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BUSINESS & FINANCE 17

THE WALL STREET JOURNAL.

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CDU takes Merkel to task

MARCUS WALKER

BERLIN—German Chancellor Angela Merkel came under fire on Sunday from lawmakers in her own party who in a rare rebellion claimed her hands-off leadership style is damaging her conservative Christian Democratic Union.

Ms. Merkel's "presidential style brought her high popularity, but little identification with her party," a group of senior regional CDU officials said in a Sunday newspaper editorial, adding that she won the recent election more by "luck" than leadership. They called on the chancellor to adopt a clearer conservative profile emphasizing core party values such as family, patriotism and smaller government.

The criticism is a sign of mounting discontent within Ms. Merkel's party at her government's stumbling start since winning Germany's national elections in September. Her center-right coalition is mired in disputes over the economy and foreign policy, and critics within and outside the government complain that the chancellor is trying to sit out problems rather than take a clear stand on difficult issues.

"Where is Merkel?" asked Josef Joffe, a political scientist at Stanford University and a political commentator in Germany, in an interview. "I can't remember anything like this stumbling by a new government."

Ms. Merkel has invited coalition leaders to a crisis summit on Jan. 17 to get the new government back on track, and to end festering rows between her allies.

Yet the growing divisions within her new government are raising doubts about whether Ms. Merkel can achieve more in her second term than in her previous coalition with the left-leaning Social Democrats, which largely stymied itself through endless squabbling.

Such an outcome would dash hopes in Germany and abroad that Ms. Merkel overhaul Germany's economy and welfare state, so as to improve the sluggish economic performance of the world's fourth-biggest economy.

For weeks, some conservatives have openly bickered with their new partner in power, the pro-business Free Democratic Party, especially over whether Germany can af-

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Europe continues to struggle with fallout from harsh winter weather

Agence France-Presse/Getty Images

In Montenegro, a man leads horses from the village of Ponare on Sunday, following floods caused by heavy snow. Bad weather led to traffic accidents across Europe.

Heineken purchase of Femsa is near

BY DANA CIMILLUCA AND JEFFREY MCCRACKEN

Heineken NV is closing in on a deal to buy the beer business of Femsa for roughly $8 billion, people familiar with the matter said, in what would be a surprise finish to the auction of the Mexican beer maker and continue a wave of consolidation in the industry.

Heineken has emerged as the likely buyer of the beer operations of **Fomento Economico Mexicano** SAB, as Femsa is formally called, after **SABMiller** PLC, considered by many to be the front-runner, dropped out of the auction.

A deal could be announced as early as this week, though the situation could change and there is no guarantee Heineken will seal the deal.

Acquiring Femsa's beer unit would give Heineken a big stake in Mexico, one of the most profitable beer markets in the world. It would also bring it into closer competition with **Anheuser-Busch InBev** NV in Mexico and Brazil. Buying Femsa could also provide Heineken with opportunities for growth in the U.S., where Femsa's Tecate and

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Brown to start outlining strategy

BY ALISTAIR MACDONALD

U.K. Prime Minister Gordon Brown will announce his senior election campaign team and outline some strategy on Monday, a spokesman said. Mr. Brown is looking to address concerns over procrastination on these issues that in part led to last week's failed attempt to depose him as party leader.

Last week, calls by two former government ministers for a secret Labour Party ballot on Mr. Brown's leadership failed when Labour members of Parliament rejected the idea and no senior ministers publicly backed it.

At a meeting of the Labour Party on Monday Mr. Brown will "set out that aspiration will be central to Labour's election strategy" and in a speech that day will underscore the party's "commitment to aspiration" through a program to pay for Internet broadband access in the country's poorest households, according to a spokesman.

Aspirational themes were key to the New Labour message that helped the party win the last three elections. Some ministers have been frustrated with plans to emphasize attacks on the privileged backgrounds of some members of the opposition Conservative Party in an attempt to appeal more to the Labour Party's traditional working class base, people familiar with the matter say. These people say that could come at the cost of narrowing Labour's appeal.

The return to a New Labour message will be seen as a victory for ministers such as Peter Mandelson, and a reward for their backing in last week's failed coup attempt. At the Labour party meeting on Monday Mr. Brown will announce among other appointments that Lord Mandelson will act as Chair of Election Strategy for the election, the spokesman said.

Separately, the U.K.'s financial-services sector saw a second consecutive rise in activity in the fourth quarter, but said it expects business to decline in the months ahead amid economic uncertainty and a swathe of new financial regulation, a quarterly survey by a leading business group showed. The Confederation of British Industry said business sentiment, volumes and profitability across the sector rose in the fourth quarter, but more modestly than over the previous three months.

—Joe Parkinson contributed to this article

PAGE TWO

The euro zone enters the new year driving at two very different speeds

[Agenda]

By Irwin Stelzer

There are more reasons than one to believe this will be a fraught year for the euro zone.

Yes, it is likely the region as a whole will record positive growth after a dismal 2009. Likely, but not certain. And anemic at best: on the order of 1.5% predicts Société Générale—and lower than that, or even negative, if the European Central Bank tightens too much, too soon, and the euro soars to levels that cut into imports.

"There are signs even in Germany—the economy normally thought to be least impacted by a stronger currency—that the strength of the euro is becoming a problem," opine economists at Jefferies.

But the prospect that the euro zone as a whole will grow a bit obscures the wide disparity in the likely performance of its members. Germany and France should begin to recover, Greece and Spain might be another story altogether.

It is this disparity that is most worrying to euro-zone policy makers as their area-wide currency celebrates its 11th anniversary, refuting by its continued existence those critics who said the new currency wouldn't survive a serious recession.

The euro zone, after all, has a one-size-fits-all monetary policy, designed to produce non-inflationary growth in the zone as a whole. But each country is on its own when it comes to fiscal policy. Or almost: The price of entry was an agreement to keep deficits down to 3% of GDP.

True, the membership committee decided to overlook the widely known fact that Greece's application contained financial information of the sort found on many applications for subprime mortgages. No harm done, at least not immediately.

European Press Photo Agency

Greece may have to give up control of its fiscal policy in return for help

Until now this contradiction—the ECB controlling interest rates and the money supply, individual countries deciding on the size of their fiscal deficits—has proved manageable. But with the recession came budget deficits in excess of 3% of GDP in seven of the 16 euro-zone countries. Greece puts its deficit at 12.7% of GDP (others say 14.5% is closer to the truth) and its public debt at 125% of GDP, twice the ceiling the euro zone sets for new entrants.

With domestic demand weak the zone will depend on exports to restore growth.

It is far from certain the government will be able to face down the public-sector unions and keep its promise to reduce the deficit in its still-shrinking economy to 8.7% next year, and less than 3% of GDP by 2012.

Indeed, it is unlikely that any of the so-called Piigs (Portugal, Ireland, Italy, Greece and Spain) will be able to get their fiscal houses in order anytime soon.

Of these, only Ireland seems to have the political will required to cut spending, and even that isn't a certainty.

Which means we are about to learn whether the euro can survive a two-speed euro zone. If France and Germany do recover at a rate that requires the ECB to tighten so as to avoid inflation, the laggards would be hard hit—higher interest rates don't make life easier in recession-bound economies. So far, Greece's euro-zone colleagues are refusing to fund a bailout. "Whoever believes ... the European Union [member states] will put their hands in their pockets to save Greece will end up deluded," ECB executive board member Jürgen Stark told Italy's Il Sole 24 Ore.

But Germany, France and other countries have too big a stake in the long-run viability of their new currency to see Greece do what its politicians might feel they have to do to preserve their alliance with the public-sector trade unions—drop the euro, and re-establish their national currency, sufficiently devalued to stimulate exports and economic growth.

It is unlikely to come to that—there is so much political capital invested in the euro by the political class that even the stern and parsimonious Angela Merkel will in the end contribute to a bailout fund if necessary. With conditions that turn effective control over Greece's fiscal policy to the ECB or some comparable organization in return for help from fellow members. Meanwhile, Paul De Grauwe, a Brussels-based economist who advises European Commission President José Manuel Barroso, displayed more than a wry sense of humor when he told reporters, "If there are fears now that a breakup of the euro zone will lead to a weakening of the euro, then that is good news. So we should congratulate Greece for getting us out of ... having a euro that is too overvalued."

In short, with domestic demand weak, the zone will rely on exports to restore growth, while continuing to avoid the fundamental labor-market reforms and restructuring of pensions and other benefits decreasingly affordable by their aging populations.

Small problem. My guess is that U.S. President Barack Obama finds the prospect of a flood of imports unappealing, and protectionism increasingly attractive as he tries to whittle down unemployment at home, a chore even more urgent in light of Friday's surprise report that the American economy lost another 85,000 jobs last month.

—Irwin Stelzer is a business adviser and director of economic-policy studies at the Hudson Institute.

What's News

■ **Employees at several** Wall Street companies who are about to get some of their largest bonuses ever are complaining that too much of their pay is being shifted to stock, which could leave them in a liquidity squeeze. **3**

■ **The U.S. Republican Party** chairman said Democratic Senate Majority Leader Harry Reid should leave his leadership post over 2008 remarks he made about Obama. **7**

■ **Much of Florida's orange** crop was spared damage thanks to cloud cover, but frozen fruit could be found in northern areas. **22**

■ **China is expected** to boost steel output nearly 10% this year, likely pushing up prices for steel, its raw materials and other commodities. **19**

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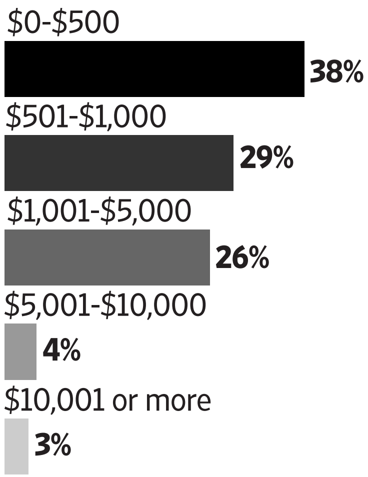

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NEWS

Cash still rules Street

Bank employees grumble about being compensated in stock

Employees at several Wall Street companies who are about to get some of their largest bonuses ever are complaining that too much of their pay is being shifted to stock instead of cash, according to people familiar with the situation.

By **Susanne Craig, David Enrich** And **Robin Sidel**

Banks and securities firms have told workers that deep cuts in the percentage of year-end bonuses paid as cash are needed to reduce the temptation to take excessive risks and show Wall Street is responding to public anger over the huge gap between its pay culture and the rest of America. But some employees have responded with concerns that the move could leave them in a liquidity squeeze, since they rely on cash payouts for mortgage payments, private-school tuition and other expenses.

"I don't think it's just whining," said one person at a Wall Street firm. "There are legitimate liquidity issues that people have. They want to hire contractors" for home renovations and other projects.

Compensation amounts for 2009 will be announced as part of fourth-quarter earnings reports, including **J.P. Morgan Chase** & Co. on Friday and **Goldman Sachs Group** Inc. on Jan. 21. Bonuses will be paid out starting this month.

Some firms already have said they will hand out more stock and less cash than in the past. Analysts expect overall pay levels to be reined in slightly as companies try to deflect fury over their rapid return to business as usual, including revenue that has rebounded to pre-crisis levels. Michael Mayo, an analyst at **Calyon Securities**, predicts Goldman will pay employees about 40% of 2009 revenue, down from 48% in 2008.

"We feel Goldman needs to be aware of issues surrounding its comp and should make needed adjustments," Mr. Mayo wrote in a report Friday. His projection of about $18 billion in compensation and benefits represents a 64% jump from 2008. In 2007, Goldman paid employees $20.19 billion.

The changes will fall far short of the punishment many lawmakers and Americans think Wall Street deserves for its role in the financial crisis and resulting economic slump. Though many financial firms are weary from criticism of their pay culture, 2009 compensation is on pace to approach or surpass the record-high payouts of 2007.

"You would certainly think that the financial institutions that are now doing a little bit better would have some sense," Christine Romer, head of the White House Council on Economic Advisers, said Sunday on CNN television. "This big bonus season...is going to offend the American people. It offends me."

Goldman Chairman and Chief Executive Lloyd Blankfein has told colleagues that neither employees nor the public will be happy when the firm announces its bonus payments, according to people who heard the remarks. The company is expected to report the highest yearly profit in its 141-year history.

Executives also have indicated that stock doled out to employees will take longer to vest than it did in previous years. That would make it harder for recipients to convert those shares into cash. Goldman also is considering increasing base salaries, now ranging roughly from $100,000 to $250,000, people familiar with the matter said. That would give employees a larger stream of cash during the year.

Compensation levels and the mix of cash and stock vary widely by job title and seniority. The highest-ranking employees will get the largest percentages of stock as part of their year-end payouts.

At Goldman, there has been some chatter that the stock component of some bonuses could jump by 20 percentage points. That means a Goldman managing director whose $3 million in total compensation for 2008 included about $900,000 in stock could get $1.5 million in stock for 2009, representing a loss of $600,000 in cash. Goldman declined to comment.


Andrew Harrer

The U.S.'s Kenneth Feinberg approved higher cash pay at some firms.

EUROPE NEWS

Bloomberg News (2); European Pressphoto Agency (1); Agence France-Presse (1)

Prospective European commissioners include Spain's Joaquín Almunia, competition; France's Michel Barnier, internal markets; Belgium's Karel De Gucht, trade; and the Czech Republic's Stefan Fule, enlargement.

EU Parliament will begin hearings

Half of 26 appointees are already in office, but lawmakers can derail entire slate if they disapprove of any one nominee

By Charles Forelle And John W. Miller

BRUSSELS—The European Parliament embarks Monday on confirmation hearings for 26 prospective new European commissioners.

If the past is any guide, the hearings will provide their share of political posturing, platitudes, bureaucratese and assurances that the Parliament is held in high esteem.

Thirteen of the 26 appointees going before Parliament are already in office, and have undergone the exercise before.. (European Commission President José Manuel Barroso has already been approved.) The commission, which proposes and enforces European Union legislation, sits for a five-year term.

Unlike in the U.S., where senators have the authority to approve or reject top executive-branch appointments, European parliamentarians only get to give a thumbs-up or thumbs-down on the commission as a whole.

But the Parliament isn't shy about voting no if it doesn't like one or two of the choices. The last time around, in 2004, it rejected a slate of commissioners in part because the Italian nominee had declared homosexuality to be a sin.

The hearings are scheduled to finish Jan. 19 and a vote is expected Jan. 26.

Several commissioners will command particular attention, because their posts come with significant authority to set policy. Observers will be parsing their statements for clues to its direction.

That category includes Joaquín Almunia (competition) and Karel De Gucht (trade), along with Michel Barnier, a Frenchman selected for the internal-markets job, which regulates financial services. London financiers fret that Mr. Barnier intends to toughen oversight of Europe's money capital.

Others are likely to be in the spotlight because they are wild cards. Stefan Füle of the Czech Republic, selected to be in charge of the bloc's enlargement policy, can expect grilling on his membership, decades ago, in the Czechoslovak Communist Party.

Rumiana Jeleva, the Bulgarian nominee, has denied recent suggestions reported in the German press that her husband has ties to organized crime. Parliamentarians may want to find out more.

Mr. Almunia won't face particularly tough questioning, though one topic will likely be the commission's posture toward antitrust fines. They surged under current commissioner Neelie Kroes, and many corporate defense lawyers are urging a respite.

Mr. Almunia, in a written response to parliamentary questions, vaguely pronounced himself more or less satisfied with European competition policy and outlined no new initiatives or reforms beyond a desire to produce "high-quality legislative and non-legislative proposals."

The candidate for EU trade commissioner, Karel De Gucht, is a feisty former foreign minister and EU development commissioner. The 55-year-old Belgian is an avowed free trader, say trade officials, but parliamentarians may challenge his skepticism about how Africans spend European aid money, which has angered the developing world and delighted critics of aid in the West.

Last week, the Democratic Republic of Congo banned Mr. De Gucht from the country after he expressed doubts that the EU's €50 million of annual aid money was being put to good use.

In 2008, Congo broke off relations with Belgium for nine months, pulling its ambassador out of Brussels, after Mr. De Gucht said Belgium's aid contributions gave it "the moral authority to comment on issues affecting the country."

Instead of forcing a candidate to withdraw his or her nomination, parliamentarians are more likely to try to wring concessions from the prospective commissioners, says Piotr Maciej Kaczynski, of the Brussels-based Centre for European Policy Studies.

For example, in the case of trade, some members of Parliament are eager to get Mr. De Gucht to pledge to write clauses forcing foreign exporters to the EU to respect human rights into trade treaties. Some members are keen to have such clauses added to a pact currently being negotiated with countries in the Persian Gulf region.

The hearings, each scheduled to last three hours, start with Baroness Ashton, the Englishwoman who was chosen by EU governments as the bloc's foreign minister but must submit to the hearings in her other role as a deputy to Mr. Barroso. At the same time, Janusz Lewandowski, the Polish commissioner-designate for the budget and financial programming goes before the budget committee.

CDU urges Merkel to emphasize core party values

Continued from first page

ford major income-tax cuts.

Ms. Merkel has so far avoided intervening in this or other disputes, in keeping with her usual style of steering around controversies. Many colleagues and analysts are calling on her to lead from the front.

Opinion polls show two-thirds of voters are dissatisfied with their new government, boding ill for the center-right in key state elections this year. Ms. Merkel's personal popularity remains high but is slipping.

Sunday's op-ed, which appeared in the Frankfurter Allgemeine Sonntagszeitung, a prominent Sunday newspaper, accused Ms. Merkel of shifting the party to the left and failing to motivate its conservative base. Ms. Merkel, who once espoused free-market policies that proved unpopular with voters, now tries to appeal as broadly as possible, and her profile is almost center-left on some issues, including support for high welfare spending and state intervention in the economy.

The chancellor didn't comment at the weekend but CDU general secretary Hermann Gröhe dismissed the criticisms as unfounded.

While the chancellor has stayed silent, FDP leader and German Foreign Minister Guido Westerwelle is at loggerheads with the CDU's Bavarian sister-party, the Christian Social Union. Mr. Westerwelle insists on cutting income taxes by €24 billion (about $35 billion) a year, as the coalition agreed last October, but Bavarian conservatives say that is unrealistic given Germany's huge budget deficit.

The CSU has attacked Mr. Westerwelle for supporting Turkey's European Union membership bid, which most conservatives oppose. The coalition partners also are quarreling over the historically fraught question of how to commemorate the expulsion of ethnic Germans from Eastern Europe after World World II.

The chancellor "figures she is better off leaving those little boys to fight it out with each other," Mr. Joffe said. So far, Ms. Merkel's passive style of leadership has served her personal power, despite her party's frustrations, he says. "She has made herself indispensable by being the hub, while others are the spokes," Mr. Joffe says.

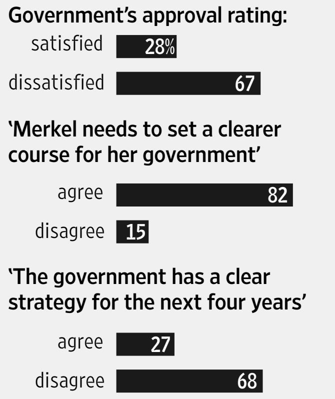
A challenge to Ms. Merkel's rule isn't in sight yet. But some observers say that could change if the infighting continues. "The government is damaging itself with this squabbling, and it will require Merkel to lay down the law, or else she will be damaged too," said Tilman Meyer, political scientist at Bonn University.

The chancellor's catch-all strategy aims at winning over centrist voters from the Social Democrats or SPD, and appeared to work in September's election: Center-right parties won a majority in parliament, allowing Ms. Merkel's CDU to break free of its fractious, bipartisan government with the SPD.

However, the CDU and CSU won only 34% of the national vote, their lowest share for 60 years, as many supporters stayed home or defected to the tax-cutting FDP, which won a record 15%.

Stumbling start

Germans want Angela Merkel to lead her squabbling government more firmly



Note: 1,000 people were surveyed from Jan. 4-6. margin of error: +/– 2.25 percentage points
Source: ARD/Infratest Dimap

Associated Press

German Chancellor Angela Merkel in London

Northern Ireland strained

Scandal raises pressure on head of provincial government to step down

By Guy Chazan

The head of Northern Ireland's provincial administration is facing mounting pressure to resign, as allegations of financial and sexual impropriety involving his wife rock the province and threaten to destabilize its already shaky power-sharing Executive.

Iris Robinson was expelled from her Democratic Unionist Party over the weekend in the wake of her admission of an affair with a teenager.

The DUP has said Ms. Robinson, an evangelical Christian known for her strong public views on morality and her description of homosexuality as an "abomination," will also resign as a member of the Northern Ireland Assembly. Last month, Ms. Robinson said she won't seek reelection to the U.K. Parliament and would quit politics due to a long battle with depression.

The scandal is a blow to the province's local administration, in which Protestant and Catholic parties share power in an often uneasy coalition.

The Executive is led by Ms. Robinson's husband, Peter, the leader of the DUP, which represents pro-U.K. Protestants in the province. His deputy is Martin McGuinness, a former Irish Republican Army commander who is now a senior figure in Sinn Fein, once the IRA's political wing. The partners have been mired in a long-running dispute over delays in the transfer of policing powers from the U.K. government in London to Northern Ireland.

Ms. Robinson admitted last week that she had had a since-concluded affair with Kirk McCambley, who was 19 years old when the liaison began in 2008. Mr. McCambley has confirmed the affair.

A BBC investigation alleged Ms. Robinson had helped her lover get set up in business, obtaining £50,000 ($80,085) from two real-estate developers she knew to help him launch a café in South Belfast. The program, which based its allegations on information provided by a former adviser to Ms. Robinson, also alleged that she took £5,000 of the loan for herself. Mr. McCambley has confirmed the loan. Ms. Robinson hasn't commented on these allegations.

But she failed to declare the loan in Parliament's register of members' interests, which the BBC report said is a violation of the legislature's rules. As a member of the local council that awarded Mr. McCambley the lease on the building that was to house his café, she also should have declared her connection to the venture, as per the council's rules.

The BBC investigation alleged that Mr. Robinson became aware of the payments made to Mr. McCambley in December 2008, and demanded his wife reimburse the developers. But he said he didn't report the incident to the proper authorities, despite being obliged by the ministerial code to act in the public interest at all times.

Mr. Robinson has said he has done nothing wrong and will fight to clear his name.

But a former Northern Ireland first minister said Sunday that he should resign. Lord David Trimble, leader of the Ulster Unionist Party, told the BBC that the DUP leader had "lost his authority within the party and the system." He said he could "no longer deliver" as first minister, and said he expected him to step down within the "next few days."

"To have a situation where a party leader sees his wife expelled from the party and acquiesces in it, doesn't even persuade the party to give her a decent way out, shows there has been a complete loss of authority," he said.

Meanwhile, Sean Woodward, minister for Northern Ireland in the U.K. government, called on all parties to allow Mr. Robinson to continue as first minister during the inquiry, amid concern in London that the scandal could disrupt the peace process initiated 12 years ago by the Good Friday Agreement.

"If anybody were to be selfish enough to think this is a moment when [the political process] can be allowed to be put in the deep freeze, they would be extremely irresponsible, foolish and would be playing very, very dangerous games," he said.

Associated Press

Kirk McCambley, above, was 19 when he started having an affair with Iris Robinson, the wife of prominent Northern Ireland politician Peter Robinson.

Climate fight's new pitch: more jobs

With no global consensus on emissions caps, clean-energy projects that create employment are the likely alternative

By Jeffrey Ball

If the public has to choose between creating jobs and spending billions to scrub invisible heat-trapping gases from the sky, jobs will win. That's why the campaign to combat climate change is morphing, at least politically, into an economic-development drive with an environmental twist.

Many billions of dollars are being spent on clean energy, even amid the recession.

THE OUTLOOK

One key to combating climate change will be increasing that investment so the economy keeps growing but coughs out less carbon. Most talk focuses on a "cap and trade" system, in which companies would buy and sell permits to emit dwindling amounts of greenhouse gases.

But nations gathered at last month's Copenhagen climate summit declined to create a global cap-and-trade scheme. They couldn't agree on which countries should reduce their emissions the most. In Washington, proposals to launch a U.S. cap-and-trade program, embodied in a bill that passed the House last year, are crashing into similar fights among regions and industries.

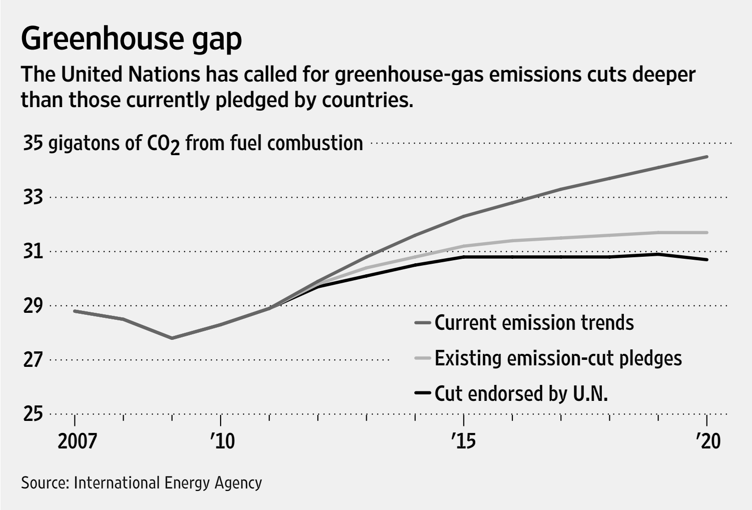
So what's the alternative? A grab bag of more granular steps, each sold as creating "green jobs." One example: $2.3 billion in federal clean-energy manufacturing grants, whose recipients President Barack Obama announced Friday.

Michael Morris, chief executive of **American Electric Power** Co., an Ohio-based utility and one of the country's biggest carbon-dioxide emitters, doubts the U.S. will soon adopt a cap-and-trade program. Unless big developing countries like China accept an emissions cap—something unlikely—a U.S. cap, which would saddle American industry with higher energy costs, would make it less competitive, he said.

"I think there is no potential for a global approach to this issue anytime soon, and because of that, it's almost illogical that there would be a U.S. approach anytime soon," Mr. Morris said. "Having said that, I don't think there's any reason we as a country can't do some constructive and positive things."

He suggested that instead of harnessing the market by putting a price on carbon, the U.S. government could require utilities such as AEP to produce a certain percentage of their electricity from renewable sources—a cost they would pass on to their consumers in the form of higher electricity bills. To succeed, he said, the government would have to exercise more authority to allow the construction of power lines to take that clean juice to market—lines that utilities could use to move around all kinds of electricity, even power from coal. "The transmission piece is, in fact, a jobs bill," Mr. Morris said, previewing a message that is likely to be heard more often given today's 10% unemployment rate in the U.S.

Fans of a cap-and-trade system tout it as the ultimate jobs program. By driving business toward ever-



cheaper ways to curb emissions, they said, it would create more jobs than it kills. They said it is the only way to prod U.S. industry to develop low-carbon technologies to compete against China, which is boosting its renewable-energy and energy-efficiency industries to nurture new exports and curb its foreign-energy bill.

"A market guided by a cap is the most powerful tool we have to match the focus of China's industrial policy," said Fred Krupp, president of the Environmental Defense Fund, an advocacy group that often works with business. Polls show that voters are even less willing than they were before the recession to spend extra money to help the environment. Any cap-and-trade proposal, Mr. Krupp said, must contain "something that jump-starts a lot of jobs."

Markets aren't as popular as they once were. And one aspect of a cap-and-trade system is emerging as a political liability: the chance for Wall Street traders to profit from the buying and selling of greenhouse-gas emission permits. Some lawmakers have begun tweaking cap-and-trade proposals to shut bankers out.

Many advocates of a cap-and-trade system said it is necessary, but not sufficient on its own, to control climate change. Research suggests it would produce most of its emission cuts in two ways: through the purchase of carbon credits from emission-reduction projects, many of them abroad; and from power producers, because they have more flexibility than most other industries to switch to lower-carbon fuels.

The world still would need big emission cuts elsewhere—namely from more-efficient cars, appliances and buildings—to slash emissions as deeply as many scientists are calling for. Achieving that, many studies conclude, would require tougher mandates for the energy efficiency of various products.

It isn't clear that any politically viable environmental policy would meaningfully curb greenhouse-gas emissions. In Copenhagen, the U.S., China and several other countries pledged to cut their emissions or slow their growth. Even if those countries kept their Copenhagen promises, the average global temperature would rise 3 degrees Celsius above pre-industrial levels by later this century, according to the International Energy Agency. Many scientific panels have said that allowing temperatures to rise more than 2 degrees above pre-industrial levels could trigger dangerous consequences from climate change.

Some scientists said the computer models projecting those temperature increases and those consequences are flawed, and that any environmental effect from rising carbon emissions will be manageable.

"There's still a major gap between the current pledges and the desired outcome," said Fatih Birol, the IEA's chief economist.

Yet an environmental policy that fails to promote jobs isn't going to do anything for the atmosphere, either, because it isn't going to get off the ground.

Use of full-body scans gains steam in U.S., EU

By Cam Simpson And Daniel Michaels

The alleged failed Christmas Day airline bomb attempt is opening the door to wider deployment of full-body-imaging machines at airports across the U.S. and possibly Europe, despite reservations from some members of Congress, privacy advocates and airlines.

The U.S. Transportation Security Administration now plans to buy a total of 450 body-scanning machines—more than 10 times the number now in use. Following the alleged bombing attempt, the Department of Homeland Security announced it would buy 300 body-scanning machines this year. The government had earlier announced plans to buy 150 machines.

There are about 40 full-body scanners in use as part of a pilot program at 19 U.S. airports. European Union officials are discussing plans to expand the use of body-imaging scanners.

Privacy and other concerns had slowed the installation of body scanners on both sides of the Atlantic. The machines can produce detailed images of a person's body. Umar Farouk Abdulmutallab, the man accused of trying to blow up the Northwest Airlines jet over Detroit, had explosives sewn into his undergarments, U.S. officials have charged.

The close call over Detroit has lifted the profile of **OSI Systems** Inc., the parent company of the U.S. government's largest supplier of body-scan machines, Rapiscan Systems Inc. Rapiscan's technology produces a full-body image that sees through clothes. The Rapiscan systems use low-level X-rays, while attached computers deploy algorithms the U.S. government says will maintain privacy, mostly by obscuring faces.

After testing Rapiscan against the existing vendor, L-3 Security & Detection Systems, a division of **L-3 Communications Holdings** Inc., the government in October said it would purchase the 150 new machines from Rapiscan. L-3 makes the 40 machines that have been deployed by the TSA.

DHS officials would not say last week how quickly the 450 new machines would be deployed, or where.


Bloomberg News

A TSA employee demonstrates how a full-body scanner is used at a testing facility in Arlington, Va., last month.

But political pressure on the agency since the alleged failed plot is likely to push officials to move fast.

Still, concerns about the effectiveness of the technology and its privacy implications remain.

The International Air Transport Association has taken a "cautionary view" on body scanners, said Steve Lott, a spokesman for the trade group representing international airlines. One of the main issues is privacy concerns, said Mr. Lott. The group is also concerned about how the machines could slow the passenger screening process, and how they will fit logistically with airport design. Cost is another factor airlines are considering.

Meanwhile, aviation-security specialists from the European Union, airlines and airports met Thursday in Brussels to discuss issues raised by the alleged Christmas Day bombing attempt. A major issue was the use of full-body scanners, said Fabio Pirotta, spokesman for the EU Transport Commission. "There was unanimous agreement on the need for a coordinated EU approach, which could include scanners, but there is no concrete proposal yet," he said.

The EU last year tried to begin setting rules on full-body scanners, but abandoned the effort after objections from some member-states and members of the European Parliament, Mr. Pirotta said. Objections were based on privacy concerns and questions about health effects of the devices.

Geithner pressured

AIG emails show New York Fed keen to keep bank payments quiet

By Serena Ng
And Michael R. Crittenden

The White House was forced to defend Treasury Secretary Timothy Geithner as he faced new questions—and a congressional hearing—into his role in the rescue of **American International Group** Inc.

The Federal Reserve Bank of New York told AIG not to disclose key details of their agreements to make big payouts to banks in the insurer's regulatory filings in late 2008, according to a set of email exchanges released Thursday.

AIG later amended its regulatory filings several times and provided the information after the Securities and Exchange Commission requested more disclosure. Congress also pressured the insurer to release the names of banks that were paid in full on $62 billion in bets on soured mortgage securities. The biggest payouts went to French bank **Société Générale** and to Wall Street firm **Goldman Sachs Group** Inc., AIG finally said publicly in mid-March 2009.

The government's handling of the AIG bailout has created political difficulty for Mr. Geithner, who was president of the New York Fed when it first bailed out AIG in September 2008. He played a key role in the regional Fed bank's November 2008 decision to make U.S. and European banks whole on their mortgage gambles with AIG, according to a government audit last year.

On Friday, the White House defended Mr. Geithner, saying he wasn't involved in the emails.

"These decisions did not rise to his level at the Fed," White House spokesman Robert Gibbs said. A Treasury spokeswoman said that by Nov. 24, Mr. Geithner was recused from working on issues involving specific companies, including AIG.

An AIG spokesman declined to comment on the issue.

On Friday, Rep. Edolphus Towns (D., N.Y.), who chairs the House Committee on Oversight and Government Reform, said he would hold a hearing on the AIG disclosure issue later this month and called on Mr. Geithner to testify.

Copies of email exchanges from late November 2008 to March 2009 between lawyers representing AIG and the New York Fed were released by Rep. Darrell Issa (R., Calif.), ranking minority member of the House Committee on Oversight and Government Reform.

The emails show lawyers discussing what to disclose in AIG's December SEC filings about agreements the New York Fed and AIG's financial-products division struck to make banks whole on credit-default-swap contracts they had purchased from AIG.

In a Nov. 25 email, Peter Bazos, an attorney at law firm Davis Polk & Wardwell, which represents the New York Fed, wrote that certain agreements "do not need to be filed." One agreement contained the names of banks that received payouts from AIG. A Davis Polk spokesman declined to comment.

Treasury spokeswoman Meg Reilly said what has been overshadowed is the fact that the government expects to be repaid in full, with interest, on the money it provided to buy the AIG-linked securities.

Bloomberg News

A White House spokesman said Timothy Geithner wasn't involved in the emails.

Senator advised to step down on race remarks

Republican Party Chairman Michael Steele said Senate Majority Leader Harry Reid should step down from his leadership post over remarks he made in 2008 about then-presidential candidate Barack Obama.

The Democratic Nevada senator's remarks are recounted in a new book, "Game Change: Obama and the Clintons, McCain and Palin, and the Race of a Lifetime." According to the book, Mr. Reid said in private remarks during the campaign that the country was ready for a "light-skinned" African-American president with "no Negro dialect, unless he wanted to have one."

Mr. Obama on Saturday said Mr. Reid apologized for his remarks and that the president considered "the book closed."

Mr. Steele on Sunday said Mr. Reid should be held to the same standard as former Republican Senate Majority Leader Trent Lott, who was forced to resign his leadership post in 2002 after suggesting that the nation would have been better off had it embraced the segregationist policies of presidential candidate Strom Thurmond more than a half-century ago.

African Cup violence

Angola tries to ensure security; separatists say Togo deaths a mistake

A rebel attack in Angola that killed members of a visiting football squad has led to a hunt for separatists in an oil-rich region of the country, and stirred concerns about security at this summer's World Cup.

By ***Benoit Faucon*** *in London and* ***Peter Wonacott*** *in Johannesburg*

Associated Press

Angolan police on Sunday secure the compound where the African Cup of Nations football teams are based, in Cabinda, Angola.

The Togo football team was traveling Friday in a bus ahead of a match when it came under machine-gun fire. The attack occurred in Angola's tiny enclave of Cabinda, stuck between the two Congos—the Republic of Congo and the Democratic Republic of Congo. The rebel ambush killed at least two Togolese, a coach and the team's press attaché, according to Togo's government. On Sunday, it sent a plane to collect its national team.

The shooting has created a tense backdrop for what was supposed to be a showcase for African football and Angola's oil-powered economy. The attack also sent shivers through the global football community as the World Cup arrives for the first time in June to a continent that has been rife with armed conflict and burdened by corrupt governments.

On Sunday, South Africa President Jacob Zuma, traveling to Angola, extended his condolences to the Angolan government and the people of Togo. But the South African president dismissed speculation the incident "had any bearing" on his country hosting the World Cup, according to a statement from his office. "South Africa remains one hundred percent ready to host the FIFA World Cup," the president's statement said.

Meanwhile, the Angolan government said it was looking for suspects in the attack. The attackers had come from the Republic of Congo, it said, and fled back across the border after the attack.

A spokesman for the Front for the Liberation of the Enclave of Cabinda, which claimed the attack, warned it was "only a prelude to a series of targeted operations" against Angolan security forces. The group, known as Flec, has been seeking independence from Angola for more than 30 years. A rebel leader said Flec had targeted Angolan forces and mistakenly killed members of the Togolese squad. "We are saying sorry to the Togolese," Flec's president and co-founder, Nzita Tiago, said in an interview.

Angola's abundant energy resources have fueled a decades-long fight with militants. Cabinda's offshore produces about 25% of Angola's oil output and is generally considered out of reach for the rebels. But efforts to search for oil on land have caused violent friction. In November, Flec claimed an attack on Chinese employees working at an oil facility operated by Angolan state oil company Sonangol. Angola's Prime Minister Paulo Kassoma said the Africa Cup of Nations, which is being played at different parts of the country, would go ahead.

Still, the incident offered a stark reminder of how sports stars have become targets. In March last year, gunmen in Lahore attacked a bus carrying Sri Lanka's cricket team. Six of the cricketers and a British coach were wounded. Pakistan has had trouble drawing foreign teams since the attack.

To foil any attacks during the World Cup, the South African government has been working with domestic and foreign security agencies, according to Rich Mkhondo, spokesman for South Africa's World Cup organizing committee. He played down the parallels with Togo—South Africa doesn't have a separatist movement, for example—but acknowledged that the attack may spur new steps to tighten security further.

"When you see someone in pain," Mr. Mkhondo said, "you just prepare not to suffer the same pain."

FIFA expressed its continued support for the World Cup hosts after the attack in Togo. "The continent will soon play host to the FIFA World Cup for the very first time, as is its due," said FIFA President Joseph S. Blatter. "I have faith in Africa."

■ Europe's top clubs have always been nervous about the African Cup 28

A brief arrest at Cabinda that showed some progress

By Benoît Faucon

The rebel attack late last week that killed at least two Togo soccer officials that had for the tournament in Cabinda underscores the challenges Angolan democracy faces.

I had already had an early warning of those challenges a month earlier, when I was briefly detained for photographing the very same stadium the soccer officials were headed for.

I had arrived in Cabinda to visit an offshore platform over one of Africa's largest oil reservoirs. Passing by the stadium by chance, I took a photo of it. A half dozen plain-clothed police officers came out of the blue, seizing my camera and taking me and Voice of America journalist José Manuel Gimbi away for questioning. I've reported in a few high-profile hot spots such as Israel and the Palestinian territories but this is the first time I'd been detained for taking a photograph.

The officers threatened to detain us at least for the night, acting according to a traditional stereotype. About a decade ago, Angola was home to some of Africa's worst human-right violations during a civil war that lasted nearly three decades and left a trail of murder and torture from both government and opposition forces.

Back then, both sides were engaged in one of Africa's most brutal wars. The kind of violence that killed the two Togolese players was pervasive and typical during the civil war. By contrast, I never felt physically in danger during my time in the hands of the police, even if my arrest was disturbingly arbitrary.

What's more, our detention sparked extensive lobbying by human-rights groups for our release, who protested with government officials and embassies. Within four hours, the police released us from custody. It also inspired widespread news coverage—accurate, detailed and free of censorship—in domestic newspapers over the next few days.

That suggested the African powerhouse is at least on its way to becoming a society that gives more than a nod to the rule of law and civil society.

These hallmarks of a healthy democracy have supplanted a formerly Marxist regime and many years of strife. Of course, it's early days for postwar Angola—a land that is a bit Kafka meets Mandela—and the country faces ongoing challenges. Some civil-society activists who called for our release have themselves been arrested in the past.

Independent newspapers have a small circulation, and the size of the opposition is shrinking in parliament. The ruling MPLA party—which has held power since independence in 1975—is tightening its grip on the media and paying off the elites in the countryside. Many traditional chiefs who have cited animist deities as their guiding spirits are now professing their loyalty to a socialist movement.

But Angola is facing its toughest challenge in Cabinda, which is still home to a separatist guerrilla force that has been fighting for three decades. In 2006, a rebel faction signed a peace agreement but a separate faction refused and continued to fight. The government has taken the official line that the conflict is over and has jailed those who suggest otherwise. It briefly detained local activist Raoul Danda after he disputed the official version of the rebels' disarmament.

My fellow detainee's predecessor at Voice of America in Cabinda, José Fernando Lelo, was also jailed for two years and convicted "for crimes against the state" in what Amnesty International called an unfair trial. Amnesty said he was imprisoned because of his criticism of the government. And Human Rights Watch said in June the army routinely tortures civilians in retaliation of rebel attacks.

My detention and release were a test of Angola's democratic challenges and its progress. The same way, one can only hope that, once the game is over, Angola will show restraint in Cabinda.

Attack on Chevron pipeline strains Nigeria

By Will Connors

ABUJA, Nigeria—An attack on a crude-oil pipeline operated by U.S. oil giant **Chevron** Corp. is the latest in a series of political and security setbacks for this embattled West African nation.

On Friday, unknown gunmen attacked Chevron's Makaraba-Utonana pipeline in Delta state in southwestern Nigeria, said a person in the industry familiar with the situation. The attack forced the company to cut its production by 20,000 barrels a day, a Chevron spokesman said. The spokesman said Chevron was "assessing the situation," and that it is "committed to the safety and security of its employees and the protection of the environment in all its operations."

A Nigerian military spokesman couldn't be reached for comment on the attack.

The attack could threaten an amnesty deal for militants that bound the government and Nigerian militants in a shaky four-month cease-fire. In October, thousands of suspected militants turned in their weapons to avoid arrest. During that time, Western oil companies, including Chevron, **Exxon Mobil** Corp. and **Royal Dutch Shell** PLC. were able to increase Nigeria's oil production to almost two million barrels a day from about 1.6 million barrels.

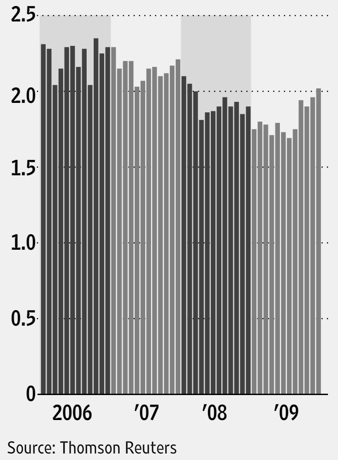
Friday's pipeline assault is the latest blow for Nigeria, Africa's most populous country and a fragile regional power now grappling with an assortment of security challenges.

The nation has come under intense scrutiny by the U.S. and other governments following an attempted bombing of a Detroit-bound plane on Christmas Day, allegedly by Nigerian Umar Farouk Abdulmutallab. Mr. Abdulmutallab has pleaded not guilty to six charges.

Last week, the U.S. Transportation Security Administration placed Nigeria on a list of 14 countries whose passengers will undergo increased security checks upon entering the U.S.

Inching up

Nigerian oil production, in millions of barrels a day



Source: Thomson Reuters

Nigeria is scrambling to limit diplomatic damage from the attack. It has ordered 10 full-body scanners for use at its four international airports, according to a government official. Four scanners donated by the U.S. government in 2007, originally meant only for use in antidrug-trafficking work, are already in the process of being installed for general passenger use, the official said.

The security troubles have hit Nigeria at a politically delicate time. Nigerian President Umaru Yar'Adua has been absent from the country for more than six weeks, receiving medical treatment in Saudi Arabia for a heart condition. Government officials have said the president remains healthy enough to govern the country. The country's vice president, Goodluck Jonathan, has been calling meetings during the president's absence, although there has been no formal transfer of power.

Still, the Nigerian president's absence has become a cause for concern among those investing in the oil-rich but volatile Niger Delta. Chevron is currently in negotiations with the government to renew several expiring oil leases. President Yar'Adua's absence forced a halt to the negotiations, a Chevron executive said in an earlier interview. Shell is also working to renew expiring oil licenses. Exxon Mobil signed a deal for three expiring leases in December for another 20 years with an option to renew.

A separate incident occurred at a Chevron facility near the pipeline attack on Jan. 4. Nigerian soldiers shot and killed two contract workers and injured four others at a Chevron gas project when a skirmish erupted after the soldiers blocked workers from entering the property. Workers attacked the soldiers and burned down several buildings before some of the soldiers shot into the crowd.

Since 2006, armed militants have frequently disrupted oil production and kidnapped more than 200 foreign oil workers in the Niger Delta region, where hundreds of oil pipelines crisscross each other through mangrove-lined creeks.

Reuters

Members of the Yemeni antiterrorism force take part in a mock kidnap scenario in the Sarif area near Yemen's capital San'a during training exercises on Saturday.

Washington faces challenges in Yemen

Local antiterror units deal with cumbersome bureaucracy and strong anti-American sentiment amid U.S. training

By Margaret Coker And Charles Levinson

ADEN, Yemen—As the U.S. and Britain pledge fresh military assistance for Yemen, the man in charge of one of the country's antiterror units says cumbersome bureaucracy is sapping the effectiveness of his men.

The complaint by Brig. Gen. Yahya Saleh, the nephew of President Ali Abdullah Saleh, underscores the challenges facing Washington and allied capitals as they scramble to help Yemen fight the country's homegrown terror network. The alleged Christmas Day bomber, Nigerian Umar Farouk Abdulmutallab, has told investigators he received his explosive device and training in Yemen.

While foreign governments have offered fresh funding after the failed attack, Yemeni officials insist they won't let foreign troops participate in the battle. That leaves the real fighting to Yemen's security forces.

Gen. Saleh says his troops are up to the task. But he also says his men and other forces often are hampered by organizational shortcomings that might lessen the impact of foreign training and funding.

"The bureaucracy is a nightmare," said Gen. Saleh, sitting in a crisply starched khaki uniform in his office on a training base in the port city of Aden.

The Ministry of Interior, under which his antiterror unit falls, doesn't control air assets of its own, for example. When Gen. Saleh's forces need helicopters, he must request them from the country's air force, controlled by the Ministry of Defense.

"If no one in the air force answers their phone, I can't get a helicopter that day," he said.

Gen. Saleh is the chief of staff for Yemen's Central Security Forces, which includes everything from police to emergency services. Also under his command is a 200-strong counterterrorism unit.

The unit was set up by the Ministry of Interior in 2002, in the wake of the USS Cole bombing. It is one of three special units trained by U.S. and U.K. special forces to deal with armed militant groups in the country. The other two units are led by the son of the president and another nephew, respectively.

Gen. Saleh said recent operations have dented al Qaeda's infrastructure. But the terror network has gained a foothold in at least five of Yemen's 20 governates, he said.

In the fall, suspected militants kidnapped one of Gen. Saleh's officers in the remote Shebwa province and later assassinated him, sending a recording of the killing to his offices, according to the general.

During a training exercise last week outside the capital, San'a, soldiers from a company of Gen. Saleh's unit blasted human-shaped targets with AK-47s. They sprinted up a dusty track lugging propane tanks and stormed a cinderblock building sheltering mock al Qaeda militants.

Soldiers in the unit said four British and four U.S. soldiers currently were training their company. The U.S. and British trainers focus on fundamentals, such as physical fitness and shooting techniques, as well as basic infantry tactics such as how to raid and clear a house, the Yemeni soldiers said.

The presence of the Western trainers is a sensitive issue in Yemen, where polls consistently show the highest levels of anti-Americanism in the Arab and Islamic world. The Yemeni soldiers said the U.S. and British trainers disappeared just before journalists arrived, so as not to be photographed and draw attention to their presence on the ground in Yemen.

"There is no doubt that we have all benefited a lot from the training," said a 14-year veteran sergeant. The U.S. and British involvement "is purely training, so there is no problem. When it is time to fight, we go on our own," he said.

A spokesman for the U.S. Embassy in San'a didn't return phone calls seeking comment. A representative of the British Embassy wasn't reachable Sunday.

Video shows bomber, Taliban

By Zahid Hussain

ISLAMABAD—A Pakistani television network Saturday showed the suicide bomber who killed seven Central Intelligence Agency operatives in Afghanistan sitting with a Pakistani Taliban leader.

The video, shown posthumously by a private Pakistani television channel, Aaj, showed Humam Khalil Abu Mulal al-Balawi vowing to avenge the death of the Pakistan Taliban leadership by carrying out attacks inside and outside America. The video was also broadcast by Qatar-based Arabic TV network Al Jazeera.

"We will never forget the blood of our emir, Baitullah Mehsud. We will always demand revenge for him inside America and outside," declared Mr. al-Balawi, a Jordanian double agent, sitting beside Hakimullah Mehsud.

Hakimullah Mehsud replaced Baitullah Mehsud as the chief of the Pakistan Taliban after Baitullah Mehsud was killed in August by a U.S. drone attack on his house in South Waziristan in Pakistan's tribal region on the Afghan border.

Mr. al-Balawi, a 32-year-old medical doctor, was apparently recruited by Jordanian intelligence to help capture top al Qaeda leaders and had attracted interest from U.S. intelligence as a potential asset. He blew himself up in a meeting at a CIA forward base in eastern Afghanistan's Khost province on Dec. 30.

The video was released Saturday by Tehrik-e-Taliban Pakistan, the main Pakistan Taliban faction, which had earlier claimed the responsibility for the attack.

Judge acquits Abu Dhabi sheik

By Maria Abi-Habib

DUBAI—Sheik Issa bin Zayed Al Nahyan, the half-brother of Abu Dhabi's ruler, was acquitted on Sunday by a judge in the United Arab Emirates of abusing an Afghan merchant, on grounds of diminished responsibility, his lawyer told Zawya Dow Jones.

The case first came to prominence last year after a video filmed in 2004 of the sheik allegedly torturing the Afghan merchant Mohammed Shah Poor in the U.A.E. desert was made public in the U.S.

Sheik Issa was found not guilty of charges, including rape and assaulting Shah Poor by the judge after it was argued he acted under the influence of medication and had been drugged, Habib Al Mulla, Sheik Issa's lawyer said in a phone interview Sunday. Al Mulla was present at the court hearing, with Sheik Issa in the small provincial town of Al Ain.

The trial of Sheik Issa has put Abu Dhabi's ruling family under the human-rights spotlight at a time when the emirate is investing billions on infrastructure and has obtained U.S. backing to become the first Arab state to build nuclear power plants.

WORLD NEWS

Devaluation sparks chaos in Caracas

Chávez's dual-currency regime could create new problems; Venezuelans rush to spend cash they fear will be worthless

By John Lyons
And Darcy Crowe

CARACAS—President Hugo Chávez's decision to devalue Venezuela's bolivar and impose a complicated new currency regime may paper over some growing cracks in the economy, but it is also setting the stage for bigger problems down the road for the country's oil-rich nation and its populist leader.

Over the weekend, there were signs that Mr. Chávez's slashing of the "strong bolivar" currency could create as many problems as it solves in Venezuela's economy, provoking a wave of anxiety that sent Venezuelans scurrying to spend cash they feared could soon be worthless.

At Caracas's middle-class Sambil shopping mall, lines at cashiers reached 50-deep. Carmen Blanco, a 28-year-old accountant, waited to buy a 42-inch flat-screen television she doesn't need because she already has one at home.

"It doesn't make any sense to keep my savings," Ms. Blanco said Saturday, adding, "I'd love to see how things work in a normal country."

On Sunday, Mr. Chávez vowed to fight speculation and price increases that could result from the devaluation, which raises the price of imports. He is calling on the National Guard to be deployed on the streets to prevent speculators, but didn't offer specifics. He vowed to "seize any businesses and shops that are participating in speculation."

Harried by recession and sliding popularity, Mr. Chávez on Friday ordered the bolivar to weaken to 4.3 per dollar from 2.15 in a bid to shore up government finances that have been hit by weaker oil prices and to stimulate economic growth ahead of key elections.

Agence France-Presse/Getty Images

Venezuelan President Hugo Chávez, pictured Saturday, ordered the bolivar to weaken by half in a bid to shore up government finances.

In order to protect the poor, his main constituency, from the move, Mr. Chávez announced the creation of another exchange rate of 2.6 bolivars per dollar for imports of food, medicine and other essential goods. Those rates will compete with a black-market rate, where the bolivar had plunged, forcing the official devaluation.

The complicated new currency system underscores the increasingly difficult economic and political trade-offs faced by Mr. Chávez, a populist who has utilized rampant public spending, nationalization of key industries, and currency and price controls during more than a decade in power.

Rising oil prices granted Mr. Chávez a huge economic war chest to smooth out economic problems during most of his presidency. But with oil prices off record levels, inflation soaring and the economy stuck in recession, the era of easy choices appears to be over. That could tempt Mr. Chávez to try increasingly radical policies to maintain his economic and political grip.

The move is an embarrassing turn for 55-year-old Mr. Chávez and the currency he renamed the "strong bolivar" two years ago, when he chopped three zeros off the old currency and declared a new era of monetary fortitude.

Mr. Chávez is gambling that the benefits of a weaker currency will offset faster inflation, which makes imports more expensive. Finance Minister Ali Rodriguez said devaluation may add five percentage points to the 27% inflation rate—already among the fastest in the world.

In Mr. Chávez's favor, a weaker currency helps narrow a growing budget shortfall by instantly giving his oil-rich government more local currency to spend per barrel of oil exported by the state petroleum company, PDVSA. That is a key consideration with congressional elections looming in September.

Mr. Chávez has watched his popularity slide amid corruption scandals, a shrinking economy, rising crime and shortages of food and electricity. Increased spending could paper over some of these problems and boost Mr. Chávez's popularity.

Mr. Chávez also predicted a weaker currency would breathe life into a domestic economy that depends on imports for everything from beef and milk to automobiles.

"Last year we imported 90 million pairs of shoes, for the love of God," Mr. Chávez said. "We can make it all ourselves. Shoes, clothes, almost everything is imported."

The measure may buttress the banking system, which has been rocked by the closure of several institutions amid an embezzling scandal. Many Venezuelan banks head into the devaluation holding large stocks of dollars.

Holders of dollar-denominated bonds issued by Venezuela and PDVSA will be encouraged by the move. Devaluation narrows Venezuela's financing gap to around 3% of economic output from around 7%, said Boris Segura, a Royal Bank of Scotland economist. "This is good news," he said.

However, the devaluation does little to assuage the deeper problems plaguing the Venezuelan economy, economists say. Devaluation isn't enough to revive a domestic manufacturing base that has atrophied amid a hostile operating environment. Few investors are willing to brave Venezuela's maze of price caps, currency controls and the ever-present fear of nationalization.

Higher inflation from the move will also keep chipping away at the value of the bolivar, even at its new peg.

What is more, by keeping a subsidized dollar rate for importing food, medicine and essential items, Mr. Chávez removes any incentive for Venezuelans to produce what they need most. It will almost certainly remain cheaper to import beef from Brazil, for example, than to produce it.

The fact that Venezuela has ceased to produce meaningful amounts of food, medicine and other basic goods under Mr. Chávez puts his government in a bind. Mr. Chávez can't use devaluation to stimulate production of the most essential products because doing so would instantly make the imported versions too expensive for his mainly poor constituents.

Venezuela has used currency controls for years to defend the bolivar, which became grossly overvalued amid galloping inflation and government spending.

Mr. Chávez is returning Venezuela to an official dual-exchange rate last tried during the economic turmoil of the 1980s.

—Dan Molinksi contributed to this article.

Heineken moves closer to Femsa deal

Continued from first page

Dos Equis brands have enjoyed healthy sales growth. Heineken is the exclusive importer of Femsa brands in the U.S. under a long-term agreement.

It's unclear how a deal would be structured. In the past, people familiar with the matter have said the families controlling Femsa wanted ownership in a larger beer business, not cash.

Spokesmen for Femsa, Heineken and SABMiller either declined to comment or couldn't immediately be reached.

Femsa, which traces its roots to a brewery founded in 1890 in Monterrey, Mexico, comprises three businesses: soft drinks, beer and a retailer. The beer operation has roughly $4 billion in annual sales.

Femsa's Coca-Cola Femsa unit is the largest Coke bottler in Latin America, as measured by sales volume. **Coca-Cola** Co. owns 32% of the bottler, with 15% in the hands of the public.

Femsa's American depositary receipts have marched steadily upward since the company confirmed in early October that it was in talks with "several parties to explore opportunities involving its beer business."

A wave of consolidation in the global beer market that culminated in the November 2008 purchase of **Anheuser-Busch** Cos. by the Brazilian-Belgian company **InBev** NV for about $52 billion has put pressure on smaller brewers to find larger homes. Femsa controls just under half of Mexico's beer market as the No. 2 player in a duopoly with **Grupo Modelo** SAB, which is part-owned by AB InBev.