meet growing demand when the recovery eventually gathers momentum."

In a speech at Imperial College, London, Monetary Policy Commtitee member David Miles noted that the uncertainty surrounding the economic outlook, with more downside risks to growth but slightly more upside risks to inflation, means the MPC should be ready to either loosen or tighten policy.

Mr. Miles said that the U.K. central bank's quantitative easing policy is "still very much alive."

"It is very unlikely that output will return to the trajectory it had been on before the onset of the credit crisis," Mr. Miles said. "Even if the supply capacity of the economy has been significantly eroded by the financial crisis, there is likely to remain a substantial amount of slack in the economy."

EU recovery continues but remains fragile

By Adam Cohen

BRUSSELS—The European Union's economic recovery remains fragile, facing heightened worries about euro-zone government finances, the European Commission said Thursday. In its quarterly economic outlook, the commission, the EU's executive arm, stuck to its November prediction for the EU economy and the 16-state euro zone to expand 0.7% this year.

But risks to this outlook remain, the commission cautioned, adding that worries about rising debts and budget deficits in the euro zone could spill over into other areas of the EU economy.

EU countries are dealing with budget deficits on a par with Greece's. The U.K.'s budget gap is expected to have been worth 12.9% of GDP last year, creating a "pivotal" test for U.K. policy makers, European Commissioner for Economic and Monetary Affairs Olli Rehn said. Because the U.K. isn't a member of the euro zone, however, it won't face the same pressure the commission is using to force budget cuts in Greece.

Economic confidence in the euro zone, meanwhile, fell in February for the first time since March 2009, a separate monthly survey by the commission showed Thursday.

The overall Economic Sentiment Indicator for the 16 countries that use the euro slipped to 95.9 in February from 96.0 in January, halting a 10-month recovery.

The decline masked a divergence between consumers and industry, with the latter rising and consumer sentiment declining.

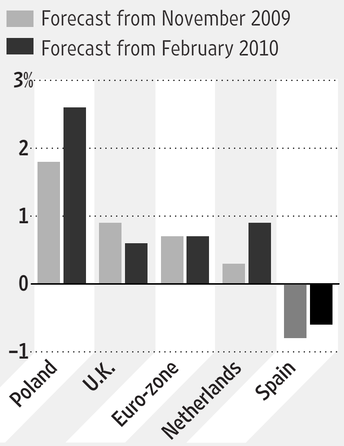
The rise in industrial confidence was boosted by gains across the board, particularly in new orders, while companies were more confident over the general production trend in recent months, the commission said.

The mixed outlook suggest that the economic recovery remains fragile with various headwinds still facing the euro zone. While companies are currently enjoying some recovery in orders and output, consumers remain cautious with several concerns—including employment prospects, upcoming tax increases in some economies, and well as the continuing Greek situation—weighing on optimism.

—Ilona Billington contributed to this article.

Still uncertain

The European Commission said the euro-zone recovery is fragile; 2010 GDP forecast, change from previous year



Source: European Commission

Turkey frees officers amid tensions

President, pledging a constitutional resolution to standoff with military, releases pair arrested in coup-plot sweep

By Marc Champion

ISTANBUL—President Abdullah Gül of Turkey sought to assuage fears of political instability Thursday, pledging that a growing confrontation with the country's military would be resolved within the constitution.

Mr. Gül issued his statement after a rare three-hour, three-way meeting with Prime Minister Recep Tayyip Erdogan and Chief of the General Staff Ilker Basbug. Hours later, the two most senior of 50 military officers detained Monday on charges of plotting a coup—a former chief of the air force and of the navy—were released without charge.

But it was far from clear that the meeting would resolve tensions. Eight current and former officers were formally charged Thursday with having plotted a coup in 2003, and have been jailed pending trial. That brought the total charged to date to 20, including five admirals and three generals.

The arrests appear to have raised the stakes sharply in a struggle between the Islamic leaning Justice and Development party, or AKP, and the traditional secular elite, above all the military, which has long seen itself as the guardian of Turkey's secular order. A similar battle is being fought out within the judiciary, a body that is charged with defending Turkey's secular constitution and that has become starkly divided between pro- and anti-government justices and prosecutors.

The government has said repeatedly that it wants to redraw the country's constitution, drafted after a military coup in the 1980s.

Rumors continued to swirl through Turkey's media Thursday that the country's courts were preparing a case to ban the AKP for overstepping its constitutional powers, a move that would sharply escalate political tensions and likely trigger early elections.

European Pressphoto Agency

President Gül, center, Prime Minister Erdogan, left, and Chief of Staff Gen. Basbug, right, on Thursday in Ankara discussing the arrests of alleged coup plotters.

Gen. Basbug, who appeared grim-faced in television footage of Thursday's meeting, earlier this week described the move against the military as "serious." Some 50 officers were seized from their homes in morning raids Monday, for questioning in connection with the alleged coup plot known as Sledgehammer.

The plan allegedly included operations to blow up crowded mosques in Istanbul and to shoot down a Turkish aircraft over Greek waters to create a state of emergency. No coup attempt materialized. The military has said the alleged plan was part of an annual war-gaming seminar.

The arrests and lack of retaliation from Turkey's once-untouchable military have underlined just how dramatically the country has changed in recent years, analysts say. As recently as 1997, the army helped to push a government out of power—for the fourth time since 1960. Criminal charges were pursued in military, not civilian courts. Now, for the first time, an elected government and civilian prosecutors appear to have the upper hand.

The arrests and their aftermath have gripped the attention of a nation in which the military remains the most trusted institution. Turkey is increasingly polarized between pro-Islamic AKP, which says the crackdown is needed to end military interference in Turkish democracy, and opponents who fear the government is attempting to undermine Turkey's secular foundations.

Citigroup said Thursday it was downgrading Turkish stocks to neutral from overweight in light of increased political risk triggered by the arrests. Istanbul's XU100 index fell 1.85% Thursday, dropping with markets world-wide.

Many analysts continue to believe a full-blown political crisis will be averted, if only because any effort to ban the AKP would likely boost its flagging opinion poll ratings at a time when elections could be called at any moment. Elections must be held by the middle of next year, but could be called earlier. A case to ban the AKP in 2007 helped it to a sweeping victory in snap elections.

Many television news and press accounts of the latest coup allegations have treated the coup threat as current, failing to note that the alleged plans were drawn up seven years ago and that no coup materialized.

New president takes office in Ukraine

By James Marson

KIEV, Ukraine—Viktor Yanukovych was sworn in as Ukraine's president Thursday in a ceremony in parliament, where rows of empty seats pointed to the battles he faces to consolidate his power to govern.

Prime Minister Yulia Tymoshenko, who was defeated by Mr. Yanukovych in a Feb. 7 runoff and refuses to recognize his victory, boycotted the inauguration ceremony along with most of the parliamentary deputies from her party.

Mr. Yanukovych is trying to oust Ms. Tymoshenko and form a governing coalition led by his opposition Party of Regions. He has called for her resignation, and lawmakers from his party introduced a motion of no confidence in the government Wednesday. The motion isn't expected to be voted on until next week, when parliament returns to session.

Ms. Tymoshenko, a savvy and tenacious political operator, has shown no sign of backing down and is trying to hold her fragile coalition together.

In an inaugural speech before parliament, Mr. Yanukovych promised to revive Ukraine's ailing economy, overhaul state structures and fight corruption. But without a majority governing coalition, he will struggle to push through his agenda, since Ukraine's prime minister holds greater sway over domestic affairs. More critically, he needs support from the government to implement measures to revive the economy, which contracted 15% last year.

Senior lawmakers in the Party of Regions say they expect a governing coalition to be formed next week, including two parties from the current majority coalition.

If negotiations prove unsuccessful, Mr. Yanukovych has said he will call early parliamentary elections, a step that could bring further political instability in the months ahead. Ms. Tymoshenko would continue as acting prime minister, raising the prospect of political deadlock.

Ms. Tymoshenko's frequent tussles with the president's predecessor, Viktor Yushchenko, hamstrung policy making. The International Monetary Fund suspended a $16.4 billion bailout program late last year after Mr. Yushchenko signed social-spending increases into law, in defiance of the fund and Ms. Tymoshenko. The fund has said it will resume lending only when political consensus is reached and a realistic budget for 2010 is adopted.

Agence France-Presse/Getty Images

Viktor Yanukovych, the new president, before his inauguration in Kiev Thursday.

Mr. Yanukovych called on deputies to unite around his policies. "Effective cooperation between the president, parliament and government will clear the path for rapid economic progress," he said.

He took a swipe at Ms. Tymoshenko, who only last week withdrew a court challenge to his Feb. 7 election victory and on Tuesday made a television address to the nation in which she again refused to recognize him as the legitimate president-elect.

"The failure to recognize the defeat of some and victory of others isn't just destructive for state interests, but deeply amoral," Mr. Yanukovych countered Thursday.

He also promised to reset Ukraine's foreign policy by improving ties with Russia, which deteriorated under the pro-Western leadership of Mr. Yushchenko, while also pursuing integration with the European Union.

He suggested that Ukraine could act as a "bridge" between the West and the East, developing "equal and mutually beneficial relations with Russia, the European Union, the United States and other states." Mr. Yanukovych's first foreign visit will be to Brussels on Monday, followed closely by a visit to Moscow on March 5.

He has already promised to abandon Mr. Yushchenko's push for North Atlantic Treaty Organization membership, a major irritant to Moscow.

But analysts say his early trip to meet EU leaders signals his commitment to continued cooperation with the 27-nation bloc.

Reuters

President Barack Obama, in a last-ditch effort to rescue his health-care overhaul, called on lawmakers to avoid 'political theater' and tried to highlight areas of agreement between the parties.

Partisan divides mar health summit

Sharp exchanges and tales of medical nightmares mark daylong session; a major tussle about premiums

WASHINGTON—President Barack Obama called on lawmakers not to let the health-care summit descend into "political theater," but the session featured sharp partisan disputes about the Democrats' bill and how they might pass it.

By *Laura Meckler, Henry J. Pulizzi* And *Janet Adamy*

The summit, called by Mr. Obama in an effort to rescue his overhaul, included long speeches by Congress members, a multitude of anecdotes about health-care nightmares, and moments that highlighted the philosophical differences between parties.

"This is an issue that is affecting everybody," the president told nearly 40 congressional leaders gathered around a square table at Blair House, across the street from the White House. "Everybody understands that the problem is not getting better, it is getting worse."

Mr. Obama had a sharp exchange with his Republican rival in the 2008 presidential race, Sen. John McCain (R., Ariz.). The Democrats' bill "was produced with unsavory—and I say that with respect—deal-making," said Mr. McCain, citing a Senate provision that would have given Nebraska special help with Medicaid funding.

The president, who wanted to steer the session away from the often-messy process of getting a health bill passed, cut off Mr. McCain. He said the senator was straying from the subject. "The election's over," said Mr. Obama.

"I'm reminded of that every day," said Mr. McCain.

Sen. Lamar Alexander (R., Tenn.), opening up for the Republicans, called on Democrats to promise that they won't pass their bill using a legislative technique called reconciliation, which only requires 51 Senate votes, versus the 60 votes typically required. Aides have said that is the Democratic plan, assuming that the summit doesn't produce a bipartisan agreement. Mr. Alexander asked that Democrats reject the idea of "jamming [the bill] through on...a partisan vote." He said reconciliation has "never been used for anything like this."

That prompted a prickly response from Senate Majority Leader Harry Reid. "Lamar, you're entitled to your opinions but not your own facts," he said.

With a few exceptions, members of Congress each spoke at length, often citing personal stories or stories of their constituents. As a result, at times the summit took on a feeling of a series of statements, rather than a discussion and certainly not a negotiation.

The most memorable tale may have come from Rep. Louise Slaughter (D., N.Y.), who spoke of a constituent who "wore her dead sister's teeth" because she couldn't afford her own dentures.

Both sides seemed to be battling each other for the most compelling medical anecdote. Mr. Obama made his case for an insurance safety net by citing a time when his daughter Malia came into the kitchen saying ""I can't breathe, Daddy," and when daughter Sasha had meningitis as a baby. Republican Rep. Charles Boustany of Louisiana, a heart surgeon, said he was once denied coverage because he had arthritis, and advocated high-risk pools for people with medical conditions who can't otherwise get coverage.

A major tussle centered on whether the Democratic bill would raise or lower premiums. Mr. Obama, citing the Congressional Budget Office, said some people would see their premiums go up, but only because they would be getting better policies. That led to a discussion over whether government should mandate a minimum set of benefits.

Sen. Jon Kyl (R., Ariz.) said the question is whether Washington officials or families know better what to do. Mr. Obama disputed that framing of the issue, saying Republicans already support government rules for insurance. He said the question is how extensive they should be.

Few legislators of either party seemed particularly interested in seeking common ground, but at one point Mr. Obama tried to highlight areas of agreement, ticking off a series of proposals that Democrats and Republicans have supported, such as barring insurance companies from dropping people once they get sick.

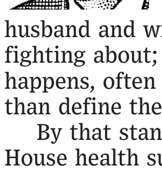
"I think we're establishing that there are actually some areas of real agreement and we're starting to focus on what the real disagreements are," Mr. Obama said during a midday break. "If you look at the issue of how much government should be involved—the argument that Republicans are making really isn't that this is a government takeover of health care, but rather that we're ... regulating the insurance market too much. And that's a legitimate philosophical disagreement."

Attendees included the president, Vice President Joe Biden and Health Secretary Kathleen Sebelius as well as most of the leading lawmakers from both parties.

Health debate helps crystallize differences

Capital Journal

By Gerald F. Seib



Marriage counselors will tell you that the first step in resolving an argument is to clarify what husband and wife actually are fighting about; angry words, it happens, often obscure rather than define the real issue.

By that standard, the big White House health summit between Democrats and Republicans Thursday may have done some good. In six hours of wrangling, it was possible to discern with some clarity several of the basic philosophical disagreements that keep the two sides apart on health care.

Seeing those disagreements crystallized helps to explain why some in the room could proclaim that the two sides actually are close to agreement, while others could declare that they are facing deep philosophical divides. In truth, both are correct.

Of course, whether defining the nature of the disagreement can lead to a marriage counselor's ultimate goal—reaching not just a compromise settlement, but a consensus that both sides own—is another question entirely.

Thursday's remarkable session amounted to a six-hour, nationally televised think-tank panel discussion moderated by the president of the U.S. Many will remember some of its more delicious moments: Sen. John McCain venting anger left over from the 2008 presidential campaign by chiding the man who defeated him, President Barack Obama, for failing to change how Washington works, or Democratic Rep. Louise Slaughter topping everyone else's tales of constituent health woes with the story of a woman who wears her dead sister's dentures because she can afford no other.

But what should be remembered is a broad questions that the discussion showed is the real source of division:

—Is the goal comprehensive or incremental change? This basic difference emerged at the very outset of the summit, in an exchange between Mr. Obama and Republican Sen. Lamar Alexander of Tennessee.

Democrats want a comprehensive approach that overhauls insurance practices, expands coverage, changes Medicare and attacks costs all at once.

Republicans don't simply question that approach, but flatly reject it. "We've come to the conclusion that we don't do comprehensive well," Mr. Alexander said. Then, uttering the phrase that became the mantra of the day for his side, he said Republicans want to throw out the big bills already passed in favor of a "step-by-step" approach.

That's more than a tactical difference. It's a deep strategic disagreement. Democrats argue, as Sen. Tom Harkin of Iowa declared, that "you can't do this incremental approach."

You can only change insurance rules to guarantee coverage for people with pre-existing coverage if healthier citizens are in the insurance pool to spread costs, they argue. And you can only get everybody in the insurance pool if the federal government requires everyone to have insurance of some kind. And you can only require everybody to have insurance policies if you provide government help to those with lower incomes.

Republicans counter that it's simply too risky and expensive to make all those changes at once. So they argue for taking smaller steps incrementally on health care: allowing insurance policies to be sold across state lines, allowing small businesses to band together into pools to buy insurance with more bargaining power, and so forth.

Those are, as President Obama kept repeating, honest disagreements, which are now more clear. Left unclear on Thursday was whether understanding is a step toward resolution.

WORLD NEWS

U.K. drilling is tough for Argentines

President Cristina Kirchner has denounced Britain, and diplomatic tensions between the two countries have risen

By Matthew Moffett

BUENOS AIRES—For Javier Fontanet, seated Thursday on a park bench in front of a monument to soldiers fallen in the 1982 Falklands War with Britain, the news was tough to absorb. "The British took the islands, and now they're taking the oil," said the 46-year old Mr. Fontanet, who was in a naval training school during the conflict.

For many Argentines, word this week that Britain had begun oil-drilling operations in South Atlantic waters off the Falkland Islands was like rubbing salt in an old wound. Argentina's leftist President Cristina Kirchner has denounced Britain before the U.N. and other international forums, and diplomatic tensions between the two countries have risen to perhaps the highest level in the three decades since the war.

But while most Argentines are bothered by the drilling, they seem mostly resigned to it and emphatic that their government confine itself to a peaceful protest. Mrs. Kirchner may get a little political mileage out of the dispute, analysts say, but there are limits to the good it could do her at a time when polls show Argentines weary of her autocratic style and populist economic policies.

An October 2009 poll by Ibarometro consultancy found that about 80% of respondents thought Argentina's claim on the islands was important. "This is one of very few issues upon which Argentines are united," said Doris Capurro, Ibarometro's president, citing the national soccer team as another symbol of unity.

But only 3% of respondents thought the islands, known here as the Malvinas, would be worth going to war over again. Moreover, the islands don't rank anywhere near the most pressing national issues, such as unemployment, poverty and crime, Ms. Capurro says.

That's why, despite some small protests by leftist groups over the Falklands drilling, it hasn't been a burning issue for most Argentines. The most-read story in the Buenos Aires newspaper La Nacion on Thursday morning dealt with a killer whale's attack on its trainer at SeaWorld in Orlando, Fla. And one British invasion seems to be quite welcome in Argentina: The British rock band Coldplay will play a concert in Buenos Aires Friday, and tickets are much in demand.

Of course, if British exploration companies discover large oil deposits, that would surely increase resentment among Argentines. There is also the chance that the dispute could escalate, prompted by some unanticipated encounter between Argentine and British forces on the high seas.

But for many Argentines, nationalist sentiment was tempered by cynicism about the governments they have had at home.

Juan Tripolone, 36 years old, recalled being swept up in patriotic enthusiasm for the war as a boy. "I remember my aunt donating money to the troops," he said. "Now I wonder if the money ever really made it to them. The soldiers were badly led and died like dogs."

Argentina and Britain have had conflicting claims on the islands since the early 19th century, when Argentina declared its independence from Spain. Then in 1982, Argentina's military government, facing domestic discontent over political repression and economic chaos, seized the Falklands in a surprise attack. Britain took them back at the cost of 649 Argentine and 255 British servicemen killed.

Under the conservative Argentine administration of Carlos Menem, who governed during most of the 1990s, Argentina followed what was known as "seduction policy," of trying to win over the Falklands' small population with a charm offensive. Argentina's foreign minister at the time sent Falklanders Christmas cards and Pingu the Penguin videos.

Those efforts at rapprochement faded under the governments of Mrs. Kirchner and her husband and predecessor, Nestor Kirchner, who have taken a harder rhetorical line on the Falklands since 2003.

"There aren't many topics where a majority of Argentines agree with her, and this is one of them," said Mark P. Jones, a political scientist at Rice University.

Still, he doesn't expect Mrs. Kirchner to be able to parlay the issue into a rebound from her low levels of support. "I think most people will see this for the ploy that it is," he said.

Partly, that's because Argentina's practical options are limited. Mr. Jones said the Argentine armed forces have "zero operational capacity" and would confront Britain at even a greater disadvantage than they did in 1982. In addition, he noted that the Argentine military resents the Kirchners, who have loudly denounced abuses committed by the armed forces during the dictatorship.

'There aren't many topics where a majority of Argentines agree with her, and this is one of them,' said political scientist Mark P. Jones of Mrs. Kirchner.

Agence France-Presse/Getty Images; Reuters

Jobs protesters, top, and Falklands War veterans, below, rally in Buenos Aires..

Sarkozy visits Rwanda

Associated Press

KIGALI, Rwanda — Nicolas Sarkozy, the first French president to visit Rwanda since the 1994 genocide, said Thursday that those responsible for the killings should be found and punished, including any who might be residing in France.

Mr. Sarkozy's trip here—the first by a French head of state in 25 years—came despite French arrest warrants for eight people close to Rwandan President Paul Kagame, who hosted Mr. Sarkozy at his residence shortly after he visited the country's main genocide museum.

"What happened here is unacceptable. What happened here requires the international community, including France, to reflect on the errors that prevented it from foreseeing and stopping this horrible crime," Mr. Sarkozy told reporters.

France and Rwanda have sparred for years over an alleged French role in the genocide, in which 500,000 people, mostly ethnic Tutsis but also moderate Hutus, were massacred in frenzied killing led by radical Hutus.

A French advocacy group for Rwandan genocide survivors says France is a "haven" for genocidaires, and it has filed 16 lawsuits against people living in France whom it accuses of a role in the killings.

"We want those responsible for the genocide to be found and punished. There is no ambiguity about it," Mr. Sarkozy said. "Are there any in France? The justice system must decide."

Rwanda's government and genocide-survivor organizations have often accused France of training and arming the militias and former government troops who led the genocide.

In 1998, a French parliamentary panel absolved France of responsibility in the slaughter.

Mr. Sarkozy reiterated a message he has made in the past about collective responsibility, including that of France. He said there had been "serious errors of judgment" about the killings and that there had been "a form of blindness when we didn't see the genocidal aspect of the government of the president who was assassinated."

The trip aims to cement diplomatic ties that were restored in November, three years after they broke down because of arrest warrants that accused nine people close to Mr. Kagame of a role in the presidential assassination that sparked the genocide.

Eight of the warrants against ranking Rwandans are still active, and Mr. Kagame sidestepped a question about them. Mr. Sarkozy said that France's justice system is independent and that Mr. Kagame understands that.

Mr. Sarkozy on Wednesday stopped in Gabon, then made an unscheduled stop in Mali, where he met with a French aid worker released by al Qaeda's North Africa offshoot this week after almost three months in captivity.

The French president has insisted that he wants a healthier relationship with Africa after years of what is known as the "Francafrique"—the French nickname for the secretive network among politicians, businessmen and soldiers in France and Africa.

In Mali, Mr. Sarkozy thanked President Amadou Toumani Toure for his efforts to free hostage Pierre Camatte. The Mali court decision to convict the four suspects on arms charges and sentence them to only nine months behind bars—which they had already served, resulting in their release—angered Mali's neighbors, Algeria and Mauritania, who worried it would encourage terrorists in the region.

Agence France-Presse/Getty Images

French President Nicolas Sarkozy slips on his arrival at Kigali airport.

WORLD NEWS

Pretoria seizes Pyongyang arms

Report to U.N. reveals interdicted tank parts

By Joe Lauria, Gordon Fairclough and Peter Wonacott

Two containers filled with tank parts and other military equipment from North Korea were loaded on a ship in the Chinese port of Dalian and bound for the Republic of the Congo, before they were seized last year by South African authorities, according to a report to the United Nations filed this month by the Pretoria government.

In a terse, two-page account offered to the U.N. committee overseeing the enforcement of sanctions imposed on North Korea, South Africa said that in November it confiscated gun sights, tracks and other spare parts for T-54 and T-55 tanks and other war material valued at an estimated $750,000.

The military equipment was concealed in containers lined with sacks of rice, said the confidential South African report, which was reviewed by The Wall Street Journal. Shipping documents identified the cargo as spare parts for a "bulldozer," according to the report, which said the goods were shipped by a North Korean company.

This latest incident is likely to focus attention on China's role in enforcing the measures against its ally.

South Africa's seizure marks at least the third time a government interdicted goods bound for or coming from North Korea after the U.N. Security Council imposed stricter sanctions against Pyongyang in June 2009. Thailand in December seized a planeload of North Korean rocket-propelled grenades and other weapons apparently bound for Iran.

The June sanctions were a response to a nuclear test North Korea conducted in May, its second such test prohibited by U.N. resolutions. The sanctions prohibit all arms-related trade with North Korea, urge national authorities to inspect suspicious North Korean cargos and allow countries to block financial transactions and freeze assets that could contribute to North Korea's weapons programs. The U.N.'s list of contraband North Korean items ranges from tanks and large-caliber artillery systems to attack helicopters and missile systems, and related spare parts.

The North Korean mission to the U.N. in New York and the Congo's U.N. ambassador didn't respond to requests for comment.

This latest incident is likely to focus attention on China's role in enforcing the measures against its ally and neighbor, with which it shares a long border. China is by far North Korea's largest trading partner and its most important supplier of everything from food to fuel to consumer goods. China, a permanent member of the U.N. Security Council, voted in favor of the tighter sanctions.

The report didn't suggest China played a role in the transport and it wouldn't be difficult for containers to pass through Dailan undetected. Malaysian authorities also failed to detect anything remiss when the cargo passed through Port Klang.

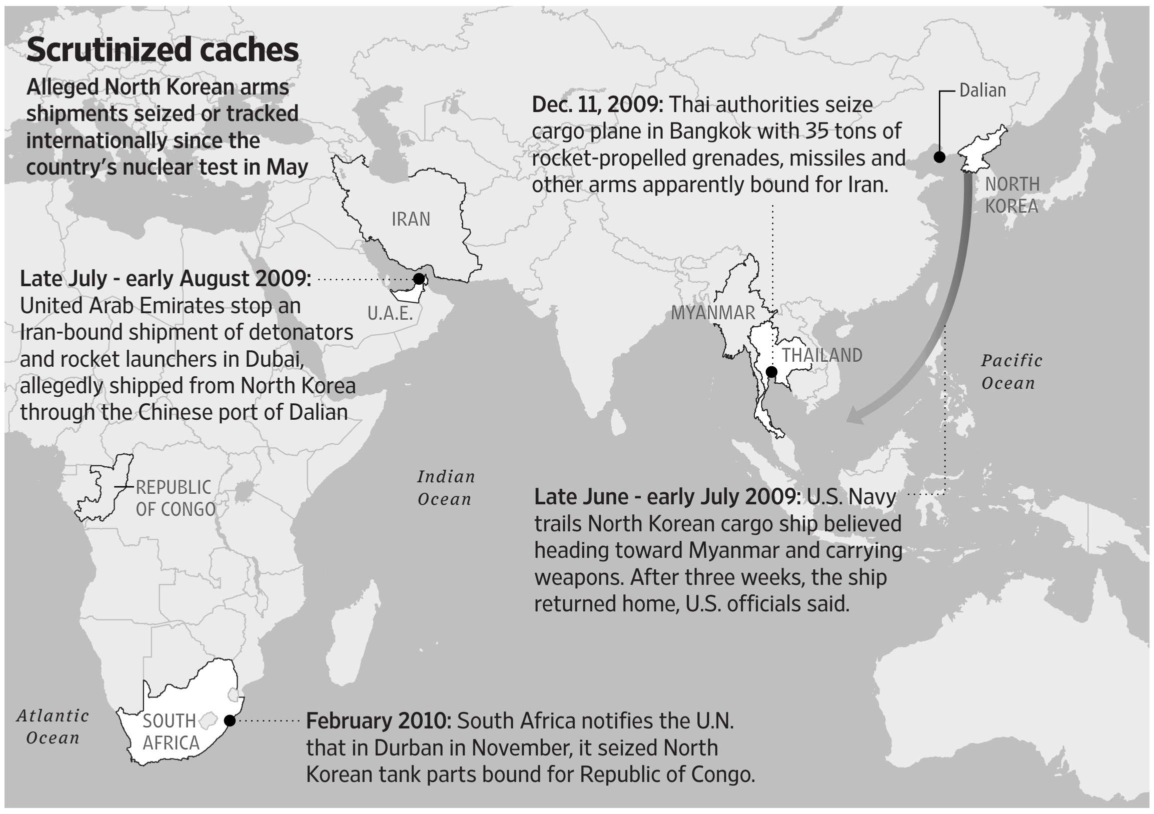
Chinese foreign ministry spokesman Qin Gang said at a briefing with reporters Thursday that Beijing is aware of the issue and is looking into it, but declined to comment further. Chinese Customs officials also declined to comment Thursday.

Beijing has sought to balance competing interests—aiming to pressure Pyongyang to abandon its nuclear-weapons programs, without pushing hard enough to cause a sudden collapse of dictator Kim Jong Il's regime, which could spark a military confrontation and lead to a flood of North Korean refugees into China.

Diplomats in neighboring South Korea have said they generally give China high marks for enforcing the expanded U.N. sanctions.

Saul Kgomotso Molobi, chief director for public diplomacy at South Africa's foreign ministry, confirmed the November cargo seizure but otherwise declined to comment, saying the matter is still under investigation. The reason for South Africa's delay in informing the U.N. of its actions remains unclear.

South Africa's report to the U.N. is short on detail. It doesn't indicate, for example, how the goods were identified as North Korean and how they were transported to Dalian, northeastern China across the Yellow Sea from North Korea.



The report said the containers were loaded in Dalian onto the **CMA CGM** Musca, a large, ocean-going container ship operated by the French shipping line CMA CGM and flying the United Kingdom's flag.

The Musca delivered the containers to Port Klang, one of Malaysia's busiest sea ports. There they were transferred to another ship, identified as the Westerhever, chartered by a CMA CGM subsidiary, the report says. It says the shipping company ordered the Westerhever's captain to discharge the arms-laden containers in Durban, South Africa. It doesn't say who initially raised suspicions about the cargo.

CMA CGM said it was cooperating with the appropriate authorities and declined to comment specifically on the matter. "As a global carrier transporting every year millions of containers, CMA CGM takes its responsibilities to international regulation, the security of their vessels, and the cargo carried on board, extremely seriously," the company said through a public-relations firm, Maritime Technical International.

The containers held communications equipment for tanks, gun sights, seats, tracks, tank periscopes, protective headgear, search lights as well as a radio with Chinese markings, the South Africans said. The parts were for Soviet-designed T-54 and T-55 tanks, once widely used in the Eastern Bloc and still common in developing-country militaries.

The report says the shipment was to have arrived at Point Noire, in the Republic of Congo, and identified the intended recipient as DGE Corp., which it identified as a North Korean entity with a phone number in Congo. A recording at that number said the line isn't in service.

Africa has long been a major weapons buyer. Wars, civil wars and insurgencies are estimated to cost Africa's economies a combined $18 billion a year, according to a 2007 joint analysis by the nongovernmental organizations International Action Network on Small Arms, Oxfam International and Saferworld.

Congo, also known as Congo-Brazzaville, is ruled by Denis Sassou-Nguesso, who has been in power for much of the past three decades. Mr. Sassou-Nguesso, who was reelected last year, has been accused by Transparency International of spending his country's oil wealth on lavish cars and property in France, allegations he denies. His government has been engaged in on-and-off battles with rebels.

Since many such weapons deals are brokered by middlemen, it is possible that Congo wasn't aware that North Korea was the seller and that it was violating U.N. sanctions with the purchase, according to Guy Lamb, an arms-control analyst in Cape Town for the Institute for Security Studies.

Arms sales were once an important source of hard-currency earnings for the reclusive Communist North Korean government, which maintains one of the world's largest standing armies despite a crumbling domestic economy that has for years left the country facing famine and fuel shortages.

The U.S. Congressional Research Service has estimated that between 1998 and 2001, Pyongyang earned an average of about $250 million a year from conventional weapons sales.

The impact of the new U.N. sanctions on North Korea has been difficult to measure. But one sign of their effectiveness is the speed with which Pyongyang has reached out to South Korea, which it had pushed away for more than a year before the sanctions, for new economic assistance.

As North Korea has become increasingly isolated, it has become more reliant on China to keep its economy afloat.

Chinese traders based in Dandong, China, said trade with the North has fallen since the sanctions were imposed and that Chinese authorities have noticeably stepped up inspections of the cargos that travel by truck and rail over the bridge linking Dandong to North Korea.

Officials with shipping companies in Dalian also say trade has declined since last year. One North Korean shipping company has a regular run that visits Dalian roughly once a week, said a shipping company official, who said most of the containers it carries are goods in transit bound for other ports.

The shipping officials said it is highly unlikely goods from North Korea would be shipped into China by land and brought to Dalian to be put on a ship.

—Kersten Zhang in Beijing, Evan Ramstad in Seoul and David Gauthier-Villars in Paris contributed to this article.

Algeria's top police chief is shot dead

Algeria's longtime national police chief Ali Tounsi was shot dead in a meeting Thursday by another police officer, who was also seriously injured in the attack, according to a statement by the country's interior ministry.

By ***Summer Said*** *in Dubai and* ***Benoît Faucon*** *in London*

The attack threatens to leave a power vacuum in Algeria's tightly controlled security services, as the giant North African oil and natural-gas producer continues to fight terrorism. It also comes amid a high-profile corruption case involving a top Algerian petroleum official, which has suggested potential problems for the government.

"The death of Ali Tounsi, Director-General of the National Police, took place during a working session, in the course of which a police official, apparently gripped by an attack of madness, used his weapon and fatally wounded Col. Tounsi," the statement said.

The perpetrator of the attack was transported to the hospital, and a judicial investigation was opened to "determine the circumstances of this painful event," the ministry said. Officials at the national police headquarters and the interior ministry declined to comment about Mr. Tounsi's death.

Dubai-based Al Arabiya television said that shooter was believed to be the former head of the police's helicopter units, who was facing disciplinary action. That report was impossible to confirm.

Mr. Tounsi had been Algeria's national police chief for more than a decade and was a veteran of the country's war of independence from France in the 1950s and 1960s.

In 1995, the army-backed government appointed him to coordinate part of its battle against Muslim fundamentalists. Mr. Tounsi was an army colonel and was the former deputy head of the military's main intelligence service. He was the target of an assassination attempt three years ago by Islamists.

The police chief's killing occurs at a tense time for one of Europe's biggest natural-gas suppliers. Algeria has been battling al Qaeda-linked terrorists in the country, who have recently branched out to other parts of northern Africa. The government also recently demoted the head of the national oil and gas company, Sonatrach, Mohamed Meziane, last month and placed him under judicial control for alleged corruption. The move sparked worry of a power struggle in the government of President Abdelaziz Bouteflika, which is heavily dependent on Algeria's petroleum industry.


Agence France-Presse

Ali Tounsi, in 2004