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Blair made early Iraq pledge

Former aide Campbell says prime minister offered support for an invasion as early as 2002

BY CASSELL BRYAN-LOW

LONDON—In an appearance before a U.K. panel investigating the country's role in the Iraq war, one of former Prime Minister Tony Blair's top aides said that Mr. Blair pledged his support to the U.S. as early as 2002 if military action was required.

Critics of the war are looking for evidence that, among other things, Mr. Blair had been plotting the Iraq war with former President George W. Bush long before the immediate run-up to the conflict.

The Iraq inquiry was established by current U.K. premier Gordon Brown in an effort to address public criticism of the case made for war and of preparations for reconstruction in Iraq, among other issues. The five-member panel, headed by retired civil servant Sir John Chilcot, is focusing on the eight-year period up to 2009, including the start of military operations in March 2003.

The U.K. ended its involvement in Iraq in July. The conflict sparked massive public protests and left 179 British military personnel dead.

The aide, Alastair Campbell, who is widely seen as having helped shape policy, is a well-known figure in the U.K. in part because of his role in the buildup to the Iraq war.



Alastair Campbell (center), a former adviser to Tony Blair, arrives in central London to appear as a witness at the inquiry into the Iraq war.

His former boss, Mr. Blair, is scheduled to appear before the committee in the coming weeks. Mr. Brown is also due to appear but not until after the general election, which is expected to be held in May.

Mr. Blair made the comments about supporting military action in letters sent to

then-President George W. Bush during 2002, according to Mr. Campbell, Mr. Blair's former director of communications and strategy. Mr. Campbell said of the letters: "the tenor of them was that ... we share the analysis, we share the concern, we are absolutely with you in making

sure that Saddam Hussein [meets] his obligations and that Iraq is disarmed. If that cannot be done diplomatically and it has to be done militarily, Britain will be there."

But Mr. Campbell also told the panel Tuesday that the former prime minister was determined to pursue a diplo-

matic route with Saddam Hussein's regime up to a crucial parliamentary vote on the Iraq war in March 2003.

"Right to that point the prime minister was hopeful that actually this thing could be resolved peacefully," Mr. Campbell said.

Please turn to page 3

Ferrero rules out a bid for Cadbury

BY STACY MEICHTRY

Italian chocolate-maker Ferrero SpA has decided to pull out of discussions with Hershey Co. over a joint-bid for Cadbury PLC, according to a person familiar with the matter.

The potential offer, which would have plunged the family-owned company into a bidding match against Kraft Foods Inc., was "not in line with the family's strategy," the person said. Ferrero didn't respond to requests for comment. Ferrero informed its advisors at Mediobanca SpA on Tuesday that the company was dropping the pursuit after lining up a syndicate loan, the person said.

Cadbury executives have privately said they would prefer an offer from Hershey and on Tuesday issued a second formal response to Kraft's bid packed with hostile language.

"If you were asked to hold [Kraft] shares, you wouldn't feel that there is a management there filling you with confidence," said Cadbury Chairman Roger Carr.

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Greek markets slide; 'crisis of credibility'

BY ALKMAN GRANITSAS AND BRIAN BLACKSTONE

ATHENS—Greek financial markets tumbled Tuesday after the European Union's statistics agency warned that Greece's deficit figures for 2008 could have to be revised yet again, raising fresh fears about the extent of the red ink.

Greece's deficit already is well above levels that the European Union deems acceptable, and the three major credit-rating firms last month cut their ratings on the country, hurting the 16-nation euro and sending local markets into a tailspin.

Tuesday, the Athens Stock Exchange's general index fell 5% to 2199.53, and yields on short-term bills jumped at the government's first auction of



European Union President Herman Van Rompuy, in Athens on Tuesday, says Greece is moving to address its fiscal problems.

the year as investors reacted to the report, issued late Monday. They ignored verbal reassurances from the head of the

European Union that Greece is taking the steps needed to bring down its double-digit budget deficit.

"The crisis of credibility continues," said Stratis Polychroneas, head of fixed-income research at Solidus Securities. "We are starting to see a new round of investors liquidating positions."

In a harshly worded report, Eurostat said it couldn't validate data about the deficit that Greek officials had submitted in October because of a number of unanswered questions in key areas, such as social security funds, health care, and transactions between the state and public enterprises.

It also criticized Greek fiscal statistics for a "lack of quality" and called on the government to guarantee the independence of the country's statistics office.

"These questions [about

the 2008 data] will need to be resolved, and it cannot be excluded that this will lead to further revisions of Greek government deficit and debt data particularly for 2008, but possibly also for previous years," it said.

Eurostat didn't address the outlook for the deficit in 2009, but investors speculated it could exceed the government's target of 12.7% of gross domestic product, set in October. The socialist government, voted into office Oct. 4, has pledged to bring the deficit in line with an EU-mandated ceiling of 3% of GDP by the end of 2012.

Speaking on television Tuesday, Finance Minister George Papaconstantinou dismissed speculation that the

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PAGE TWO

The strange death of New Labour

[Agenda]

By IAIN MARTIN



What remains of New Labour? Not much, it would appear.

The attempt to remove Prime Minister Gordon Brown by two of his former ministers might have failed last week, but in the aftermath, the governing Labour party in Britain seems determined to head deeper into an identity crisis at the worst moment possible for its chances.

Voting in an election is probably as little as 15 weeks away, but the airwaves in Britain are this week filled with senior Labour figures examining their navels and musing on what the party might stand for.

In the election, Mr. Brown and his remaining closest supporters wanted to go for what has been termed a core-vote strategy, accusing the Conservatives of being cutters of public services with a flash of class-war rhetoric against Tory "toffs."

But they seem to have been overruled by Lord Mandelson and other cabinet members. Lord Mandelson wants Mr. Brown to emphasize aspiration, cutting the U.K.'s vast deficit and recovery. The prime minister has promised to be good on this front for now, although we shall see.

The risk for Labour is that voters hate a party facing the imminent verdict of the electorate choosing to talk about itself to itself.

Indeed, post-coup, all the old favorites are coming out of the woodwork with advice for their colleagues. That old pugilist former Deputy Prime Minister John Prescott wants more fight in the Labour campaign, but beyond that, it is impossible to discern what he is advocating—let alone saying.

Lord Hattersley was also once the party's deputy leader and never much associated with



Britain's newly elected prime minister, Tony Blair, waves to wellwishers in 1997

electoral success. (He was at the peak of his powers during Margaret Thatcher's 1987 landslide and when John Major beat Neil Kinnock in 1992). Since then he has sounded pretty sniffy about the three-time election-winning New Labour. Now he wants the party to shout loudly for Labour values and says this will defeat the Tories.

But what, beyond rhetoric about fairness, are Labour values nowadays? What is the party and where is it going?

New Labour under Tony Blair was phenomenally successful in electoral terms, winning with landslides in 1997 and 2001, and by a smaller margin in 2005. The project to turn around Britain's old, ailing, left-of-center powerhouse was more effective for longer than anything else in progressive politics—enduring beyond Bill Clinton, through the George W. Bush era and into the age of Barack Obama in the U.S.

It is glib to say it was all a public-relations exercise, although spin and presentation were central. But the basic strategic premise of those who created New Labour still holds. After the decline of old industries and the shrinking of the old working class, Labour needed to connect with a changed electorate in parts of the country won by the Tories in the 1980s. These voters were, and are, aspirational but New Labour's trick was to promise them they

could have prosperity and rising house prices combined with increased social spending. The theory was that markets would create the flood of revenue that could then be spent partly on improving public services.

In all of this, Mr. Brown was Mr. Blair's co-architect, saying that where previous Labour governments had lost control of inflation, he would keep it under control, eventually giving up direct control of interest rates, of course.

Once the party got into government two unfortunate things happened. First, Mr. Brown mistook a period of low inflation, cheap money and financial innovation for the end of economics as we had known it. Boom and bust were at an end, he said, repeatedly, in what is a truly extraordinary statement of a kind not made by many democratic politicians on either the left or right—ever.

Second, he and Mr. Blair differed on how much all the extra money flooding into public services needed to be accompanied with reforms rooted in market mechanisms (to deliver productivity improvements). The compromises they made were often unsatisfactory, leading to inadequate reforms.

Come the financial crisis, it was quickly obvious the twin strands of the New Labour analysis had unraveled. If markets

were no longer supplying money for public "investment," then what next? In response, some in Labour advocate a back to roots, high-tax, anti-markets platform.

Others, like Lord Mandelson, want another go at the New Labour approach with less emphasis on financial markets, more on other industries and no mention ever again of boom and bust having been ended. Essentially, there is no Blair-style leader in waiting and a growing argument about direction.

This won't surprise a good many other progressive parties in Europe. The broader European Left was at first quizzical about Mr. Blair and his promise to have found a "third way" between social democracy and markets. That curiosity turned to active dislike with the Iraq war. Yet, there was also Mr. Blair's failure to do as he promised and take Britain into the single currency and the heart of the European Union.

But other than schadenfreude what is the Left's response? Since the credit crunch, and the recession that followed, it has fumed but made no progress. In France and Germany the parties of the left are in disarray and President Nicolas Sarkozy and Chancellor Angela Merkel dominate. In Spain, it is in government but struggling.

An economic cataclysm that might have been expected to trigger a revival for progressive parties has had the opposite effect here. Only in the U.S. has a charismatic candidate turned the crisis to his advantage and triumphed. There is no Obamaesque leader on Europe's horizon.

In a way these developments vindicate Mr. Blair's original view when he tried to shift his party to accept the realities of free-markets and globalization. He realized there was little alternative, and certainly not one that large enough numbers of European voters would opt for in elections. Now his third way has run its course, the left seems lost on what to do next.

What's News

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Iain Martin on Politics

blogs.wsj.com/iainmartin

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Iain Martin on the scandal involving Northern Ireland's Robinson family



Continuing coverage



See continuing coverage of the Detroit auto show, including photos and video, at wsj.com/autos

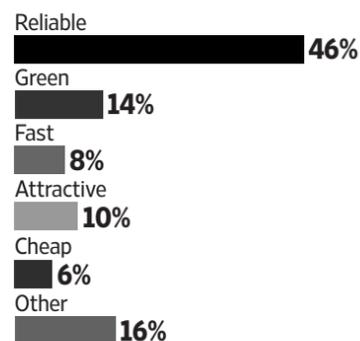
Question of the day

Q: Will Kraft succeed in its bid for Cadbury?

Vote online at wsj.com/dailyquestion

Previous results

Q: Most important factor in your next car purchase?



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NEWS

Anne Frank's savior dies aged 100

Miep Gies was the last survivor of Dutch group that hid family in wartime Amsterdam and saved girl's diary

By WILLIAM LYONS

The woman who helped to hide Anne Frank and her family for two years, saving the teenager's wartime diary for posterity, has died at the age of 100.

Miep Gies was the last surviving member of a group that supplied food, books and company to the Franks in their canal-side hiding place in Amsterdam.

By saving Anne's diary Ms. Gies helped to create a sympathetic icon of the Holocaust as well as one of the world's most famous international charitable organizations, spawning six main centers around the world. The diaries have sold more than 40 million copies, been translated into 80 languages and adapted for the stage and the screen.

Ms. Gies rescued the diaries after the apartment on the Prinsengracht in Amsterdam was raided by the German police in August 1944. She gathered up Anne's scattered notebooks and papers and locked them in a drawer for her return after the war.

The diary, which Anne Frank was given on her 13th birthday, chronicles her life in hiding from June 12, 1942, until Aug. 1, 1944.

But despite surviving more than two years hidden in a secret annex above a factory, Anne Frank died, aged 15, of suspected typhus at Bergen-Belsen a month before the concentration camp was liberated. When Anne's father Otto Frank returned from Auschwitz after the war, the only one of his family to survive, Ms. Miep gave the diaries to him.

Ms. Gies refused to read the papers, saying even a teenager's privacy was sacred. Later, she said if she had read them she would have had to burn them because they incriminated the "helpers."

After the diary was published, Ms. Gies tirelessly promoted causes of tolerance. She brushed aside the accolades for helping to hide the Frank family as more than she deserved as if, she said, she had tried to save all the Jews of occupied Holland.



The many faces of Anne Frank. Chen Qing, top left, as Anne in a Beijing theater production in 1999; bottom left, an undated photo of Anne Frank; center, Millie Perkins as Anne and Joseph Schildkraut as Otto Frank in the 1950s movie 'The Diary of Anne Frank'; Miep Gies, far right, reading Anne's book in 1987.

Bernd "Buddy" Elias, cousin of Anne Frank and head of the Anne Frank Foundation, the Basel-based charity that owns and administers the rights to his Anne Frank's diary paid tribute to Ms. Gies describing her as a "hero" who will be "remembered the world over."

He said: "Anyone who prevented the threat of deportation and death for over two years is a hero."

There have been a number of ad-

aptations of the book most notably the the 1950s motion picture directed by George Stevens that won three Oscars. In 1996, Jon Blair's film "Anne Frank Remembered" won an Oscar for best documentary feature.

The success of the story has created an international network of charitable organisations with offices in Amsterdam, Germany, New York and France. Mr. Elias said it was difficult to put a figure on how

much money is generated by the Anne Frank estate but it runs into the many millions and is spent on charities dedicated to peace projects that help children.

Beneficiaries of the estate include helping the medical bills of the "Righteous," the Eastern European gentiles who helped Jews escape Hitler, to funding academic research into racism, and providing financial support charities dedicated

to upholding the principles of Anne Frank.

Ms. Gies was bestowed with the "Righteous Gentile" title for her courage by the Israeli Holocaust museum Yad Vashem. She was born Hermine Santrouschitz on Feb. 15, 1909, in Vienna and moved to Amsterdam when she was 11 to escape food shortages in Austria. She lived with a host family who gave her the nickname Miep.

Greece's stock market slides 5%

Continued from first page
2009 deficit would exceed the target. He previously has moved to make the Greek statistics office independent of the finance ministry.

Greek Prime Minister George Papandreou is expected to reveal some details of the government's three-year deficit-cutting plan at a news conference Wednesday. A delegation from the International Monetary Fund arrived Tuesday to offer guidance on pension reform, tax policy, tax administration and budget management.

What investors want, said Barclays Capital economist Laurence Boone, is a detailed plan to cut spending along the lines of what Ireland has proposed. Though Ireland's finances are in almost as rough shape as Greece's, the government there has unveiled painful steps to cut spending, including unpopular reductions in public-sector payrolls.

Greece first revealed a budget deficit twice as big as previous forecasts in October. At the time, the

country's statistics office projected a deficit of 12.5% of GDP, compared to its spring forecast of a deficit equal to 3.7% of GDP. It also revised the 2008 deficit to 7.7% of GDP, from 5% of GDP, according to Eurostat. The stock market has skidded 24% since then.

Tuesday's market declines are a fresh reminder that until the government unveils specific steps to bring the deficit down, volatility will continue.

Banking shares led the drop on the stock exchange, falling 7%. Among leading financials, market heavyweight National Bank of Greece plummeted 6.3%, while EFG Eurobank Ergasias skidded 8.4% and Alpha Bank SA declined 8%.

In the bond market, investors demanded higher yields to compensate for the perception of increased risk for holding Greek bonds. The gap over 10-year German government bonds, the European risk-free benchmark, widened to 2.36 percentage points in late trade, up from 2.17 percentage points Monday. The

yield at Tuesday's sale of €1.04 billion (\$1.51 billion) of one-year bills jumped to 2.20%, from 0.91% at the last auction, held in October.

The next test for the debt markets could come in late January or early February, when Greece is expected to issue a five-year or 10-year bond.

Also Tuesday, newly appointed EU President Herman Van Rompuy said Greece's fiscal problems are a matter of concern for the entire 27-member bloc, but signaled that the Greek government is moving to address those problems.

"It is a matter of common interest for the European Union as a whole, and more particularly for the members of the euro zone, that Greece manages to meet those challenges," Mr. Van Rompuy said after a meeting with Mr. Papandreou. "After our discussion, I am confident that the Greek government is already taking the necessary further steps to address the situation."

—Emese Bartha in Frankfurt contributed to this article.

Blair made early Iraq vow

Continued from first page

Mr. Campbell, whose role included at time interacting with intelligence-agency officials, also said that the current premier, Mr. Brown, had been involved in discussions about the decision to go to war. When asked by the panel about Mr. Blair's inner circle of advisers on Iraq, Mr. Campbell said Mr. Brown "would have been one of the key ministers [Mr. Blair] would have spoken to regularly."

Mr. Brown, who faces a general election this year, thus far has successfully managed to largely distance himself from the unpopular war.

A spokesman for the prime minister declined to comment.

Mr. Campbell is known, among other things, for having been named in a British Broadcasting Corporation report as the person who "sexed up" an intelligence dossier to justify war with Iraq—which Mr. Campbell has vigorously denied. On Tuesday, Mr. Campbell said "I don't believe that the dossier in any sense misrepresented the position. I think

it was cautious."

The panel, which started its hearings in November, is gathering evidence from senior officials and military officers who had key roles in developing advice for ministers and implementing government policy, among others. It plans to issue its findings later this year or early next, but it won't establish civil or criminal liability.

Mr. Brown thus far has successfully managed to largely distance himself from the unpopular war.

Separately, a Dutch government report said the Iraq invasion lacked legitimacy under international law. The Netherlands gave political and logistical support to the U.S. and U.K., but didn't provide military backing for the invasion.

—Alistair MacDonald contributed to this article.

EUROPE NEWS



Agence France-Presse/Getty Images

EU competition commissioner-designate Joaquin Almunia awaits his confirmation hearing Tuesday at the European Parliament.

Almunia backs Kroes

EU antitrust nominee signals support for minister's tough policies

BY CHARLES FORELLE
AND JOHN W. MILLER

BRUSSELS—Spaniard Joaquin Almunia, nominated to take over as the European Union's powerful antitrust chief, signaled broad comfort with the policies of his hard-hitting predecessor, Neelie Kroes, in a confirmation hearing Tuesday at the European Parliament.

Competition enforcement is an "essential tool to make Europe able to compete on the global stage," Mr. Almunia said. He described cartels as "the worst kind of competition abuse" and the fight against them of "fundamental importance." The EU's current procedures for reviewing mergers are "working in a satisfactory manner," he said.

His responses Tuesday don't give a robust guide to how he would perform over a five-year term as the EU's competition commissioner, but they do suggest he isn't eager to make major changes to a regime characterized by nine- (and occasionally 10-) figure fines for cartelists and monopolists, and for wide-ranging investigations into entire sectors of the economy. In a brief list of initiatives outlined in his opening statement, Mr. Almunia included only a handful of minor topics—such as scaling back broad antitrust exemptions in the auto-parts industry—

that have long been on the docket.

Barely broached was a hot topic for many European and U.S. businesses: the mounting level of fines and the often-opaque process for determining them. Mr. Almunia called the level of fines "appropriate." The message, said Paul McGeown, a lawyer at Hunton & Williams, was that "fines deter, and heavy fines deter more."

Mr. Almunia is one of 27 individuals selected by EU governments to sit on the European Commission, the bloc's executive arm. Twenty-six of them are sitting for hearings this week and next before the Parliament, which must approve or reject the slate. (The 27th, Commission President José Manuel Barroso, doesn't require a hearing.) So far, the hearings have produced few surprises.

Karel De Gucht, the EU's commissioner-designate for trade, toned down his usual bluntness at his hearing Tuesday. He promised to enforce strictly laws allowing the EU to raise tariffs on goods found to be dumped, or sold below cost. The EU has made frequent use of antidumping tariffs recently, especially to keep out imports from China.

Indeed, China, with which the EU ran a \$100-billion-plus trade deficit in 2009, was the target of Mr. De Gucht's only bit of outrage. As in the U.S., many in Europe blame China for undercutting local factories with in-

expensive imports.

Mr. De Gucht, of Belgium, described Beijing's policy of keeping exports cheap by undervaluing the yuan as "a major problem." He promised to press China on its "currency misalignment" at "every possible occasion."

Rumiana Jeleva, the 40-year-old former Bulgarian foreign minister who has been nominated for the humanitarian-aid post, faced the toughest grilling yet of any of the commissioner-designates. She has been under fire for her husband's alleged connections to organized crime in Bulgaria, which she has denied, and her connections to his business interests.

She was asked several times Tuesday to prove that her slate was clean. That wasn't necessary because she has been vetted in Bulgaria, she insisted. "In Bulgaria, we have institutions and we have financial institutions, and they have checked everything," she said. Later she challenged her audience to "come to Bulgaria, we can go and ask around."

Despite the allegations, it isn't clear that controversy surrounding Ms. Jeleva will hold up the confirmation process. Mr. Barroso on Monday wrote a letter challenging skeptics in the Parliament to come up with "corresponding evidence" on wrongdoing by Ms. Jeleva or her husband.

Lockerbie release is defended

BY PAUL SONNE

LONDON—The Scottish justice minister who released convicted Lockerbie bomber Abdel Baset al-Megrahi on compassionate grounds last summer defended his decision at a British parliamentary committee session on Tuesday.

Kenny MacAskill stood by his decision throughout the question-and-answer session, emphasizing that he acted strictly in accordance with the law. Critics on the panel, including David Mundell, the Conservative Party member of Parliament who represents the town of Lockerbie, criticized Mr. MacAskill for mishandling the case in a way that tested the nerves of victims' relatives and embarrassed Scotland on the world stage.

In August, Mr. MacAskill authorized Mr. Megrahi's release on the

grounds that the convicted bomber was suffering from terminal prostate cancer and had less than three months to live. Almost five months later, Mr. Megrahi remains alive at his home in Libya, which has lent credence to those who questioned last year's medical evaluation.

Instead of concentrating on Mr. Megrahi's health, however, examiners at Tuesday's parliamentary session focused primarily on the relationship between the British and Scottish governments and how Mr. MacAskill dealt with a prisoner-transfer agreement that Libya struck with the British government in 2008.

Mr. MacAskill said he rejected a Libyan government request to relocate Mr. Megrahi to a Libyan jail under that prisoner-exchange pact because U.S. Attorney General Eric Holder, Secretary of State Hillary

Clinton and relatives of the U.S. victims told him such a move would violate America's understanding of how the Lockerbie case was to be handled. They were told any convicted defendant would serve his time in a Scottish prison.

That didn't prevent Mr. MacAskill from approving Mr. Megrahi's application for compassionate release on medical grounds, a case Mr. MacAskill has said he treated as a separate matter.

During Tuesday's session, the justice minister also defended his decision to visit Mr. Megrahi at Scotland's Greenock Prison and brushed aside a press leak that revealed news of Mr. Megrahi's release about a week before it was announced officially. Mr. MacAskill said the press also got many things wrong.

Germany expects economic upturn

BY GEOFFREY T. SMITH
AND ILONA BILLINGTON

FRANKFURT—Germany's economic outlook continued to brighten, with data and surveys pointing to a modest but extended recovery, while the U.K. trade deficit narrowed slightly in November as exports edged higher.

The BGA Association of German Exporters and Wholesalers said it expects the economy to grow as much as 3% this year—well above what many forecasters expect and well ahead of the government's expectation of a 1.2% expansion of gross domestic product.

The German economy—the euro zone's largest—emerged from recession in the 2009 second quarter, and grew again in the third. Britain, however, remained stuck in recession during the third quarter, and is now hoping for a rebound in the fourth.

BGA President Anton Boerner said the group's forecasts for 2010 assumed a rebound of 7.5% to 10% in exports—the traditional driver of German growth. Still, other analysts called that optimistic because of the difficulties of sustaining domestic demand.

German exports collapsed at the end of 2008 after the failure of U.S. investment bank Lehman Brothers Inc., and the ensuing outbreak of doubt deterred businesses from investing in big-ticket capital goods in which Germany specializes.

However, things have been getting gradually less bad for German industry over the past nine months. Exports, which were down nearly 29% in April from the year-earlier month, were off 16.4% in October, according to the Federal Statistics Office, Destatis. And despite a blip in October, incoming orders to manufacturers have risen for eight of the past nine months.

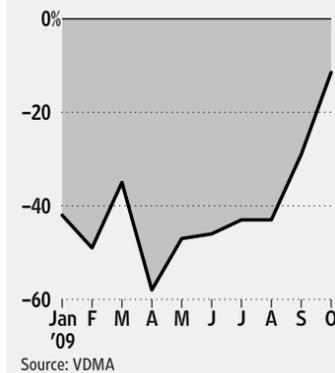
German Economics Minister Rainer Brüderle also said Tuesday that the economy likely recorded "modest" growth in the fourth quarter. Official figures will be released Feb. 12.

Meanwhile, in the U.K. the debate is much more focused on when the economy will emerge from recession, and how vibrant it will be when it gets there.

The U.K.'s Office for National Statistics said Britain's global trade deficit narrowed to £6.8 billion (\$10.96 billion) in November, from a revised deficit of £7 billion in Octo-

Perking up

Order inflows to German engineering are recovering, year-on-year percentage change



ber, as exports rose slightly but imports fell.

Analysts said the weaker pound hasn't affected the results as much as expected because it hasn't translated into a large increase in exports.

Vicky Redwood, U.K. economist for Capital Economics, said she still thinks the lower pound will boost trade eventually.

"But there remains a big question mark over whether this happens quickly enough to offset the looming fiscal squeeze," she said. Chancellor of the Exchequer Alistair Darling has laid out plans to cut public spending and introduce other cost efficiencies to cut the deficit in half over the next four years.

Things have been getting a bit better for German industry over the past nine months. Incoming orders to manufacturers have risen for eight of the past nine months.

Also in the U.K., the Treasury said it will move to relax the strong hold of banks on lending to midsize companies, but acknowledged that there are no quick fixes to broadening their funding.

The Treasury's efforts come as the credit crisis has raised the cost of bank loans for many small and midsize firms. By contrast, larger top-rated U.K. companies have been able to tap corporate-debt markets on a record scale in recent months.

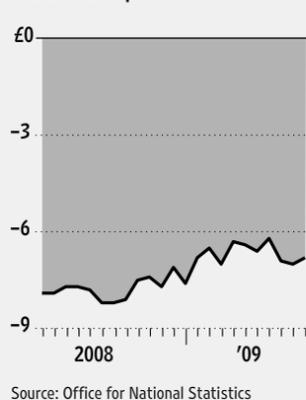
On Tuesday, the Treasury said there are a range of factors limiting midsize U.K. firms' access to non-bank lending and suggested a number of issues that could relax banks' grip on business lending.

It questions whether the lack of transparency in pricing of loan packages by banks is preventing midsize firms from looking elsewhere. It suggests a certain degree of "inertia" has dissuaded firms from seeking nonbank lending. And it says authorities should look at ways to reduce the disclosure burden on midsize firms seeking capital-market funding.

—Laurence Norman in London and Andrea Thomas and Andreas Kissler in Berlin contributed to this article.

Deficit narrows

U.K. goods trade deficit, in billions of pounds



EUROPE NEWS

Yushchenko faces fallout

BY ALAN CULLISON
AND JAMES MARSON

KIEV—When Ukraine holds presidential elections Sunday, the biggest loser is expected to be President Viktor Yushchenko, whose disfigured face became a rallying point for the Orange Revolution five years ago.

Now the question is whether the collapsed trajectory of Mr. Yushchenko's career will sink with it his vision for a free and Westward-leaning Ukraine.

Barring a major upset, Mr. Yushchenko looks likely to finish fourth or fifth, while his archrival during the Orange Revolution, Viktor Yanukovich, will likely come away with the most votes.

Critics say Mr. Yushchenko, 55 years old, has run a political campaign as lackluster and disorganized as his presidency. With his approval

ratings hovering in the single digits, he is fighting to become more than a political footnote.

Mr. Yushchenko's trajectory from idol to also-ran in this France-size country, which has been traditionally caught in a tug of war for influence between Russia and the West, raises a host of worries for the U.S. and Europe.

Mr. Yushchenko's predecessor, Leonid Kuchma, skillfully played Russia and Western powers off one another in leading this nation of 46 million. Mr. Yushchenko took a sharply different tack: Western-inspired protests swept him to power in 2004, and Mr. Yushchenko has blamed suspects in Russia for his poisoning that year, which disfigured his face and made him a symbol of the revolution.

As president, Mr. Yushchenko called for closer relations with Europe, membership in the North Atlan-

tic Treaty Organization, and a stridently pro-Western foreign policy. But even Mr. Yushchenko's admirers say his lofty ambitions were torpedoed by his poor political skills.

Mr. Yushchenko continually fought with his former ally in the Orange Revolution, Prime Minister Yulia Tymoshenko, creating years of legislative deadlock. Even his supporters were disgruntled by the lack of progress on issues like the economy and corruption.

Diplomats say Mr. Yushchenko's unsolved poisoning in 2004—which permanently scarred his face and forced him to undergo 24 operations—sapped him of strength through much of his presidency.

Pollsters say the front-runners in the race, Ms. Tymoshenko, the prime minister, and Mr. Yanukovich, who lost in 2004, lead the field by a wide margin and likely face a February runoff.



Ukraine's President Viktor Yushchenko kisses a woman wearing a traditional costume during a campaign stop in the central city of Cherkasy on Sunday.

Agence France-Presse/Getty Images

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EUROPE NEWS



Connecticut Attorney General Richard Blumenthal announces he will run for U.S. Senate on Jan. 6, the day incumbent Sen. Chris Dodd announced his retirement.

White House wary of '10 races

Administration makes its preferences known in election year expected to be difficult for Democrats

BY PETER WALLSTEN

The White House is reaching into political races nationwide to urge its preferred candidates to seek election to competitive seats, while helping to nudge weak contenders out of the way, according to party officials familiar with the moves.

It isn't unusual for a president to pick favorites, but the sense of urgency is heightened this year by Democrats' sense that a difficult election year lies ahead.

President Barack Obama's aides are taking pains to operate out of public view to avoid repeating embarrassing miscues made last year, when efforts to pressure unpopular New York Gov. David Paterson into retirement hit front pages and proved unsuccessful. The governor has brushed off suggestions that he step aside and stayed in re-election mode.

A more subtle White House approach came into view last week after a series of surprise decisions by top-level Democrats to aban-

don their candidacies. Obama aides moved instantly to lure stronger contenders to the ballot.

Mr. Obama's team hopes the early efforts will save Democratic congressional seats in 2010 and thus help advance the president's domestic agenda, and similarly keep governors seats Democratic to help rebuild grassroots political networks in time for Mr. Obama's 2012 re-election campaign.

The exit of Michigan Lt. Gov. John Cherry from that state's gubernatorial contest came as party insiders grew increasingly concerned that Mr. Cherry faced an uphill struggle to win, putting a chill on potential donors, according to Democratic officials.

When Mr. Cherry dropped out, citing fund-raising problems, White House officials began discussions with a potential replacement, Denise Ilitch, whose family owns the Detroit Red Wings hockey team, Detroit Tigers baseball team and Little Caesars Pizza chain.

Ms. Ilitch is an elected member of the state Board of Regents. Strategists believe her personal wealth and image as a businesswoman and political outsider could give Democrats a boost in an economically ailing state where the party's top official, Gov. Jennifer Granholm, is unpopular.

"The White House wants to have a partner here in Michigan clearly after the election," Ms. Granholm told WOOD-TV of Grand Rapids, Mich., last week, when asked if Mr. Obama's aides engineered Mr. Cherry's withdrawal from the race.

Ms. Granholm said the White House didn't ask Mr. Cherry to bow out. But, she added, "I know that the White House and others are looking at what is the profile of

somebody in Michigan that might be successful. Obviously the experience of being in office is one component. But with respect to an electorate that may be angry or frustrated, that might have some negative ramifications."

In Connecticut, Mr. Obama called state Attorney General Richard Blumenthal on the day last week that Democratic Sen. Christopher Dodd announced his retirement, highlighting the view of White House officials and Senate leaders that Mr. Blumenthal is the party's strongest candidate for Mr. Dodd's seat.

Later last week, in the wake of the news that Colorado Gov. Bill Ritter wouldn't seek a second term and that Interior Secretary Ken Salazar wouldn't vie to succeed him, a call by Mr. Obama to Denver Mayor John Hickenlooper signaled the White House's preference for the next Democratic candidate for governor.

White House officials didn't discourage Mr. Salazar, a former Colorado senator, from entering the race, letting him decide on his own to stay in the cabinet. But they did believe Mr. Hickenlooper had a better chance than others to keep the governor's post in Democratic hands.

In Ohio, White House political director Patrick Gaspard has been in conversations with Gov. Ted Strickland, whose approval ratings have slipped and who is facing a challenge from former Republican Rep. John Kasich. Democrats there say the White House is backing Mr. Strickland's re-election bid but is focused on reigniting the grassroots effort that helped Mr. Obama win there in 2008 and would be necessary for success again in 2012.

Mr. Gaspard didn't respond to requests for comment.

Mr. Obama's team has had its share of miscues, one of which occurred last year when Mr. Gaspard tried without success to convince former Virginia Gov. L. Douglas Wilder, the country's first elected black governor, to endorse gubernatorial candidate Creigh Deeds. Mr. Wilder refused, noting that he had met numerous times with Mr. Deeds' Republican opponent but hadn't been approached by Mr. Deeds.

Mr. Wilder added that it was "awkward" when Mr. Obama, the first black president, pressured Mr. Paterson, the first black governor of New York. The episode "left a sour taste in a lot of people's mouths across the country," Mr. Wilder said.

The political office faces a new test in a U.S. Senate race in New York. Aides last year thought they had helped clear the primary field for incumbent Democratic Sen. Kirsten Gillibrand, avoiding bids by Reps. Steve Israel and Carolyn Maloney to challenge Ms. Gillibrand from the left.

But now, former Tennessee Rep. Harold Ford is seriously eyeing a bid in New York, where he moved three years ago to take a banking job.

Mr. Ford ran unsuccessfully in his home state for Senate in 2006. A spokesman said Monday that Mr. Ford hasn't heard from the White House, though Sen. Charles Schumer of New York has asked him to not seek the seat.

Mr. Ford's spokesman said a decision should come in the next month or so, "regardless of what the party bosses" want him to do.

—Jonathan Weisman contributed to this article.

U.S. trade gap widens on rise in oil prices

BY TOM BARKLEY

The U.S. trade deficit widened more than expected in November, as surging oil prices helped imports to outgain exports.

The U.S. deficit in international trade of goods and services expanded 9.7% to \$36.40 billion from \$33.19 billion the month before, the Commerce Department said Tuesday. The October trade gap was originally reported as \$32.94 billion.

The November deficit was bigger than Wall Street expectations for a \$34.7 billion shortfall.

While exports have registered seven straight months of gains as economic growth has returned, the rise in oil prices has brought the trade deficit back up. After a dip in October, oil imports rebounded in November.

U.S. exports in grew 0.9% to \$138.24 billion, the highest level in a year, from \$137.01 billion in October. Imports increased more sharply, meanwhile, rising 2.6% to \$174.64 billion from \$170.20 billion.

The U.S. bill for crude-oil imports in November rose to \$17.81 billion from \$17.44 billion the month before, as higher oil prices more than offset a drop in import volumes. The average price per barrel jumped \$5.15 to \$72.54, the highest since October 2008. Crude import volumes fell to 245.45 million barrels, the lowest level since February 1999, from 258.83 million.

The U.S. paid \$22.97 billion for all types of energy-related imports, up from \$22.45 billion in October.

Trade, which was one of the few bright spots during the recent recession, has been a drag on growth as imports have outstripped exports. Net exports subtracted 0.81 of a percentage point from gross domestic product in the third quarter, when the economy expanded at a 2.2% pace. It was the first negative contribution to growth in a year.

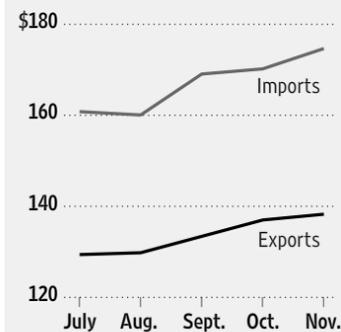
The real, or inflation-adjusted deficit, which economists use to measure the impact of trade on GDP, rose to \$40.71 billion in November from \$38.33 billion the month before, Commerce said Tuesday.

Crude oil and other petroleum products boosted overall imports of industrial supplies, which gained \$2.08 billion in November. Imports of foreign-made consumer goods increased \$1.36 billion, while purchases of capital goods like computers rose \$1.22 billion.

By region, the U.S. trade deficit with China narrowed in November to \$20.22 billion from \$22.66 billion the month before. Exports to China rose by \$469 million to a record \$7.33 billion.

Trade gap widens

U.S. trade, in billions of dollars



Source: U.S. Commerce Department

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U.S. NEWS

Indictment expected in terror probe

Prosecutors face deadline to charge Canadian linked to 2008 Mumbai attack and plan to strike Danish newspaper

By EVAN PEREZ
AND DOUGLAS BELKIN

Federal prosecutors this week are expected to file formal charges against a Chicago businessman in a broad terrorism probe that includes the 2008 Mumbai terror attack and a scheme to attack a Danish newspaper, people familiar with the matter said.

Tahawwur Hussain Rana, a Pakistani-born Canadian citizen, already has been accused by federal prosecutors of plotting with David Headley, also of Chicago, and Pakistani militants to attack the offices of the newspaper, which in 2005 published satirical cartoons of the Prophet Muhammad. Prosecutors filed a criminal complaint against Mr. Rana in October, and the government faces a Thursday deadline to file an indictment.

It wasn't clear what charges the indictment would contain, but federal prosecutors alleged in the complaint filed last fall that Mr. Rana knew of the Mumbai attacks in advance. Investigators homed in on Mr. Rana's possible involvement after Mr. Headley began cooperating with investigators following his October arrest, according to people familiar with the matter.

Prosecutors alleged that Mr. Headley traveled to Mumbai to act as a scout for locations in the attack, which killed more than 160 people. Court documents introduced in Mr. Rana's case alleged that he was in Mumbai and traveled to Dubai five days before the attack.

Government affidavits filed in the Rana and Headley cases portrayed Mr. Rana, 49 years old, as deeply involved in discussing possible attack targets with Pakistani militants.

Attorneys for both men, who are in federal custody in Chicago, have denied all charges. Patrick Blegen, representing Mr. Rana, has argued that his client should be freed on bond. "Mr. Rana categorically denies involvement in the tragic events in Mumbai of November 2008," Mr. Blegen said in November.



Tahawwur Hussain Rana, above, is shown giving an interview in 2007. At right is a farm in Kinsman, Ill., owned by Mr. Rana that was used to provide halal meat for Muslim customers.



The U.S. cases have stoked significant interest in India, with reports that government officials there have complained that Indian authorities haven't been allowed access to interview Messrs. Headley and Rana.

A U.S. official familiar with the case said the U.S. has constantly shared information with India and Pakistan about what they have learned in the cases, including sending counterterrorism prosecutors to India to brief Indian national-security officials.

Mr. Rana's friendship with Mr. Headley dates back to a Pakistani military school called Cadet College Hasan Abdal, where both were students. Mr. Rana went on to become a doctor and to serve in the Pakistani military during the Gulf War in Iraq, a U.S. federal judge said at Mr. Rana's detention hearing.

He married Samraz Akhtar Rana in 1990 and moved to the U.S. four

years later. He became a permanent resident of Canada in 1997 and a citizen in 2001. Some of his family members now live in the Ottawa area.

In 1995, Mr. Rana bought a modest red-brick bungalow in Chicago's far north side, where many Pakistanis live, according to Cook County land records in Chicago. The family, which now includes three teenage children, was courteous but not particularly friendly, said Pat Schein, a next-door neighbor who said the children attended local public schools.

About a month before Mr. Rana's Oct. 18 arrest, Ms. Schein said, the house went dark and she hasn't seen the family since. Mr. Rana, who is tall and wears glasses and a graying beard, incorporated First World Immigration Services in Illinois in 1996. Today, the firm also has offices in New York and Toronto. Mr. Rana also owns a grocery store in Chicago and a farm in Kinsman, Ill.,

about 135 kilometers southwest of Chicago, that provides halal meat for Muslim customers.

Mr. Rana regularly prayed at the Jame Mosque in Chicago, and As-sadukllah Karimi, assistant imam, described him as "gentle" and "humble."

Mr. Rana is a member of the Iqbal Society, a social group that gathers to discuss the poetry and philosophy of the 20th century Persian intellectual Muhammad Iqbal, who espoused peaceful political action.

In early 2008, federal prosecutors said, Messrs. Rana and Headley began to communicate via multiple email accounts, with Mr. Headley sending some messages from Pakistan.

Mr. Rana arranged a number of Mr. Headley's trips abroad, including to Pakistan and Denmark, federal prosecutors said. Mr. Headley sometimes portrayed himself to border agents as an employee of Mr. Rana's immigration firm.

In November 2008, federal prosecutors said, Mr. Rana met in Dubai with a former Pakistani military officer, nicknamed Pasha, whom U.S. prosecutors have charged with conspiracy in the plot against the Danish newspaper.

During a car ride in September 2009, Messrs. Rana and Headley appeared to discuss how Mr. Rana learned from Pasha about the Mumbai plot, according to translations of the conversations wiretapped by the government and cited by U.S. prosecutors.

At a detention hearing in December, Mr. Blegen told a federal judge that prosecutors took the conversation out of context and Mr. Rana didn't know about the Mumbai attacks before they occurred. The judge ordered Mr. Rana detained without bail.

—Phred Dvorak
contributed to this article.

Populist anger fuels bank-fee bid

By GREG HITT
AND JONATHAN WEISMAN

WASHINGTON—A White House proposal to levy a fee on banks to recoup Wall Street bailout funds could get a favorable reception in Congress as the 2010 campaign year unfolds.

For President Barack Obama, the plan would serve another purpose: taking a swat at the financial industry in the hope it tempers populist demands for more punitive measures against the bonuses expected to be doled out to bankers this month.

White House officials made clear Monday the president wants to make taxpayers whole for the hundreds of billions of dollars used to prop up financial, auto and other companies. At the same time, they said legislation aimed broadly at executive compensation on Wall Street probably wouldn't be forthcoming, even if other countries, such as France and the U.K., moved to tax bankers' bonuses directly.

"There's little we can do legislatively," said White House spokesman

Robert Gibbs on Monday, later clarifying that a push for legislation on executive compensation "is unlikely."

Mr. Obama has been walking that line since early last year, speaking out against what he sees as excesses and outrages on Wall Street, even as he steers clear of confrontation over legislation on the matter.

Since the financial crisis erupted in late 2008, Congress and the White House have wrestled with how hard a line to take on executive compensation. Lawmakers imposed limits on bonuses for financial-services executives at companies receiving taxpayer assistance, and the Treasury appointed a pay czar who set precise limits for top earners at those companies.

At the same time, a proposed tax on Wall Street bonuses never became law. Neither did a proposed tax on financial transactions pushed by some Democrats and labor officials.

The proposed bank fee could be hard to stop. Maryland Rep. Chris Van Hollen, a member of the Democratic leadership team in the House, said he expected the proposed fee

would "have strong resonance" on Capitol Hill. "There is still a lot of anger and still a lot of frustration," he said of the mood among rank-and-file lawmakers.

Mr. Van Hollen, who heads the Democratic Congressional Campaign Committee, the campaign arm of House Democrats, added that much of the "political turbulence around the country" could be traced back to anger at the \$700 billion bailout. "This issue is going to be very much with us throughout the year," he said.

Although details are still under discussion, administration officials hope to include a bank fee in the budget to be released next month as a way to offset taxpayer costs associated with the bailout, while also putting a small dent in the huge budget deficit.

Republicans could find themselves taking up the opposing argument on behalf of banks too tarnished to make the case. Rep. Jeb Hensarling (R., Texas) said banks shouldn't be penalized for making a profit, especially if they have repaid money loaned to them under the rescue plan.

Fed earns record profits as holdings mushroom

By MEENA THIRUVENGADAM

WASHINGTON—The Federal Reserve saw record profits in 2009 as its holdings of Treasuries, mortgage-backed securities and agency debt grew.

The \$52.1 billion windfall came as the U.S. central bank acquired billions of dollars in securities through programs aimed at spurring growth.

The Fed last year generated net income of \$52.1 billion, of which it paid \$46.1 billion to the U.S. Treasury, the U.S. central bank said Tuesday. The windfall came as the Fed's balance sheet ballooned to more than \$2.2 trillion and the Fed

acquired billions of dollars in securities through unusual asset-purchase programs aimed at spurring economic growth.

The Fed last year purchased \$300 billion in U.S. government debt and is on track to buy \$1.25 trillion in mortgage-backed securities plus \$175 billion in debt from government-backed mortgage companies. The larger holdings more than offset the historically low interest rates that bring the Fed its income.

The Fed's 2009 earnings were up 47% from 2008, when the central bank generated a net income of \$35.5 billion and transferred \$31.7 billion to the Treasury.

The 2009 earnings reflect an estimated \$3.7 billion in losses on holdings the Fed acquired when it helped J.P. Morgan Chase & Co. buy Bear Stearns and when it rescued American International Group Inc.

U.S. NEWS

Bomb kills Iran physicist

Target is seen as a regime insider who veered toward the opposition

BY FARNAZ FASSIHI
AND CHIP CUMMINS

A remote-controlled bomb killed a Tehran University physics professor near his home early Tuesday, in what Iranian authorities called an assassination backed by Western powers, including the U.S. and Israel.

The victim was identified as Masoud Ali Mohammadi, 50 years old. Official news reports described Mr. Mohammadi as devout, loyal to the Islamic Republic and to Supreme Leader Ayatollah Ali Khamenei.

Before the June 12 presidential election, however, opposition Web sites published Prof. Mohammadi's name among a list of 240 Tehran University teachers who backed opposition leader Mir Hossein Mousavi.

Attacks on Iranian officials in remote provinces aren't uncommon. But a bombing in Tehran, the capital, is rare. The target—seen as a longtime regime insider who veered toward supporting the opposition—immediately raised suspicion among colleagues and students that the attack was politically motivated.

"The reports about his assassination are suspicious. In the current circumstances in Iran, anything is possible," said a university colleague in a telephone interview.

Prof. Mohammadi's membership in Iran's broadly defined nuclear-science brain trust also raised questions about whether the attack was related to the country's controversial nuclear program. Iran says it is pursuing a peaceful nuclear pro-

gram, but Western officials allege it is seeking weapons.

State media identified Mr. Mohammadi as a nuclear physicist. But he was best known for his work in mathematical physics and theoretical, high-energy physics, according to one colleague, who was also a former student.

A spokesman for Iran's atomic agency, Ali Shirzadian, told the Associated Press that the professor had no link with the agency responsible for Iran's nuclear program.

Still, Iranian officials seized upon his field of study as evidence of a foreign plot to slow down Tehran's nuclear-energy program.

Tehran blamed the killing on an Iranian royalist opposition group it said was directed by Israel and the



Masoud Ali Mohammadi, a physics professor at Tehran University, was killed Tuesday by a bomb near his home.

U.S., according to state media. Iran often accuses the two countries of meddling in its affairs.

A U.S. State Department spokes-

man told the AP the allegation of American involvement was "absurd." An Israeli official declined to comment.

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Iraqi raids find explosives, lead to arrests

ASSOCIATED PRESS

BAGHDAD—Iraqi security forces locked down large swaths of Baghdad on Tuesday, seized hundreds of kilograms of explosives and arrested 25 men suspected of plotting terror attacks ahead of parliamentary elections in March.

Iraq's nationwide election will test whether Iraqis can vote in a government capable of overcoming deepening ethnic and sectarian rivalries, or whether those divisions will dissolve into violence. Serious threats to Iraq's security could hinder the drawdown of U.S. forces slated to happen after the March 7 vote.

Maj. Gen. Qassim al-Moussawi, the capital's top military spokesman, said security forces had launched preemptive raids and seized 200 kilograms of TNT, 200 kilograms of C4 and 250 liters of ammonium, as well as 60 explosive devices.

"The security forces were able to arrest 25 men who planned to carry out terrorist attacks in Baghdad this morning," he said.

It was impossible to independently verify the government's claims, which followed hours of lockdowns and searches across the capital. Such operations have become rare since the height of the insurgency in 2006 and 2007 and as security in the capital has improved.

An explosives expert said that if the government's claims were true, the amount of military-grade material seized would have been enough for several car bombs or a large truck bomb.

Officials have warned that insurgents seeking to disrupt the March vote could try to step up attacks. The stakes are especially high for Prime Minister Nouri al-Maliki's Rule of Law coalition, which is campaigning on its ability to protect citizens.

Iraqi security agencies have been increasingly taking over duties from U.S. forces, whose combat units are scheduled to leave by the end of August and the rest by Jan. 1, 2012.

Government spokesman Ali al-Dabbagh said Tuesday's raids were prompted by a tip. "We salute the courageous citizen who gave the useful information to the security forces. I cannot reveal his name, but we salute him for contacting us," he said, before apologizing to Iraqis inconvenienced by the lockdown.

WORLD NEWS

China dials back its easy-credit binge

Central bank requires lenders to keep more cash in reserve, among moves to cut back on lending that drove stimulus effort

By JAMES T. AREDDY

SHANGHAI — China backed off its giant stimulus effort Tuesday by reducing the amount of cash banks have available to lend, in the clearest signal yet that the government is worried that the nation's credit binge now risks igniting inflation.

China's stimulus program, led by a government order to banks in late 2008 to flood the economy with cash, helped to carry China through global financial turmoil. The Chinese economy has rebounded strongly, with property prices sizzling in major cities, a recovery in exports and, recently, a rush of inward investment. The economy is now poised to surge past Japan this year as the world's second-largest economy after the U.S.

But deflecting inflation has become a growing priority for Beijing. Tuesday's move by the People's Bank of China, the country's central bank, appeared to economists as a significant, sooner-than-expected step away from the policies that have encouraged easy bank credit.

Starting Monday, most commercial banks will be required to put 16% of their deposits on reserve and not lend the money, an increase of a half percentage point. In recent years, the reserve requirement rate has emerged as a primary tool for the central bank to fine-tune monetary policy.

Also Tuesday, the central bank raised the yield it pays on its one-year bills, a move also designed to siphon cash out of the financial system by making the debt securities more attractive for banks to buy.

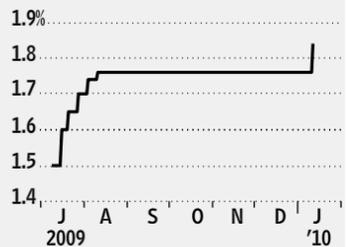
The change potentially sets China on a path for other bigger adjustments, including official interest-rate increases later in the year. "The reserve requirement often seems to function as a leading indicator, partly because it's a good signaling point to the markets," said Mark Williams, senior China economist at Capital Economics Ltd. in London. "From that perspective, it's a turning point."

The move rattled global markets, sending investors to safer-seeming assets as they worried that China's

Credit report

China's central bank raised the yield on three-month bill yields last week.

PBOC's bond yields on one-year bills*



*PBOC didn't sell 1-year bills from Jan. 1 to July 8, 2009.
Source: People's Bank of China

economy might not be as robust as expected this year. The dollar rose against riskier-but-higher-yielding currencies such as the South African rand, and U.S. government Treasuries also rallied. Stock prices in Europe fell in the wake of China's announcement, which came after Chinese markets closed.

As it orders banks to lock up more cash, Beijing is demonstrating it is on guard against asset bubbles that can accompany inflation. The initial impact may be to knock back China's stock market, which gained 80% last year, as shown by the Shanghai Composite Index. The market appeared not to expect the reserve-ratio increase, jumping 1.9% Tuesday.

A sharp spike in bank lending starting in late 2008 was the central element to Beijing's effort to escape the global financial crisis. The forceful policy allowed companies to gorge on easy credit and speculate on properties and stocks. It may have also encouraged wasteful spending: The government recently said that over 106,000 officials were punished last year for misconduct, including abuse of economic-stimulus money.

Economists estimate that the Chinese economy galloped ahead at close to 10% in the latter part of 2009 and will prove to have exceeded the 8% growth target for the year that appeared questionable early in the year. While China's early



A bank clerk in China's Anhui province stacks up banknotes. China has tightened policy and is pressing banks to curb lending.

recovery underpinned the global economy, it is now facing the fallout from its success earlier than other major economies.

News in recent days that China overtook Germany as the world's largest exporter in 2009 has sharpened political calls for Beijing to lift the value of its currency, a move that would make its exports more expensive while making goods from other countries more competitive. China now faces mounting protectionist pressures.

By tapping on the monetary brakes, Beijing has underscored how its biggest challenge is to rein in its massive banks, which traditionally make most of their loans in the early part of the year.

When the new reserve-requirement rate takes effect Monday, it will effectively lock up 300 billion yuan, or around \$44 billion, that might otherwise have been lent, according to Stone & McCarthy Re-

search Associates China analyst Tom Orlik.

In a note, Mr. Orlik said the move is a particularly "powerful signal" of the central government's determination to tighten monetary policy. He said Beijing may have acted earlier than expected due to signs that local banks were rushing out loans in the first days of January in anticipation that the government would tighten lending.

China last changed the reserve requirement and official lending rates in late December 2008. But those moves were to lower the rates as part of broad credit-easing program that included sharp drops in official interest rates. The last increase in reserve requirements took place in June 2008.

With an economy that is led largely by investment, China faces a balancing act in bringing down lending without choking off growth. Analysts predict official interest rate increases won't occur until much later

in the year, although Tuesday's move led them to move up estimates of when the first increase will occur.

Bankers expect Chinese authorities to target roughly an 18% increase in bank loans this year, slowing from the 30%-plus surge in 2009, with total new lending of around 7.5 trillion yuan compared with more than nine trillion yuan last year.

The reserve requirement increase follows a number of less clear indications that the easy monetary policy was being reconsidered. In recent days and weeks, China began removing certain incentives for property buyers: in a rare press interview, Premier Wen Jiabao referred to "quickly" rising real-estate prices and fresh inflation expectations; and the central bank permitted yields on its debt instruments to notch higher.

—Andrew Batson and Victoria Ruan contributed to this article.

Attempted bombing frays U.S.-Nigeria ties

By WILL CONNORS

ABUJA, Nigeria—The alleged attempt by a Nigerian man to detonate a bomb on a U.S.-bound flight has frayed Nigeria's diplomatic ties with its No. 1 buyer of oil: the U.S.

Nigerian Foreign Minister Ojo Maduekwe said the country doesn't want to alienate its "traditional partners," but when the U.S. Transportation Security Administration recently included Nigeria among 14 countries of interest—an effective security watch list—officials and politicians in the West African nation were incensed.

"The goodwill America enjoys here is tremendous," Mr. Maduekwe said in an interview. "Was there no way of dealing with security concerns without putting that goodwill in jeopardy?"

The move, which followed Nigerian Umar Farouk Abdulmutallab's alleged attempt to blow up a flight to

Detroit on Christmas Day, means that Nigerians traveling to the U.S. will face increased security screenings upon arrival. Mr. Abdulmutallab has pleaded not guilty to the charges against him.

Nigeria is the fifth-largest exporter of oil to the U.S. But Nigerian officials lately have said Washington's moves risk pushing the West African nation closer to China and Iran.

The diplomatic sparks have added to tensions in Nigeria, where there is an active antigovernment militancy and mounting dissatisfaction with the long absence of an ill president. On Tuesday, hundreds of Nigerians protested President Umaru Yar'Adua's prolonged convalescence in Saudi Arabia for a heart condition.

Also on Tuesday, U.S. Deputy Secretary for Homeland Security Jane Holl Lute met with Mr. Maduekwe and several other Nigerian officials.

The U.S. Embassy in Nigeria and the State Department in Washington declined to comment on the meetings and possible frictions between the two countries.

"I think people are making more of it than it is," one Western diplomatic official said. "It's just people posturing."

China, Iran and India have been courting oil and infrastructure deals with Nigeria.

China has expressed interest in a number of oil assets controlled by Western companies, including Exxon Mobil Corp. and Chevron Corp., just as the Western companies are considering scaling down their Nigeria operations due to militant violence in the oil-rich Niger Delta.

On Tuesday, four expatriate oil workers contracted by Royal Dutch Shell PLC were kidnapped while driving to work by unknown attackers in Port Harcourt, the largest city in the

Niger Delta. A pipeline operated by Chevron was attacked last week, forcing the company to cut oil production by 20,000 barrels a day.

Meanwhile, China's biggest energy companies are eager to tap the country. China National Petroleum Corp. is a possible buyer of several assets, officials say. Iran and Nigeria signed an agreement in 2008 to share nuclear technology for power generation.

Taminu Yakubu, President Yar'Adua's economic adviser, played down the potential damage to business due to diplomatic trouble. But he added: "It is not good to put unnecessary pressure on a friend who has always cooperated, been helpful and helped America with international responsibility."

The tensions between Nigeria and the U.S. are becoming part of the country's political problems. On Tuesday, some of those who protested the President Yar'Adua's absence said the ad-

dition of Nigeria to the watch list was a positive development.

"I think it was a good thing for Nigeria because the politicians will wake up now," said Auwal Ibrahim Musa, the executive director of the Civil Society Legislative Advocacy Centre in Nigeria. "We hope the action from America will only bring sanity and some responsibility. From our leaders so far it's just noise."

Protesters wore T-shirts stating, "Enough is Enough" and chanted, "Umaru, where are you?" One held a cardboard sign that read, "Good Governance Will Erase Nigeria from U.S. Black List."

President Yar'Adua spoke publicly for the first time since October in an interview with BBC Radio on Tuesday, saying he was getting better and would return to Nigeria as soon as his health permitted. The interview, audio of which was posted on the BBC Web site, couldn't be independently verified.

WORLD NEWS

Israeli robots remake the battlefield

Nation forges ahead in deploying unmanned military vehicles by air, sea and land; 60 years of near-constant war

BY CHARLES LEVINSON

TEL AVIV, Israel—Israel is developing an army of robotic fighting machines that offers a window onto the potential future of warfare.

Sixty years of near-constant war, a low tolerance for enduring casualties in conflict, and its high-tech industry have long made Israel one of the world's leading innovators of military robotics.

"We're trying to get to unmanned vehicles everywhere on the battlefield for each platoon in the field," says Lt. Col. Oren Berebbi, head of the Israel Defense Forces' technology branch. "We can do more and more missions without putting a soldier at risk."

In 10 to 15 years, one-third of Israel's military machines will be unmanned, predicts Giora Katz, vice president of Rafael Advanced Defense Systems Ltd., one of Israel's leading weapons manufacturers. "We are moving into the robotic era," says Mr. Katz.

More than 40 countries have military-robotics programs. The U.S. and much of the rest of the world is betting big on the role of aerial drones. Even Hezbollah, the Iranian-backed Shiite guerrilla force in Lebanon, flew four Iranian-made drones against Israel during the 2006 Lebanon War.

When the U.S. invaded Iraq in 2003, it had just a handful of drones. Today, U.S. forces have around 7,000 unmanned vehicles in the air and an



Israel pioneered the use of aerial drones like the Heron, under construction, above, at Israeli Aerospace Industries.

additional 12,000 on the ground, used for tasks including reconnaissance, airstrikes and bomb disposal.

In 2009, for the first time, the U.S. Air Force trained more "pilots"

for unmanned aircraft than for manned fighters and bombers.

U.S. and Japanese robotics programs rival Israel's technological know-how, but Israel has shown it

can move quickly to develop and deploy new devices, to meet battlefield needs, military officials say.

Among Israel's recently deployed technologies is the

Guardium unmanned ground vehicle, which now drives itself along the Gaza and Lebanese borders. The Guardium was deployed to patrol for infiltrators in the wake of the abduction of soldiers doing the same job in 2006. The Guardium, developed by G-nius Ltd., is essentially an armored off-road golf cart with a suite of optical sensors and surveillance gear. It was put into the field for the first time 10 months ago.

In the 2006 Lebanon War, Israeli soldiers took a beating opening supply routes and ferrying food and ammunition through hostile territory. In the Gaza conflict in January 2009, Israel unveiled remote-controlled bulldozers to help address that issue.

Within the next year, Israeli engineers expect to deploy the voice-commanded, six-wheeled Rex robot, capable of carrying 250 kilograms of gear alongside advancing infantry.

After bomb-laden fishing boats tried to take out an Israeli Navy frigate off the coast off Gaza in 2002, Rafael designed the Protector SV, an unmanned, heavily armed speedboat.

After Syrian missile batteries in Lebanon took a heavy toll on Israeli fighter jets in the 1973 war, Israel developed the first modern unmanned aerial vehicle, or UAV. When Israel next invaded Lebanon in 1981, the real-time images provided by those unmanned aircraft helped Israel wipe out Syrian air defenses, without a single downed pilot. The world took notice.

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Callaway Golf tees up in India, signs top golfer

BY PAUL BECKETT

NEW DELHI—Callaway Golf Co., the U.S. golf equipment manufacturer, is opening an Indian unit and has signed India's most famous golfer as a brand ambassador in an effort to tap the growing popularity of the sport in the country.

George Fellows, chief executive, said in an interview that the company viewed India as a nation on the cusp of a marked shift in terms of the size of its market for the sport, with an increase in golf-course construction, interest in the sport among younger Indians and rising wealth among India's middle class. "India is at an inflection point," he said.

Jeev Milkha Singh, India's No. 1 ranked professional golfer, will work with the company globally but with a focus on the Indian market.

India has a long tradition of golf. The Royal Calcutta Golf Club, which dates from 1829, purports to be the first golf club opened outside of the U.K. But golf remains largely an elite sport, dominated by retired military officers, government officials and senior business executives. In the past several years, that has begun to change as the number of golf courses in the nation has risen to about 250, up from 80 courses five years ago, and another big increase is expected in the next few years, according to Vivek Mehta, Callaway's India country head.

Mr. Fellows estimated that there are some 500,000 golfers in India, some 150,000 of whom are termed "avid," meaning they play more than a round a month. The number of golfers overall is growing by up to 30% a year, which before long could



Professional golfer Jeev Milkha Singh will promote Callaway Golf.

translate into "a marketplace in India of several hundred million dollars of equipment sales," he said.

Callaway's India team will be modest to start with: up to 15 people based in Gurgaon, a suburb of New Delhi, responsible for building the brand, cultivating newcomers to the sport, and selling Callaway equipment through all 200 golf and sporting goods outlets in the country, including pro shops.

Mr. Fellows said India is a key market for the company. Already over 50% of the Carlsbad, Calif., company's revenue comes from outside the U.S. Mr. Fellows said he was cautiously optimistic about prospects for 2010 and is hoping 2011 will see the industry return to traditional rates of growth. The international popularity of golf may get a boost from the 2016 summer Olympics in Rio de Janeiro, he added, because golf will be included as an Olympic sport for the first time since 1904.