



# THE WALL STREET JOURNAL.

VOL. XXVII NO. 234

EUROPE

Monday, January 4, 2010

DOW JONES  
A NEWS CORPORATION COMPANY

europa.WSJ.com

In Germany, plane skids off runway after pilot brakes just before takeoff; no one is hurt



An Air Berlin Boeing 737-800 bound for the Canary Islands veered off the runway at Dortmund airport Sunday after the pilot aborted takeoff because of a "technical irregularity," a spokeswoman said.

## U.S. weighs antiterror strike in Yemen

The Obama administration's top counterterrorism official didn't rule out military action to combat a threat by al Qaeda in Yemen, as the Arab

By Elizabeth Williamson, Yochi J. Dreazen and Alistair MacDonald

country mobilized more troops and the U.S. and Britain temporarily shut their embassies there amid concerns about further attacks.

U.S. officials said they had intelligence indicating a threat to the embassy from al Qaeda. British officials didn't confirm a specific threat.

The moves come as U.S. President Barack Obama sought to counter Republican criticism of his administration's handling of antiterror strategy following the attempted Christmas Day bombing of a Northwest Airlines jetliner preparing to land in Detroit from Amsterdam.

"Everything is possible as far as our cooperation with the Yemeni government," John Brennan, President Obama's top counterterrorism official, said on NBC's "Meet the Press" Sunday in response to a question on whether U.S. military action is possible in Yemen.

"Al-Qaeda in the Arabian Peninsula poses a serious threat. They have attacked our embassy before, they've carried out attacks in Saudi Ara-

bia against Saudi targets, and now it's very clear that they're trying to bring those attacks to the [U.S.] homeland. We're not going to let them do that. We're going to take strong action against them," Mr. Brennan said on NBC, during one of several appearances on Sunday news shows.

The stepped-up military action in Yemen coincided with further efforts by the Obama administration at home to counter Republican criticism

that it had initially responded slowly to the attempt by a Nigerian national to explode a bomb aboard the jetliner. The Yemen-based group al Qaeda in the Arabian Peninsula has claimed responsibility for the attack.

Even before Christmas, the U.S. had been aiding Yemen in its fight against al Qaeda militants and had already planned to substantially increase spending on counterterrorism operations there this year. Two missile strikes last

month were aimed at leaders of the al Qaeda branch and a radical cleric who U.S. officials believe is connected to the plot. Mr. Brennan estimated Sunday that there are still several hundred members of al Qaeda in Yemen.

Mr. Obama sent Gen. David Petraeus, who oversees the wars in Iraq and Afghanistan, to Yemen Saturday to meet with its president, and U.S. officials said they are intensify-

Please turn to page 6

THE WALL STREET JOURNAL. £1.50

Bahrain BD 1.50 - Egypt \$1.75 (CV) Jordan JD 2 - Kuwait KD 1 - Oman OR 2 Qatar QR 4 - Saudi Arabia SR 14

### The Quirk



Can a cat really be toilet-trained? How to banish the litter box. Page 33

### World Watch

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

### Editorial & Opinion

EU laws, British liberty, and why the U.K. needs a sovereignty bill. Page 14

## Pledges launch U.K. race

By Alistair MacDonald

The U.K.'s two main political parties will kick off a busy election year with pledges designed to show each as the party that will defend key public services—even as the U.K. tackles its record public debt.

Prime Minister Gordon Brown is expected to call an election in May in what is seen as the most dramatic U.K. vote since Mr. Brown's Labour Party swept to power in 1997.

On Saturday, David Cameron, leader of the opposition Conservative Party, said, "We are starting our campaign to win the general election today... and we'll be spelling out exactly what that will mean every day from now until polling day."

On Monday, the Conserva-



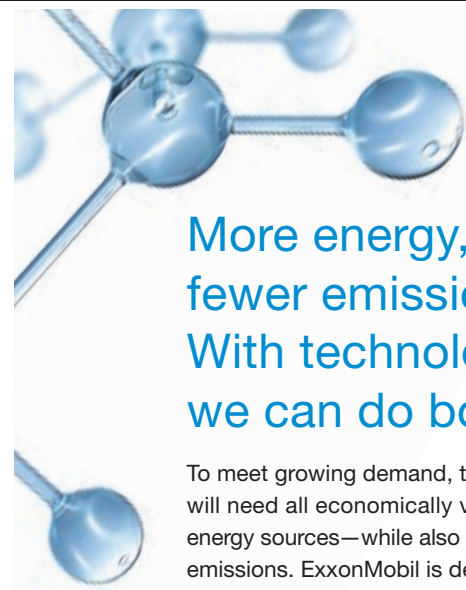
U.K. candidate David Cameron holds a traditional campaign pose.

tives will release a draft chapter of their health platform, a party spokesman said. The

draft will pledge to allocate more health spending to the U.K.'s poorest areas, as Mr. Cameron continues his drive to dismantle the party's image as one that indiscriminately cuts public spending and is biased toward the rich. The Conservatives will also promise to reform maternity care, which they say has suffered from the closure of maternity units and other problems, a spokesman said.

Mr. Brown said that starting Monday, the Labour Party will announce what it calls its "prosperity plan," continuing its attempts to highlight areas of the economy it wants to develop, including digital and advanced manufacturing industries. The party's education minister, Ed Balls, will also unveil a plan to increase the num-

Please turn to page 6



More energy, fewer emissions. With technology we can do both.

To meet growing demand, the world will need all economically viable energy sources—while also mitigating emissions. ExxonMobil is developing technologies to help address this challenge today and for the future.

Learn more at [exxonmobil.com](http://exxonmobil.com)



ExxonMobil  
Taking on the world's toughest energy challenges.

## PAGE TWO

# Investments will remain a gamble until rule of law comes to Russia

## [ Agenda ]

BY IRWIN STELZER



The Russian economy is as much a riddle, wrapped in a mystery, inside an enigma as Winston Churchill found its foreign policy to be in the days of Joseph Stalin.

What we do know from the World Bank is that the Russian economy is going through hard times. This is an economy rich in resources but with a per capita GDP less than that of most of its former satellites and one-third that of, say, Italy. Output and employment are declining more rapidly than authorities had expected, and, reports a team led by economist Zeljko Bogetic, there is "a sharp rise in poverty." Despite the general improvement in the world economy and higher oil prices following the Nigerian terrorist's attempt to blow up an airliner—Nigeria is America's largest supplier of light, sweet crude—the World Bank is guessing Russia's GDP will return to precrisis levels only late in 2012.

Russia's problems are similar to those faced in Europe, America and other Western countries: too many bad loans on the banks' books, too little credit available to small businesses, and weak domestic demand.

Similar, but not identical. Available evidence suggests economies can't reach their full potential in the absence of the rule of law. Harvard professor Robert Barro analyzed data from some 100 countries and concluded that "an expansion of the rule of law would raise economic growth and lead over time to higher



Dmitry Medvedev (left) and Vladimir Putin on a skiing trip near Sochi, Russia

standards of living and, hence, to more democracy." So to forecast the future of the Russian economy, one must make a guess at its progress toward becoming a nation under law.

On present evidence, that doesn't seem to be in Russia's immediate future. This past November, a cross-party group of 130 MEPs urged President Dimitri Medvedev to establish the rule of law in Russia. Mr. Medvedev has several times expressed a desire to do just that, in good part to encourage much needed inward investment—to little effect, unless you count President Medvedev's as-yet-untested New Year's promise that first-time tax evaders won't face jail time. Whether the resourceful Russian prosecutors will see this as an invitation to using multiple charges to get around Mr. Medvedev's reform remains to be seen. Few businessmen want to become the test case.

Mikhail Khodorkovsky, a

political opponent of Vladimir Putin, had his Yukos oil company confiscated on what many believe are trumped-up tax-evasion charges. He is now finishing one term in a Siberian jail only to face charges for other crimes. Don't bet on seeing him stroll down the streets of Moscow anytime soon. Indeed, he will be fortunate to avoid the fate of Sergei Magnitsky, attorney for William Browder's Hermitage Capital, a fund confiscated by Russian authorities and, it is alleged, its assets acquired by officials in a process known as *reiderstvo*, or raiding. Mr. Magnitsky died in jail awaiting trial after being denied medical treatment for an extraordinarily painful ailment.

There is an irony there: Mr. Browder, who was suddenly denied a visa to re-enter Russia and then had his fund confiscated, is the grandson of Earl Browder, one of the founders of the American Communist Party. The younger Mr. Browder, a one-time

Putin-booster, now makes his headquarters in London because, he says, "I like the rule of law."

*Reiderstvo*, of course, has as its crucial component charging the legitimate owners of the business with some crime to get them out of the way. So Mr. Browder should consider himself lucky that he has been denied a re-entry visa and avoided becoming a neighbor of poor Mr. Khodorkovsky.

Raiding isn't Russia's only problem. As President Medvedev acknowledges, the economy is too undiversified, too dependent on oil and other raw materials, too short of inward investment. To which Russian expert Leon Aron, a scholar at the American Enterprise Institute, adds, too dependent on the "monotowns" that house one-quarter of Russia's urban population and are dominated by a single, often clapped-out company.

Foreign investors in Russia are playing a game that Nathan Detroit, the host in "Guys and Dolls" of "the oldest established permanent floating crap game in New York," found unwinnable. On a losing streak, the gun-toting thug, Big Julie from Chicago, forced use of his own dice—which had no spots ("I know where they are," Big Julie assured the players)—and proceeded to roll only winners.

The modern version of Lenin's famous prediction that "the capitalists will sell us the rope with which to hang them," might be that they will provide the capital to develop Russia's natural resources so the regime can dominate its "near-abroad" and increase Western Europe's dependence on it for supplies of natural gas. But investing in a nation in which there is no established rule of law is to shoot craps with Big Vladimir of Leningrad.

## What's News

■ **Fed Chief Bernanke** said the U.S. central bank must be open to raising interest rates to pop future asset bubbles, even though stronger regulation remains the best solution to prevent a repeat of the financial crisis. 8

■ **U.S. regulators** let Delta integrate fully its Northwest unit, which the airline hopes can unlock billions of dollars in efficiencies. 26

■ **The head of the U.N.'s** Afghan mission criticized Parliament's rejection of most of Karzai's cabinet nominees, saying it could delay formation of a new government. 10

■ **Iran plans to conduct** a defensive military exercise next month, coinciding with its deadline for the West to respond to its counteroffer to a nuclear-fuel deal. 11

■ **Cambridge University** is set to issue bonds for the first time in its 800-year history, following the trend set by U.S. Ivy League schools. 4

## Inside



What 2010 will bring for the tech industry: trends to watch for. 31



Tiger's image can be rehabilitated if he drops the myths. 32

## ONLINE TODAY

### Most read in Europe



1. U.S. Banks Issue New Check, Card Fees
2. Euro Zone Grapples With Debt
3. Opinion Europe: Iranians Want Regime Change
4. Secrets of Economist's Trade: First, Purchase a Piggy Bank
5. John Lewis Won't Raise Tax

### Most emailed in Europe

1. Opinion: Why the Health-Care Bills Are Unconstitutional
2. Regime Wages a Quiet War on 'Star Students' of Iran
3. Books: Eat, Pray, Love, Then Commit
4. The Battle of the Brain
5. Clinton Foundation Draws Eclectic Donors

### Reader comment

Commentary and reactions at [europe.wsj.com/opinion](http://europe.wsj.com/opinion)

"The decade of abundance and moral mischief has left us flabby and morally bankrupt."

Reader Jim Vander Spek on Journal columnist Peggy Noonan's 'Look Ahead With Stoicism, Optimism'



### Continuing coverage



Follow the latest updates from the Middle East, including the recent unrest in Iran, at [wsj.com/mideast](http://wsj.com/mideast)

### WSJ.com/dailyquestion

Vote: Would you undergo a body scan to travel?

#### Previous results

Q: What is the focus of your 2010 resolution?

#### Health

61%

#### Finances

12%

#### Career

9%

#### Family

9%

#### Other

9%

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](mailto:subs.wsje@dowjones.com).  
Website: [www.services.wsje.com](http://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 NV. 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 Telesampa 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 Basınevi.

Registered as a newspaper at the Post Office.  
Trademarks appearing herein are used under license from  
Dow Jones & Co. ©2009 Dow Jones & Company. All  
rights reserved. Editeur responsable: Patience Wheatcroft  
M-17936-2003.  
Registered address: Boulevard Brand Whitlock, 87, 1200  
Brussels, Belgium

## NEWS

# New York landmark has closed its doors

By SUZANNE SATALINE

The trademark dazzling chandeliers at New York City's Tavern on the Green restaurant went dark after a farewell New Year's Eve dinner.

The eatery, known for its Central Park address, was a victim of the recession and competition. Its closing has touched off a flurry of litigation, as the owners seek protection in bankruptcy court from a host of creditors, including a family member, a cookbook publisher, food contractors and a union pension plan. The owners, members of the LeRoy family, also have asked a federal court judge for rights to the name of the restaurant, a request the city is fighting.

Tavern, with 2008 sales of \$33 million, was the second-highest-grossing independent restaurant in the country, according to Reed Business Information, behind the Tao Las Vegas Restaurant and Nightclub. But sales slipped by nearly \$4 million from 2007 to the end of 2008.

"The Tavern's heyday had probably come and gone. It had lost some of the luster some time ago," said Adrian Benepe, New York City's parks commissioner.

Tavern lost its license with the city this summer, when officials chose to award a contract in the space to rival restaurateur Dean Poll, operator of the Boathouse Café, another Central Park eatery. Mr. Poll has promised to inject \$25 million of his own money to renovate the Tavern space, reopening in the spring, his lawyer said.

Tavern filed for bankruptcy. Jennifer Oz LeRoy, chief executive of the restaurant, and daughter of its creator, said in a statement that the filing hinged on two factors: "The extreme financial distress brought on by the current financial crisis and the City of New York's decision not to renew our lease." She couldn't be reached for further comment.

City officials said they were impressed with Mr. Poll's track record and expect the city to make more money under the new arrangement. The city took in 3.5% of the gross receipts at the Tavern, or at least \$1 million a year. At the Boathouse, Mr. Poll turns over 16%, or a minimum of \$1.1 million a year of his gross receipts, a parks spokesman said. The new percentages haven't been decided on, a spokeswoman said.

The restaurant lists hundreds of creditors in its bankruptcy filings, including meat sellers, uniform companies and credit concerns. The largest creditor is a bank, owed \$6 million for a line of credit and a mortgage on a warehouse.

Also owed money is Kay LeRoy, wife of founder Warner LeRoy, who lent \$1.9 million to the Tavern. A cluster of benefit and pension funds managed by the New York Hotel and Motel Trades Council, which represents the Tavern's 400 employees, says it is due at least \$1.7 million.

The parties are fighting over what is seen as the restaurant's most valuable asset: its name. The city has sued Tavern, as well as LeRoy Adventures Inc., an operating concern, hoping to stop the family from using the restaurant's moniker in future ventures.

Tavern has countersued, saying that Mr. LeRoy trademarked the name, which is now appraised at \$19 million. City officials say if that was done, it was illegal and the restau-

rant space, created in Central Park by legendary parks commissioner Robert Moses, was called Tavern on the Green as far back as the 1930s.

Zagat rates Tavern's décor 25 out of 30 but its food a 15, calling it "pedestrian American fare." With the restaurant facing its demise, though, diners snapped up all tickets, priced as high as \$129 a person, for the New Year's dinner, which included foie gras, lobster bisque, roast venison and filet mignon.



A family dines at New York City's Tavern on the Green last week. The restaurant served its last meal on New Year's Eve.

Robin Baker

Dania Seiglie

AS A LONG-TERM PARTNER,

WE STAND BY YOU THROUGH ALL YOUR STRATEGIC PROJECTS.

"At Société Générale Corporate & Investment Banking, we are committed to developing long-term relationships through strategic dialogue and providing you with tailor-made services to meet your specific and changing needs. Whether you are a corporate or a financial institution, we combine our strengths to bring you the right financial solution based on our global advisory approach, spanning M&A, financing, risk and capital management. Through our worldwide network and in-depth sectoral expertise, we are here to accompany you in your strategic plans. Standing by you." Dania Seiglie, Senior Banker - Robin Baker, Global Head, Project Finance.

[www.sgcib.com](http://www.sgcib.com)

 **SOCIETE GENERALE**  
Corporate & Investment Banking

**We stand by you**

INVESTMENT BANKING – GLOBAL FINANCE – GLOBAL MARKETS

Société Générale is a credit institution and an investment services provider authorised by the Comité des Établissements de Crédit et des Entreprises d'investissement and by the Financial Services Authority for conduct of UK investment business. It holds a EC passport authorizing investment business within the EEA. This material has been prepared solely for information purposes and does not constitute an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument, or participate in any trading strategy. Not all financial products offered by Société Générale are available in all jurisdictions. Please contact your local office. © 2009 Société Générale Group and its affiliates.

## EUROPE NEWS

# Cambridge weighs initial bond issue

*Sale would be first in university's 800-year history; Board of Scrutiny urges a move while conditions stay favorable*

BY ELIZABETH PFEUTI

Britain's Cambridge University is considering issuing bonds for the first time in its 800-year history, following a trend set by U.S. Ivy League institutions.

The university needs to borrow £200 million (\$320 million) to £300 million to fund a number of property and infrastructure projects in its home city, according to university documents.

The Board of Scrutiny, set up to ensure the university runs efficiently, said in a report at the end of November that it "strongly recommends that the University's Finance Committee proceed as soon as possible with a long-dated issuance in the fixed-interest markets while conditions remain historically favourable."

Andrew Reid, the university's director of finance, said, "We usually raise money through benefactors, but this time we need a significant sum so are turning to other methods. We are considering both issuing bonds and borrowing from banks, and should make a final decision by mid-2010."

Mr. Reid said the university needs to finance two main projects, a new development in northwest Cambridge and the redevelopment of two existing city-center sites, a new museum site on Downing



People enter the Great Court of Cambridge University's Trinity College in October. The university is considering issuing its first bonds.

Street and an old press site near Silver Street.

"I would expect Cambridge to come to the bond market rather

than seek bank financing for the development of northwest Cambridge," said Toby Nangle, a Cambridge alumnus and director of the

multi-asset and fixed-income teams at Barings Asset Management. "It is still early days, but my understanding is that this project is designed to

enhance the university's attractions, provide postgraduate accommodation, and increase its financial independence."

Mr. Nangle has no direct involvement in the potential bond issue, but Barings Asset Management could become an investor should Cambridge issue the bonds.

U.S. schools including Harvard University and Princeton University have issued bonds with durations of up to 30 years, while Yale and Stanford have five-year bonds on issue.

Universities usually earn an AA or AAA rating from agencies, Mr. Nangle said. "The devil will be in the detail when it comes to pricing, but I would expect Cambridge hopes to emulate its American cousins when it comes to documentation structures, as the U.S. already has a developed market for bonds issued by Ivy League universities," he said.

Several U.S. universities have issued new bonds in the past 12 months, after market losses in their portfolios severely dented the value of their endowments. Among the most active issuers were Harvard, which sold \$2.5 billion in bonds; Princeton, which issued bonds valued at \$1 billion; and the University of California, which sold \$1.6 billion in construction bonds, according to analysts at Roubini Global Economics.

## Russia presses Belarus on oil shipments

A WSJ NEWS ROUNDUP

MOSCOW—Russia is continuing to negotiate with Belarus over 2010 oil shipments, with officials saying Russia won't shut off oil bound for Europe under any foreseeable conditions, even as it halted shipments to Belarus refineries, according to news agencies' reports.

"The transit of oil across Belarus won't be cut under any circumstances," Transneft Vice President Mikhail Barkov said, adding he had hopes of a possible solution Sunday, according to the official RIA Novosti newswire. The two countries failed

to come to an agreement Dec. 31 about Russia's oil supplies to Belarus. Russia insisted Belarus must pay a higher price including export duties for oil sent onward to Europe, while Belarus sought to charge higher fees for transit across its territory.

Oil has stopped flowing to Belarus refineries, but the Naftan and Mozyr refineries have enough crude to continue for about a week without new supplies, Reuters reported Sunday, citing oil traders.

The spat between Moscow and Belarus threatens a nascent customs union among Russia, Belarus

and Kazakhstan that was to be used to help the countries accelerate membership in the World Trade Organization, Interfax reported Saturday. Russia is the main ally and sponsor of Belarus, but relations between the two ex-Soviet neighbors have been increasingly strained by financial arguments.

The Belarussian Cabinet said Sunday that the two failed to agree on terms of oil exports. It said Moscow's demand that Belarus pay a higher tax on the bulk of Russian oil shipments contradicted an agreement on customs union signed late last year.

It said Russian officials had put "unprecedented pressure" on the Belarussian delegation during Sunday's talks, and described it as "totally unacceptable." Russia had said earlier that it was ready to provide tax-free oil for Belarus's internal consumption in line with the customs union deal, but would fully tax all the oil Belarus processes for exports to the West.

Russia supplied about 25 million tons (180 million barrels) of oil to Belarus last year, and all but about five million to six million tons of that was re-exported to Europe. Belarus's Soviet-style economy depended on Rus-

sian oil and gas supplied at a lower price compared with other former-Soviet nations. Experts say the Russian tax would cost Belarus about \$5 billion this year, or more than 10% of its gross domestic product.

In 2007, Russia briefly cut oil exports to European Union nations through a Belarussian pipeline as Moscow and Minsk argued over price. That shutdown, along with natural-gas cutoffs to Europe in 2006 and 2009 caused by contract disputes with Ukraine, raised doubts about Russia's dependability as a top energy supplier to the continent.

## Iceland's president delays bill to repay U.K., Dutch

A WSJ NEWS ROUNDUP

Iceland's president put off signing legislation to compensate Britain and the Netherlands for losses from the collapse of a popular Internet bank marketed outside Iceland.

President Olafur Ragnar Grimsson indicated Thursday he wanted more time to study the controversial legislation, which was narrowly approved late Wednesday by the Althingi, the national parliament.

If he withholds his signature, the legislation would go to a referendum, where it would face strong opposition.

The legislation provides £2.3 billion (\$3.7 billion) to Britain and €1.3 billion (\$1.9 billion) to the Netherlands, starting in 2016, to repay funds those nations paid to compensate citizens who lost money in the collapse of Internet bank Icesave.

Mr. Grimsson indicated he would meet with members of InDefence, a

grass-roots group that opposes compensation, before making a decision. Opponents of the legislation have gathered 40,000 signatures on a petition urging him not to sign.

Iceland must settle the claims arising from the Icesave collapse before it can draw on \$4.6 billion in promised bailout funds from the International Monetary Fund and Nordic countries.

Mr. Grimsson withheld approval of one bill in 2004, the only time since Iceland gained independence in 1944 that a president hadn't signed a bill.

The Icesave bill was passed by a margin of 33 to 30. Some spectators shouted "treason" after the vote.

Following the vote, Standard & Poor's Ratings Services Thursday said it is now less likely to downgrade Iceland's credit rating, raising its outlook on Iceland to "stable" from "negative."

"While parliamentary passage of the Icesave agreement will add significantly to the general government's debt burden, it is a decisive step to unlock further disbursements of up to €2.3 billion from the International Monetary Fund and from bilateral loans from Nordic governments," said credit analyst Moritz Kraemer.

Fitch Ratings last month took Iceland off watch for downgrade, citing its progress with restructuring its financial sector and the country's strengthened financial position.

The government had reached an agreement with Britain and the Netherlands in June, but the Althingi, the Icelandic parliament, attached conditions that were unacceptable to the two governments.

An opinion poll in July found that nearly 70% of the respondents were "very much against" passage of the legislation.



President Olafur Ragnar Grimsson refused to sign a bill in 2004, the only time since Iceland became independent in 1944 that the president has done so.



Introducing Daiwa Capital Markets

# Centred on Asia. Serving the world.

On January 1, 2010 Daiwa Securities SMBC started operations under a new name: Daiwa Capital Markets.


But that's not the only change. We're investing ¥100 billion in our business, determined to set a new standard as Japan's leading investment bank in Asia. Our plans include making substantial professional hires and dedicating more senior management to Asian initiatives. Our commitment is unwavering and we are set to further add to our comprehensive investment banking services, which already link Japan and other major markets worldwide.

So in Asia or beyond, talk to Daiwa Capital Markets. We're ready to serve you.

# Daiwa

---

## Capital Markets

 In Japanese, the character “和” is part of the Daiwa name.  
It expresses concepts such as *harmony* and *wholeness*.

[www.daiwacm.com](http://www.daiwacm.com)

The registered company name in Japan is Daiwa Securities Capital Markets Co. Ltd.

## EUROPE NEWS

## Shoppers swarm Rome in search of post-Christmas bargains



Agence France-Presse/Getty Images

People crowd Via Condotti, one of central Rome's main shopping streets, for the second day of postholiday sales on Sunday.

## U.S. weighs Yemen strike

*Continued from first page*  
ing counter-terrorism work with Britain. A Downing Street spokeswoman said Sunday that the U.S. and Britain are working "hand in glove" in Yemen. She said the police unit was not new, but it was the first time information about it was made public.

The U.K. said it and U.S. are cofunding a special counterterrorism police unit in Yemen and support the Yemeni coastguard operation, underscoring the countries' increasing focus on the Middle Eastern country. In a written statement, Downing Street said the U.K. and U.S. have agreed to "intensify joint U.S.-U.K. work to tackle the emerging terrorist threat from both Yemen and Somalia."

The U.K. has earmarked more than £100 million (\$161.6 million) for Yemen until 2011. Downing Street said that Prime Minister Gordon Brown and President Barack Obama will argue at the United Nations Security Council for a larger peacekeeping force in Somalia and that Mr. Brown will put Somalia and Yemen on the agenda of for a January meeting of the European Union's General Affairs Council.

The U.K. announcement follows a flurry of other Yemen related announcements in recent days from Downing Street. The suspect airline bomber studied at a London University from 2005 to 2008 and is thought by U.S. law enforcement officials to have begun his road to radicalization in the U.K. The U.K. also sees itself as being a big target for terrorist attack, given its involvement in wars in Afghanistan and Iraq.

On Friday, Downing Street said that Mr. Brown has invited national leaders to a conference on Jan. 28 in London to discuss countering radicalization in Yemen.

Downing Street said that the conference has the support of the White House and the European Union, and that the U.K. is now trying to secure the support of Saudi Arabia and other Gulf countries. The meeting will look at issues such as training of Yemeni forces and in encouraging economic, social and political reform in the country.

The prime minister also will call a special meeting of the National Security, International Relations and Development Cabinet committee, nicknamed the war cabinet by the British press, to discuss the U.K.'s response to the attempted airline attack. This committee oversees U.K. security issues and brings together senior politicians with security and military chiefs.

As Washington and the U.K. pledge more aid to Yemen to combat al Qaeda, the Yemen government deployed an "unprecedented" number of troops into provinces east of the capital where al Qaeda is active, an aide to Yemeni president Ali Abdullah Saleh said Sunday night in an interview.

Also in the Yemen capital, Sana'a, a U.S. Embassy spokeswoman said, "Our security folks here determined the threat was considerable enough to close the embassy." She singled out recent and rare on-camera appearances by two unmasked al Qaeda spokespeople in Yemen saying their fight was with the U.S., not with the Yemeni government. In an Internet posting last week, claiming responsibility for the Christmas Day attempted jetliner attack, the Yemeni al Qaeda affiliate called specifically for attacks on foreign embassies.

The U.S. embassy spokeswoman said no decision had yet been made as to when the embassy would reopen its doors.

Gen. Petraeus, meanwhile, met with Yemen's President Ali Abdullah Saleh in a meeting an administration official described as "productive."

President Obama on Saturday drew a direct link between al Qaeda in the Arabian Peninsula and the attempted bombing of the jetliner. In his strongest statement to date on the link, Mr. Obama said Umar Farouk Abdulmuttallab, the 23-year-old Nigerian accused of attempting to bring down the jet with explosives concealed in his clothing, visited Yemen and received training in terrorist techniques there.

"I've made it a priority to strengthen our partnership with the Yemeni government-training and equipping their security forces, sharing intelligence and working with them to strike al Qaeda terrorists," Mr. Obama said in the Saturday address.

The U.S. plans to than double its counterterrorism support to Yemen next year, from \$67 million this year to as much as \$190 million in 2010. Publicly disclosed Pentagon counterterrorism funding for Yemen grew to \$67 million in fiscal 2009 from \$4.6 million in fiscal 2006. Funding for classified intelligence work in the country isn't included in that figure.

The British government's £100 million commitment to Yemen activities through 2011, includes civilian development work, the Downing Street spokeswoman said Sunday. The police unit work was being funded from that money, she said.

The Obama administration made further efforts Sunday to regain the upper hand in the political debate over how Mr. Abdulmutallab was able to board the Northwest plane with explosives hidden in his underwear.

The administration has embarked on a series of measures to tighten airline security immediately, including an effort to place more potential terrorists on the no-fly list. U.S. Homeland Security Secretary Janet Napolitano has dispatched a team of senior department officials to meet with leaders from major airports in Africa, Asia, Europe, the Middle East and South America to review security procedures and technology used to screen passengers on flights to the U.S.

Mr. Obama last Tuesday said a "systemic failure" had allowed Mr. Abdulmutallab to board the plane despite multiple pieces of intelligence suggesting he was a potential threat. Mr. Obama on Tuesday will lead a White House meeting of agency chiefs that is the next step in determining how the incident occurred.

Republicans continued to press for advantage on the terror issue Sunday, saying the attack was an effective argument against administration plans to close the prison in Guantanamo Bay, Cuba, and transfer some suspects to Yemen. Lawmakers from both the Republican and Democratic parties have argued over the past week against transferring suspected militants back to Yemen.

"If we don't stop the practice of releasing Gitmo detainees to Yemen or to other countries—and some of them came through Yemen through Saudi Arabia—we're asking for even more trouble," Sen. Christopher Bond (R-Mo.), ranking member of the Senate Select Intelligence Committee, said on Fox News Sunday. Mr. Bond said the Bush administration "made a big mistake in transferring these detainees, these terrorists, back to other countries" and called for an accounting of how many former detainees have "gone back to terrorism."

—Charles Levinson contributed to this article.

## U.K. parties kick off race

*Continued from first page*  
ber of math and language teachers, with a £3,000 (\$4,838) incentive to bring in new math teachers, Mr. Brown said.

The government is also looking to make the offering of a foreign language in junior schools compulsory, and will make teaching languages such as Mandarin Chinese and Arabic more common in British schools.

Also on Monday, Treasury Chief Alistair Darling will issue a document that aims to "subject the Tories' tax-and-spend plans to forensic analysis to show that they don't add up," a person familiar with the matter said. The economy and a budget deficit of just under 13% of gross domestic product will be major

themes of the election.

The parties accuse each other of making promises without saying how they will pay for the programs. They are also sparring over tackling the debt, with the Conservatives saying Labour has yet to spell out how it will reduce a mountain of debt it created. Mr. Brown's party, meanwhile, says the Tories' spending cuts will hit key public services, such as education and health, an accusation Mr. Cameron is in part looking to address with this week's health announcements.

On Friday, the head of the U.K.'s leading business lobby, the Confederation of British Industry, warned that efforts by political parties to curry favor with voters is risking

the economic recovery by sowing uncertainty among business owners. Richard Lambert, the CBI's director-general, said the government has yet to establish "a credible path back to fiscal stability."

According to surveys by polling group YouGov released Friday, the Conservatives would win 40% of votes and Labour 30% if an election were held now, giving the Tories a small majority of seats in a new parliament. Still, the Conservatives' margin over Labour has fallen, and before Christmas it was in single digits in some polls, a result that would force the Conservatives to seek a coalition partner and underscores the volatile nature of political polling.

## Somali held in attack on artist had earlier arrest

ASSOCIATED PRESS

STOCKHOLM—The Somali man who attacked an artist who depicted the Prophet Muhammad in a cartoon has previously been arrested in

Kenya for allegedly participating in plotting an attack against U.S. Secretary of State Hillary Clinton in August, the Politiken newspaper reported.

The newspaper said he was later released in September due to lack of evidence.

Ms. Clinton visited Kenya as part of an 11-day-tour of Africa in August.



Introducing Towers Watson.  
Broader perspective to deliver  
real-world results.

*See it clearly*

**Towers Perrin and Watson Wyatt have come together as Towers Watson.**  
**A global company with a singular focus on our clients and their success.**

Now you can count on 14,000 experienced professionals for deep global and local expertise. For a collaborative approach grounded in rigorous analytics. And for the perspective to connect the big picture to your picture. So you can see your way clear to improved business performance. **Towers Watson. Clear Results.**

**TOWERS WATSON**



## U.S. NEWS

## U.S. is running out of time to fix deficit, budget woes

[ The Outlook ]

BY MARK WHITEHOUSE

The Obama administration has a lot to wish for in 2010, including a new health-care system and a sustainable economic recovery. But even if those wishes come true, policy makers face an even bigger problem in the new year and beyond: convincing the world that the U.S. government can get its finances back in order.

Economists have long fretted about how an aging population and growing health-care costs will cause the U.S. budget deficit and public debt to balloon—an outcome that could wreak financial havoc by undermining confidence in the U.S. dollar. But the latest recession and related stimulus efforts have made the problem more acute, a point four prominent economists made Sunday at the annual meeting of the American Economic Association.

“We’ve moved closer to the precipice, and the precipice has moved closer to us,” Alan Auerbach, an economist at the University of California, Berkeley who has focused on U.S. government finances for about 15 years, said in an interview. The other three panelists at a session on the deficit—Robert Barro and Martin Feldstein of Harvard University, and Tom Sargent of New York University—agreed that the situation is dire. It “frightens all of us,” said Mr. Sargent.

The Obama administration expects the federal budget deficit to add up to more than \$10 trillion through 2019, or about 6% of the decade’s gross domestic product, a broad measure of economic activity. Under those forecasts, Mr. Auerbach estimates, by 2026 the U.S. public debt will exceed 108.6% of GDP—a record it set in 1946. To make matters worse, the “trust funds” the government has set aside to pay Medicare and Social Security benefits will be exhausted in 2017 and 2037, respectively, after which a big chunk of benefits will have to be paid from current taxes.

That’s a significant change from earlier estimates. In spring 2008, based on pre-recession projections and the fiscal policies of President George W. Bush, Mr. Auerbach expected the public debt to break its 1946 record by 2033. The Medicare and Social Security funds

were expected to last through 2019 and 2041. In January 2001 the U.S. was expected to be virtually debt-free by 2009.

The year 2026 might seem a long way off. But the U.S.’s growing debts can come home to roost much sooner if markets lose confidence in the government’s ability to get them under control. If investors balk at buying the Treasury bonds the government issues to cover its deficits, they could force it to slash spending arbitrarily and provoke a spike in interest rates that would strangle the economy.

“At some point, if the U.S. does not address proactively its deficit outlook and its debt outlook, there will be a financial market revolt,” says Roger Altman, chairman of investment firm Evercore Partners and an assistant Treasury secretary in the late 1970s.

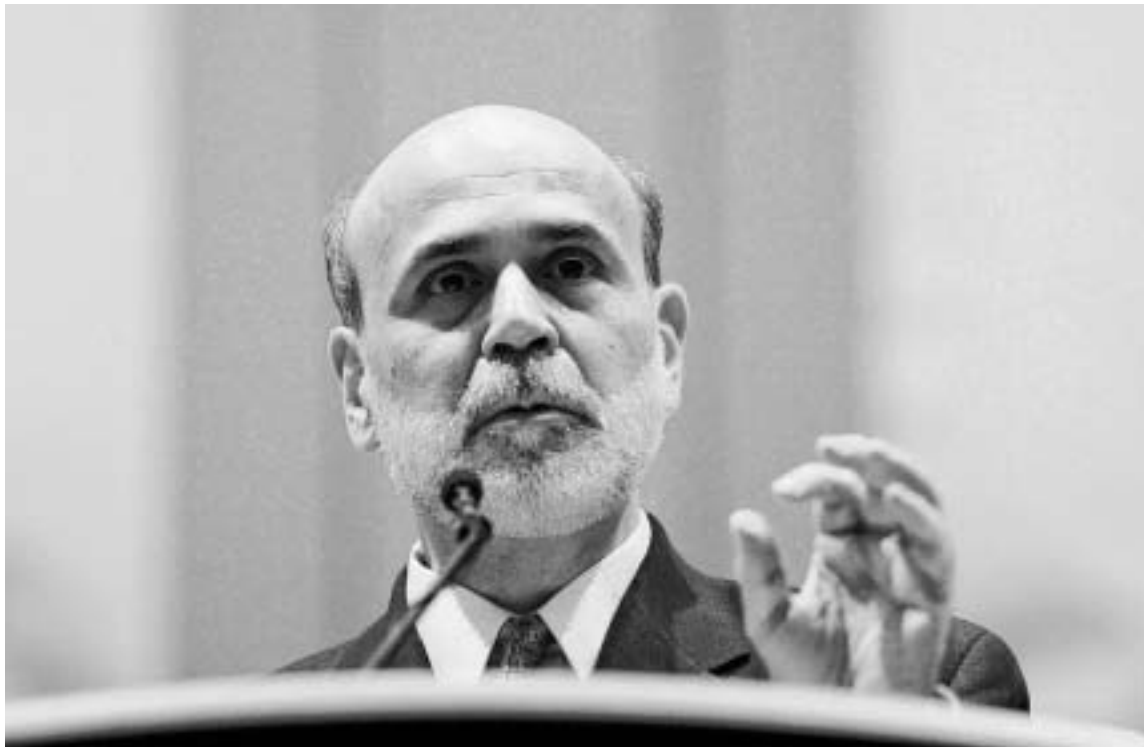
To be sure, other countries have carried larger debt burdens without suffering the market’s wrath. What makes the U.S. different, though, is its heavy dependence on borrowing from foreign investors, such as China. As Chinese Prime Minister Wen Jiabao noted last year with characteristic understatement, those investors are getting “a little worried.”

President Barack Obama’s budget director, Peter Orszag, has said that the White House recognizes the urgency of the problem and will offer concrete plans with its next budget in February. Meanwhile, the Senate Budget Committee has floated the idea of a bipartisan commission that would make recommendations to Congress on how to cut the deficit.

The U.S. can’t cut its deficits immediately, lest it snuff out a nascent economic recovery. But even attempts to set the right course will require large and politically unwieldy sacrifices.

On the revenue side, some recommend increasing taxes on consumption, a move that would have the added benefit of encouraging Americans to save. On the spending side, Medicare and Social Security would likely have to take the brunt of the cuts.

Given the vehement opposition any measure would likely encounter, economists aren’t optimistic they’ll happen anytime soon. In any case, the changes will happen. The only question is how deep the pain will be.



Bloomberg News

Fed Chairman Ben Bernanke speaks at the American Economic Association annual meeting in Atlanta on Sunday.

# Bernanke’s bubble toolbox

*Fed chief urges open mind on rate increases, but will go to regulation first*

BY LUCA DI LEO

ATLANTA—The U.S. Federal Reserve must be open to raising interest rates to pop future asset bubbles, even though stronger regulation remains the best solution to prevent a repeat of the crisis, the Fed chief said Sunday.

Fed Chairman Ben Bernanke said all efforts should be made to strengthen the U.S. regulatory system to prevent a repeat of a financial crisis that Mr. Bernanke described as possibly the worst in modern history.

“However, if adequate reforms are not made, or if they are made but prove insufficient to prevent dangerous buildups of financial risks, we must remain open to using monetary policy as a supplementary tool,” Mr. Bernanke told an annual meeting of the American Economic Association.

Critics have said the Fed kept interest rates too low for too long in early 2000, helping to fuel a housing bubble at the root of the recent financial crisis. The same critics now see a risk that, with the Fed’s key short-term rate at a record low close to zero since December 2008, a new bubble may already be forming.

Although admitting that monetary policy was accommodative in early 2000, Mr. Bernanke said lax supervision of toxic mortgages by the Fed and other bank regulators, as well as excessive money going into U.S. assets from Asian investors,

were the main reasons behind the housing bubble. Dale Jorgenson, a Harvard professor who served as Mr. Bernanke’s undergraduate economics adviser at Harvard and was present at the speech, said the Fed chairman made a “pretty convincing” argument that low rates weren’t the driving force of the housing bubble.

But he said Mr. Bernanke should have laid more blame at the feet of Congress for encouraging reckless mortgage lending with its support of Fannie Mae and Freddie Mac and other policies meant to increase home ownership. “I didn’t hear any word with regard to going back to Congress about changing housing policy,” he said.

Until now, the Fed’s main strategy has been to mop up after a bubble burst with lower interest rates to cushion the blow to the economy, instead of trying to prick a bubble pre-emptively by raising rates.

Such a strategy was a key conclusion of Mr. Bernanke’s writings on the subject of bubbles when he was an economics professor, and again when he first came to the Fed as a governor in 2002.

“Clearly, we still have much to learn about how best to make monetary policy and to meet threats to financial stability in this new era,” Mr. Bernanke said. “Maintaining flexibility and an open mind will be essential for successful policy making as we feel our way forward.”

Turning to the Fed’s future moves to withdraw the extraordinary stimulus it pumped into the economy to counter the crisis, Mr. Bernanke said the U.S. central bank had a “robust” strategy in place.

The Fed chief said the strategy “includes both raising the interest rate that we pay on reserves, plus a number of measures that we have been testing that will allow us to drain reserves from the system.”

The central bank last week proposed selling interest-bearing term deposits to banks, a move that would help drain the extraordinary amount of stimulus money pumped into the economy, once the central bank decides to tighten policy.

The Fed is also testing another tool, reverse repurchase agreements, in which the central bank sells securities from its portfolio with an agreement to buy them back later. The buyers move cash from banks to the Fed, removing reserves from the system.

Earlier Sunday, Fed Vice Chairman Donald Kohn said the central bank will need to be ahead of the curve in withdrawing stimulus as the economy gradually improves.

Mr. Kohn flagged the Fed’s ability to pay interest rates on bank reserves, along with temporary actions it can use to move securities off its balance sheet as key tools.

—Michael Derby and Jon Hilsenrath contributed to this article.

# Pastor’s plea raises \$2.4 million

ASSOCIATED PRESS

LAKE FOREST, Calif.—Evangelical pastor Rick Warren’s plea for donations to fill a \$900,000 deficit at his Southern California megachurch brought in \$2.4 million, he announced during a sermon at the church Saturday.

Mr. Warren said the amount raised after the appeal was posted online Wednesday included only money parishioners brought in person to Saddleback Church by New Year’s Eve. More was arriving by hand and by mail, he said.

“This is pretty amazing,” said Mr. Warren. “I don’t think any church has gotten a cash offering like that off a letter.”

He said the total amount came from members, and the donations were all under \$100. “It came from thousands of ordinary people. This was not one big fat cat.”

The posting on Mr. Warren’s Web site read: “With 10% of our church family out of work due to the recession, our expenses in caring for our community in 2009 rose dramatically while our income stagnated.”

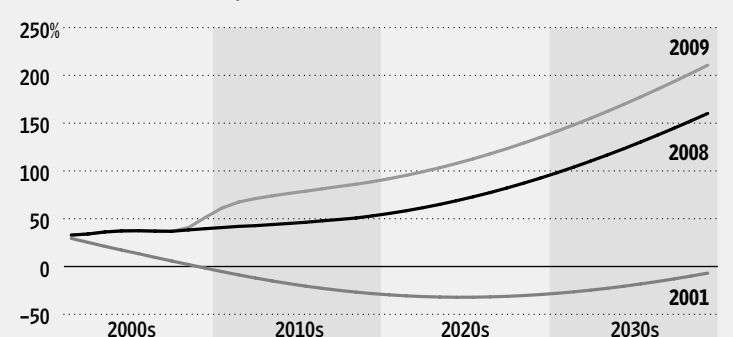
Mr. Warren said the church had largely managed to stay within its budget during the year, but “the bottom dropped out” when Christmas donations fell.

Mr. Warren made similar pleas after Hurricane Katrina in the U.S. and the 2004 Asian tsunami, raising \$1.7 million and \$1.6 million, respectively, from Saddleback parishioners.

Mr. Warren, who delivered the invocation at the presidential inauguration of Barack Obama, is the author of numerous books, including the best-selling “The Purpose Driven Life.”

### Darkening Future

Over the past decade, the outlook for U.S. government finances has deteriorated sharply. Projections\* for the U.S. public debt as a share of annual economic output from March 2001, June 2008 and now.



\*Based on the budget policies of the administrations in power at the time. Source: Alan Auerbach, University of California Berkeley



## WORLD NEWS

# Al Qaeda shows greater flexibility

Militant group is able to establish itself where U.S. and allies have lesser presence, such as in Yemen and Somalia

As U.S. President Barack Obama pledges fresh support for Yemen in its fight against al Qaeda, the global group's decentralized structure across the Middle East is proving one of its biggest advantages over American firepower.

By Chip Cummins,  
Matthew Rosenberg  
and Margaret Coker

U.S. and allied-government officials have claimed significant progress against al Qaeda in Afghanistan, Pakistan and Iraq recently. But the group appears able to nimbly deploy forces to places where international military pressure isn't as concentrated or has eased, including most recently Yemen and Somalia, according to officials and analysts.

Arab intelligence officers say they have tracked foreign fighters al-



Barack Obama

lied with al Qaeda traveling from one Middle East battlefield to another—in particular from Iraq to Yemen, and more recently, over the summer, from Pakistan to Yemen.

High-profile plots—like the Christmas Day attempted plane bombing in the U.S., linked by U.S. officials to al Qaeda's affiliate in Yemen—can also boost regionwide recruitment efforts for local chapters, without much encouragement or financing from affiliates or from al Qaeda's global leadership.

The global network “moves to the weakest point,” says Mustafa Alani, director of security and terrorism studies at the Dubai-based Gulf Research Center, a think tank. “In Yemen, they have found opportunity.”

After almost a decade of concerted U.S. and allied offensives, al Qaeda's affiliate groups work with a high degree of autonomy. The global group's top leadership, Osama bin Laden, and his lieutenant, Ayman al-Zawahiri, are both believed by U.S. officials to be in Pakistan.

Following Mr. bin Laden's expulsion from Sudan in 1996, al Qaeda found a well-established jihadi infrastructure in Pakistan and Afghanistan. The group never inspired an official affiliate, instead forming what U.S. officials and experts describe as “symbiotic” relationships with already established Islamist militant groups.

But al Qaeda's ability to operate in Pakistan and Afghanistan has been tightly curtailed over the past year or two. Senior military and civilian officials familiar with Afghanistan and Pakistan operations, speaking before the Christmas Day attack, said the pressure on al Qaeda in Pakistan and Afghanistan had prompted some operatives to shift to Yemen and Somalia and other places farther afield.

The U.S. and allied-military success in Pakistan and Afghanistan may have also killed operatives who provided key links to affiliated groups, forcing local cells to boost their own autonomy. One casualty in Pakistan was Abu Laith al-Libi, a senior commander slain in a January 2008 missile strike. U.S. officials believe he oversaw operations in parts of Africa.

Al Qaeda in the Arabian Peninsula benefits from a core of battle-hard-

ened and ideologically driven Saudi and Yemeni men. They orchestrated the 2000 bombing of the USS Cole, and then embarked as foot soldiers in places like Afghanistan and Iraq.

The group's current Yemeni-based bureaucracy, however, represents a new setup. AQAP announced in January 2009 that the group's Saudi and Yemeni leadership would merge. That followed several years of a harsh and largely successful crackdown on Saudi-based sympathizers by Riyadh.

The newly formed group launched a Web-based magazine. Its first high-profile attack outside Yemen came in August, when an operative injured Saudi Arabia's deputy interior minister in a failed assassination attempt. While both that plot and the Christmas Day bombing ultimately failed, “This is a boost for recruitment,” says Mr. Alani.

As it was battling U.S. and allied forces elsewhere, including Iraq, al Qaeda branched out to northern Af-

rica, effectively opening a new franchise in 2006. Al Qaeda's No. 2, Mr. al-Zawahiri, permitted a militant Algerian group to take the name al Qaeda in the Maghreb. It has claimed responsibility for suicide bombings in Algeria and for abducting foreigners in Mali and Mauritania.

In Somalia, al Qaeda is suspected of sending fighters to buttress the Islamist group al Shabaab, which is battling the U.S.-backed government in Mogadishu.

For the past year, foreign fighters linked to al Qaeda have been arriving in Somalia from countries such as Pakistan and Yemen to support al Shabaab, according to Western and Somali officials. Since then, attacks by Somali militants have grown more sophisticated and deadly. Over the weekend, al Shabaab's leadership said it was ready to send fighters to Yemen to counter any U.S. military attack there.

—Sarah Childress  
contributed to this article.

**I harvest opportunity from risk.**

**JOSÉ AROLD GALLASSINI**  
President,  
Coamo Agroindustrial Cooperative

For José Aroldo Gallassini, turning risk into opportunity is second nature. As president of Brazil's largest agricultural cooperative, he comes to CME Group to mitigate price volatility and protect his organization's position in the global soybean market. With unparalleled liquidity, transparency and speed, and the security of central counterparty clearing, CME Group guarantees the soundness of every trade. That's why CME Group is where the world comes to manage risk. Learn more at [cmegroup.com](http://cmegroup.com).

**CME Group**  
A CME/Chicago Board of Trade/NYMEX Company

CME Group is a trademark of CME Group Inc. The Globe logo, CME, Chicago Mercantile Exchange, E-mini and Globex are trademarks of Chicago Mercantile Exchange Inc. CBOT and Chicago Board of Trade are trademarks of the Board of Trade of the City of Chicago. NYMEX, New York Mercantile Exchange and ClearPort are trademarks of New York Mercantile Exchange Inc. COMEX is a trademark of Commodity Exchange Inc. All other trademarks are the property of their respective owners. Copyright © 2010 CME Group. All rights reserved.

## WORLD NEWS



Afghan President Hamid Karzai, left, visited Helmand province Saturday, the day most of his cabinet choices were rejected. Associated Press

## Karzai picks are rejected

Move could delay new government, U.N.'s Afghanistan chief cautions

BY ANAND GOPAL

KABUL—The head of the United Nations mission to Afghanistan criticized the Afghan parliament's decision to reject a majority of President Hamid Karzai's cabinet nominees, citing concerns that it could delay the formation of a new government.

The Parliament voted to reject 17 of Mr. Karzai's 24 nominations. Among them is Ismail Khan, a controversial warlord who had been nominated as energy minister. Other rejected nominees included the ministers of justice, commerce, economy and public health.

Kai Eide, the top U.N. chief in the country, said Sunday that the decision constituted a "setback" and a

"distraction," which could hamper international efforts to overhaul a government often accused of corruption. Tuesday, the Afghan parliament will start a 45-day recess, meaning that up to two months could pass before a new government is installed.

Concern is growing that the extended period without a cabinet could delay overhaul of ministries accused of being corrupt or inefficient. This could play into the hands of insurgents, who have capitalized on the popular disillusionment that government graft has sparked.

But lawmakers said that the rejection of the majority of Mr. Karzai's nominees was necessary because it wouldn't have been a compe-

tent cabinet. "Those who were not approved by the Parliament did not deserve to be ministers because they were not nominated for their capabilities," said Ahmad Behzad, a lawmaker from the western province of Herat. "Indeed, they were nominated because of their connections to certain influential people."

A spokesman for Mr. Karzai said the president would abide by Parliament's vote. "The rejection of 17 ministers was very disappointing for the president," said Wahid Omar. "But in order to strengthen the foundations of democracy in the country, President Karzai respects the Parliament's decision." Mr. Omar said he didn't know when Mr. Karzai would announce alternative nominations.

## Taliban member calls Afghan attack retaliation

KABUL—A senior commander connected to the Afghan Taliban and involved with the attack against the U.S. Central Intelligence Agency that left eight people dead said Saturday the bombing was retaliation for U.S. drone strikes in the Afghan-Pakistan border region.

By Anand Gopal in Kabul and Siobhan Gorman and Yochi J. Dreazen in Washington

"We attacked this base because the team there was organizing drone strikes in Loya Paktia and surrounding area," the commander said, referring to the area around Khost, the city where the U.S. facility was attacked on Dec. 30. The commander, a prominent member of the Afghan insurgency, spoke on the condition of anonymity.

The suicide attack, which dealt the biggest loss to the agency in more than 25 years, killed a woman who was the station chief along with six other CIA officers and one private-security contractor.

"We attacked on that particular day because we knew the woman who was leading the team" was there, the commander said.

The claims couldn't be independently verified by Sunday and an effort to contact the CIA over the weekend for comment wasn't successful.

Both the Afghan and Pakistani Taliban have claimed responsibility for the attacks. In the past, the Pakistani Taliban have claimed responsibility for attacks and Western officials have rejected those claims.

Some drone strikes had been coordinated from Forward Operating Base Chapman, Western officials said. The strikes were to target senior leaders of al Qaeda, the Pakistani Taliban and an Afghan group called the Haqqani Network. The CIA operatives located at Chapman, near the Pakistani border, were involved in cultivating informants to target insurgent leaders using ground raids and drone strikes.

A number of leaders of these three groups have been killed by the strikes, which mostly occur on the Pakistani side of the border. Al Qaeda and the leadership of the Haqqani Network are believed to have bases in this area. The strikes have caused anger in the tribal border areas, stemming from claims that civilians also have been killed.

U.S. officials maintain the strikes are necessary to target insurgent leaders who use the border area as a sanctuary.

The attack that killed the seven

CIA officers appears to stem from a strategy of calculated risk in running the spy agency's informant network, posing a challenge as operations ramp up for the Obama troop surge. U.S. intelligence and military officials said Friday that the attacker had been recruited as a possible informant and brought onto Chapman, passing through at least one checkpoint. He detonated his charge shortly before being searched, blowing himself up.

It was a "high-level asset meeting gone bad," said one former intelligence official familiar with the incident.

In providing additional details of the suicide bombing, the agency's worst loss of life since 1983, former and current U.S. intelligence officials painted a clearer picture of how the agency has battled Taliban and allied militants.

Chapman appears to have taken a less strict line on security than at other U.S. military bases. Only modest searches are performed there, some U.S. officials say, in the hopes of establishing trust with those who may furnish information. The CIA has been able to create a large network of informants about the activities of al Qaeda and other militants.

"The CIA team there was very professional, and they knew there was a risk to their security protocols," an official said. "But they felt the need to gather viable, time-sensitive intelligence was so pressing that it justified the trade-off."

Some former officers have been critical of the practice. One said allowing informants onto a CIA base was poor spy tradecraft and that officers should meet informants off-base. "In a war zone, they don't follow standard tradecraft," the former official said. "If you don't follow tradecraft rules, this is what happens."

The CIA is reviewing its security practices on bases. "What happened is being looked at very, very closely," Marie Harf, a CIA spokeswoman, said.

It appears unlikely the CIA will substantially change its use of informants. One intelligence official said it is stepping up efforts in this area.

U.S. officials are investigating how the informant, said to be wearing an Afghan National Army uniform, was able to get close enough to so many CIA officers. A U.S. intelligence official, asked about the different security standards for potential informants, said: "Intelligence assets are basically asked to risk their freedom—and often their lives—to collect information on behalf of the United States. ... It's a fact of espionage that you frequently have to deal with people you need but don't or can't trust."

THE WALL STREET JOURNAL.

EUROPE

### THE/FUTURE LEADERSHIP/INSTITUTE

Powered by EXECUTIVE LEARNING PARTNERSHIP

Bringing Universities and Businesses Together

Networking with The Wall Street Journal Europe?

Win 1 out of 5 seats at our WSJE "Networking Table" at

"risk@360degrees"

A Banking & Finance Conference

26 March, 2010  
Le Plaza Theatre  
Congress, Brussels  
www.bankingfinance.eu

To win a seat email us your full contact details with "Risk" in the subject field. Reply by noon CET, January 30, '10 to the address below. Winners will be informed by email.

The Journal Europe Future Leadership Institute supports

"Brand Me", A Journey Through Choices for Talented Women a 2 day workshop for women about to transition into a senior management role

15-17 June, 2010  
Warren House,  
Kingston-upon-Thames, UK  
www.brandme.org

Contact: gert.vanmol@dowjones.com

The Journal Europe Future Leadership Institute supports

The Alternative Investments Conference

"Private Equity & Hedge Funds"

London School of Economics

25 & 26 January, 2010  
Marriott London Grosvenor Square  
www.lseaic.com

The Wall Street Journal Europe is read every day by 40,500 students at 180 top business schools and university campuses across Europe, a program supported by

Banking & Finance

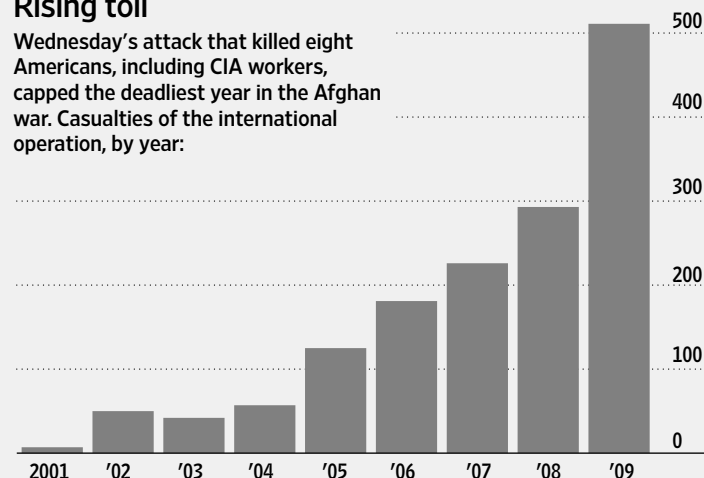
S B R A

LSE THE ALTERNATIVE INVESTMENTS CONFERENCE

Executive Learning Partnership - ELP: Strategy & Learning Architects: www.elpnetwork.com

### Rising toll

Wednesday's attack that killed eight Americans, including CIA workers, capped the deadliest year in the Afghan war. Casualties of the international operation, by year:



Note: Figures do not include forces operating independently of NATO  
Source: ICasualties.org