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THE JOURNAL REPORT R1-8

Credit Suisse starts to look like a true global leader
HEARD ON THE STREET 20

THE WALL STREET JOURNAL.

VOL. XXVII NO. 246 — EUROPE — Wednesday, January 20, 2010

DOWJONES A News Corporation Company — europe.WSJ.com

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U.S. Sea Hawks drop in to keep order in Haiti

Reuters

Haitians gather at the wrecked presidential palace as the U.S. 82nd Airborne division flies in Tuesday.

MetLife nears a deal to buy AIG's Alico

By Jeffrey McCracken And Leslie Scism

MetLife Inc. is in final negotiations to purchase one of the biggest international life-insurance units of government-controlled **American International Group** Inc. for between $14 billion and $15 billion, people familiar with the matter said Tuesday.

The companies have been in discussions for months about a potential deal for AIG's **American Life Insurance** Co., known as Alico. In recent weeks, the talks have gotten more serious, these people said, and the two sides hope to announce a deal in coming weeks. The insurers have broadly agreed on price and are working on final deal points, though some issues remain that could scuttle the deal, the people said.

Alico's sale would be the biggest step to date by AIG to pay back the U.S. government, which has committed a total of $182.3 billion to prop up the insurer. AIG previously indicated about $9 billion of the Alico sale proceeds would go back to U.S. coffers.

No other bidders are involved in the deal now, though others expressed interest in the past. Alico will either be sold to MetLife or proceed with an initial public offering, the people familiar with the matter said.

An AIG spokeswoman said the company won't comment "on rumors and speculation." A MetLife spokesman said in a statement, "Our philosophy regarding M&A activity is that any deal MetLife pursues would be strategically important and financially attractive to our shareholders."

An Alico deal would expand MetLife's international reach. Alico sells life insurance in 50 countries. MetLife is the No. 1 seller of life insurance in the U.S., with a 13% market share.

The deal talks have been complicated by the role of AIG Chief Executive Robert Benmosche, who was chairman and CEO of MetLife from 1998 until 2006. When assuming the AIG post in August 2009, he held about 500,000 MetLife shares and about two million MetLife stock options, according to a person familiar with the matter at the time.

AIG set up an independent committee to handle negotiations, keeping Mr. Benmosche insulated from the talks.

At an event for investors in December, analysts asked MetLife about the possibility of an Alico deal. Chief Executive Robert Henrikson "made it clear he believed MetLife could undertake a $14 billion-plus deal," Citigroup analyst Colin Devine wrote in a Jan. 14 report.

King warns on deficit

By Natasha Brereton

LONDON — Bank of England governor Mervyn King said the U.K. government must move quickly to address the nation's structural fiscal deficit and that a failure to do so could have negative implications for the economy's long-term prospects.

Mr. King said the Spring budget would provide an opportunity to demonstrate a strong commitment to long-term fiscal sustainability, and reiterated that eliminating the structural deficit would be essential to rebalancing demand in the U.K. economy.

Mr. King's comments come as the country gears up for a national election which must be called by June.

By stressing the fiscal situation so strongly, Mr. King is hoping to inject a degree of sobriety into the political debate even as the season of big campaign promises approaches.

"Uncertainty about how and when fiscal policy will respond has a direct bearing on monetary policy. And markets can be unforgiving," Mr. King said, echoing comments by U.S. Federal Reserve Chairman Ben Bernanke that near-term challenges mustn't be allowed to prevent the timely addressing of fiscal imbalances.

During the past year, international ratings agencies have threatened to reduce the U.K.'s triple-A rating if the next government doesn't move aggressively to cut spending, raise taxes, or pursue a combination of both, making it essential that whichever party wins the election takes radical action.

Mervyn King

Earlier Tuesday, a senior official at Fitch Rating—which rates the U.K. triple-A with a stable outlook—said the government's plan to halve its deficit by the fiscal year ending March 2014 from an expected 12.6% of gross domestic product in the fiscal year ending March was too slow.

In May, ratings agency Standard & Poor's placed the triple-A credit rating of the U.K. on a negative outlook and warned of a downgrade if a credible debt-reduction plan isn't in place after the election.

"Looking ahead, monetary and fiscal policy together must help to bring about a switch of demand from pri-

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The Quirk

The electric bike has become the curse of the road in the Bicycle Kingdom. Page 33

World Watch

A comprehensive rundown of news from around the world. Pages 34-35

Editorial & Opinion

Champion human rights by minding your language. Page 14

How Kraft overcame Cadbury's defenses

By Dana Cimilluca and Ilan Brat

After four months of public sparring, it took just 24 hours of frenzied negotiations to seal the fate of **Cadbury** PLC, a 186-year-old fixture of the British corporate establishment.

With a deadline of midnight Tuesday looming for **Kraft Foods** Inc. to put its hostile offer directly to Cadbury shareholders, the British gum and candy maker agreed to enter discussions with its U.S. suitor early Monday. By Tuesday morning, the two companies had announced a deal that values Cadbury at 850 pence per share or £11.9 billion ($19.4 billion).

In addition to increasing the value of its bid by 10%, Kraft, of Northfield, Ill., reconfigured it to substantially increase the cash portion, which now constitutes 60% of the offer. That came in response to calls from Warren Buffett and other Kraft shareholders—as well as from many Cadbury shareholders — to include more cash in the deal, which

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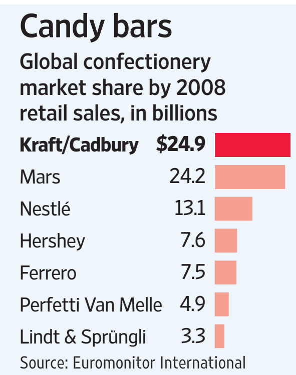

PAGE TWO

France will simply have to swallow Anglobalization of common language

[Agenda]

By Andrew Roberts

PM/SV/FMS

C'est la guerre: Language decline began with an 1810 defeat of Napoleon's army

A French group entitled Avenir de la Langue Française (Future of the French Language) has claimed that the invasion of English words poses a greater "threat" to France's national identity than the imposition of German under the Nazis. Writing recently in Le Monde and l'Humanite, the group, supported by eight other patriotic organizations, called on the Sarkozy government to turn back the English flood. "There are more English words on the walls of Paris," they state, "than German words under the Occupation."

Quite apart from the staggering tastelessness of equating the tongue of their NATO allies with that of their fascist conquerors, how reasonable is their fear? Although President Nicholas Sarkozy speaks almost no English—as I discovered in a torturous conversation with him about the battle of Waterloo—he is accused by these groupings of wanting to make France bilingual.

He has spotted something that must make his Gaullist gut retch —that English has long replaced French as the world's *lingua franca*—but he had the foresight to try to embrace the fact for France's long-term benefit.

This year, English speakers celebrate, as French speakers must bemoan, the bicentenary of the moment when French started to lose its supremacy as the global language. When in October 1810 Marshal Andre Massena's invading Army of Portugal was repulsed from the Lines of Torres Vedras outside Lisbon by the Duke of Wellington, Napoleon's all-conquering juggernaut at last shuddered to a halt.

The fight back had begun, and it was to end five years later at Waterloo and the Congress of Vienna, with Britain gaining all the strategic points she needed to build a world empire, and export the English tongue to a fifth of the Earth's surface.

English has became the dominant language of the Internet, air-traffic control, computers and international business. By 2030, more Chinese people will be able to speak it than there are Americans. Already by 2001, English was being spoken by more than one in three of the 350 million citizens of the European Union, whereas fewer than one in 10 spoke French outside France itself. Even in areas where French influence has been strong—Morocco, Algeria, Syria, Vietnam, Cambodia, Chad, and elsewhere—English has encroached very successfully.

French may have to be protected as a linguistic curio, like Britain does with Cornish or Manx

English is the official language used by the Organization of Petroleum Exporting Countries, and the only working language of the European Free Trade Association, the Baltic Marine Biologists Association, the Asian Amateur Athletics Association, and the African Hockey Federation. It's also the second language of bodies as diverse as the Andean Commission of Jurists and the Arab Air Carriers Organization.

In 1942, when Japanese Premier Tojo called all the puppet governments of the "Greater Asian Co-Prosperity Sphere" together for an anti-Imperialism conference in Tokyo, he found the only language all the delegates could speak was English.

France's traditional response to this linguistic "Anglobalization" has been to attempt a form of legal protectionism against the steamroller tongue of "les rosbifs" and "les Anglo-Saxons." In 1994 the French Assemblée Nationale passed the Loi Toubon, signed into law by President François Mitterand. Named after Jacques Toubon, the culture minister, it stipulated: "French shall be the language of instruction, work, trade and exchanges and of the public services.

"The use of French shall be mandatory for the designation, offer, presentation, instructions for use, and description of the scope and conditions of a warranty of goods, products and services as well as bills and receipts. The same provisions apply to any written, spoken, radio and television advertisement" and so on for another 21 highly prescriptive clauses. The law has been used against American and British companies, such as Disney and the Body Shop, on the Champs Elysées that had labels in English.

The principle was extended io cyberspace, when the French government asked the Organization for Economic Co-operation and Development to take up the issue of regulating language content on the Internet.

A lawsuit was even brought against the Georgia Institute of Technology by Avenir de la Langue Française on the grounds that the campus Web site in Lorraine was in English, even though the teachers came from Atlanta and all the students had to be fluent in English to enroll for the courses, which were all taught in English.

In 2005, France's Higher Audiovisual Council ordered television channels to translate the titles of popular programs and cartoons into French.

"Popstars" was instructed to become "Vedettes de Variétés," "Star Academy" became "L'Ècoles des Vedettes," "Funky Cops" was transformed into "Des Flics dans la Vent," and, most unwieldy of all, "Totally Spies" became "Des Espions à Part Entière."

Today, 40% of all pop songs on French radio are supposed to be sung in French, although of course the law is widely flouted.

In two centuries, French may have to be protected as a linguistic curio, like Britain does with Cornish or Manx. Until then, the French must learn to be bilingual, or risk being left behind in the global marketplace, gasping outraged complaints in a tongue fewer and fewer people understand.

—Andrew Roberts is a historian and lives in London

What's News

■ **Japan Airlines filed** the country's largest-ever nonfinancial bankruptcy petition, kicking off a three-year restructuring that will have lasting effects for hundreds of thousands of Japanese as the carrier significantly shrinks operations. **16-17**

■ **Citigroup's loss narrowed** in the fourth quarter but results continue to show the strains from the bank's huge portfolio of troubled loans. **19**

■ **Credit Suisse said** it will cut the awards of top bankers in London, the first bank to publicly do so in response to the U.K. tax on bonuses. **19**

■ **British consumer prices** increased in December by 2.9%, their largest amount since recording of the data began in 1997. **6, 20**

■ **Finance ministers** in the euro zone held Greece to its promise to turn around fiscal deficits that threaten the nation with a growing risk of losing creditworthiness. **7**

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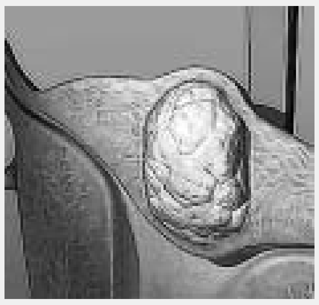

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ONLINE TODAY

Most read in Europe

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2. Publisher, Apple Discuss Tablet
3. Microsoft's Browser Under Fire in Europe
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5. Kraft Nears Deal for Cadbury

Most emailed in Europe

1. The Case of Nordic Detectives
2. Why Investors Fool Themselves
3. E-Yikes! Electric Bikes Terrorize the Streets of China
4. Publisher, Apple Discuss Tablet
5. Opinion Europe: Ukraine Is Headed for National Bankruptcy

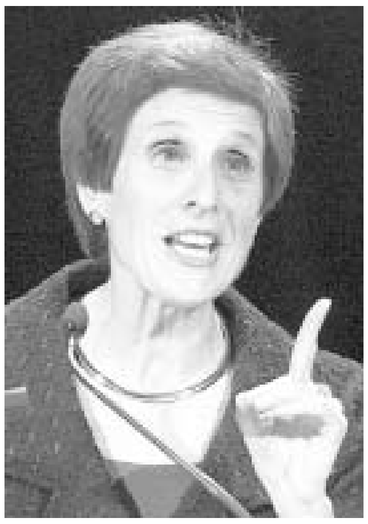
Iain Martin on Politics

blogs.wsj.com/iainmartin

'The problem is that America is damned if it does try to lead in these situations and damned if it doesn't.'

Iain Martin on America's role on in providing aid after Haiti's earthquake

Continuing coverage



Get details and analysis on Kraft Food's deal for Cadbury at **wsj.com/deals**

Question of the day

Vote and discuss: Who was the better negotiator in the Kraft-Cadbury deal?

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

Previous results

Q: Do you think the fiscal woes plaguing Greece will become a big problem for the euro?

Yes **47%**

No **53%**

THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Stapleton House, 29 - 33 Scrutton Street, London, EC2A 4HU

SUBSCRIPTIONS, inquiries and address changes to: Telephone: +44 (0) 207 309 7799. Calling time from 8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com. Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones International. Frankfurt: 49 69 9714280; London: 44 207 842 9600; Paris: 331 40 17 17 01.

Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Baslnevi.

Registered as a newspaper at the Post Office.
 Editeur responsable: Patience Wheatcroft M-17936-2003.

Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

NEWS

U.K. targets binge drinking in bars

New regulations would ban certain promotions and require small-serving options, free tap water for patrons

By William Lyons

LONDON–The U.K. government on Tuesday moved to crack down on binge drinking and its related costs with proposals to ban certain promotions at bars.

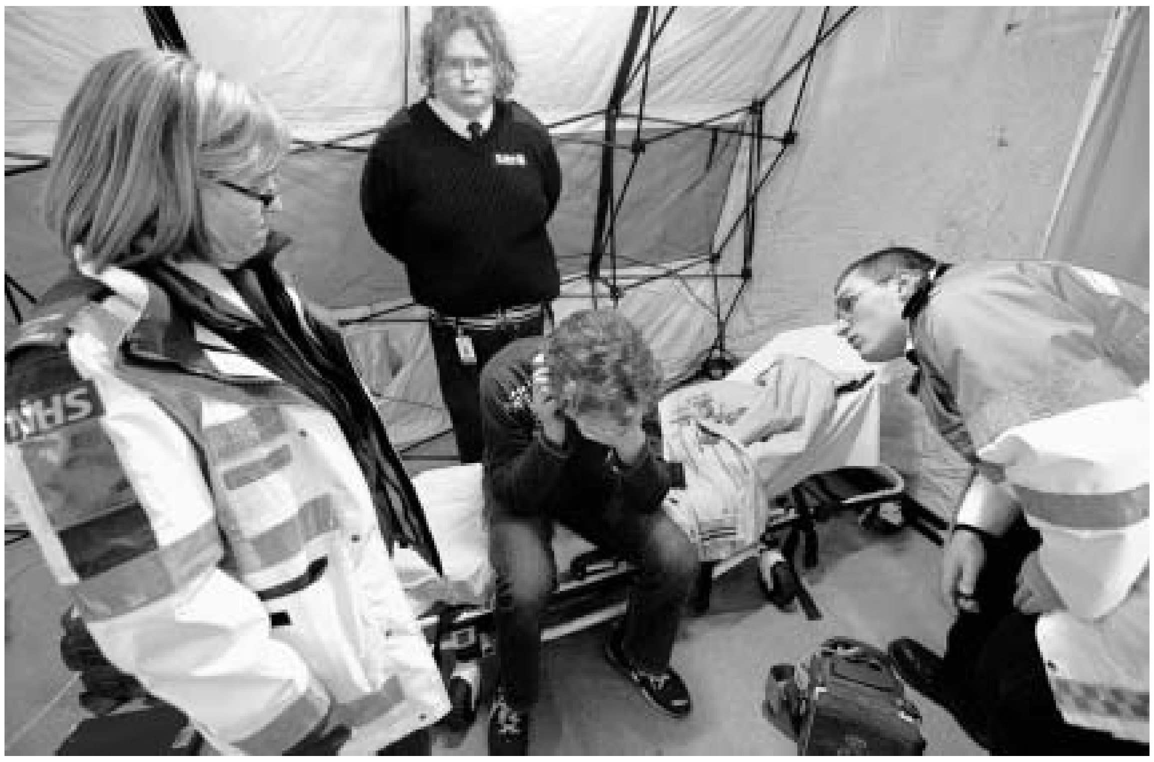
Home Secretary Alan Johnson said businesses licensed to sell alcohol will face fines of as much as £20,000 ($32,623) or up to six months in jail for offers such as "All you can drink for £10" or "Free drinks for women under 25."

"These practices have a real impact on society, not to mention the lives of those who just want to enjoy a good night out," said Mr. Johnson. "The government and the industry have a duty to act, this mandatory code will allow us to take action against an issue which affects us all."

In 2005, the Labour government introduced the first major overhaul in 80 years of laws covering the serving of alcohol in pubs, restaurants and nightclubs by allowing establishments to apply for extended opening hours. The move was designed to prevent heavy drinkers from pouring into the streets at the 11 p.m. closing time and lead to a slower pace of drinking.

Instead there has been rising concern that binge drinking has markedly increased in recent years.

A report issued this month by the National Health Service in conjunction with the Royal College of Physicians found that alcohol consumption in the U.K. has increased 19% over the past three decades and is now higher than in any other European country.



Associated Press

Paramedics assist a drunk person at a temporary field hospital at London's Liverpool Street train station in December.

It estimates that the increase has resulted in an increased demand for NHS services costing £2.7 billion in 2006-07, double the figure for 2001.

A separate study by the U.K. government found that alcohol abuse kills 40,000 people in England and Wales every year, with an annual cost of £8 billion-£13 billion due to drink-related crime and disorder in the U.K. as a whole.

If the government's proposals receive parliamentary approval, they will form a new mandatory code for retailers. The code will force retailers and bar staff to demand proof of age of anyone who looks younger than 18 years old. The new code would also ban promotions such as "dentist's chairs," where drink is poured directly into customers' mouths.

Pubs will also have to make small servings of beer, wine and spirits available as well as providing free tap water. Many bars currently offer only bottled water, at a charge. The tap-water requirements and ban on particular promotions and will take effect on April 6, while the rest of the rules will be in place in October.

Conservative shadow Home Secretary Chris Grayling on Tuesday announced proposals to tax high-alcohol-content drinks and give local councils the power to charge a "late-night levy" on liquor stores open past 10:30 p.m.

Doctors and lobbyists for the drinks industry have criticized the proposals, arguing that the government is failing to wield its most effective weapon, the imposition of minimum price controls on alcoholic drinks.

Brigid Simmons, the chief executive of the British Beer and Pub Association, said the group has "consistently supported legislation to crack down on irresponsible promotions in pubs and supermarkets."

However, she said the "pub-centric measures...are lopsided and unbalanced," as they don't address sales of alcohol at supermarkets.

Ian Gilmore, the president of the Royal College of Physicians, has welcomed the code but said it failed to deal with the issue of widely available cheap supermarket drinks.

The British Liver Trust said mortality from liver disease has risen 12% since 2005, totaling 46,244 lives lost. If these rates continue, the organization warns deaths from liver disease will double in 20 years.

Jeremy Beadles, chief executive of the Wine and Spirit Trade Association, said: "We need the carrot and the stick. The Campaign for Smarter Drinking, funded by the drinks industry and supported by Government, is challenging the culture of excessive drinking amongst a significant number of young adults. Let's also ensure the laws in place to tackle alcohol misuse are rigorously enforced."

Climate-Change Claim on Glaciers Under Fire

By Gautam Naik
And Keith Johnson

An influential United Nations panel is facing growing criticism about its practices after acknowledging doubts about a 2007 statement that Himalayan glaciers were retreating faster than those anywhere else and would entirely disappear by 2035, if not sooner.

Rajendra Pachauri, head of the Intergovernmental Panel on Climate Change, or IPCC, said Monday that the U.N. body was studying how the 2007 report "derived" the information about glacier retreat, according to a spokesman at the Energy and Resources Institute in New Delhi, where Dr. Pachauri is the director. Dr. Pachauri said glaciers were melting, but the 2035 date was in question, the spokesman said. The report led to concerns about water-supply issues in Asia's Gangetic plain, home to millions of people.

It was unlikely that these revelations about the IPCC report would overturn the scientific consensus on glacial retreat, but they raised questions for the IPCC about how the data on Himalayan glaciers were collected and reviewed.

"The IPCC report said Himalayan glaciers are receding faster than anywhere else in the world and that's not correct," said J. Graham Cogley, a professor of geography at Trent University in Ontario. Dr. Cogley is a glaciologist who contributed to another part of the 2007 IPCC report and is one of the first people to track down some of the inconsistencies in the section on Himalayan glaciers. He added that the 2035 date was also likely wrong.

Reuters

The Gangkhar Puensum glacier in Bhutan is pictured in November 2009.

"There's a failure to review this data adequately by qualified experts," Prof. Cogley said.

The IPCC report stated that the total area of Himalayan glaciers would likely shrink from 500,000 square kilometers to 100,000 square kilometers by 2035. The report cited a 2005 study by the World Wildlife Fund, an environmental advocacy group. That study cited a 1999 article in New Scientist magazine that quoted Indian glacier expert Syed Hasnain as saying Himalayan glaciers could disappear "within 40 years." Dr. Hasnain presented a report on Himalayan glaciers in the summer of 1999, but it made no reference to 2035.

Earlier this month, Dr. Hasnain said in another New Scientist article that his previous assertions were based on "speculation," rather than firm science. Dr. Hasnain, a senior fellow at the Energy and Resources Institute in New Delhi, couldn't be reached for comment.

The citation of an environmental advocacy group as a source within the IPCC report appears to be a rare, but not unique, occurrence. That same chapter on Asian climate impacts also cited work from the World Resources Institute, which describes itself as an "environmental think tank." Most of the thousands of citations supporting the rest of the voluminous IPCC report were from scientific journals.

The controversy comes on the heels of a scandal in Britain, where the publication of hacked emails of climate scientists suggested that they had declined to share their data with fellow researchers and tried to squelch dissenting views about global climate change. Some of the scientists whose emails were hacked were key contributors to the 2007 IPCC report, though not on the subject of glaciers.

A large body of scientific evidence indicates that glaciers in North America, Europe and Asia—including the Himalayas—are retreating in response to a warmer climate. There is also evidence of accelerating retreat in most parts of the world in recent decades. Part of the confusion over the Himalayan glaciers could stem from a 1996 paper by hydrologist V.M. Kotlyakov, who asserted that global glaciers could melt by 2350 if world temperatures continued to increase. He noted that global glacier cover could shrink from 500,000 square kilometers to 100,000 square kilometers over that period. Dr. Cogley said Dr. Kotlyakov's figure for global glacial melt may have been incorrectly written up as Himalayan glacial melt in the IPCC report.

The 2007 IPCC report also misstated the rate of glacier retreat in a prominent table—the one referred to in the controversial passage. Due to a mathematical error, the report said that the Pindari glacier since 1845 had retreated at an average rate of 135 meters per year; the actual average rate of retreat is 23.4 meters, in line with other Himalayan glaciers.

Murari Lal, chairman of the Climate, Energy, and Sustainable Development Analysis Centre think tank, was one of four lead authors on that Asian section of the IPCC's report. In an interview, Mr. Lal defended the IPCC and its work. "Our intent was not to be alarmist, but to lay out the possible scenarios for the future. Our responsibility was to tell policy makers what was happening in this region, one of the least accessible on earth," he said.

Mr. Lal said the IPCC rules allowing peer-reviewed but still unpublished papers to be included in its assessment could have contributed to the mistakes.

From bitter to sweet

After resisting a tie-up for months, Cadbury agreed to a fattened $19.5 billion takeover offer from U.S. food group Kraft, a deal that would create the world's biggest chocolate maker.

- **Sept. 7, 2009** Kraft goes public with bid for Cadbury. Cadbury says the offer "fundamentally undervalues" the company.
- **Nov. 9, 2009** Kraft formalizes the offer, initially valued at £10.2 billion.
- **Nov. 18, 2009** Hershey and Ferrero say they are mulling a possible bid.
- **Dec. 14, 2009** Cadbury promises higher sales and profit margins and again asks them to reject the Kraft bid.
- **Dec. 16, 2009** U.K.'s Mandelson warns that any Cadbury acquirer should respect its heritage and work force.
- **Jan. 5, 2010** Kraft sweetens offer. Nestle rules out bid. Berkshire warns Kraft against "blank check."
- **Jan. 6, 2010** Board members at Cadbury hold talks with directors at Hershey, people familiar with the matter say.
- **Jan. 12, 2010** Cadbury posts a strong 2009 performance and forecasts further progress in 2010.
- **Jan. 19, 2010** Kraft raises bid and Cadbury accepts

Hershey's horizons confined to U.S.

Chocolate maker faces a lack of potential merger partners that could help it in faster-growing markets abroad

By Anjali Cordeiro

In the wake of **Kraft Foods** Inc.'s agreement to buy **Cadbury** PLC, **Hershey** Co. in particular may be left with few avenues for international growth.

For years, Hershey and Cadbury were viewed as potential merger partners, but Hershey's relatively smaller size and the charitable trust that controls it made it difficult for the company to enter into any sort of marriage.

While Kraft hasn't closed the Cadbury transaction, it appears unlikely Hershey would choose to wade into the battle at this stage. That would suggest Hershey—which currently gets the bulk of its sales from the slower-growth U.S. market—would be left with limited options if it hopes to make a concerted push abroad.

"They will be relegated to a U.S.-only confectionery company," said Stifel Nicolaus analyst Chris Growe in a recent interview about Hershey's future as a stand-alone company. Overall sales for the U.S. candy market in general have been growing annually at about 3%, he said.

Hershey would have limited opportunities to find a large confectionery company to merge with overseas, particularly as few candy companies have Cadbury's scale. **Mars** Inc. in 2008 created its own candy conglomerate by acquiring Wm. Wrigley Jr. Co. Mars sells brands like M&Ms and Dove chocolate, and its stable now includes such names as Wrigley's gum.

Hershey's stock was up at late afternoon Tuesday as investors appeared to think that Kraft's agreement with Cadbury likely would prevent Hershey from entering into a potentially costly bidding war.

Cadbury's acceptance on Tuesday of Kraft's takeover offer, valued at £11.9 billion ($19.4 billion) ends an acrimonious, four-month battle and nearly 200 years of independence for the U.K.'s largest confectionery company. Kraft, which makes Toblerone and Milka chocolate as well as processed cheese and ready meals, said it has agreed to pay 840 pence a share for the company as well as a 10-pence dividend. The move would create a global giant with about $50 billion in revenue that will sell everything from Kraft brands including Oreo and other Nabisco cookies and its namesake cheese to Cadbury's Dairy Milk chocolate and Trident gum.

Morningstar analyst Erin Swanson said the control of the trust and Hershey's mainly U.S. presence make it an unlikely takeover target going forward. She said she doesn't believe Hershey will seek to counter Kraft's bid, which has the support of Cadbury's board.

The Hershey trust oversees a school for needy children that is funded partly by Hershey Co. dividends. The trust's goal of safeguarding the future of that charity is likely to override other considerations. That goal has in the past limited the trust's interest in jumping into a deal, particularly one that would dilute its control over Hershey or one that would expose the company's balance sheet to any kind of risk.

"There are smaller regional players [Hershey] could acquire internationally if they wanted to grow their international platform more piecemeal. They would be lacking the scale from a global distribution platform Cadbury would have provided," Ms. Swanson said.

Still, Hershey does have some appealing traits for potential investors. Ms. Swanson pointed out that it is in the attractive confectionery category, which has high margins and low private-label penetration. It also pays a steady dividend.

Kraft wins Cadbury at 11th hour

Continued from first page

was originally 60% stock.

Kraft Chief Executive Irene Rosenfeld said Tuesday that over the course of the effort she had conversations with many investors, including Mr. Buffett, who believe that Kraft's stock is undervalued. That eventually pushed Kraft to significantly reduce the number of shares in the transaction.

Kraft covets Cadbury in part because of the U.K. company's access to fast-growing developing markets. Cadbury's brands include Dairy Milk, Créme Eggs, Dentyne chewing gum and Halls cough drops.

Clinching the deal also is important for Ms. Rosenfeld, whose play for the confectioner could have become a career-defining error if she had not pulled it off.

At times, that looked like a possibility. From the moment Kraft's bid emerged last fall, Cadbury's management, led by Chairman Roger Carr and Chief Executive Todd Stitzer, insisted the company was better off going it alone. Mr. Carr routinely insulted Cadbury's suitor, calling Kraft an "unfocused conglomerate" with "unappealing categories" and a management that "under-delivers."

According to Mr. Carr, the sudden shift toward a deal was spurred by the increase over the past week in the portion of the company's stock owned by hedge funds and other investors that recently piled in looking for a quick payoff. Fearing that those investors, who now held about 30% of the shares, would sell for a price below what the board thought it was worth, Mr. Carr took a 7 p.m. call from Ms. Rosenfeld at his home on Sunday night.

"The risk was that if they had gone to the market with a lower offer, there was a chance that we would have lost with a lower number," Mr. Carr said in an interview Tuesday. "We could not settle for an inappropriate price."

In the end, Mr. Carr said he embraced Kraft's bid because it represented a "huge step forward" in price for Cadbury's shareholders.

Indeed, the price represents a 50% premium to where Cadbury shares traded before Kraft first announced its takeover offer in early September. Still, it is below the level that a number of Cadbury managers and investors argued that the company was worth throughout the takeover battle.

Only last week, Mr. Carr dismissed Kraft management as unworthy of investor confidence, attacked its track record and said there was "no strategic, operational, managerial or financial reason" why Kraft and Cadbury should unite.

"The dialogue was never personal," Mr. Carr said Tuesday. "It was about management achievement, and the Kraft achievement relative to the Cadbury one was less. Therefore, you would only sell this business for the right price."

Still, the acrimony could complicate the already difficult task ahead for Kraft: melding the operations of the two sprawling corporate giants, with combined annual revenue of about $50 billion. They must boost growth and improve efficiency while avoiding the kind of culture clash that can be the enemy of a merger.

"It will be very difficult," said Allyson Stewart-Allen, director at consulting firm International Marketing Partners, adding that Kraft management faces a challenge persuading Cadbury's work force of the deal's merits. "Irene Rosenfeld ... will have to sell the value, logic and benefits to Cadbury's work force unless she wants to risk having demoralized workers potentially sabotaging the deal. She has a big marketing job ahead of her."

Reflecting the difficultly of moving beyond such aggressive rhetoric, no Cadbury official joined the conference call Ms. Rosenfeld and other Kraft officials held with analysts, investors and reporters Tuesday to discuss the deal. Ms. Rosenfeld said on the call it would be "a little premature" to discuss the role that would be played at the enlarged Kraft by Cadbury management such as Mr. Stitzer.

Ms Rosenfeld, who had had no contact with Mr. Carr since she met with him in his London office in August just before announcing the proposal, said to him when she called him Sunday that it would be worthwhile for the two to meet again, she said, according to Mr. Carr.

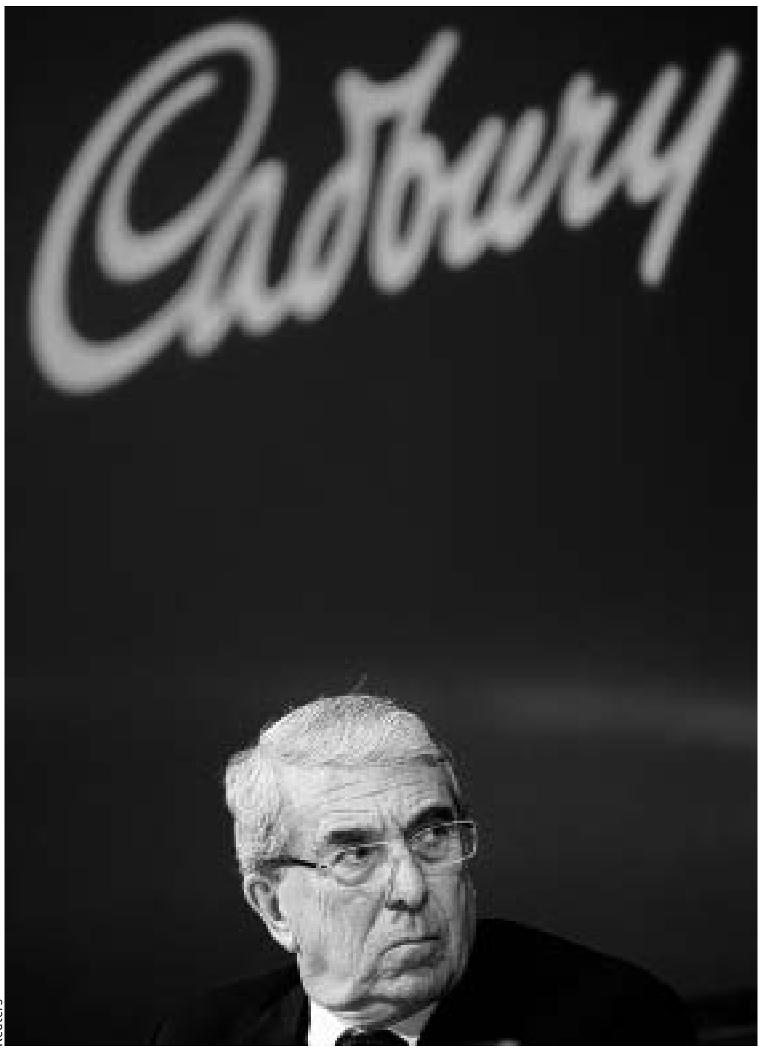
His response was that a meeting would only be worth it if she had "adjusted her thinking on where a suitable price was," Mr. Carr recalled Tuesday.

At 8:30 a.m. on Monday, Ms. Rosenfeld and Mr. Carr met at the Lanesborough Hotel, near London's Hyde Park. Each brought a lawyer. Ms. Rosenfeld proposed an improved bid of 830 British pence per Cadbury share.

Mr. Carr responded that while he respected that Kraft had increased its offer, it still was a long way from an offer acceptable to Cadbury's shareholders.

Mr. Carr described Monday's discussion as "clinical." At several points the two broke up to consult with advisers and then reconvened. Around 9 p.m., Ms. Rosenfeld offered the winning price of 850 pence per share.

Mr. Carr said on that basis, he would go to the board and ask that it recommend Kraft's bid, which the board then did.



Reuters

Cadbury chair Roger Carr says he was concerned about hedge funds' holdings.

The two parties then went to the West End offices of **Lazard** Ltd., which had been advising Kraft on the deal, and spent most of the night fine-tuning the details.

Given that Kraft has already received antitrust approval for the offer, the deal is expected to close in less than a month, assuming, as expected, that more than 50% of Cadbury's shares are tendered and no interloper makes a last-ditch bid.

On Tuesday, only one large shareholder, **Legal & General Investment Management** Ltd., which owns 5.1% of Cadbury's stock, was expressing disappointment with the price.

—Anjali Cordeiro contributed to this article

THE KRAFT-CADBURY DEAL

U.K. uneasy with foreign takeovers

BY ALISTAIR MACDONALD
AND CECILIE ROHWEDDER

LONDON — **Cadbury** PLC's proposed sale to **Kraft Foods** Inc.—a deal clinched over the British government's gripes—adds fuel to a simmering debate here over foreign ownership of local companies.

On Tuesday, Kraft and Cadbury announced a $19.4 billion deal that will end the independence of a candy brand that Britons have grown up with for almost 200 years. Cadbury would join a host of famous British names now managed from abroad, including Rolls Royce, news provider Reuters, ports and shipping operator P&O, cigarette maker Gallaher, glass maker Pilkington and Imperial Chemical Industries, which was once Britain's biggest and most profitable company.

In the last decade the U.K. has seen most of its investment banks, its auto industry, its ports and airports, and most of its big energy and water utilities fall into foreign hands.

"I am not anti-Kraft, but I am extremely concerned that it as been so easy to take over a successful standalone British company," said Jennie Formby, an officer at Unite, a British labor union.

Some British consumers mourned the loss of what has been the taste of their childhood with Cadbury products such as the Dairy Milk and Wispa bars and Créme Egg. "I am seeing so much of our heritage go abroad," said Vivien Carroll, a 57-year-old Northampton bookkeeper. "I want this country to be British."

The Cadbury saga found some U.K. politicians moving away from the decade-long mantra in Britain that ownership of a company is neutral. Peter Mandelson, Britain's business secretary, said last month that any Cadbury bidder trying to make a "quick buck" could face government opposition and has said that foreign ownership of some manufacturers may in the long term "disadvantage" Britain.

On Tuesday Lord Mandelson suggested the government could yet broaden its power to intervene in takeovers. But he added that he is "unconvinced that such a change is necessary and desirable."

Many politicians privately admit that erecting barriers is at present unpalatable in a country which still sees itself as a flagwaver for open markets and whose battered economy needs foreign investment.

Instead, politicians including Prime Minister Gordon Brown were reduced on Tuesday to demanding that Kraft lay out clear plans for continued investment in Cadbury's U.K. operations.

Countries such as France, Spain and Italy routinely block or threaten to intervene in takeovers to protect domestic companies. The U.S. doesn't allow foreign companies to buy airlines, shipping companies, television networks and some security-related businesses. Emerging economies such as India and China are regular buyers of British assets, but large swaths of their own industry are out of bounds to foreigners.

Felicity Loudon—a descendent of Cadbury founder John Cadbury who campaigned against the Kraft deal—called for the U.K. to put in place its own measures to protect industrial assets: "My position is not an anti-American but patriotically British."

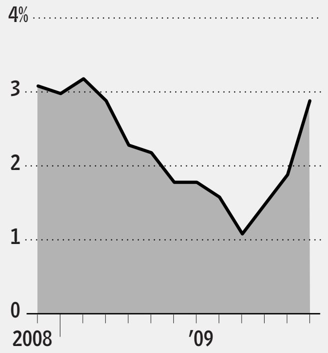
Critics of Britain's open-market policy say that foreign acquirers are more likely to cut jobs in a recession, and often send their top management posts and research operations abroad.

Cadbury's workers see Kraft's takeover of Terry's, another famous British chocolate business, as a bad precedent. The centuries-old York based firm employed 2,400 workers in 1990. But by 2005, Kraft had moved its entire production abroad.

Irene Rosenfeld, Kraft's chief executive officer, said the U.S. food group was planning to honor the promises to keep open a U.K. chocolate factory that Cadbury was in the process of closing, and to invest in another plant in Bournville, near Cadbury's historic headquarters.

Inflation jumps

U.K. consumer–price index, year-to-year change



Source: Office for National Statistics

A man walks past a London department store in December

U.K. consumer prices jump

Bank of England's Mervyn King warns of volatility in inflation data in coming months

By Natasha Brereton

LONDON—British consumer-price inflation rose in December by its biggest amount since recording of the data began in 1997.

The Office for National Statistics said inflation rose to a 2.9% year-on-year rate in December from 1.9% on-year in November, after a temporary sales-tax cut a year ago, a fall in oil prices and early Christmas sales. That was well above the Bank of England's 2.0% target.

While the figure was also significantly higher than analysts had expected, most argued that the upward move will be temporary. They said the large amounts of spare capacity in the economy look set to damp pricing power, meaning that monetary policy should remain loose for some time.

While the Bank of England has said it will disregard what it expects to be a temporary increase in inflation, policy makers will be alert to any signs that public inflation expectations are rising above the inflation target or that spare capacity isn't damping pricing power as much as was thought.

Policy makers "must look through the current pick up in inflation, which reflects temporary relative price effects, and focus on broader underlying pressures, which still look weak," said Colin Ellis, economist at Daiwa Capital Markets Europe.

British Prime Minister Gordon Brown sought to ease concerns, saying the jump in the inflation rate had been expected.

"Generally, Britain has had over the last 12 to 13 years a low inflation environment that has made possible low interest rates," Mr. Brown said at a news conference.

In a speech, Bank of England Governor Mervyn King reiterated that inflation data were likely to be extremely volatile over the coming months, with the headline rate of inflation rising above the 3% threshold for some time.

The Bank of England has said inflation could rise sharply to above 3.0% early this year, which would force Mr. King to write an explanatory letter to the government to explain why inflation has moved so far away from the bank's target.

The one-percentage-point increase in the annual rate of inflation to 2.9% was the largest since the data series began in 1997.

Gilt yields and sterling jumped after the release of the data, as investors anticipated an earlier unwinding of the central bank's easing policies.

The bank is on track to complete targeted asset purchases of £200 billion ($326.72 billion) through its quantitative easing program by early February, with most economists expecting no further increase in the program. The central bank has kept its key interest rate at a record low of 0.5% since March.

—Laurence Norman and Nicholas Winning contributed to this article.

King says deficit needs to be cut for U.K.'s health

Continued from first page

vate and public consumption to net exports and business investment as the recovery takes hold," Mr. King said.

Turning to the U.K. economy, Mr. King stressed that inflation data over the coming months would be particularly volatile, due to the reversal of a temporary cut in the sales tax, among other factors.

He noted that the weakness of sterling was to some extent offsetting downward pressure on inflation from the spare capacity in the economy, and added there was little scope for growth in take-home pay, which could remain weak even as the economy starts to expand again.

But "provided monetary growth remains well under control—and remember that at present it is undesirably low—inflation should return to target in the medium term," he said.

He also said the reputation of the Group of 20 advanced nations as a forum for international policy making could be damaged if the body doesn't make concrete progress in tackling global trade imbalances.

He said the G-20's agreement last year to a new policy coordination strategy under the guidance of the International Monetary Fund hadn't resulted in concrete steps.

"Smiling family photographs marking the attendance at international gatherings are no substitute for specific actions," Mr. King said.

He added: "Still, the G-20 has laid its reputation on the line. It will be damaged if the framework comes to naught."

U.K. fraud office upgrades foreign-corruption fight

By Cassell Bryan-Low

LONDON—Britain's top fraud prosecutor suffered a black eye in 2006 when it dropped a high-profile investigation into whether defense contractor **BAE Systems** PLC made illegal payments to Saudi Arabian officials in relation to a big fighter-jet deal.

Now, new management at the U.K.'s Serious Fraud Office is intent on repairing the agency's tarnished reputation, and SFO chief Richard Alderman has chosen a familiar target to make his point: BAE.

Mr. Alderman is trying to prove that the world's second-largest defense contractor paid bribes to secure contracts in Eastern Europe and Africa, according to the agency. The investigation, an offshoot of the scotched Saudi probe, is a difficult test of the 57-year-old Mr. Alderman's ambition to put the SFO on a par with the U.S. Department of Justice as a leader in fighting fraud.

His efforts are part of a broader move by the U.K. to overcome its poor track record in tackling corruption overseas. The government Tuesday outlined a strategy to invigorate its fight against bribery, including tougher laws and enforcement. To address widespread criticism that the U.K.'s anticorruption laws are weak, the U.K. government is proposing changes to the law that would, among other things, make it easier for authorities to prosecute companies, rather than individuals, for corruption. The government also says it plans to improve intelligence gathering and detection.

Mr. Alderman wants to steer the U.K. away from a past in which long, expensive fraud investigations often languished on the road to criminal prosecution. Instead, he wants to borrow from the U.S. justice system, by encouraging companies to voluntarily report corruption problems and strike plea deals to resolve them rather than face prosecution.

But a months-long effort to settle the BAE case recently hit an impasse, as the SFO failed to persuade the defense contractor to plead guilty to criminal offenses and to pay hundreds of millions of pounds in fines. Now Mr. Alderman says he plans to press criminal charges, if he can get the required approval of the U.K. attorney general. Corruption

Richard Alderman is probing BAE.

cases, which typically are complex, involving payments in overseas jurisdictions, and often highly political, can be difficult to mount.

"BAE is clearly a very important case," Mr. Alderman says. "It is very important that we get it right."

BAE declined to comment on the allegations concerning Eastern Europe and Africa, saying it would "be inappropriate" to do so because of the continuing investigation. BAE says it continues to try to resolve the matters being investigated and that it has acted responsibly in its dealings with the agency.

The SFO launched its original probe in 2004 into whether BAE had made illegal payments in relation to a deal first agreed to in the mid-1980s between the U.K. and the Saudi Arabian governments. As a prime contractor, BAE supplied Saudi Arabia with significant amounts of military hardware, including warplanes. BAE has said in annual reports that it "has not acted unlawfully in relation to its dealings with the Kingdom of Saudi Arabia or in relation to anticorruption laws."

The agency halted the investigation in late 2006 under pressure from the U.K. government, which cited national-security concerns. In June 2007, the U.S. Justice Department notified BAE it had launched its own investigation into the Saudi deal, according to BAE. A BAE spokeswoman says: "BAE's view is that the interest of the company and its stakeholders is to allow the ongoing investigation to run its course."

Mr. Alderman has built an anticorruption unit, pushed the agency to move more quickly on cases and sought to settle deals as an alternative to prosecutions. He obtained the U.K.'s first conviction of a company for overseas corruption when bridge builder Mabey & Johnson Ltd. pleaded guilty in July to the offense. While U.K. authorities previously had prosecuted individuals, this was the first corporate conviction for corruption. He also is encouraging companies to come forward with problems in exchange for more lenient treatment.

But lawyers say that while Mr. Alderman's message is getting across, the SFO still lacks the stiff penalties that exist in the U.S. "If the stick isn't as big, there's less incentive to cut a deal," says former attorney general Peter Goldsmith, now a partner at law firm Debevoise & Plimpton LLP. And Mr. Alderman still needs to secure a corruption conviction in a trial to demonstrate "that he is serious," says Louise Delahunty, a lawyer with Simmons & Simmons.

The SFO says its continuing probe into BAE involves allegations of bribes concerning the sale of two former naval frigates refurbished by BAE and sold to Romania; the sale of fighter planes in the Czech Republic and South Africa; and the supply of an air-traffic-control system to Tanzania.

In settlement talks last summer, the SFO pushed BAE to plead guilty to serious criminal charges such as corruption and to agree to fines of several hundred million pounds, according to people familiar with the matter. But BAE, which has yet to see the SFO's full evidence, acted on advice from its external legal counsel not to agree to the terms the SFO was proposing based on the evidence the company was aware of, another person says.

With talks having stalled, Mr. Alderman in October announced plans to proceed with pressing charges against BAE. The SFO has yet to do so. Having sought advice from external counsel at the end of last year, Mr. Alderman continues to collect information to strengthen his case before sending to the attorney general for approval.

—Daniel Michaels contributed to this article.

EUROPE NEWS

Germany's Weber seen in ECB race

Blunt-spoken Bundesbank president and Italy's Draghi considered top contenders for leadership after Trichet

By Brian Blackstone

FRANKFURT—When Bundesbank President Axel Weber recently took the stage of this city's historic opera house in the collegial company of a conference of European bankers, he delivered a tongue-lashing.

"We don't give a damn what anyone says" about regulation, he told the assembled bankers. "We will just implement it." The banking sector's risk management, he added, was "not up to scratch," in part because bankers relied on ratings agencies that offered "zero" added value.

The combative appearance and signals from the German government have fueled speculation that Mr. Weber, a member of the European Central Bank's policy-making council, is mounting a not-so-subtle campaign for its presidency, considered among Europe's most powerful posts.

ECB President Jean-Claude Trichet's eight-year term expires in October 2011.

Mr. Weber's supporters say he'd add a strong voice to global policy-making circles. But in the staid world of central banking, Mr. Weber's blunt manner—a contrast to Mr. Trichet's diplomatic approach—also spur questions about what his presidency would mean for the euro-zone.

Electing Mr. Weber, a renowned deficit and inflation "hawk" in the traditional Bundesbank mold, would send a clear signal that the ECB won't stray from a conservative course and anti-inflation stance.

At a time the when ECB is coping with the fallout from the chronic overspending by some member states, especially Greece, Mr. Weber's record as a deficit hardliner has raised his profile.


Bloomberg News

Bundesbank President Axel Weber, left, stands with ECB President Jean-Claude Trichet at November's G-20 meeting.

"Excessive deficits can cause tensions with monetary policy" and may require higher interest rates if not corrected, he said in an interview with The Wall Street Journal.

The other leading candidate for the job is Bank of Italy Governor Mario Draghi, who, like Mr. Weber, is well respected in global financial circles. Both have extensive government experience including heading their respective countries' treasuries. Mr. Draghi was a top executive at **Goldman Sachs** from 2002 to 2005—experience that could work against him now given the public relations hit Goldman and other banks have taken during the crisis. Mr. Weber's record is reminiscent of U.S. Federal Reserve Chairman Ben Bernanke's, with lengthy academic careers followed by stints as government economic advisers.

Mr. Draghi is seen as more cagey about his views on rates and inflation than Mr. Weber, making it hard for analysts to place the Italian in a traditional hawk-dove category.

Still, Italy's long history of runaway deficits and currency devaluations could count against him at a time when a lack of fiscal discipline in some euro-zone countries threatens to undermine the common currency.

A spokesman for the Bank of Italy declined to comment.

Mr. Weber has recently signaled that he is comfortable with the ECB's record-low interest rates, a move that some analysts see as an attempt to assuage worries among high-deficit countries such as Italy and Spain that he would be a cookie-cutter Bundesbanker pressing for higher rates at the first opportunity.

Nevertheless, given his hawkish reputation, some believe a Weber presidency could raise tensions within the single-currency bloc, and that such strains could add volatility to the common currency.

The ECB president is one of 22 members of its rate-setting board, but the real power in the position rests with the incumbent's bully pulpit of the world's largest economic area.

Messrs. Weber and Draghi are frontrunners in a race that could still bring other contenders. But it is already heating up.

The successful candidate for the presidency will have to win a qualified majority of euro-zone heads of state. Germany has not raised its hand for other important EU posts recently, prompting speculation that it wants the ECB job.

State Secretary for Europe Werner Hoyer, a German, said in an interview published in France's Les Echos that if Germany were to propose a candidate, it would make sense to have someone "as experienced and successful" as Mr. Weber.

Mr. Weber has been coy about his interest in the post. "Que será, será," he said. "I have a very interesting and challenging job, and am trying to do this job well."

—Nina Koeppen contributed to this article.

Greece pressed on debt plans

By Adam Cohen
And Joe Parkinson

BRUSSELS—Euro-zone finance ministers held Greece to its promise to radically turn around the fiscal deficits that threaten the country with a growing risk of losing its credit-worthiness and disrupting the common currency.

European Commissioner for Economic and Monetary Affairs Joaquín Almunia pushed for more central powers to audit the accounts of national government in a bid to wrest oversight from EU states in the wake of Greece's financial problems.

Mr. Almunia said that if Eurostat, the EU statistics agency, could have verified the Greek budget data, mistakes that led to restated deficit figures could have been avoided.

Greece has restated its budget deficit figures repeatedly since 1997, raising questions about whether it deserved to join the euro zone in 2001. Most recently, it revealed late last year that its budget deficit would hit 12.7% of GDP, four times the EU's 3% limit.

The commission asked the EU to give Eurostat audit powers in 2005, but was rebuffed by countries that didn't want to cede powers to a central authority. Mr. Almunia said next month the commission will present a 14-point plan to help Greece improve its statistics.

Still, the euro tumbled against other major currencies as nerves over Greece's fiscal woes continued to fray. The currency tumbled 0.7% against the dollar in afternoon trading in New York, to $1.4283. It has also plunged 1% against sterling to hit £0.872.

One reason is that observers, in particular ratings agency Moody's Investors Service Inc., aren't convinced Greece's politics can allow the government to the changes it has proposed to fix the problem.

The government's planned budget cuts could spark unrest in Greece.

Moody's on Tuesday praised Greece's stability and growth program to fix the deep budget deficits, but raised doubts about the chances for its implementation.

"The plans for 2010...appear achievable, but the heavy legislative program for the first quarter of 2010 and Greece's poor track record in implementing fiscal reform mean that success cannot be taken for granted," Sarah Carlson, Moody's lead analyst for Greece, said in a news release.

Moody's last rating action on Greece came on Dec. 22, when the agency downgraded Greece's government bond ratings to A2 from A1, with a negative outlook.

The government's planned budget cuts could spark unrest in Greece. Greece's GSEE private sector umbrella union announced plans Tuesday to stage a 24-hour general strike to protest the government's austerity measures.

The union said details would be decided at a leadership meeting next week and criticized the "neoconservative-monetarist policies" that have been foisted on the country.

Greek Finance Minister George Papaconstantinou said the euro zone's other 15 member countries expressed confidence in his government's plan to slash its budget deficit to less than 3% of gross domestic product by 2012.

"First reactions are positive and we're now moving to implementation," he told reporters. The Greek government has said it won't need external help in repaying its debts.

—Katie Martin in London and Alkman Granitsas in Athens contributed to this article.

EUROPE NEWS

Putin move revives environment flap

Decree modifying restrictions on discharges in Russia's Lake Baikal will allow pulp company to resume operations

By Richard Boudreaux

MOSCOW–Russian Prime Minister Vladimir Putin, who plumbed the depths of Lake Baikal in a minisubmarine in August and pronounced the lake "ecologically clean," has given a well-connected tycoon's paper mill the go-ahead to resume dumping waste there, reversing what had been a landmark victory for environmentalists.

A decree Mr. Putin signed last week removed waste discharges in the production of pulp, paper and cardboard from a list of operations banned by environmental legislation in and around the world's largest body of fresh water.

As a result, OAO **Baikalsk Pulp and Paper Mill** said Tuesday it will restart operations that it halted in October 2008 after environmental authorities instructed the company to introduce a closed-loop waste-treatment system. Such a system would prevent discharges into the lake, but the company deemed it unprofitable, declared a permanent shutdown in February and began laying off its 2,000 employees. It started bankruptcy proceedings in March.

Mr. Putin's decree brought relief to Baikalsk, where workers had staged hunger strikes and blocked highways for a week in June to protest the demise of the Siberian town's biggest employer. It also resolved a problem for Oleg Deripaska, the tycoon whose control of the plant had cast him as the villain of those protests.

RIA Novosti

The Baikalsk Pulp and Paper Mill plans to restart operations that were halted in October 2008.

But the measure has enraged Russia's environmental activists, whose campaign against the mill gained widespread attention in the late 1980s as leading Soviet political and literary figures rallied behind it. The effort succeeded after environmental groups sued the company and won a 2008 court decision banning the discharge of waste water into the lake.

The mill, built in 1966, can produce 200,000 metric tons of pulp and 12,000 metric tons of packaging paper per year. A portion of the pulp, a special grade that can be produced only by using lake water, is used in Russia's nuclear warheads. Environmentalists said the mill's discharge threatened hundreds of species of wildlife, including a rare type of freshwater seal.

"This decree undoes more than two decades of struggle to defend the lake," said Roman Vazhenkov, head of Greenpeace's Lake Baikal campaign. Greenpeace appealed to President Dmitry Medvedev to reverse the measure. "To allow chemical wastes to be dumped there," he said, "...what else can you call it but a crime?"

He added: "The only thing I can conclude is that Putin is doing this to protect the interests of one person—Oleg Deripaska."

Mr. Deripaska's LPK Continental Management, part of his Basic Element industrial group, controls 51% of the mill. The state owns the other 49%. People close to Mr. Deripaska say he has used direct access to Mr. Putin and other top officials to become a major recipient of Kremlin bailouts and preserve a sprawling business empire that was threatened by the financial crisis.

Mr. Putin's press secretary, Dmitry Peskov, denied any favoritism toward Mr. Deripaska. "The only interests we can speak about protecting," he said, "are the interests of the 16,000 people in Baikalsk, whose lives depend almost entirely on that mill."

Mr. Peskov said preserving the lake's ecology is a "high priority" that the prime minister had to weigh against the town's fortunes. He said Mr. Putin consults frequently with scientific experts on Baikal and had ordered "strict government surveillance" of the mill's discharges once they resume.

Some economists say Mr. Putin's focus on saving jobs has delayed the restructuring of inefficient Russian companies crippled by the crisis. The Russian leader has been making televised appearances around the country, visiting near-bankrupt factories, scolding their managers and owners, and ordering banks to issue loans to revive employment.

The decree to rescue the Baikalsk mill, published on the government Web site, was first reported late Monday by Russian media. Oksana Gorlova, a spokeswoman for Continental Management, said Tuesday that the government decision behind it had been made in July, a month before Mr. Putin's televised dive in the minisub.

"I see the bed of Lake Baikal and it is clean," Mr. Putin told reporters through a hydrophone from 1.4 kilometers beneath the surface. Later, he said, "There is practically no environmental damage" and hinted that the mill might reopen.

Mr. Deripaska invested $6 million in November to start reviving the mill, the spokeswoman said. She said the company recently upgraded its technology for purifying waste water.

Bulgarian pulls Commission nomination

By John W. Miller

BRUSSELS—The European Union's commissioner-designate for humanitarian aid, Rumiana Jeleva, withdrew her nomination Tuesday amid pressure from the European Parliament over business dealings in her native Bulgaria and her husband's alleged ties to organized crime.

Mrs. Jeleva's exit will delay final confirmation of the 27-member European Commission, the bloc's executive body, and is a blow to one prominent supporter, EU Commission president José Manuel Barroso. The commission had been slated to begin its five-year term on Jan. 26.

Parliament will need time to organize another hearing. At a news conference, European Parliament president Jerzy Buzek said he hoped the final vote would happen Feb. 9.

Mrs. Jeleva didn't make a formal statement on Tuesday. The Bulgarian government announced her withdrawal and appointed a replacement: World Bank Vice President Kristalina Georgieva.

"This is a big deal," says Fredrik Erixon, an analyst with the Brussels-based European Centre for International Politics and Economy. "The day Barroso launched the group of nominated commissioners, he said this is the best team to meet the challenges of the European Union."

Mr. Barroso challenged parliamentarians in a letter to substantiate their allegations against Mrs. Jeleva but none had done so.

In a statement Tuesday, Mr. Barroso said that he "fully respects this personal decision."

The hearings continue this week. Mrs. Jeleva is a conservative, and her exit may shield other conservative nominees, such as former EU antitrust chief Neelie Kroes, from Mrs. Jeleva's fate.

It could also prompt conservatives in the Parliament to go after a socialist such as Hungary's Laszlo Andor, the nominee for the commission's employment and social-affairs post. In the 1990s, Mr. Andor edited a left-wing magazine which sometimes defended Marxist beliefs.

The 40-year-old Mrs. Jeleva, who remains Bulgaria's foreign minister, has been under the microscope since she was selected for the commission in November. Almost all politicians from Bulgaria, the EU's newest and poorest member, come to Brussels, the bloc's capital, preceded by their country's reputation for organized crime and corruption.

Mrs. Jeleva, a former businesswoman, drew particular interest. Before entering politics, she managed Global Consult Ltd., a firm that helps the government privatize former state-run firms. Her husband, Krasimir Jelev, worked for a bank that some members of the European Parliament say they suspect of ties to organized crime.

Mr. Jelev couldn't be reached to comment.

In an interview Friday with Bulgarian television station bTV, he called the parliamentary hearing on his wife's nomination "a trial with

Reuters

Bulgaria's Rumiana Jeleva speaks at a news conference in Brussels last week.

no questions, but just accusations." He also said that his wife "didn't nominate herself for this post." Officials from his former employer, Central Cooperative Bank, of Sofia, couldn't be reached to comment.

Mrs. Jeleva complained of a campaign against her.

At her hearing last week, members of the Parliament's development committee grilled Mrs. Jeleva on her past work. In responding, she pointed out that as a member of the European Parliament herself, and as Bulgarian foreign minister, she had already passed plenty of background checks.

Mrs. Jeleva challenged committee members to "come to Bulgaria and see for yourselves."

Her replacement, Mrs. Georgieva, is a scholar and economist who has worked at the World Bank since 1993. World Bank president Robert Zoellick appointed her vice president in 2008. As an academic, she is unlikely to stoke controversy, analysts say.

Brussels politics played a role in Mrs. Jeleva's withdrawal. The Parliament is the weakest of the EU institutions in Brussels and confirming commissioners is one chance it has to flex its muscles.

In 2004, it forced Italian commissioner Rocco Buttiglione to step down after he called homosexuality a sin.

U.N. cites FDI drop

By Paul Hannon

LONDON—Global flows of foreign direct investment fell 39% in 2009, but will pick up modestly this year, the United Nations Conference on Trade and Development said Tuesday.

In a report, the U.N. agency said businesses made foreign investments of just over $1 trillion in 2009, down from $1.7 trillion in 2008. Flows of foreign investment to developed economies fell 41%, while flows to developing countries fell 39%.

Businesses invested just 2.6% less in China than they had in 2008, while cutting their investments to the U.S. by 57%, in a reflection of a shifting balance of economic power. The U.S. remained the largest recipient of foreign investment, but China moved into second place, overtaking France and the U.K..

Other large developing economies didn't fare as well as China. Foreign investment in Brazil fell 49.5%, in India dropped 19%, and in Russia fell 41.1%.

Among developed economies, Germany recorded the largest rise in foreign investment, a 40.7% increase from 2008. Ireland, which saw the largest withdrawal of foreign investment in 2008 as investors took $20 billion out of the country, recorded inflows of $14 billion.

Foreign direct investment is particularly important to developing economies.

High stakes and a surprisingly close finish

Reuters

Democrat Martha Coakley, left, was expected to easily win victory in Tuesday's special election in Massachusetts. Instead, several polls show Republican Scott Brown, right, surging to the front and threatening to upset the Senate's delicate balance of power. Get live updates, video and analysis at WSJ.com/US

What Kennedy's death changed

Massachusetts voters rethought party loyalties as they assessed his would-be successor

By Greg Hitt

BOSTON—The death of Sen. Edward Kennedy prompted Tuesday's special Senate election. It also gave Republicans an opening in a state that for decades had assumed to be impervious to their appeal.

At rallies across the state, many voters said they were ready for a fresh start. Although the Kennedy legacy has been part of Massachusetts politics for decades, Mr. Kennedy's death appears to have prompted some voters to reconsider their longtime loyalties—fueling the campaign of Republican Scott Brown while undermining Democrat Martha Coakley.

"Go all the way, sir," said Paul Souza of Plymouth, Mass., grabbing Mr. Brown's hand over the weekend at Mamma Mia's restaurant in Plymouth. Mr. Souza has a picture of President John F. Kennedy in his house and voted for Sen. Kennedy, but he said he would support Mr. Brown.

He "seems so refreshing," Mr. Souza said. "We're going Republican now."

The race—which could tip the balance of power in Washington away from Democrats if Mr. Brown wins—also echoes national themes, such as battles over the health-care overhaul and Wall Street bonuses.

Mr. Brown's message dovetails with the party's national agenda. He advocates lower taxes, and every time he talks of being the "41st" Republican senator, he reinforces the threat he poses to the Obama agenda.

Ahead of Tuesday's vote, Democrats sought to remind voters that Sen. Kennedy's legacy was at stake. Vicki Kennedy, the senator's widow, was campaigning for Ms. Coakley, the state's attorney general. Other party figures argued a Coakley victory was needed to keep alive the health legislation, a Kennedy goal.

"Their agenda is about blocking Ted Kennedy's dream," said Rep. Ed Markey (D., Mass.).

A Sunday poll from Public Policy Polling showed Mr. Brown winning 20% of the vote from people who supported Barack Obama for president in 2008. Rick Clark, who attended a Brown rally in Hyannis, said he had regularly voted for Sen. Kennedy but has grown jaded with the Democratic Party. He complained about the "wheeling and dealing" in Washington over issues like health care.

Republicans have a sizable disadvantage in Massachusetts politics. GOP voters account for only 12% of the state's registered voters, according to the latest figures. Democrats represent a little more than 30% of voters, while independents form the largest bloc, with more than 50%.

Mr. Brown has skirted questions about whether he is a conservative, saying that he is a "Scott Brown Republican" who won't be told how to vote. The National Republican Senatorial Committee has taken pains to not appear aligned with the Brown candidacy.

Other Republicans who have won statewide, such as former Govs. Mitt Romney, Paul Cellucci and William Weld, followed a similar path, drawing independents and working-class Democrats by focusing on economic issues and playing down social issues such as abortion and gay rights.

Polls showed a strong portion of Mr. Brown's support coming from white, working-class voters anxious about government spending and the economy—the same voters who helped former President Ronald Reagan win the state both times he ran.

And even Mr. Brown has attempted to tap into the Kennedy mystique, using footage of President Kennedy talking about tax cuts in a television ad.

"We want new leadership," said Lucien Poyant of West Hyannis. He has been a Republican all his life and sees in Mr. Brown a chance to break the Democratic Party's hold on the state. "We have been a one-party system for too long in our state."

—Peter Wallsten contributed to this article

Panel warns NASA on outsourcing risks

By Andy Pasztor

A key U.S. aerospace panel warned that NASA could run into serious safety challenges if it relies on private companies to ferry astronauts into space in the near future.

The Obama administration has been devising a plan to outsource a chunk of its manned space program to private companies in order to speed up rocket development, save money and focus federal dollars on longer-term expeditions. But a report released last week by the Aerospace Safety Advisory Panel, an outside safety watchdog for the National Aeronautics and Space Administration, cautioned that the private space companies rely on "unsubstantiated claims" and need to overcome major technical hurdles before they can safely carry astronauts into orbit.

The report urged NASA to stick with its current government-run manned space ventures, and said that switching to private alternatives now would be "unwise and probably not cost-effective."

The findings are likely to provide a boost to NASA officials who want to keep nearly all manned space programs in house. NASA's largest and longstanding contractors, such as **Boeing** Corp. and **Lockheed Martin** Corp., are stepping up efforts to persuade the White House not to outsource more programs.

The Obama administration's coming budget proposals will reveal how much NASA Administrator Charles Bolden and senior White House officials were swayed by the safety advisory panel's arguments. Additional funding to pursue some commercially run manned space projects is considered highly likely.

More Funding Sought for Education

By Neil King Jr.

President Barack Obama plans to ask Congress for an extra $1.35 billion to expand his signature education program, designed to prod states into revamping their school systems, even while promising a barebones 2011 federal budget.

The request, which Mr. Obama intended to announce Tuesday, marks an early example of the administration moving to transform a onetime stimulus program into a more-permanent part of an agency's budget.

The Race to the Top program, run by the Education Department, seeks to encourage states to push innovation and impose strict testing standards in exchange for large federal grants. The initial $4.35 billion program was launched as part of last year's $787 billion stimulus package, and the money was meant to last through the end of this year.

Around 30 states are expected to submit applications by Tuesday's deadline for the first round of funding under the program, which has stirred tensions between school districts and local unions—and even between various counties.

The federal funding, the largest of its kind in the history of the Education Department, comes as localities are struggling to fill huge school-budget gaps. Florida is seeking $1.1 billion, while Illinois and other states are chasing smaller amounts. Texas Gov. Rick Perry announced last week that he rejected the conditions being placed on the funds, and that Texas would not compete.

The program has stirred tensions between school districts, local unions and even counties

Officials said the additional money, if approved by Congress, would allow for a third round of funding, with a new competition at the school-district level, instead of at the state level.

The administration has not decided to make the program a permanent part of the Education Department budget, but officials said that it could go on for years. "There is no definite end date," said one senior administration official. "We certainly see this as a key reform and a key investment that we would want to keep funding."

The announcement comes as the White House prepares to release a 2011 budget in coming weeks that is expected to call for austerity within many federal agencies.

Mr. Obama and his education secretary, Arne Duncan, support the Race to the Top program as the best way to spur innovation and encourage higher standards within many of the country's worst-performing school systems. Around a dozen states have revamped their education laws by allowing the formation of charter schools or uniform testing standards.

The administration is eager to see states and localities use student performance and standardized tests to judge the effectiveness—and even to set the pay—of teachers and principals, a move opposed by teachers unions in many areas.

EARTHQUAKE IN HAITI

Aid speeds up, but delays mar effort

While new methods avert chaos of earlier disasters, some sense disorganization and too much focus on security

By Charles Forelle, José de Córdoba And Joe Lauria

One week after an earthquake pulverized Haiti, emergency supplies of water, food and medicine are beginning to reach large numbers of the country's desperate survivors. The number of U.S. troops in Haiti is to reach about 10,000 this week to help transport supplies, provide security and clear debris.

In the interim, residents have perished as distraught relatives awaited rescue teams and equipment that didn't arrive in time. Homeless people camp on the streets, wondering why aid is taking so long. "They say there's help, but it doesn't arrive," said Henock Volmidor, an unemployed hotel worker, at a makeshift camp on Monday.

It wasn't supposed to be this way. After the Indian Ocean tsunami in 2004 that killed at least 230,000 people in 13 countries, the United Nations and emergency-relief organizations vowed to avert the disorganization that plagued that effort. More than 300 charities showed up in Aceh, Indonesia, with little coordination between them.

The U.N. established a rapid-response system to coordinate the work of its agencies with nonprofit organizations, an online database to track assistance and avoid duplication, and a special emergency-relief fund that released $10 million within 24 hours of the Haitian quake. The U.N. quickly sent to Haiti an assessment team whose tasks included dispatching search-and-rescue squads from Iceland, China, France and the U.S. Meanwhile, what was left of the Haitian government put out an urgent request to the U.S. ambassador for help.

"The message, basically, was, 'Send everything you've got,' " says State Department spokesman P.J. Crowley.

Getty Images

A Haitian man carries boxes past U.S. soldiers as they march to the main hospital in Port-au-Prince on Tuesday.

Relief experts working in Haiti say the new U.N. system has prevented the kind of chaos evident in Aceh, although it remains imperfect. "Any system you have will struggle in the first 24 to 48 hours, not to organize itself, but to get stuff on the ground," says John Holmes, U.N. Under-Secretary-General for Humanitarian Affairs. Some disorganization also has been evident.

During a visit to Haiti on Sunday, U.N. Secretary-General Ban Ki-moon conceded international search-and-rescue teams needed to be "more balanced" in looking for victims of all nationalities and not just their own. He also suggested too few teams had been sent—though on Friday, the U.N. appealed to nations not to send more rescue squads.

On Tuesday, the U.N. Security Council unanimously agreed to boost the number of U.N. peacekeepers and police in Haiti by 3,500, which will bring the U.N. Haiti force, known as Minustah, to 12,651, according to Reuters.

It has been unclear at times who is in charge—the U.S. military, which controls the main airport, or the U.N., which ostensibly oversees the relief operation. Benoit Leduc, operations manager for Doctors Without Borders in Haiti, on Monday said "hundreds of lives" were lost because five of its planes carrying surgical teams and equipment were diverted to Santo Domingo.

Several countries and other aid groups also have complained that the U.S. military has refused to let some of their supply planes land at Haiti's airport.

"It's a question of physics," says Capt. John Kirby, a U.S. military spokesman in Haiti. "The airport is the only way in, it only has one runway, and there are literally hundreds of flights trying to make it in."

The U.S. military is reluctant to move shipments out of the airport without a security escort, sometimes causing added delays. "Twenty containers go out, but you have to have about 100 heavily armed soldiers," says Gilberto Castro, emergency response director of transport company Deutsche Post DHL, which is handling hundreds of tons of aid.

U.S. officials have blamed security concerns for holding up relief. Yet a team of Cuban doctors were seen Monday treating hundreds of patients without a gun or soldier in sight. The deputy chief of mission at the American Embassy in Haiti, David Lindwall, said the U.S. had done a lot, but that some teams and supplies "aren't getting out as broadly as we'd like because of security" concerns.

Still, search-and-rescue teams from around the world have saved 71 people from the rubble of fallen buildings, said Tim Callaghan, chief of the U.S. Disaster Assistance Response Team in Haiti, on Wednesday. He said 39 of those were saved by U.S.-based teams.

On Tuesday, a task force of 2,000 U.S. Marines set up a beachhead in the relief-starved western neighborhoods of Port-au-Prince, creating the first major distribution point for humanitarian supplies outside the capital's overburdened airport.

Many relief experts say no global response plan could likely have averted the delays seen during the initial days. "Here you have a disaster of huge magnitude concentrated in the capital of one of the most dysfunctional countries in the world," says Andrew Natsios, who ran the U.S. Agency for International Development under President George W. Bush and is a veteran of relief operations since the 1980s.

—Steve Stecklow, Neil King Jr. and Yochi J. Dreazen contributed to this article.

Homelessness becomes next challenge for survivors

By Dionne Searcey And Charles Forelle

PORT-AU-PRINCE, Haiti—Swaths of Haiti's capital have been transformed into vast refugee camps, as Haitians who saw massive loss of life from last week's earthquake now grapple with widespread homelessness.

Hundreds of thousands of newly homeless residents of Haiti's capital have set up makeshift homes here, everywhere from public squares to gasoline stations. The Haitian government estimates that more than one million of a population of some 10 million have lost their homes and that in some neighborhoods, 80% of the buildings were destroyed. Atlanta-based CARE, a relief organization, said 80% of its 33 staff members had lost their homes.

The city's central Champs de Mars—a sort of National Mall of Haiti—has become a swollen tent city. Women and children bathe and do laundry in dirty tubs. A few clusters of people prepare stews of onions and a few wilted greens. But mostly, with deliveries of food, water and medicine still sporadic at best, the thousands here have nothing.

"Things we need are food and water," says Enock Virgil, whose house was demolished and who is living in the camp. "There is no food, no toilets."

How to get emergency supplies like food and water to those made homeless by the quake is one of the major short-term issues facing the international community in the aftermath of the magnitude-7.0 earthquake, which killed anywhere from 45,000 to 200,000 people, according to estimates. Where the homeless are going to live and how to rebuild their homes will be a challenge for months and years to come.

Large volumes of supplies were arriving into the country Monday. But the relief effort was hobbled by the sheer scale of the damage, transport bottlenecks and security worries. Sporadic looting in parts of the city continued for a third day.

European nations pledged more than $500 million in emergency and long-term aid. The U.S. has said it would surpass its previous pledge of more than $100 million. Bill Clinton, the U.N.'s special envoy to Haiti, arrived to get a first-hand look at conditionshere and promised long-term help.

People here will need it. The Haitian capital was so devastated by the earthquake a week ago that tens of thousands of residents have fled to the countryside. In some neighborhoods, 80% of the buildings were destroyed. Those that survived the destruction of their homes huddle with their few remaining possessions: a few pots and pans, some rice and beans.

At the Champs de Mars on Monday, in the shadow of the crumpled National Palace, some survivors sat on grass and others lay on lumpy cobblestone before a statue of Toussaint Louverture, the Haitian independence hero. Naked children ran under laundry lines strung up between tent poles, usually branches or scrap wood propped up by broken cinder blocks. One thing in plentiful supply in Port-au-Prince is broken cinder blocks.

The camp is hot and smelly with little shade. There was also little aid, save for a team of Cuban medics administering tetanus shots. U.N. search-and-rescue trucks drove past the refugees. Filled with rescuers, they had no aid to offer. Some men in the back of the truck snapped photographs of the destruction and despair.

Inside the camp, Kedelyne Jeanbaptiste tended her two children, ages 3 and 12. Ms. Jeanbaptiste, 32, arrived Wednesday after the tin roof of the two-story building where she lived collapsed on top of her. She wasn't badly injured.

She said aid had been slow to arrive to the camp, even though it is situated at the center of town. Sshe and others camped around her here had been cooking their own rice and beans on a coal stove but were worried about running low. "If we were waiting for them to bring something we would never get anything," she said.

A truck drove through bearing hot meals on Sunday, she and others said, but it was immediately mobbed and drove away. Haitian public-works trucks drive through once a day in the late afternoon, handing out packets of water that many people said weren't potable.

"It's salty," Ms. Jeanbaptiste said. "We cook and shower with it and sometimes if we get thirsty we have to drink it."

Another man standing nearby, Daniel Laguerre, agreed and said the polluted water was all they had to drink and feed their children. Tsaid two infants in the camp already have died, including a four-day-old baby born since the quake. "We don't know if it's the water or what."

He said the relatives of the baby left the corpse on the sidewalk by the ruins of the health ministry, carefully swaddled in a peach blanket with rose emblems.

All Augustine Ernst wanted, meanwhile, was a portable toilet. The 52-year-old man said people were going to the bathroom, some using buckets, near to where they were cooking and sleeping. Asked if he was in need of food and water, he shouted; "Oui! We have nothing, nothing, nothing!"

A minister from the New Jerusalem Church in Les Cayes, Joas Cadet, and his friend, Nobert Francois, pulled into the camp early in the morning. They had left their homes at 3 a.m., the back of their red Isuzu trooper crammed with garbage bags full of bread, shoes, medicine and water. They stood overlooking the camp, a bit stunned at the numbers of people in need. "We cannot satisfy all of them. We are only two people," he said.

It was the same story all over the capital and in many other parts of this impoverished country.

Elsewhere in the capital, more than 1,200 families were camped out on a rocky hillside behind rows of damaged SUVs and hatchbacks in the lot of a large car dealership. They had organized themselves into small lots of about 10 feet by 15 feet, with wooden stakes marking their turf. More were arriving by the minute, toting the long stakes.

Because the dealership is next to the main airport road, the refugees see aid trucks pass several times a day. Some run to flag them to get them to stop, he said, but are told they already have destinations.